

PAPER 6: IBS

CASE STUDIES COMPILATION

MAY 2024

- **Sample Case Studies**
- **Paper 6F Case Study Digest**
- **Suggested Answers till Nov 2023**
- **Mock Test Paper till November 23**
- **Case Studies issued in ICAI student journal**

BY ROHIT CHIPPER

AIR 17 CA FINAL

AIR 18 CA INTER

IBS CASE STUDY INDEX

Page Number

No.	Particular	Page	Comment
1	SA.N23 (Suggested answer Nov 23)	3	
2	SA.M23 (Suggested answer May 23)	46	
3	SA.N22 (Suggested answer Nov 22)	80	
4	SA.M22 (Suggested answer May 22)	110	
5	SA.D21 (Suggested answer Dec 21)	146	
6	SA.M21 (Suggested answer May 21)	174	
7	SA.J21 (Suggested answer Jan 21)	213	
8	SA.N20 (Suggested answer Nov 20)	250	
9	SA.N19 (Suggested answer Nov 19)	287	
10	SA.M19 (Suggested answer May 19)	318	
11	SA.N18 (Suggested answer Nov 18)	359	
12	SA.M18 (Suggested answer May 18)	408	
13	MTP.O23 (MTP Oct 23)		Covered in CSD (case study digest) *
14	MTP.A23 (MTP April 23)	456	
15	MTP.O22 (MTP Oct 22)	484	
16	MTP.A22 (MTP April 22)	514	
17	MTP.N21 (MTP Nov 21) (Case Study 1)	554	Covered in CSD (Except CS1) *
18	MTP.A21 (MTP April 21) (Case Study 2 & 3)	566	Covered in CSD (Except CS2 & 3) *
19	MTP.J21 (MTP January 21)		Covered in CSD*
20	MTP.O20 (MTP October 20)	577	
21	MTP.M20 (MTP May 20) (Case Study 3)	612	Covered in CSD (Except CS3) *
22	MTP.O19 (MTP October 19)	618	
23	MTP.M19 (MTP March 19)		Covered in suggested answer*
24	MTP.A18 (MTP August 18)	658	
25	Journal.D19 (Dec 19)	688	
26	Journal.A20 (Aug 20)	700	
27	Journal.O20 (Oct 20)	708	
28	Journal.F24 (Feb 24)	716	
29	7SCS (7 Sample case studies of Paper 6F)	735	
30	SCS (15 Sample case studies of IBS)	827	Covered in CSD (except CS1, 2 & 3) *
31	Case Study Digest	852	
32	MTP.M24 (MTP March 2024)		Will be released on 15 th March

***This compilation covers all the case studies released by ICAI in old course paper 6F and new paper IBS. We have removed some case studies (as mentioned above) which were repeated from CSD, suggested answer etc.**

Connect with us here:



PAPER – 6F: MULTI-DISCIPLINARY CASE STUDY

The question paper comprises **five** case study questions. The candidates are required to answer any **four** case study questions out of **five**.

All your workings should form part of your answer.

CASE STUDY – 1

Fashion India Limited (FIL), based in Chandigarh is one of the globally leading textile manufacturing company in India since last 40 years and is driven by its differentiation strategy based on innovation, branding & sustainability. As a leading textile company in India, FIL's key focus is on the domestic market with sustainable textiles and on building a strong B2C presence while continuing to grow its export business. The Company's manufacturing facilities, located in India, are equipped to deliver high-quality products as per international standards. The strong, ethical and compliant corporate governance mechanism is one of the core aspects of its policy structure. Management of the Company consists of well qualified and experienced professionals who are responsible for driving growth whilst ensuring compliance with the laws of land.

Due to competition in the market, the Company continuously reviews its product range and enhances its existing products by developing new models to meet the demands of its customers. FIL's research and development team developed a new product "Gladden" which has lifelong anti-microbial properties and odour prevention benefits and can keep the linens fresh for a longer time. This new product was approved by the management in July 2022 and was launched in December 2022. Gladden is now about to enter the maturity stage of its life cycle. Research by the marketing team indicates that demand of the product 'Gladden' in the domestic market is price sensitive. The likely market responses are as follows:

Selling price per unit (₹)	1,550	1,400	1,325	1,260	1,100
Sales demand per week (units)	6,000	8,500	10,500	11,750	12,500

The variable cost per unit for manufacturing 'Gladden' is ₹ 850 and the attributable fixed cost is ₹ 2,50,000 including all overheads and administrative expenses. Also, the price charged by competitors is in the range of ₹ 1,250.

The Production department believes that for producing "Gladden" existing machinery cannot be used and a specific type of machinery is required. The required machinery is being manufactured in India only by two companies namely RFD Ltd. (a company engaged in the manufacturing and exports of textile machinery) and SED Ltd. (a subsidiary of German company engaged in manufacturing all types of machinery according to the requirements of customer). Upon evaluation, FIL concluded that as RFD Ltd takes a period of 2 to 3 months, they would approach RFD Ltd for buying the machinery. An agreement to purchase the machinery was

entered on August 10, 2022 with a clause that FIL will have to settle the consideration of machinery purchased by issuing its equity shares. FIL agreed to the clause and order was confirmed. Machinery was supplied vide invoice dated October 25, 2022 and delivered on November 1, 2022. Agreed purchase consideration was ₹ 150 Lakhs and the fair value of the machinery supplied was estimated to be ₹ 160 Lakhs. As agreed, FIL issued 1,00,000 equity shares of face value ₹ 100 each to RFD Ltd.

One of the product, 'Slimmer' introduced in the year 2016, is at the end of its life cycle and Company's revenue from it is declining at a very fast pace. The Company's marketing team in Mumbai has been approached by M/s Tulip Exports Limited (TEL), a merchandise exporter, to buy 500,000 units of its product 'Slimmer' at the rate of ₹ 750 each. Historically, the Company did not venture into such type of business and whenever goods were exported, the same was done directly and not through any merchant exporter. One of the clauses of purchase, imposed by TEL is that the product will be supplied by FIL at the concessional rate of GST (normal GST rate is 5%). This proposal was discussed and approved by the management and the legal team was entrusted to ensure all the legal compliances pertaining to offer of TEL would be satisfactorily vetted. Specified goods were supplied vide invoice dated June 1, 2023 and received by TEL in its warehouse for further packing on June 5, 2023. Payment for goods was received as per the agreed terms on June 15, 2023. During the Statutory Audit, the statutory auditors sought evidence of goods exported to TEL (which were supplied at concessional rate). FIL replied to the auditor that, TEL neither supplied any export proof to them nor they have demanded it.

M/s Cotton Garments Inc. (buyer) from (a US based company dealing in high end garments) was regularly getting customer queries about availability of "Gladden" in its retail stores. Senior Management of Cotton Garments Inc. contacted FIL for supply of 10,000 units. Price per unit agreed was ₹ 1500, making total contract value ₹ 1.5 crores as per contract dated December 1, 2022. As Cotton Garments Inc. was professionally managed, during the finalization of the purchase agreement, a clause was inserted stating that if goods were not supplied within 3 months (March 1, 2023), FIL will pay interest at the rate of LIBOR + 100 basis points on the advance of 1 crore given on December 31, 2022. FIL could only supply 2,000 units of Gladden on time and could not supply remaining 8,000 units due to paucity of raw material. Management of FIL met the top leaders of Cotton Garments Inc. and explained the reasons for not being able to supply the remaining units and requested for waiver of interest. However, the management of Cotton Garments Inc. waived the interest with a condition that the remaining advance be returned to them immediately. FIL requested for a period till January 31, 2024, to which buyer agreed.

FIL earned good profits by launching the product "Gladden" and overall profitability was also good for the financial year 2022-2023. As a result, the management decided to pay interest of 3 years upfront on the debentures outstanding in books of accounts (with a balance maturity

period of 3 years). Total interest payment amounted to ₹ 600 Lakhs. While preparing financial statements for the year ended March 31, 2023, the management treated 2/3rd interest as deferred revenue expenditure and recorded an expense of ₹ 200 Lakhs only for the financial year 2022-2023. The statement of Profit and Loss of the Company reflected a profit of ₹ 2,000 Lakhs before adjustment of interest of ₹ 200 Lakhs and charge of depreciation on new machinery purchased (depreciation rate - 15%). The final profit for tax purposes was yet to be computed by the Finance team of the Company.

As FIL is having surplus funds, one of its directors, Mr. S proposed an investment of ₹ 100 Lakhs in equity shares of reputed companies as part of Company's investment plan. For seeking approval for the said proposal, the board meeting of the Company was called which was attended by five directors out of seven directors and the proposal was agreed by only three directors present.

MCQs: Provide the correct option to the following Questions:

- 1.1. Which of the above five selling prices should be charged for product 'Gladden' in domestic market and what will be the status of established selling price when it moves from growth stage to maturity stage?
 - (a) Selling price to be adopted is ₹ 1,325 and price is likely to be reduced gradually when the product moves from growth stage to maturity stage.
 - (b) Selling price to be adopted is ₹ 1,550 and price is likely to remain constant when the product moves from growth stage to maturity stage.
 - (c) Selling price to be adopted is ₹ 1,260 and price is likely to be in line with the price charged by competitors.
 - (d) Selling price to be adopted is ₹ 1,325 and price is unlikely to be reduced and likely to be fairly constant when the product moves from growth stage to maturity stage.
- 1.2 As per Ind AS 102 - Share Based Payment, what should be the price and the date for recording the machinery purchased from RFD Ltd.?
 - (a) ₹ 150 Lakhs on November 1, 2022
 - (b) ₹ 160 Lakhs on November 1, 2022
 - (c) ₹ 100 Lakhs on November 1, 2022
 - (d) ₹ 150 Lakhs on October 25, 2022
- 1.3 By which date FIL should have exported all the goods and whether it is possible to refund advance outstanding on January 31, 2024 without intervention of any authority as per Foreign Exchange Management Act, 1999?
 - (a) FIL should have exported all the goods by December 31, 2023 and no permission from any authority is needed to refund the advance amount on January 31, 2024.

- (b) *FIL should have exported all the goods by December 1, 2023 and no permission from any authority is needed to refund the advance amount on January 31, 2024.*
- (c) *FIL should have exported all the goods by December 31, 2023 and permission from Reserve Bank of India is needed to refund the advance amount on January 31, 2024.*
- (d) *FIL should have exported all the goods by December 1, 2023 and permission from Reserve Bank of India is needed to refund the advance amount on January 31, 2024.*
- 1.4. *As the investment proposal of Mr. S was approved by only three directors out of five directors present in the board meeting:*
- (a) *The Company can go ahead with such investment plan, as majority of the directors present at the board meeting agreed to the proposal of investing funds amounting to ₹ 100 Lakhs in equity shares of reputed companies.*
- (b) *The Company cannot invest funds amounting to ₹ 100 Lakhs in equity shares of reputed companies as all the 5 directors present at the meeting did not agree to such investment plan.*
- (c) *The Company cannot invest funds amounting to ₹ 100 Lakhs in equity shares of reputed companies as the total strength of 7 directors must attend the board meeting and all must consent to such investment plan.*
- (d) *The Company cannot invest amounting to ₹ 100 Lakhs in equity shares of reputed companies as the investment plan did not receive the consent of 3/4th majority of the directors present i.e., four out of present.*
- 1.5 *Which of the following statements is not correct in relation to transaction entered between TEL and FIL?*
- (a) *Goods need to be exported by December 31, 2023 and TEL needs to provide copy of shipping bill or bill of export to FIL along with proof of export general manifest.*
- (b) *TEL shall be registered with an Export Promotion Council and can export the goods only under LUT / bond and cannot export on payment of IGST.*
- (c) *TEL needs to indicate the GSTIN of FIL and the tax invoice number issued by FIL in shipping bill or bill of export.*
- (d) *FIL will be eligible for refund of ITC on account of inverted tax structure as per the provisions of GST Act.* **(5 x 2 = 10 Marks)**

Descriptive Questions

- 1.6 *Compute the profit of FIL for tax purposes, along with detailed notes, considering all the eligible deductions based on the facts mentioned in the case study.* **(5 Marks)**
- 1.7 *One of the Marketing Managers believes that a product can also be sold below marginal cost. Is his view appropriate? Indicate the situations where pricing below marginal cost can be adopted.* **(5 Marks)**

- 1.8 "Historically, FIL had not exported through a merchant exporter." Explain the meaning of Merchant exporter. Under what circumstances goods can be supplied to merchant exporter at concessional rate of GST? **(5 Marks)**

ANSWER TO CASE STUDY 1

Answer to MCQs

1.1 (a)

1.2 (b)

1.3 (c)

1.4 (b)

1.5 (a)

1.6

Computation of Profit of FIL

	Particulars	₹ (in lakh)
	Net profit as per Statement of Profit and Loss	2,000
Less:	Upfront interest on debentures of 3 years [Under section 36(1)(iii), the entire amount of interest paid upfront in respect of debentures issued for the purposes of business or profession, is allowable as deduction#]	(600)
Less:	Normal depreciation on new machinery [₹ 150 lakhs x 15% x 50% since machinery is purchased and used for less than 180 days]	(11.25)
Less:	Additional depreciation on new machinery [₹ 150 lakhs x 20% x 50% since machinery is purchased and used for less than 180 days]	<u>(15)</u>
	Profits and Gains from Business or Profession	1,373.75

Decided in Taparia Tools Ltd. v. JCIT (2015) 372 ITR 605(SC)

1.7 Pricing Below Marginal Cost

Yes, the views of the Marketing Managers is appropriate.

Firm may also be justifiable to sell the product at a **price below marginal cost** for a limited period **provided the following conditions prevail:**

- a Where materials are of perishable nature.
- b Where stocks have accumulated in large quantities and the market prices have fallen. This will save the carrying cost of stocks.
- c To popularize a new product.

- d Where such reduction enables the firm to boost the sales of other products having a larger profit margin.

1.8 Meaning of Merchant Exporter

Merchant exporter means a person engaged in trading activity and exporting or intending to export goods.

Circumstances when goods can be supplied to Merchant exporter at concessional rate of GST.

Goods can be supplied to merchant exporter at concessional rate of GST if following conditions are fulfilled-

- (a) the registered supplier (manufacturer) shall supply the goods to the registered recipient (merchant exporter) on a tax invoice;
- (b) the registered recipient shall export the said goods within a period of 90 days from the date of issue of a tax invoice by the registered supplier;
- (c) the registered recipient shall indicate the GSTIN of the registered supplier and the tax invoice number issued by the registered supplier in respect of the said goods in the shipping bill or bill of export;
- (d) the registered recipient shall be registered with an Export Promotion Council;
- (e) the registered recipient shall place an order on registered supplier for procuring goods at concessional rate and a copy of the same shall also be provided to the jurisdictional tax officer of the registered supplier;
- (f) the registered recipient shall move the said goods from place of registered supplier –
 - i. directly to the Port, Inland Container Depot, Airport or Land Customs Station from where the said goods are to be exported; or
 - ii. directly to a registered warehouse from where the said goods shall be moved to the Port, Inland Container Depot, Airport or Land Customs Station from where the said goods are to be exported;
- (g) if the registered recipient intends to aggregate supplies from multiple registered suppliers and then export, the goods from each registered supplier shall move to a registered warehouse and after aggregation, the registered recipient shall move goods to the Port, Inland Container Depot, Airport or Land Customs Station from where they shall be exported;
- (h) in case of situation referred to in condition (g), the registered recipient shall endorse receipt of goods on the tax invoice and also obtain acknowledgement of receipt of goods in the registered warehouse from the warehouse operator and the endorsed tax invoice and the acknowledgment of the warehouse operator shall be provided to the registered supplier as well as to the jurisdictional tax officer of such supplier; and

- (i) after goods have been exported, the registered recipient shall provide copy of shipping bill or bill of export containing details of GSTIN and tax invoice of the registered supplier along with proof of export general manifest or export report having been filed, to the registered supplier as well as jurisdictional tax officer of such supplier.

Merchant exporters may exclude commercially sensitive information while providing copies of shipping bills to registered suppliers.

CASE STUDY - 2

Power Equipment Limited (PEL), headquartered in New Delhi, is engaged in production of various electrical, electronic, and mechanical equipments for various sectors, including transmission, transportation, oil & gas and other allied industries. PEL is also engaged in the designing, engineering, manufacturing, construction, testing, commissioning and servicing of a wide range of products, systems and services for the core sectors of the economy. The Company has capacity to deliver 10,000 MW power equipment p.a. to address the growing demand for power generation equipment.

The Company has also started exporting its power and industry segment products and services since year 2019. Till now, Company mainly carried out its operations using internal funds, bank borrowing and unsecured loans. Newly appointed CFO of the Company, Mr. Guru in his first meeting with board of directors, proposed an IPO to get the Company's shares listed on the stock exchanges in India, rather than increasing debt.

Management was convinced with the presentation given by Mr. Guru and was positive of the recommendations made by him. Consultants were appointed to assist the Company for preparation and necessary filings for IPO as the management knew that it is a technical process and requires preparedness in terms of business model, listing down Company's strengths and weaknesses, reason for public issues, arranging for various permissions, disclosures to be made in various documents etc. Consultants worked day and night to meet the deadline and were ready with draft prospectus and other documents. The documentation and draft prospectus included certification of current and past years' financial statements. Since Mr. Guru had joined recently as CFO of the Company, he was apprehensive about signing the documents containing financial information relating to earlier periods. When he expressed his apprehension, the management suggested that he could appoint a CA Firm, to review the documents he was supposed to sign-off, which would provide him additional comfort.

Accordingly, Mr. Guru took help of M/s RP & Associates, Chartered Accountants (an independent CA Firm) to review and validate the details disclosed in the financial information prepared for the purposes of IPO. Further, this review also included evaluation of non-compliances, if any, relating to direct taxes, indirect taxes, corporate laws and other financial

regulations. After carrying out a detailed review, M/s RP & Associates, informed Mr. Guru about the following issues:

Issue 1

PEL regularly sent material to its job worker, ABC for technical work relating to high end electric wires. As and when required, the Company also gets certain machinery parts manufactured by job worker JHN for which dies & moulds are sent to JHN by PEL. As on March 31, 2023, the following data was made available by department handling GST for the Company:

S. No.	Particulars	Taxable value ₹ (Excl. GST)	Date sending of	Date of receipt by Job worker	Status as on March 31, 2023
1	Material sent to ABC	2,50,000	March 25, 2022	March 28, 2022	Material lying with job worker
2	Material sent to ABC	1,50,000	March 28, 2022	April 2, 2022	--do--
3	Moulds & dies Supplied to JHN	5,00,000	March 1, 2022	March 12, 2022	Lying with job worker

Both moulds and material sent to job workers attract goods and service tax at the rate of 18%

Issue 2

PEL has adopted Ind AS for the financial year 2022-23 and also calculated minimum alternate tax. Mr. Guru asked for details on the basis of which MAT was determined. DGM (Accounts), Mr. Rajan has provided the following information for the same:

Transition date: April 1, 2022

Convergence amount i.e. amount adjusted in other equity on convergence date ₹120 Lakhs

Adjustment to be made in book profit of the year of convergence and each of the following five years ₹20 Lakhs each.

Both Mr. Guru and CA firm are skeptical about the data provided by Mr. Rajan relating to MAT computation.

Issue 3

During the financial year 2022-23, the Company received the following amounts by issuing share capital and debentures:

Transaction	₹ Lakhs	Towards
A	11.50	Shares
B	9.50 + 1.50 as application money	Shares
C	25.00	Debentures
D	9.75	Shares (Other than the amount of ₹ 2.25 Lakhs received on account of renewal of Debentures)

In relation to above, the Company has not filed any statement with Income tax department, as the management believes that no obligation arises for filing any statement relating to transactions of shares and debentures issued.

Issue 4

Company has made the following payments to various directors:

Name of Director	₹ Lakhs	Nature of a payment
Promoter directors (3)	15	Sitting fee for attending four board meetings (equal payment to all three directors)
Shobhit - Independent Director	3	Sitting fee for attending four board meetings
Ms. Seema - Woman independent Director	3	Sitting fee for attending four board meetings

Company has received a notice from Registrar of Companies that sitting fee paid is not as per the provisions of the Companies Act, 2013.

Issue 5

The Company has entered into a contract with a government corporation to supply certain equipment for ₹ 500 lakhs. There has been a short supply in the market and cost of the equipment had also increased. If the Company makes the supply, it will incur a loss of ₹ 50 lakhs. The penalty for non-performing of the contract is expected to be ₹ 30 lakhs. The supply is required to be made by June 30, 2023.

Issue 6

PEL while preparing financial statements for the financial year 2021-22, made an error by not recording the clearing and forwarding expenses amounting to ₹ 20 crores, pertaining to exports made during the said year. While preparing financial statements for the financial year 2022-23, management has corrected the error by recording those expenses as current year expenses. Tax team pointed out that these expenses will be disallowed while computing income of the Company as prior period expenses. Management agreed to it stating this action of paying taxes by recording in current year will save them from any non-compliance from accounting

perspective and also at the end of current year, the balances of clearing and forwarding agent will be reflected appropriately.

Issue 7

After a detailed discussion about the issues in the financial statements, Mr. Guru and Mr. RP partner of M/s RP & Associates, had a casual chat about general matters.

During the conversation, Mr. RP mentioned to Mr. Guru that CA Safe, partner of Safe CA LLP a Chartered Accountant firm, which the Company was evaluating to appoint internal auditors was well known to him through his common friend. He asked Mr. Guru, whether he was aware about the case filed against Mr. Safe for forgery of his uncle's Will. Mr. Guru said he was aware about the case and that the Court had pronounced Mr. Safe guilty of forgery, however, it was his personal matter and had no impact on his professional work.

MCQs: provide the correct option to the following Questions:

- 2.1 Mr. Guru is of the opinion that all job work transactions outstanding on March 31, 2023 attract GST liability. Which of the following statements is correct?
- (a) Yes, GST will apply on all three transactions as specified period has elapsed and total GST liability will be ₹ 1,62,000.
 - (b) Yes, GST will apply on transactions of material only as specified period has elapsed and total GST liability will be ₹ 72,000. Transaction of moulds & dies are excluded from the provisions.
 - (c) Yes, GST will apply on first transaction of material and transaction of moulds & dies, as specified period has elapsed and total GST liability will be ₹ 1,35,000
 - (d) Yes, GST will apply but only on first transaction of material as for transaction amounting to ₹ 1,50,000, specified period has not elapsed and transaction of moulds & dies are excluded from the provisions. Total GST liability will be ₹ 45,000.
- 2.2 Whether the data provided by Mr. Rajan is inappropriate as regards the terms he has used in relation to MAT computation?
- (a) Yes, April 1, 2022 is convergence date and not transition date. Also adjustment in the book profits need to be made of transition amount and not of convergence amount. The adjustment amount and period is correctly mentioned.
 - (b) Yes, April 1, 2022 is correctly mentioned as transition date. Adjustment in book profits needs to be made of transition amount and not of convergence amount. The adjustment amount is ₹ 24 Lakhs as adjustment will be made in five years including year of convergence.
 - (c) Yes, April 1, 2022 is convergence date and not transition date. Adjustment in book profits needs to be made of convergence amount, as correctly mentioned. The adjustment amount and period is correctly mentioned.

- (d) Yes, April 1, 2022 is convergence date and not transition date. Adjustment in the book profits needs to be made of transition amount and not of convergence amount. The adjustment amount is ₹ 24 Lakhs as adjustment will be made in five years including year of convergence.
- 2.3 Is the management's contention that no obligation arises for filing any statement in relation to transactions of shares and debentures issued appropriate?
- (a) Management's contention is incorrect, as Statement of financial transactions is required to be filed and all the transactions of shares and debentures issued, are to be reported.
- (b) Management's contention is incorrect, as Statement of financial transactions is required to be filed and the transactions of shares issued (A and D) are to be reported.
- (c) Management's contention is incorrect, as Statement of financial transactions is required to be filed and only the transactions of shares (A, B and D) issued are to be reported.
- (d) Management's contention is incorrect, as Statement of financial transactions is required to be filed and the transactions of shares and debentures issued (A, B and C) are to be reported.
- 2.4 Whether the sitting fee paid by Company to its directors as per the provisions of Companies Act, 2013?
- (a) No, sitting fee paid by Company to Independent directors cannot be less than that payable to other directors. Sitting fee paid to the other directors is in line with provisions of Companies Act, 2013.
- (b) No, sitting fee paid by Company to woman director cannot be less than those paid to other directors. Sitting fee paid to the other directors is in line with provisions of Companies Act, 2013.
- (c) Sitting fee paid to directors cannot exceed ₹ 1 Lakh per meeting and sitting fee paid to independent directors cannot be less than that payable to other directors.
- (d) No, sitting fee paid by Company to Independent and woman directors cannot be less than that payable to other directors. Sitting fee paid to the other directors is in line with provisions of Companies Act, 2013.
- 2.5 What should have been the management's action on recording of clearing and forwarding expenses pertaining to the financial year 2021-22, while preparing the financial statements for the year ended March 31, 2023, to comply with the Indian Accounting Standards?
- (a) Management is correct in its action and there is no non-compliance.

- (b) Management should have corrected the previous year figures in the financial statements for the year ending March 31, 2023.
- (c) Management should have corrected the previous year figures to correct the error and it needs to prepare third balance sheet at the beginning of the preceding period.
- (d) Management should have corrected the previous year figures to correct the error and it needs to prepare third balance sheet at the end of the preceding period.

(5 x 2 = 10 Marks)

Descriptive Questions

- 2.6 PEL proposed to pay 5% of net profits as commission to its directors (other than managing and whole time directors). Comment whether PEL can pay such commission, as per the Companies Act, 2013. **(4 Marks)**
- 2.7 Instead of sending material for job work, if capital goods were sent to the job worker, would any GST liability arise as on March 31, 2023? On what date goods will be deemed to be supplied in case of capital goods sent to job work are not received within the stipulated time period? Which document needs to be issued when goods are sent for job work and how many copies of that document are required to be made? **(3 Marks)**
- 2.8 In the background of facts mentioned in the issue 5 above, explain the accounting for such contracts, with reference to the relevant Ind AS. **(4 Marks)**
- 2.9 In the background of provisions of the Chartered Accountants Act, 1949, explain the types of misconduct. Also, comment whether Mr. Safe is guilty of any professional misconduct. **(4 Marks)**

ANSWER TO CASE STUDY 2

Answer to MCQs

- 2.1 (b)
- 2.2 (d)
- 2.3 None of the options are correct
- 2.4 None of the options are correct.
- 2.5 (b)
- 2.6 Whether PEL can pay 5 % of the Net Profits as commission to its Directors ?

Provision: Under **Section 197 (1) of the Companies Act, 2013 (the Act)**, the limit of total managerial remuneration payable by a public company, to its directors, including managing director and whole-time director, and its manager in respect of any financial year shall not **exceed eleven per cent of the net profits** of that company for that financial year computed in the manner laid down in section 198.

Further, the third proviso to Section 197 (1) **of the Act** provides that except with the approval of the company in general meeting by a special resolution, the remuneration payable to directors who are neither managing directors nor whole-time directors shall not exceed **one per cent** of the net profits of the company, if there is a managing or whole-time director or manager.

Whereas in any other case, the remuneration payable to directors **shall not exceed three per cent of the net profits.**

Conclusion: Therefore, in the given case, the commission of 5% is beyond the limit specified, and the same should be approved by the members by passing a special resolution.

2.7 On what date goods will be deemed to be supplied in case of capital goods sent to job work are not received within the stipulated time period ?

Capital goods [other than moulds and dies, jigs and fixtures, or tools] sent to a job- worker are required to be returned to the principal **within 3 years** from the date of sending such goods to the job-worker.

Thus, no GST liability would arise as on March 31, 2023 if capital goods were sent to the job worker as the period of 3 years have not elapsed on March 31, 2023.

If capital goods sent for job work are not received back by the principal within a period of three years of being sent out, **it shall be deemed that such capital goods had been supplied by the principal to the job worker on the day when the said capital goods were sent out.**

Since capital goods sent to job work are not received back, within specified time limit, it shall be deemed to be a supply from Principal [PEL] to the Job worker [ABC] from the day when it was sent for Job Work.

Documents that needs to be issued and number of copies

The inputs or capital goods shall be sent to the job worker under the cover of a delivery challan issued by the principal. Three copies of delivery challan are required to be made. Along with the delivery challan, an e- way bill is also required to be issued.

2.8 Ind AS 37 “Provisions, Contingent Liabilities and Contingent Assets” defines an onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Paragraph 68 of Ind AS 37 states that the unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it.

In the instant case, cost of fulfilling the contract is ₹ 50 lakhs and cost of exiting from the contract by paying penalty is ₹ 30 lakhs.

In accordance with the above reproduced paragraph, it is an onerous contract as cost of meeting the contract exceeds the economic benefits.

Since the supply is required to be made by 30th June, 2023, the provision should be recognised in the financial statements ended on 31st March, 2023 at the best estimate of the unavoidable cost, which is **lower of** the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it, i.e., at ₹ 30 lakhs (lower of ₹ 30 lakhs and ₹ 50 lakhs).

2.9 Types of Misconduct: Professional or Other Misconduct

According to **Section 22** of the **Chartered Accountants Act, 1949** (the Act) for the purposes of this Act, the expression “professional or other misconduct” shall be deemed to include any act or omission provided in any of the Schedules, but nothing in this section shall be construed to limit or abridge in any way the power conferred or duty cast on the Director (Discipline) under sub-section (1) of Section 21 **of the Act** to inquire into the conduct of any member of the Institute under any other circumstances.

A member is liable to disciplinary action under Section 21 of the Chartered Accountants Act, **1949** if he is found guilty of any Professional or Other Misconduct.

1. **Professional Misconduct:** Professional misconduct has been defined in part I, II and III of the First Schedule; and part I and II of the Second Schedule. A member who is engaged in the profession of accountancy whether in practice or in service should conduct/restrict his actions in accordance with the provisions contained in the respective parts of the schedules. If the member is found guilty of any of the acts or omissions stated in any of the respective parts of the Schedule, he/she shall be deemed to be guilty of professional misconduct.
2. **Other Misconduct:** Other misconduct has been defined in part IV of the First Schedule and part III of the Second Schedule. These provisions empower the Council to inquire into any misconduct of a member even it does not arise out of his professional work. This is considered necessary because a chartered accountant is expected to maintain the highest standards of integrity even in his personal affairs and any deviation from these standards, even in his non-professional work, would expose him to disciplinary action. **For example, a member who is found to have forged the will of a relative would be liable to disciplinary action even though the forgery may not have been done in the course of his professional duty.**

Whether Mr. Safe is guilty of professional Misconduct ?

In the given situation, a case was filed against Mr. Safe, for forgery of his uncle's will. Contention of Mr. Guru that court has pronounced Mr. Safe guilty of forgery, however, it was his personal matter and no impact on professional work is not tenable and CA. Safe will be held guilty of other misconduct.

CASE STUDY - 3

GKNH & Co. LLP, Chartered Accountants (Firm), a five-decade old CA firm is headquartered in Mumbai and has offices across key cities in India. It caters to clients across diverse market segments including Industrial, Infrastructure, Consumer Products, Financial Services, Technology, Media and Entertainment and Telecommunications. It is led by a robust team comprising 15 Partners with rich experience, supported by over 100 talented professionals focused on providing high-quality audits, integrated with strong technical expertise, technology and data driven insights. The firm has established a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and regulatory / legal requirements, and that the reports issued by the firm or engagement partners are appropriate in the circumstances.

Benz India Limited (BIL), a listed entity engaged in the manufacturing and exports of speciality chemicals, has appointed the firm as its auditor for the financial year 2022-23, after its auditor resigned due to some negative media reports about BIL. Managing partners of the firm accepted the audit after internal discussions and assigned the engagement to its senior most partner, CA K who has prior experience of handling these types of assignments. CA K along with his audit team planned and commenced the audit for completing the work on time. The audit team drilled records, documents filed with legal authorities and stock exchanges and books of accounts maintained at the head office and identified the following five key areas at the initial stages of the audit. The following key areas were identified for review by the audit team, for their discussions with CA K:

Area 1

BIL submitted to stock exchanges that it has constructed a new building for its factory premises. The new building construction started on April 1, 2022 and was completed by March 31, 2023. The expenditure incurred is as follows:

April 2022 - ₹ 1.50 Crores

August 2022 - ₹ 1.50 Crores

October 2022 - ₹ 3.50 Crores

January 2023 - ₹ 1.00 Crore

To finance the construction of building, BIL obtained a specific loan of ₹ 3.00 Crores from its banker at an interest rate of 10% per annum, which was spent in April and August as mentioned above. The Company's other outstanding loans were ₹ 20.00 crores at an interest rate of 11% per annum and ₹ 10.00 crores at an interest rate of 12% per annum. Company has capitalized interest of ₹ 80.99 Lakhs in its books of accounts.

Area 2

During the financial year 2022-23, the share capital of the Company changed as follows:

Date	Particulars	No. of Shares
April 1, 2022	Opening balance of outstanding equity shares	10,00,000
April 1, 2022	Opening balance of outstanding preference shares of ₹ 10 each	1,00,000
July 1, 2022	Issue of equity shares	1,00,000
January 1, 2023	Buy back of equity shares	50,000
January 1, 2023	Redemption of preference shares at ₹ 15 each	100,000
March 31, 2023	Closing balance of outstanding equity shares	10,50,000

Net profit as per the Statement of Profit and Loss Account is ₹ 735.00 Lakhs and retained earnings was ₹ 2,495 Lakhs after adjusting premium of ₹ 5.00 Lakhs charged to it. EPS calculated by the Company is ₹ 70.00.

Area 3

The management has requested us to provide certification in relation to compliance of Corporate Governance matters listed in SEBI (LODR) regulations. Though the other areas of certification seem to be complied with, certain non-compliances were noted in relation to formation of various committees and the audit team listed the following for further discussions:

Name of Committee	Chaired by	Meetings during the year
Audit Committee	Ms. Samantha - a non-executive director	3
Nomination & remuneration committee	Mr. John - an independent director	1
Stakeholders relationship committee	Mr. Pawan - a non-executive director	1

Area 4

BIL has supplied 10,000 MT of Chemical to Sysma Inc. in London during the financial year 2022-23. Price per MT was ₹ 2,000. Management has treated this transaction as normal exports and was confident that this view will be accepted as it is by Income Tax department as well. While reviewing the financial statements, it was found that:

Book value of assets of BIL: ₹ 500 Crores

Market value of assets of BIL: ₹ 750 Crores

Liabilities outstanding in books: ₹ 135 Crores (excluding contingent liabilities of ₹ 15 Crores)

Sysma Inc. has advanced loan of ₹ 260 crores to BIL and further CHEM Ltd. (a foreign company) hold 25% share capital of both BIL and Sysma Inc.

Area 5

During the year, BIL has received dividends from the following:

Name of Company	Status	₹ Lakhs
TIL Limited	Domestic company	50
MIL Limited (100% subsidiary)	Domestic company	20
Forge Limited	Foreign company	65
Benz Trust	Resident	15

On June 30, 2023 BIL declared and distributed dividend amounting to ₹ 200 Lakhs to its shareholders.

BIL's legal team is of the view that it can claim deduction for dividends u/s 80 M of the Income-tax Act, 1961 for an amount of ₹ 20 Lakhs, being dividend received from the subsidiary and Company followed the recommendation of legal department.

Area 6

The Company wants to analyze its overheads and provides you the following information:

Particulars	Budgeted	Actual
Overheads (₹)	6,000	5,800
Output (units)	3,000	3,200
Customer's deliveries (nos.)	30	28

The overhead relates to deliveries to customers.

MCQs: Provide the correct option to the following Questions:

- 3.1 Whether BIL has correctly capitalized interest as per the Ind AS 23, assuming that expenditure is incurred at the beginning of the month?
- Interest amount capitalized ₹ 80.99 Lakhs is correct.
 - Interest amount capitalized should have been ₹ 52.66 Lakhs
 - Interest amount capitalized should have been ₹ 51.05 Lakhs
 - Interest amount capitalized should have been ₹ 47.66 Lakhs

- 3.2 *Whether view of legal department is correct about the deduction available to the Company u/s 80 M of the Income-tax Act, 1961?*
- (a) *Deduction recommended is wrong, as the correct eligibility is ₹ 135.00 Lakhs*
 - (b) *Deduction recommended is wrong, as the correct eligibility is ₹ 70.00 Lakhs*
 - (c) *Deduction recommended is wrong, as the correct eligibility is ₹ 85.00 Lakhs*
 - (d) *Deduction recommended is wrong, as the correct eligibility is ₹ 150.00 Lakhs*
- 3.3 *Which of the following statement appropriately indicates the transaction between BIL and Sysma Inc as per the provisions of Income-tax Act, 1961?*
- (a) *BIL and Sysma Inc will be deemed to be associated enterprises as substantial voting power is controlled by CHEM Ltd, even though loan advanced by Sysma Inc is less than specified percentage of market value of total assets of BIL and thus transfer pricing provisions will get attracted for the transaction.*
 - (b) *BIL and Sysma Inc will not be deemed to be associated enterprises as substantial voting power is not controlled by CHEM Ltd and also loan advanced by Sysma Inc is less than specified percentage of market value of total assets of BIL and thus transfer pricing provisions will not get attracted for the transaction.*
 - (c) *BIL and Sysma Inc will be deemed to be associated enterprises as loan advanced by Sysma Inc is more than specified percentage of book value of total assets of BIL even though, substantial voting power is not controlled by CHEM Ltd and thus transfer pricing provisions will get attracted for the transaction.*
 - (d) *BIL and Sysma Inc will be deemed to be associated enterprises as loan advanced by Sysma Inc is more than specified percentage of book value of total assets of BIL and substantial voting power is also controlled by CHEM Ltd and thus transfer pricing provisions will get attracted for the transaction.*
- 3.4 *What qualifications will you recommend to the auditor that should be given in relation to certification of compliance of corporate governance conditions?*
- (a) *Audit Committee and Stakeholders relationship committee is not chaired by Independent Director.*
 - (b) *Audit Committee is not chaired by Independent Director and also number of meetings held are less than the number of times prescribed.*
 - (c) *Audit Committee and Stakeholders relationship committee is not chaired by Independent Director and also number of meetings are less than the number of times prescribed.*
 - (d) *Stakeholders relationship committee is not chaired by an executive director and all the committees have met less than the number of times prescribed.*

- 3.5 Considering the details mentioned in Area 6 above, the expenditure and efficiency variance will be
- (a) Expenditure variance ₹ 200 (A) and Efficiency variance ₹ 800 (F)
 - (b) Expenditure variance ₹ 800 (F) and Efficiency variance ₹ 200 (A)
 - (c) Expenditure variance ₹ 200 (F) and Efficiency variance ₹ 800 (A)
 - (d) Expenditure variance ₹ 800 (F) and Efficiency variance ₹ 200 (F)

(5 x 2 = 10 Marks)

Descriptive Questions

- 3.6 (a) Recompute the EPS of the Company for the financial year 2022-23
- (b) Shares are usually included in the weighted average number of shares from the date consideration is receivable. What will be the date of inclusion in the following circumstances?
- (i) shares issued on the voluntary reinvestment of dividend on ordinary or preference shares
 - (ii) shares issued as a result of the conversion of a debt instrument to ordinary shares
 - (iii) shares issued in place of interest or principal on other financial instruments
 - (iv) shares issued as consideration for the acquisition of an asset other than cash

(6 Marks)

- 3.7 If BIL and Sysma Inc are covered under transfer pricing and arm's length price is required to be determined for their transactions, what will be the factors for the purpose of selecting the most appropriate method for determining most reliable measure of an arm's length price?

(4 Marks)

- 3.8 For shares issued during the year, whether the Company is required to submit any statement to Stock exchange under SEBI (LODR) Regulations 2015? Which authority of the Company should review those filings?

(5 Marks)

ANSWER TO CASE STUDY 3

Answer to MCQs

- 3.1 (b)
- 3.2 (d)
- 3.3 (c)
- 3.4 (b)
- 3.5 (a)

- 3.6 (A) EPS calculated by BIL is based on normal addition and subtraction of equity shares. However, as per weighted average concept as discussed in Ind AS 33, one has to find out for how many months each share was actually held during the year.

Further, BIL had 1,00,000 preference shares at ₹ 10 each. ₹ 5,00,000 premium on redemption of preference shares is charged to retained earnings. No amount is recorded in the statement of profit and loss for this transaction. However, for EPS purposes, ₹ 5,00,000 is charged to the statement of profit or loss for the period of the transaction.

Computation of weighted average number of shares for calculation of EPS for the year 2022-2023:

Date	Particulars	No of shares	No of months shares were outstanding	Weighted average no of shares
1 st April, 2022	Opening balance of outstanding equity shares	10,00,000	12	10,00,000
1 st July, 2022	Issue of equity shares	1,00,000	9	75,000
1 st January, 2023	Buy back of shares	<u>(50,000)</u>	(3)*	<u>(12,500)</u>
31 st March, 2023	Closing balance of outstanding equity shares	<u>10,50,000</u>		<u>10,62,500</u>

*These shares had already been considered in the shares issued. The same has been deducted assuming that the bought back shares have been extinguished immediately.

Revised Profit and loss for the purpose of calculation of Earnings per share
 = ₹ 7,35,00,000 – ₹ 5,00,000 = ₹ 7,30,00,000

Revised EPS = Earnings per Share / Weighted average number of shares
 = ₹ 7,30,00,000 / 10,62,500
 = ₹ 68.71 per share

Note:

The above solution has been provided taking into consideration the number of months the shares were outstanding. Alternatively, weighted average number of

shares may be calculated based on number of days, the shares were outstanding. In such a situation, the answer would be as follows:

Computation of weighted average number of shares for calculation of EPS for the year 2022-2023:

Date	Particulars	No of shares	No of days shares were outstanding	Weighted average no of shares
1 st April, 2022	Opening balance of outstanding equity shares	10,00,000	365	10,00,000
1 st July, 2022	Issue of equity shares	1,00,000	274	75,068
1 st January, 2023	Buy back of shares	<u>(50,000)</u>	(90)*	<u>(12,329)</u>
31 st March, 2023	Closing balance of outstanding equity shares	<u>10,50,000</u>		<u>10,62,739</u>

*These shares had already been considered in the shares issued. The same has been deducted assuming that the bought back shares have been extinguished immediately.

Revised Profit and Loss for the purpose of calculation of Earnings per Share

$$= ₹ 7,35,00,000 - ₹ 5,00,000 = ₹ 7,30,00,000$$

Revised EPS = Earnings per Share / Weighted average number of shares

$$= ₹ 7,30,00,000 / 10,62,739$$

$$= ₹ 68.69 \text{ per share}$$

(B) The date for inclusion in weighted average number of shares under following situation are:

S. No.	Situation	Date for consideration in weightage number of shares
(i)	Shares issued on the voluntary reinvestment of dividend on ordinary or preference shares	The date when dividend are reinvested

(ii)	Shares issued as a result of the conversion of a debt instrument to ordinary shares	The date that interest ceases to accrue
(iii)	Shares issued in place of interest or principal on other financial instruments	The date that interest ceases to accrue
(iv)	Shares issued as consideration for the acquisition of an asset other than cash	The date on which the acquisition is recognised

3.7 For the purpose of selecting the most appropriate method for determining most reliable measure of arm's length price, the following factors should be taken into account.

- (i) The nature and class of the international transaction;
- (ii) The class, or classes of associated enterprises entering into the transaction and the functions performed by them taking into account assets employed or to be employed and risks assumed by such enterprises;
- (iii) The availability, coverage and reliability of data necessary for application of the method;
- (iv) The degree of comparability existing between the international transaction and the uncontrolled transaction and between the enterprises entering into such transactions;
- (v) The extent to which reliable and accurate adjustments can be made to account for difference, if any, between the international transaction and the comparable uncontrolled transaction or between the enterprises entering into such transactions;
- (vi) The nature, extent and reliability of assumptions required to be made in application of a method.

3.8 Yes, as per the SEBI (LODR) Regulations, 2015, company is required to submit the following statements as regards the shares issued during the year to the stock Exchange:

Prior Intimation for alteration of securities [Regulation 29(3) of SEBI (LODR) Regulations, 2015

1. The listed entity shall give intimation to the stock exchange(s) **at least 11 working days** before any of the following proposal is placed before the board of directors:

Any alteration in the form or nature of any of its securities that are listed on the stock exchange or in the rights or privileges of the holders thereof.

Any alteration in the date on which, the interest on debentures or bonds, or the redemption amount of redeemable shares or of debentures or bonds, shall be payable.

2. **Regulation 31(1):** Holding of Specified Securities and Shareholding Pattern.

A listed entity shall submit a statement showing holding of securities and shareholding pattern separately for each class of securities:-

- (a) **One day prior** to listing of its securities on the stock exchange(s);
- (b) **On a quarterly basis, within 21 days** from the end of each quarter; and,
- (c) **Within 10 days** of any capital restructuring of the listed entity resulting in a change exceeding 2% per cent of the total paid-up share capital.

3. **Regulation 32(1):** Statement of Deviation(S) Or Variation(S)

A listed entity shall submit to the stock exchange the following statement(s) on a quarterly basis for public issue, rights issue, preferential issue etc.,

- (a) indicating deviations, if any, in the use of proceeds from the objects stated in the offer document or explanatory statement to the notice for the general meeting, as applicable;
- (b) indicating category wise variation (capital expenditure, sales and marketing, working capital etc.) between projected utilization of funds made by it in its offer document or explanatory statement to the notice for the general meeting, as applicable and the actual utilization of funds.

Authority of the Company who reviews those filings: As per Regulation 6, a listed entity shall appoint a qualified company secretary as the compliance officer who shall be responsible for ensuring that correct procedures have been followed that would result in correctness of information filed by listed entity under the regulations.

CASE STUDY - 4

Make in India initiative of Government of India has attracted investments from various corporates around the world and has given impetus to the indigenous entrepreneurs. Inspired by this initiative and a change in government policies, Mr. Shyam, Mr. Abraham and Ms. Kavita who have studied together in IIT, had formed a company SAK Private Limited (SAK). SAK has been in the business of manufacturing and export of foot wear including premium sports shoes. It has become a known name in the last decade and is on a growth trajectory. Ms. Devika, Chartered Accountant, has been their CFO since the Company was founded and was a trusted advisor of the founder promoters. While finalizing accounts for the financial year 2022-23, she has doubts in respect of certain matters and approached you for your opinion.

- I. *The Company has a property with a carrying value of ₹ 50 Lakhs which was purchased in June 2018. For purchasing this property, the Company had issued share capital which was subscribed by two other companies. The Company received a show cause notice from Initiating Officer (IO) under the Prohibition of Benami Property Transactions Act, 1988 for treating the said property as benami property.*
- II. *The Company has offered discount voucher on sale of its sports shoes for every sale of ₹ 1500 on sales made through its retail outlet. This discount voucher entitles the holder to a discount of 30% which can be used for any future purchase up to ₹ 1500 in the next 60 days. During the coming 60 days, the Company also intends to offer a general festival*

discount of 15% on all sales. This 15% discount cannot be used in addition to 30% discount voucher. The Company estimates that there is 80% likelihood that a customer will redeem the voucher and on an average a customer will purchase additional products worth ₹ 750.

III. The Company purchased a building for ₹ 20 lakhs on April 1, 2020 and was using it as its corporate office. The life of the building was estimated to be 20 years. On March 31, 2022, the fair value of the building was ₹ 16.40 lakhs, and the remaining useful life of the building was also estimated to be 20 years. The Company has been following the cost model for accounting of its property, plant and equipment and follows straight line method for provision of depreciation. During the year, the Company shifted its corporate office to a bigger place and decided to let out the old property. The property has been given on rent to a multinational company on October 1, 2022.

IV. The Company has made purchases and sales of Bitcoins, during the year as under:

Date	Particulars	Units	Amount ₹
June 15, 2022	Purchase	5,000	50,000
July 15, 2022	Sale	2,500	22,500
July 20, 2022	Sale	2,500	28,750
August 1, 2022	Purchase	10,000	1,50,000
August 16, 2022	Sale	5,000	77,500
August 31, 2022	Sale	4,000	56,000

V. The Company is planning to invest its surplus funds in the bonds and provides the following information:

Face Value ₹ 10,000 to be redeemed at par at maturity.

Coupon rate 9% per annum

Years to maturity 7 years

Yield to maturity (YTM) 10%

Years	1	2	3	4	5	6	7
PVIF (10%, n)	0.909	0.826	0.751	0.683	0.621	0.564	0.513

VI. The Company had applied to bank for a loan. Credit team of bank while reviewing the loan application has observed that the Company already has machinery and building term loan accounts, though all of them were regular and no default of any nature has occurred. The only issue was, whether the boards of directors have the power to borrow more funds without any approval from the shareholders as per the provisions of the Companies Act, 2013. For this purpose, Company's financial statements were analyzed with the Following details –

Particulars	₹ Lakhs
Share capital	100
Reserves and Surplus	250
Share premium	10
Secured loans	133
Cash credit limit	125
Unsecured loans	225

VII. Meanwhile, Shyam reached out to CFO with a personal query. His son Rohan wanted to pursue post graduate degree in hotel management from a leading university A in Switzerland. With his efforts, he was able to secure admission in other university B and response from university A was awaited. As per rules of University A, if Rohan gets admission he will be required to deposit the first year fee by December 1, 2023. Shyam got forward contract from BAZ Bank Limited on September 1, 2023 for fee amount i.e. 8,000 Swiss Francs @ of ₹ 30.00 expiring on December 1, 2023. On November 1, 2023, Rohan got news that University A has not given admission to him. Though he was disappointed but was happy with University B. Shyam now went to bank and cancelled the forward contract on November 1, 2023. The rates prevailing were

		November 1, 2023	December 1, 2023
Spot	CHF 1 =	₹ 30.30	₹ 30.35
One-month forward		₹ 30.45	₹ 30.55

MCQs: Provide the correct option to the following Questions:

- 4.1 In respect of notice received for benami property, the Company is required to make the following compliance:
- The board of directors is required to make a disclosure in its Directors' Report.
 - The Company is required to make the disclosure in notes to financial statements as additional regulatory information and Directors Report. The Statutory Auditors are not required to make any specific comments.
 - The Company is required to make a disclosure in notes to financial statements as additional regulatory information and the Statutory Auditors are also required to report in Company (Auditors' Report) Order, 2020.
 - Neither the Company nor the Statutory Auditors are required to report.
- 4.2 Determine how many performance obligations the Company has and what will be the allocated transaction price?
- Two performance obligations, allocated price for sports shoes sale is ₹ 1,415 and discount voucher ₹ 85.

- (b) One performance obligation, allocated price for sports shoes sale is ₹ 1,500.
- (c) Two performance obligations, allocated price for sports shoes sale is ₹ 1,275 and discount voucher ₹ 225.
- (d) Two performance obligations, allocated price for sports shoes sale is ₹ 1,320 and discount voucher ₹ 180.
- 4.3 At which value, on change in use of property, Investment property is recognized on the date of change and the depreciation to be charged in statement of profit and loss for the year ending March 31, 2022?
- (a) ₹ 17.50 lakhs, depreciation ₹ 1,00,000
- (b) ₹ 17.55 lakhs, depreciation ₹ 90,000
- (c) ₹ 15.94 lakhs, depreciation ₹ 92,000
- (d) ₹ 15.99 lakhs, depreciation ₹ 82,000
- 4.4 Whether the contention of bank that the Directors of the Company cannot borrow further money from the bank, for importing machinery is correct considering the requirements of Companies Act, 2013?
- (a) Bank's contention is correct as the borrowings excluding cash credit has exceeded the maximum permissible limit ₹ 350 Lakhs.
- (b) Bank's contention is correct as the total borrowings has exceeded the maximum permissible limit of ₹ 350 Lakhs.
- (c) Bank's contention is incorrect as the borrowings excluding cash credit are within the permissible limit of ₹ 700 Lakhs.
- (d) Bank's contention is partially correct as the borrowings excluding cash credit are ₹ 358 Lakhs and maximum permissible limit is ₹ 360 Lakhs.
- 4.5 What would be the loss incurred by Shyam on cancellation of the forward contract on November 1, 2023.
- (a) ₹ 3,600
- (b) ₹ 2,800
- (c) ₹ 4,400
- (d) ₹ 2,400
- (5 x 2 = 10 Marks)**

Descriptive Questions

- 4.6 With reference to information given in point V above:
- (a) Compute the current market price of the bond
- (b) Explain Maculay's duration and compute the duration.
- (4 + 4 = 8 Marks)**

- 4.7 Explain 'Virtual Digital Asset' as per the Income-tax Act, 1961 and the taxability of such assets. Also, compute the tax liability of SAK for the sale and purchase of bitcoins made during the year. **(4 + 3 = 7 Marks)**

ANSWER TO CASE STUDY 4

Answer to MCQs

- 4.1 (c)
 4.2 (a)
 4.3 No correct option
 4.4 (d)
 4.5 (a)
 4.6 (a) **Current Market Price of Bond**

$$\begin{aligned}
 &= \text{Interest} \times \text{PVIFA}_{(10\%, 7 \text{ Yrs})} + \text{Maturity value} \times \text{PVIF}_{(10\%, 7)} \\
 &= ₹ 10,000 \times 9\% \times 4.867 + ₹ 10,000 \times 0.513 \\
 &= ₹ 4,380.30 + ₹ 5,130 = ₹ 9,510.30 \text{ or } \underline{\underline{₹ 9,510}}
 \end{aligned}$$

- (b) **Macaulay Duration** measures the number of years required to recover the true cost of a bond, considering the present value of all coupon and principal payments received in the future.

Duration of bond

Year	Cash flow (A)	PVIF @ 10% (B)	A x B = C	Proportion of Bond value (D)	C x D
1	900	0.909	818.10	0.086	0.086
2	900	0.826	743.40	0.078	0.156
3	900	0.751	675.90	0.071	0.213
4	900	0.683	614.70	0.065	0.260
5	900	0.621	558.90	0.059	0.295
6	900	0.564	507.60	0.053	0.318
7	10900	0.513	5591.70	0.588	4.116
Total			9510.30		5.444

Duration of Bond is 5.44 Years.

1st Alternate Answer:

Alternatively, it can also be computed as follows:

Year	Cash flow (A)	PVIF @ 10% (B)	A x B = (C)	(c) x Year
1	900	0.909	818.10	818.10
2	900	0.826	743.40	1486.80
3	900	0.751	675.90	2027.70
4	900	0.683	614.70	2458.80
5	900	0.621	558.90	2794.50
6	900	0.564	507.60	3045.60
7	10900	0.513	5591.70	39141.90
		4.867	9510.30	51773.40

$$\text{Duration of Bond} = \frac{51773.40}{9510.30} = \underline{\underline{5.44 \text{ Years.}}}$$

2nd Alternate Answer

Alternatively, it can also be computed as follows:

$$\begin{aligned} \text{Duration} &= \frac{1+YTM}{YTM} - \frac{(1+YTM)^t + t(c-YTM)}{C[(1+YTM)^t - 1] + YTM} \\ &= (1+0.10)/0.10 - \frac{(1+0.10) + 7(0.09-0.10)}{0.09[(1+0.10)^7 - 1] + 0.10} \\ &= 11 - (1.03/0.185) \\ &= \underline{\underline{5.432 \text{ Years.}}} \end{aligned}$$

4.7 Virtual Digital Asset means

- (a) any information or code or number or token (not being Indian currency or foreign currency), - generated through cryptographic means or otherwise, by whatever name called, - providing a digital representation of value exchanged with or without consideration, - with the promise or representation of having inherent value, or - functions as a store of value or a unit of account including its use in any financial transaction or investment, but not limited to investment scheme; and - can be transferred, stored or traded electronically;
- (b) a non-fungible token or any other token of similar nature, by whatever name called;
The non-fungible token means such digital asset as may be notified by the Central Government.

Accordingly, the Central Government has, **vide notification no. 75/2022 dated 30.6.2022**, specified a token which qualifies to be a virtual digital asset as non-fungible token. However, it shall not include a non-fungible token whose transfer results in transfer of ownership of underlying tangible asset and the transfer of ownership of such underlying tangible asset is legally enforceable.

- (c) any other digital asset, as may be notified by the Central Government.

However, the Central Government may, by notification, exclude any digital asset from the definition of virtual digital asset subject to specified conditions.

Accordingly, the Central Government has, vide notification no. 74/2022 dated 30.6.2022, notified that the following virtual digital assets would be excluded from the definition of virtual digital asset –

- (i) Gift card or vouchers, being a record that may be used to obtain goods or services or a discount on goods or services;
- (ii) Mileage points, reward points or loyalty card, being a record given without direct monetary consideration under an award, reward, benefit, loyalty, incentive, rebate or promotional program that may be used or redeemed only to obtain goods or services or a discount on goods or services;
- (iii) Subscription to websites or platforms or application

Taxability of virtual digital assets -

Where the total income of an assessee includes any income from the transfer of any virtual digital asset, such income would be taxed @30% under section 115BBH. In computing the income from transfer of virtual digital asset, no deduction would be allowed under any provisions of the Act in respect of any expenditure or allowance except cost of acquisition, if any. Further, no set off of any loss is allowed to the assessee from such income.

Computation of tax liability of SAK

Particulars	Amount (in ₹)
Sale consideration [22,500 + 28,750 + 77,500 + 56,000]	1,84,750
Less: Cost of acquisition [50,000 + 9,000 x 1,50,000/10,000]	1,85,000
Loss on sale of Bitcoins [Neither set off of loss nor carry forward of such loss is allowed]	(250)

Note: As per section 115BBH(20), no set off of any loss is allowed in computing the income from virtual digital asset and no set off of loss from transfer of the virtual digital asset is allowed against any other income computed under any provisions of the Act. The main solution has been worked on the view that there is no restriction in set off of loss from the transfer of a virtual digital asset against the income from the transfer of same virtual digital asset. However, it is possible to take a view that set off of loss

from the transfer of virtual digital asset is neither allowed against the same virtual digital asset nor against another virtual digital asset. Accordingly, due credit may be given to any candidate who has answered on this basis. In such a case, the alternative answer would be:

Computation of tax liability of SAK

Particulars	Amount (in ₹)
Sale of 2,500 units of Bitcoins on 15.7.2022	
Sale consideration	22,500
Less: Cost of acquisition [50,000 x 2,500/5,000]	25,000
Loss on sale of Bitcoins [Neither set off of loss nor carry forward of such loss is allowed]	2,500
Sale of 2,500 units of Bitcoins on 20.7.2022	
Sale consideration	28,750
Less: Cost of acquisition [50,000 x 2,500/5,000]	25,000
Gain	3,750
Sale of 5,000 units of Bitcoins on 16.8.2022	
Sale consideration	77,500
Less: Cost of acquisition [1,50,000 x 5,000/10,000]	75,000
Gain	2,500
Sale of 4,000 units of Bitcoins on 31.8.2022	
Sale consideration	56,000
Less: Cost of acquisition [1,50,000 x 4,000/10,000]	60,000
Loss on sale of Bitcoins [Neither set off of loss nor carry forward of such loss is allowed]	4,000
Total gain on transfer of virtual digital asset [3,750 + 2,500]	6,250

CASE STUDY - 5

CA Gudia is a qualified Chartered Accountant and in practice since year 2007 and has set up her own practice in Ludhiana, Punjab. She did her training from M/s H Singh & Associates, Chartered Accountants, Delhi. CA H is son of sitting Member of Parliament, so good contacts and professional services have helped M/s H Singh & Associates earn and grow good number of clients in all fields of professional services.

CA Gudia was in good books of managing partner, so she got good exposure of various high profile assignments (like auditing listed companies, forensic audit of large borrowers of various

nationalized and private sector banks, international taxation, corporate governance issues etc.). But the area which was close to her heart was rendering consultancy to high net-worth individuals (HNIs). She was so interested in this area that she kept herself updated on these issues on daily basis and knew that India is a preferred destination for HNIs and so decided to practice mainly in consultancy field. Her major expertise is in the field of consultancy to her clients regarding Foreign Exchange related matters (whether under FEMA or Indirect Taxation), Income tax matters including international taxation, Investment decision making and corporate matters pertaining to these areas. One of her colleague during training times, landed a good job in a top listed company of India. Since she was in regular touch with CA Gudia, she referred many clients to her.

Over a period of time, CA Gudia had a flourishing practice and she appointed four other Chartered Accountants as assistants. Every week CA Gudia, had a meeting with her team of CAs for updates on issues with various clients. In one such weekly meeting, the following issues relating to key clients of the firm were discussed:

Client 1

XYZ Ltd, a listed company is a paper manufacturing company based at Surat, Gujrat, which has been in business for more than half a century. The Company has a good reputation in industry and was founded by Mr. Hanum in the year 1973. As years passed by, the Company has now gone global and has been in exports also. Presently, his grandson, Mr. Devesh an MBA from IIM Bangalore, is leading the business, as its Managing Director. CA Gudia is the Company's consultant on various tax and accounting issues. Mr. Devesh approaches CA Gudia for seeking advice on various accounting and taxation related matters in the business. XYZ Ltd acquired 80% shares in its foreign subsidiary, QR Ltd, four years ago. In the current year, the Company sold its entire investment in QR for ₹ 3,000 lakhs. The net assets of QR Ltd are ₹ 2,500 lakhs and the non-controlling interest in QR is ₹ 500 lakhs. The cumulative exchange differences that have arisen during the Company's ownership were gains of ₹ 500 lakhs, resulting in foreign currency translation reserve in respect of the subsidiary QR Ltd, having a credit balance of ₹ 400 lakhs, while the cumulative amount of exchange differences that have been attributed to the non-controlling interest is ₹ 100 lakhs.

The Company has a total number of 11 directors and Mr. Rakha, the Chairperson of the Board is a non-executive director. Out of 11 directors, 5 were independent directors. During the year, the Company also received a Show Cause Notice from the State Pollution Control Board and the Company was in the process of responding to the same.

Client 2

Alphan Ltd imported machinery costing ₹ 70 lakhs from a reputed manufacturer of Malaysia. In accordance with the terms of payment, the Company was required to pay the cost of machinery

in 6 equal monthly installments. The Company paid the installments as per terms and the machinery was delivered and installed at their new factory site.

Client 3

Duno Ltd declared and paid an interim dividend for the half year ended September 30, 2023. Dividend was paid to shareholders including NRIs and foreign company after deducting TDS @10%. The following data was available for dividend payments:

Resident Shareholders: ₹ 50 Lakhs (before TDS deduction) and TDS deducted ₹ 5 Lakhs.

Non-Resident Shareholders - John: ₹ 25 Lakhs (before TDS deduction) and TDS deducted ₹ 2.5 Lakhs.

During the year, Duno Ltd in order to increase sales of its product Polycotton, launched a mass advertising campaign. For the purpose of online advertisement, it utilized the services of Tel Inc (USA based online advertising company and not having any permanent establishment in India) and Superb (UK based online advertising company and not having any permanent establishment in India) which also owns and operates a digital platform. During the month ended October 31, 2023, the Company made payment of ₹ 2.50 Lakhs to Tel Inc and ₹ 0.75 Lakhs to Superb. Tax amounting to ₹ 0.975 Lakhs was withheld by the Company on these payments u/s 195 of the Income-tax Act, 1961.

Client 4

Raj, a HNI entered into agreement with Tanu, to purchase a vacant plot in Kochi. The following are the details of the transaction:

Consideration agreed - ₹ 260 Lakhs Stamp duty value - ₹ 285 Lakhs Date of transfer - October 10, 2023

He enquired with his friends and colleagues and decided to enter into an agreement with Manu for construction of house on his plot. The following are the details of the agreement:

Total contract value - ₹ 175.00 Lakhs (Ready to move in house will be provided by contractor and Raj will only install TV and CCTV cameras at his own expense).

Construction will be completed in 11 months and payment terms will be 30% advance and balance in ten equated monthly payments.

Client 5

For visit to London, Ranjan will be getting the tickets booked and asked his travel agent M/s PTG Holidays to submit quotations. After going through the quotations of various airlines, flight of British Airways was selected and travel agent submitted the fare break up as follows:

Basic air fare: ₹ 45,000

Convenience fee:	₹ 1,500
Airport charges:	₹ 1,000
Misc. charges:	₹ 500
Total:	₹ 48,000

As regards foreign currency to be carried during his visit, Ranjan had US \$10,000 (in hand, out of currency left during his short visit of 5 days to US in July 2023). Ranjan decided to get those USDs converted into GBP from Yono Forex Services. He expects to receive 7,800 GBP on conversion of currencies. Rate he is getting for conversion are:

US \$ Rate = ₹ 75 and GBP Rate = ₹ 95

Client 6

CA Gudia's firm was appointed as a joint auditor of Zemka Limited, along with M/s ABC & Co., and M/s KAP & Co. The scope of audit was agreed upon with other joint auditors as per the relevant Auditing Standards. As the Company has a substantial amount involved in property, plant and equipment (PPE), it was decided that all the three auditors will verify the records relevant to PPE. While forming an opinion, CA M, partner of M/s ABC & Co., was having a different opinion on PPE but CA N, partner of M/s KAP & Co., and CA Gudia were having same opinion. CA M wants to qualify capitalisation of post-acquisition costs incurred on PPE, whereas CA N and CA Gudia are of the opinion that the accounting treatment followed by the Company is correct.

Client 7

Mr. Siraj was an old friend of CA Gudia, whose income-tax returns were prepared and filed by CA. Gudia's office. Apart from remuneration from employment, he also had a part-time business. He had earned well for himself and had two properties. One is self-occupied and the second one was let out for part of the year. He also invested in shares and had capital gains during the year. He provided the following information for the year ended March 31, 2023:

- He received Salary of ₹ 45,000 per month from his employer.
- In business, he suffered a loss of ₹ 1,00,000.
- He has paid interest of ₹ 2,50,000 for property 1 which was self-occupied.
Second property was let out for 3 months @ ₹ 25,000 per month. For this property, he has paid interest of ₹ 3,00,000.
- He earned interest from the saving bank of ₹ 15,000 and on Fixed deposits of ₹ 45,000
- During the year, he was having long-term capital gain of ₹ 50,000 and Short-term capital loss of ₹ 10,000.

He has no other tax savings during the year and does not opt for Section 115BAC.

MCQs: Provide the correct option to the following Questions:

- 5.1 Whether the tax deducted by the Company on payments to resident shareholders, John, Tel Inc. and Superb is deducted correctly?
- (a) Yes, except for TDS on payment to John which should have been ₹ 5.00 Lakhs.
 - (b) Yes, except for TDS on payment to John which should have been ₹ 7.50 Lakhs.
 - (c) No, TDS on payment to John should have been ₹ 5.00 Lakhs and payments to Tel Inc and Superb are liable for equalisation levy.
 - (d) No, TDS on payment to John should have been ₹ 5.00 Lakhs and payments to Tel Inc is liable for equalisation levy. Payments to Superb are neither liable for tax deduction nor for equalisation levy.
- 5.2 Raj is not sure as to whether the transactions entered into with Tanu and Manu attract any tax withholding provisions?
- (a) Tax is required to be deducted @ 1% on consideration payable to Tanu and 5% on payment to be made to Manu. Raj is required to obtain TAN to comply these provisions.
 - (b) Tax is required to be deducted @ 1% on stamp duty value of transaction with Tanu and @ 5% on payment to be made to Manu. Raj is not required to obtain TAN to comply these provisions.
 - (c) Tax is required to be deducted @ 1% on consideration payable to Tanu and @ 1% on payment to be made to Manu. Raj is not required to obtain TAN to comply these provisions.
 - (d) Tax is required to be deducted @ 1% on consideration payable to Tanu but not on payment to be made to Manu. Raj is not required to obtain TAN to comply these provisions.
- 5.3 Is XYZ Ltd compliant with the requirements of appointment of independent directors?
- (a) No, there is no non-compliance, as independent directors were more than 2 directors specified in the Companies Act, 2013.
 - (b) Yes, there is non-compliance, as there should have been more than 6 independent directors specified in Regulation 17 and Regulation 17A.
 - (c) No, there is no non-compliance, as there are 5 independent directors, which is more than 1/3 of the total directors in accordance with Regulations 17.
 - (d) Yes, there is non-compliance, as all the directors should have been independent directors except the Chairman of the company.

- 5.4 As per the facts indicated under Client 2 above, relating to import of machinery from Malaysia by Alphan Ltd and its payment of cost in 6 equal monthly installments, which of the following statements is correct?
- Import of machinery is a 'Capital Account' transaction since the imported machinery is a fixed asset and shall be used for a long period by the Company.
 - Import of machinery is a 'Current Account' transaction since machinery shall be used in the production of saleable items by the Company.
 - Import of machinery is a 'Current Account' transaction since a short-term credit facility in the ordinary course of business was availed by the Company.
 - Import of machinery is a 'Capital Account' transaction since a long-term credit facility was availed by the company and the payment was made in more than three months.
- 5.5 What will be the valuation under GST, on which GST will be paid for the transactions with PTG Holidays and Yono Forex Services?
- ₹ 4,800 and ₹ 7,500
 - ₹ 2,250 and ₹ 7,500
 - ₹ 2,400 and ₹ 14,820
 - ₹ 4,500 and ₹ 7,410
- (5 x 2= 10 Marks)**

Descriptive Questions

- 5.6 As a joint auditor of Zemka Ltd, how should CA. Gudia address the disagreement with other joint auditors? Explain in the background of relevant Standards on Auditing. **(4 Marks)**
- 5.7 Compute the total income of Mr. Siraj for the financial year 2022-23. **(4 Marks)**
- 5.8 Compute the gain from disposal of shares of QR Ltd, which XYZ Limited has to record in its Consolidated Financial Statements. **(4 Marks)**
- 5.9 As the Statutory Auditor of the XYZ Limited, what audit procedures should CA Gudia perform for the Show Cause Notice received from the State Pollution Board? **(3 Marks)**

ANSWER TO CASE STUDY 5

Answer to MCQs

- 5.1 (d)
5.2 (b)
5.3 (c)
5.4 (c)
5.5 (d)

5.6 Difference of Opinion Among Joint Auditors: SA 299 on, “Joint Audit of Financial Statements” deals with the professional responsibilities, which the auditors undertake in accepting such appointments as joint auditors. In respect of the work divided amongst the joint auditors, each joint auditor is responsible only for the work allocated to him, whether or not he has made a separate report on the work performed by him. On the other hand the joint auditors are jointly and severally responsible in respect of the audit conducted by them as under:

- (i) in respect of the audit work which is not divided among the joint auditors and is carried out by all of them;
- (ii) in respect of decisions taken by all the joint auditors under audit planning in respect of common audit areas concerning the nature, timing and extent of the audit procedures to be performed by each of the joint auditors;
- (iii) in respect of matters which are brought to the notice of the joint auditors by any one of them and on which there is an agreement among the joint auditors;
- (iv) for examining that the financial statements of the entity comply with the requirements of the relevant statute;
- (v) for ensuring presentation and disclosure of the financial statements as required by the applicable financial reporting framework;
- (vi) for ensuring that the audit report complies with the requirements of the relevant statutes, the applicable Standards on Auditing and the other relevant pronouncements issued by ICAI.
- (vi) it is the separate and specific responsibility of each joint auditor to study and evaluate the prevailing system of internal control relating to the work allocated to him, the extent of enquiries to be made in the course of his audit;
- (vii) the responsibility of obtaining and evaluating information and explanation from the management is generally a joint responsibility of all the auditors;
- (viii) each joint auditor is entitled to assure that the other joint auditors have carried out their part of work in accordance with the generally accepted audit procedures and therefore it would not be necessary for joint auditor to review the work performed by other joint auditors.

Where, in the course of the audit, a joint auditor comes across matters which are relevant to the areas of responsibility of other joint auditors and which deserve their attention, or which require disclosure or require discussion with, or application of judgment by other joint auditors, the said joint auditor shall communicate the same to all the other joint auditors in writing prior to the completion of the audit.

Normally, the joint auditors are required to issue common audit report, however, where the joint auditors are in disagreement with regard to the opinion or any matters to be covered by the audit report, they shall express their opinion in a separate audit report. A joint auditor

is not bound by the views of the majority of the joint auditors regarding the opinion or matters to be covered in the audit report and shall express opinion formed by the said joint auditor in separate audit report in case of disagreement. In such circumstances, the audit report(s) issued by the joint auditor(s) shall make a reference to the separate audit report(s) issued by the other joint auditor(s). Further, separate audit report shall also make reference to the audit report issued by other joint auditors. Such reference shall be made under the heading "Other Matter Paragraph" as per Revised SA 706, "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report".

In the instant case, there are three auditors, namely, CA. Gudia's Firm, M/s. ABC & Co. and M/s. KAP & Co., jointly appointed as an auditor of ZEMKA Ltd. The scope of audit was agreed upon with other joint auditors in accordance with relevant Standards on Auditing. It was decided all three auditors to verify the records relevant to PPE as substantial amount was involved in the same. CA. M partner of M/s. ABC & Co. was having different opinion whereas CA. Gudia and CA. N partner of M/s. KAP & Co were having same opinion.

Hence, as per SA 299, Mr. M is suggested to express his own opinion through a separate report whereas CA. Gudia and CA. N may provide their joint report for the same.

5.7

Computation of total income of Siraj for A.Y. 2023-24

	Particulars	Amount (in ₹)	Amount (in ₹)
I	Salaries		
	Salary from employer [₹45,000 x 12]	5,40,000	
	Less: Standard deduction under section 16(ia)	<u>50,000</u>	
		4,90,000	
	Less: Set off of loss from house property to the extent of ₹ 2,00,000 under section 71(3A)	<u>(2,00,000)</u>	2,90,000
II	Income from house property		
	Self occupied property		
	Net annual value	Nil	
	Less: Deduction under section 24 of interest on loan of ₹ 2,50,000 to the extent of	<u>2,00,000</u>	
		(2,00,000)	
	Let out property		
	Net annual value [₹25,000 x 3] [Refer Note to Examiner below for alternative answer]	75,000	
	Less: Deduction under section 24		

	(a) 30% of NAV	22,500		
	(b) Interest on loan	<u>3,00,000</u>	<u>(3,22,500)</u>	
			(2,47,500)	
	Loss under the house property		(4,47,500)	-
III	Profit and gains from business or profession			
	Business loss		(1,00,000)	-
IV	Capital Gains			
	Long term capital gains		50,000	
	Less: Set off of short term capital loss		<u>(10,000)</u>	
			40,000	
	Less: Set off of business loss to the extent of ₹ 40,000		<u>(40,000)</u>	-
V	Income from other sources			
	Interest from saving bank		15,000	
	Interest on fixed deposits		<u>45,000</u>	
			60,000	
	Less: Set off of balance business loss		(60,000)	-
	Gross Total income			<u>2,90,000</u>
	Less: Deduction under section 80TTA			<u>10,000</u>
	Total Income			<u>2,80,000</u>

Note:

In the facts given on page no 28 related to Mr. Siraj, it is given that second house was let out by Siraj for part of the year i.e., for 3 months. However, it is not mentioned whether for the remaining part of the year i.e., for 9 months, it was vacant or self-occupied. The main solution has been worked out assuming it was vacant in which case, gross annual value would be ₹ 75,000 (₹ 25,000 x 3). However, due credit may be given to a candidate who has assumed that it was self-occupied for rest of the year in which case higher of expected rent for whole of the year or actual rent would be the net annual value. Since expected rent is not given, rent of ₹ 25,000 would be deemed to be the expected rent and ₹ 3,00,000 (₹25,000 x 12) would be the net annual value.

The alternative answer in such case is given below.

Alternative answer

Computation of total income of Siraj for A.Y. 2023-24

	Particulars	Amount (in ₹)	Amount (in ₹)
I	Salaries		
	Salary from employer [₹45,000 x 12]	5,40,000	
	Less: Standard deduction under section 16(ia)	<u>50,000</u>	
		4,90,000	
	Less: Set off of loss from house property to the extent of ₹ 2,00,000 under section 71(3A)	<u>(2,00,000)</u>	2,90,000
II	Income from house property		
	Self occupied property		
	Net annual value	Nil	
	Less: Deduction under section 24 of interest on loan of ₹ 2,50,000 to the extent of	<u>2,00,000</u>	
		(2,00,000)	
	Let out property		
	Net annual value [₹25,000 x 12] [Higher of expected rent of ₹ 3,00,000 i.e., for 12 months or actual rent of ₹ 75,000]	3,00,000	
	Less: Deduction under section 24		
	(a) 30% of NAV 90,000		
	(b) Interest on loan <u>3,00,000</u>	<u>(3,90,000)</u>	
		(90,000)	
	Loss under the house property	(2,90,000)	-
III	Profit and gains from business or profession		
	Business loss	(1,00,000)	-
IV	Capital Gains		
	Long term capital gains	50,000	
	Less: Set off of short term capital loss	<u>(10,000)</u>	
		40,000	

	Less: Set off of business loss to the extent of ₹ 40,000	<u>(40,000)</u>	-
V	Income from other sources		
	Interest from saving bank	15,000	
	Interest on fixed deposits	<u>45,000</u>	
		60,000	
	Less: Set off of balance business loss	(60,000)	<u>-</u>
	Gross Total income		2,90,000
	Less: Deduction under section 80TTA		<u>10,000</u>
	Total Income		<u>2,80,000</u>

5.8 Paragraph 25 of Ind AS 110 states that, “if a parent loses control of a subsidiary, the parent:

- (a) de-recognises the assets and liabilities of the former subsidiary from the consolidated balance sheet.
- (b) recognises any investment retained in the former subsidiary at its fair value when control is lost and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant Ind AS.
- (c) recognises the gain or loss associated with the loss of control attributable to the former controlling interest.

Paragraph **B98(c) of Ind AS 110** states that, on loss of control over a subsidiary, a parent shall reclassify to profit or loss, or transfer directly to retained earnings if required by other Ind AS, the amounts recognised in other comprehensive income in relation to the subsidiary on the basis specified in paragraph B99 of Ind AS 110.

As per paragraph **B99 of Ind AS 110**, if a parent loses control of a subsidiary, the parent shall account for all amounts previously recognised in other comprehensive income in relation to that subsidiary on the same basis as would be required if the parent had directly disposed of the related assets or liabilities.

Therefore, if a gain or loss previously recognised in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the parent shall reclassify the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses control of the subsidiary.

In view of the basis in its consolidated financial statements, XYZ Ltd. shall reclassify the foreign currency translation reserve of ₹ 400 lakhs attributable to the owners of the parent to statement of profit or loss as per **paragraph 48 of Ind AS 21**, which specifies that the

cumulative amount of exchange differences relating to the foreign operation, recognised in OCI, shall be reclassified from equity to profit or loss on the disposal of foreign operation.

This is reflected in the gain on disposal. Remaining ₹ 100 lakhs relating to the NCI is included as part of the carrying amount of the NCI that is de-recognised in calculating the gain or loss on the loss of control of subsidiary, but is not reclassified to profit or loss in pursuance of **paragraph 48B of Ind AS 21**, which provides that the cumulative exchange differences relating to that foreign operation attributed to NCI shall be de-recognised on disposal of the foreign operation, but shall not be reclassified to profit or loss.

The impact of loss of control over QR Ltd. on the consolidated financial statements of XYZ Ltd. is summarized below:

(Rupees in lakhs)

Particular	Amount (Dr)	Amount (Cr)	P&L Impact
Gain / Loss on Disposal on Investments			
Bank	3,000		
Non-controlling interest (De-recognised)	500		
To Gain on Disposal (P&L) balancing figure		1,000	1,000
To De-recognition of total net assets of subsidiary		2,500	
Foreign currency translation reserve reclassified to profit or loss			
Foreign currency translation reserve (FVOCI)	400		
To Profit and loss		400	<u>400</u>
Total			<u>1,400</u>

5.9 Audit Procedures that should be followed for the show cause notice received from the State Pollution Board

When Non-Compliance is Identified or Suspected:

In the given situation, XYZ Ltd., is a listed company, has received a Show Cause Notice from the State Pollution Board and the Company was in the process of responding to the same. As a Statutory Auditor of XYZ Limited, CA. Gudia is required to perform certain audit procedures in this context.

When the auditor becomes aware of the existence of, or information about, the following matters, it may be an indication of non-compliance with laws and regulations like investigations by regulatory organisations and government departments or payment of fines or penalties.

As per SA 250, Considerations of Laws and Regulations in an audit of financial statements, if the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain:

- (a) An understanding of the nature of the act and the circumstances in which it has occurred; and
- (b) Further information to evaluate the possible effect on the financial statements.

If the auditor suspects there may be non-compliance, the auditor shall discuss the matter with management and, where appropriate, those charged with governance.

If management or, as appropriate, those charged with governance do not provide sufficient information that supports that the entity is in compliance with laws and regulations and, in the auditor's judgment, the effect of the suspected non-compliance may be material to the financial statements, the auditor shall consider the need to obtain legal advice.

If sufficient information about suspected non-compliance cannot be obtained, the auditor shall evaluate the effect of the lack of sufficient appropriate audit evidence on the auditor's opinion.

The auditor shall evaluate the implications of non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations, and take appropriate action.

Alternative Solution

Non-compliance with laws and regulations [NOCLAR]: In the course of providing a professional service to a client or carrying out professional activities for an employer, a Professional accountant may come across an instance of non-compliance with laws and regulations (NOCLAR) or suspected NOCLAR committed or about to be committed **by the client or the employer**, or by those charged with governance, management or employees of the client or employer.

SA 250 talks of auditor's responsibilities for laws having direct effect on the determination of material amounts and disclosures in the financial statements (such as tax and labour laws); and other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operating aspects of the business. NOCLAR, while being alike to SA 250 till this point, is further ahead of it in that it takes into account non-compliance that causes substantial harm resulting in **serious consequences in financial or non-financial terms**.

Steps to be taken for responding to Non-compliance with Laws and Regulations are:

- Obtaining an understanding of the matter
- Addressing the matter
- Seeking Advice

- Determining whether further action is needed
- Determining whether to disclose the matter to an Appropriate Authority
- Imminent Breach
- Documentation

PAPER – 6F: MULTI-DISCIPLINARY CASE STUDY

The question paper comprises five case study questions. The candidates are required to answer any four case study questions out of five.

All your workings should form part of your answer.

CASE STUDY – 1

Economic Survey for 2022-23 has been presented to the Parliament. According to the survey, "the Indian Economy, however, appears to have moved on after its encounter with the pandemic, staging a full recovery in FY 22 ahead of many nations and positioning itself to ascend to the pre-pandemic growth path in FY 23". It is also stated that agencies worldwide continue to project India as the fastest growing major economy at 6.50-7.0% in FY 23.

This could be possible with TEAM (Together Everyone Achieves More) efforts. The participants of this Team are the Central Government, State Governments, industry and the people of this country.

There has been a tectonic shift in policies of the government. The emphasis of the present government has been to stimulate entrepreneurship so that more and more people become job givers rather than job seekers. This has also resulted in providing impetus and encouragement to the youth of the nation to pursue their entrepreneurial dreams.

One such case of entrepreneurial dreams is of Manu and Tanu, two friends who always aspired to have their own business ventures when they complete their education. They both completed MBA from top business schools in India and were working in large corporates with big pay packages.

Whilst they always wanted to pursue business ideas, nothing came their way which enticed them to start their entrepreneurial journey. Meanwhile, Manu who was interested in economic policy and defence related matters came across a write up which described the shift in the policy by the present government in defence sector. The new policy emphasised on giving priority to the indigenous market players and reserving more than 500 items for domestic manufacturing, was a lucrative business chance, he thought.

Though Manu and Tanu were in contact, it had been couple of years since they met. Manu met Tanu and discussed this idea of business potential in defence sector and how they could start something of their own. They believed there is a lot of scope in domestic as well as in global market, if they could manufacture the ancillary items used in defence equipment.

Having realised their true calling, both resigned from their high paying jobs to start their own venture. In 2020 they incorporated a company called M&A Private Ltd, with both of them being the shareholders and directors of the Company. Gradually, when the business started growing they brought in Shyam as a shareholder and director. Presently, Shyam holds 12% of the equity

share capital while Manu and Tanu hold 44% each. The Company is able to fund its operations internally, without seeking any outside funds.

As both Tanu and Manu had business acumen and strategic vision, they wanted to rely on a professional who can guide them on accounting, law and compliance matters and give expert advice at various points in time as required by the business. They appointed their long-time friend and a tenured financial professional, Ajim as the Chief Financial Officer (CFO) of the Company.

During one of the board meetings, while briefing about the audit status, the CFO informed the directors that the financial statements for the current year would be prepared as per the Indian Accounting Standards (Ind AS). In the audit kick-off meeting held in March 2023, the following points were discussed by the CFO, while Tanu and Manu, added their insights:

- (A) Shyam is a director on the Board of Directors and holds 12% equity shares of the Company. As Shyam had some financial emergency, Tanu and Manu wanted to support him by giving loan of ₹ 5 Lakhs from the Company. CFO mentioned that for the financial year ended 31st March 2022 the Company had an accumulated profit of ₹ 7.5 Lakhs. It is pertinent to note that Shyam is also a Partner in Shyamlal & Co, with a 30% profit sharing therein. During the current year, the Company made an advance of ₹ 2 Lakhs to Shyamlal & Co. towards procurement of materials.
- (B) The Company also purchases goods from entities registered under Micro, Small and Medium Enterprises Act, 2006. The CFO of the Company provides the following information of trade payable to Micro, Small and Medium Enterprises:

Not due	₹ 7 lakhs (out of which ₹ 3 lakhs are disputed)
Due less than 1 year	₹ 12 lakhs (out of which ₹ 2 lakhs are disputed and in arbitration)
1-2 years	₹ 3 lakhs disputed
More than 2 years	Nil

During the year, the Company paid an interest of ₹ 2.50 lakhs in terms of section 16 of the Micro, Small and Medium Enterprises Development Act, 2006 and ₹ 1.5 Lakhs were paid beyond the appointed day and the interest due of ₹ 10,000 was not paid.

- (C) M&A Private Ltd acquired 100% of the shares of another company P&T Private Ltd. The negotiations for this acquisition commenced on 1st January 2022 and the agreement was finalised on 1st March 2022. While M&A Private Ltd obtained the power to control P&T Private Ltd.'s operations on 1st March 2022, the agreement states that the acquisition is effective from 1st January 2022 and that M&A Private Ltd is entitled to all profits after that date. In addition, the purchase price is based on P&T Private Ltd.'s net assets as at 1st January 2022. The final settlement of consideration was made on 1st May 2022.

- (D) M&A Private Ltd also holds 70% stake of issued equity share capital of SAGE Ltd. and 45% of issued redeemable preference shares. This acquisition was made on 31st December 2022. Issued and paid-up equity and preference share capital of SAGE Ltd as on 31st March 2023 is ₹ 15 Crores and ₹ 5 Crores respectively. Balance in the Statement of Profit and Loss for the year ended 31st March 2023 is ₹ 25 Crores. All the book values of assets and liabilities were same as their fair values except for an item of Property, Plant and Equipment (PPE). The carrying amount, at the time of acquisition by M&A Private Ltd, of PPE is ₹ 3 crores and its fair value was ₹ 6.20 Crores. No adjustment for fair-value has been done in the books of SAGE Ltd.
- (E) Anu is also a director of M&A Private Ltd, who was going on world tour for a period of 5 months. In his absence, he wishes to appoint his friend Kumar, as an alternate director of M&A Private Ltd on his behalf. The Articles of Association of the Company allows the appointment of alternate director.
- (F) M&A Private Ltd enters into a seven-year service contract with a customer NP Ltd for an amount of ₹ 21 Lakhs i.e. ₹ 3 Lakhs per year. The standalone selling price for one year contract at inception of the contract is ₹ 3 Lakhs per year. M&A Private Ltd. accounts for the contract as a series of distinct services. At the beginning of the Sixth year*, the parties agree to modify the contract as follows:
- the fees for the seventh year is reduced to ₹ 2.7 Lakhs and
 - NP Ltd agrees to extend the contract for another seven years for ₹ 16.80 Lakhs i.e. ₹ 2.40 Lakhs per year.

The standalone selling price for one year of service at the time of modification is ₹ 2.10 Lakhs.

MCQs: Provide the correct option to the following Questions:

- 1.1 The CFO says that the tax auditor wants to treat the loan of ₹ 5 Lakhs to Shyam and advance of ₹ 2 Lakhs to Shyamlal & Co. as deemed dividend. Is it appropriate?
- (a) Both the loan of ₹ 5 Lakhs and advance of ₹ 2 Lakhs will not be treated as deemed dividend as both are repayable.
 - (b) The loan of ₹ 5 Lakhs and advance of ₹ 2 Lakhs will be treated as deemed dividend only to the extent of ₹ 90,000 i.e. 12% of the accumulated profit.
 - (c) Both the loan and advance will not be treated as deemed dividend as his interest in the Company is only 12%.
 - (d) The loan will be taxable as deemed dividend, but the advance given to Shyamlal & Co. will not be treated as deemed dividend since it is a business advance.

* PS: to be read as Seventh year instead of Sixth year

- 1.2 CFO states that the interest paid to the MSME vendors is allowed as a business expenditure and should be reported accordingly in the tax returns:
- (a) The interest of ₹ 2.60 Lakhs will be deductible, as it is business expenditure.
 - (b) The interest of ₹ 1.95 Lakhs will be deductible, as 75% of the interest paid to MSME vendors will be allowed as a deduction.
 - (c) The interest of ₹ 2.50 Lakhs paid to MSME vendors will not be allowed as deduction from computation of income, as the Micro, Small and Medium Enterprises Act, 2006 specifically prohibits such deduction.
 - (d) The interest of ₹ 1.25 Lakhs will be deductible, as 50% of the interest paid to MSME will be allowed as a deduction.
- 1.3 As per Ind AS 103, what is the date of acquisition of P&T Private Ltd by M&A Private Ltd. for the purposes of business combination?
- (a) 1st January 2022
 - (b) 1st March 2022
 - (c) Either of 1st January 2022 or 1st March 2022 at the choice of M & A Private Ltd.
 - (d) 1st May 2022
- 1.4 Compute the amount of non-controlling interest of SAGE Ltd:
- (a) ₹ 15.71 Crores
 - (b) ₹ 12.00 Crores
 - (c) ₹ 12.96 Crores
 - (d) ₹ 14.75 Crores
- 1.5 Whether Anu has a right to appoint alternate director in his absence:
- (a) Claim made by Anu to appoint Kumar as alternate Director is valid, as the Articles of Association of M&A Private Ltd provide for appointment.
 - (b) Claim made by Anu to appoint Kumar as alternate Director is not valid, as the authority to appoint alternate Director vests with the Board of Directors only and that too subject to Articles of Association.
 - (c) Kumar cannot be appointed as alternate director in place of Anu, since his absence will be of less than six months.
 - (d) Kumar cannot be appointed as alternate director in place of Anu, since his absence will be more than 3 months. **(2 x 5 = 10 Marks)**

Descriptive Questions

1.6 As Tanu and Manu are not well versed with Ind AS, with reference to business combinations, they want to understand about:

(i) Determination of acquisition date

(ii) Ascertainment of control

(2 + 2 = 4 Marks)

1.7 The CFO believes that a loan to directors is prohibited under the Companies Act, 2013. Can M&A Private Ltd extend the proposed loan to Shyam? Comment. **(5 Marks)**

1.8 The CFO wants to understand, how to record revenue at the end of seventh year as per the Ind AS 115. Also, prepare a brief note explaining the accounting for revenue when the contract is modified. **(3 + 3 = 6 Marks)**

ANSWERS TO CASE STUDY -1**PART – A**

1.1 (d)

1.2 (c)

1.3 (b)

1.4 (a)

1.5 (b)

Answer to Question No. 1.6.

(i) Determination of Acquisition Date: Paragraph 8 of IND AS 103 provides the acquisition date as the date on which the acquirer obtains control of the acquiree. Further, Paragraph 9 of IND AS 103, clarifies that the date on which the acquirer obtains the control of the acquiree is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree — **the closing date.**

However, the acquirer might obtain control on a date that is either earlier or later than the closing date. For example, the acquisition date precedes the closing date if a written agreement provides that the acquirer obtains control of the acquiree on a date before the closing date.

The acquisition date is a very important step in the business combination accounting because it determines when the acquirer recognizes and measures the consideration, the assets acquired and liabilities assumed. The acquiree's results are consolidated from this date. **The acquisition date materially impacts the overall acquisition accounting, including post-combination earnings.**

(ii) Ascertainment of Control: Paragraphs 6 and 7 of Ind AS 110, "Consolidated Financial Statements", inter alia, state that an investor controls an investee **when it is exposed, or has**

rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Thus, an investor controls an investee if and only if the investor has all the following:

- (a) power over the investee;
- (b) exposure, or rights, to variable returns from its involvement with the investee; and
- (c) the ability to use its power over the investee to affect the amount of the investor's returns.

Answer to Question No. 1.7

Section 185 of the Companies Act, 2013 (the Act) imposes restrictions on the Company on providing of loans to directors of the Company. As per the exemption notified by the Ministry of Corporate Affairs, (MCA), Section 185 of the Act shall not apply to a Private Company in case of fulfillment of the following conditions:

- (a) in whose share capital no other body corporate has invested any money;
- (b) if the borrowings of such a company from banks or financial institutions or any body corporate is less than twice of its paid-up share capital or fifty crore rupees, whichever is lower; and
- (c) such a Company has no default in repayment of such borrowings subsisting at the time of making transactions under this section.

Analysis and Conclusion

In the given case, since the Company (M&A Private Limited) is in compliance with the above mentioned criteria. So it will be exempted from the applicability of Section 185 of the Act on it. So the restrictions marked on providing of loan under Section 185 of the Act will not be applicable on M&A Private Limited. **Hence, M&A Private Limited can extend the proposed loan to Shyam.**

ALTERNATE ANSWER

Section 185 of the Companies Act, 2013 imposes restrictions on the Company on providing of loans to directors.

Accordingly,

- (i) **A Company is not permitted, to advance any loan, / any guarantee / any security in connection with any loan taken by,—**
 - (a) **any director of Company**, or of a Company which is its holding company or any partner or relative of any such director; or
 - (b) **any firm** in which any **such director** or relative is a **partner**.

(ii) **Relaxation:** Subject to the specified conditions, a Company is permitted to:

- advance any loan or give any guarantee or provide any security in connection with any loan **taken by any person in whom any of the director of the company is interested.**

The expression "any person in whom any of the director of the company is interested" means—

- (a) any **private company** of which any such director is a director or member;
- (b) any **body corporate** at a general meeting of which **not less than twenty-five per cent** of the total voting power may be exercised or controlled by any such director, or by two or more such directors, together; or
- (c) any **body corporate**, the Board of directors, managing director or manager, whereof is accustomed to act in accordance with the directions or instructions of the Board, or of any director or directors, of the lending company.

In the given instance, Shyam is a director on the BoD of the M&A Private Limited. Shyam had some financial emergency, so Tanu and Manu wanted to support him by giving loan of 5 lakhs from the company. Also Shyam is a **partner in Shyamlal & Co.**

Analysis and Conclusion

Accordingly, as per the stated provision, Loan is prohibited to be given to Shyam, a director in M&A Private Limited who is also partner in a firm, Shyamlal & Co. However subject to compliance of specified conditions mentioned in Section 185(2) of the Act, a Company is permitted to advance loan taken by any person in whom any of the director of the company is interested. As per the explanation, "any person in whom any of the director of the company is interested" includes any private company of which any such director is a director or member.

As Shyam is a director in M&A Private Limited, so falling within the specified category, makes him eligible under the said Section to get the loan from M&A Private Limited. **Hence, M&A Private Limited can extend the proposed loan to Shyam.**

Answer To Question No. 1.8

(i) **HOW TO RECORD REVENUE AT THE END OF THE SEVENTH YEAR AS PER IND AS 115**

In the given case, even though the remaining services to be provided are distinct, the modification should not be accounted for as a separate contract because the price of the contract did not increase by an amount of consideration that reflects the standalone selling price of the additional services.

The modification would be accounted for, from the date of the modification, as if the existing arrangement was terminated and a new contract created (i.e. on a prospective basis) because the remaining services to be provided are distinct.

M&A Pvt. Ltd. should reallocate the remaining consideration to all of the remaining services to be provided (i.e. the obligations remaining from the original contract and the new obligations). M&A Pvt. Ltd. will recognize a total of ₹ 19.50 lakhs (₹ 2.70 lakhs + ₹ 16.80 lakhs) over the remaining eight-year service period (one year remaining under the original contract plus seven additional years) or ₹ 2.4375 lakhs per year.

(ii) BRIEF NOTE FOR ACCOUNTING FOR REVENUE WHEN THE CONTRACT IS MODIFIED:

Paragraph 18 to 20 of IND AS 115 deals with contract modification. It provides in certain circumstances to treat it as a separate contract. A contract modification is a change in the scope or price of the contract that is approved by the parties to the contract.

A contract modification is a change in the scope or price (or both) of a contract i.e. approved by the parties to the contract. The contract modification exists when parties to a contract approves a modification that either creates a new or changes existing enforceable rights and obligations of the parties to the contract. A contract modification could be approved in writing, by oral agreement or implied by customary business practices. If the parties to the contract had not approved to the contract modification, the entity shall continue to apply this standard to the existing contract until the contract modification is approved.

Accounting for the modification

Once determination of contract being modified is established, the entity further determines its accounting either as a separate contract or as a termination of the old contract and the creation of a new contract, by making a cumulative catch-up adjustment to the original contract or a combination of the two.

An entity accounts for a contract modification as a separate contract if the modification both

- (1) increases the scope of the work promised under the original contract by adding new promised goods or services that are considered distinct, and
- (2) the increase in the contract price reflects the stand-alone selling price of the additional goods or services.

If a modification adds a distinct good or service to a series of distinct goods or services that is accounted for as a single performance obligation, the modification is accounted for as a separate contract as long as the transaction price increases by the stand-alone selling price for those added goods or services.

CASE STUDY - 2

Sahana is MBA Graduate from IIM Bangalore. Sahana and her father incorporated a company 'Sah Fashions Ltd.' to set up a boutique and chain of readymade garment stores to support their family business of cotton and yarn mills. She was able to manage the accounting and taxation part of her business by herself in the initial stages. Considering the business expansion, she was evaluating to hire a professional consultant who would support in all business matters including taxation and accounting. She reached out to her old friend, Madan, a Practising Chartered Accountant to seek his help on accounting and compliance matters relating to the Company.

Madan set up his own Proprietorship firm and has been in practice specialising, in Audit and Taxation since 10 years. When Sahana contacted Madan for professional help, he was more than glad to support her. They met up at a coffee shop to discuss the details of the engagement. During the conversation, Madan tells her that times have changed and so have the ways of presenting accounts of any business as per the financial reporting framework. He explains how the preparation of the Financial Statements is now regularized in such a way where all such Financial Statements shall have a consistency/ uniformity across the industry (with few exceptions e.g. specially regulated financial statements). In addition, the users of these Financial Statements would also have an assurance of complying with basic framework. He also gives her an overview of latest changes in the income tax and GST which could have an impact on her business. After a detailed conversation on accounting and taxation aspects, he asks Sahana to brief him about her business and the issues she is facing. The meeting gets more formal as Sahana calls Murari, the Accountant working in her Company to the meeting.

Sahana explains the following open issues to Madan:

Issue 1

Sahana opines that Murari is not computing the depreciation on the Plant and Machinery appropriately:

	Particulars	₹ Lakhs
(1)	WDV of Plant & Machine (P & M)	30
(2)	New P & M purchased and put to use on 8 th June 2022*	20
(3)	New P & M acquired and put to use on 15 th December 2022*	8
(4)	Computer acquired and installed on 2 nd January 2023	3

* Qualified for additional depreciation @ 20% p.a.

As per Murari's workings, total maximum depreciation on machinery @ 15% comes to ₹ 8.7 Lakhs and on computer@40% comes to ₹ 1.2 Lakhs.

Issue 2

On 1st April 2021, Sah Fashions Ltd acquired 100% of Spun Ltd for ₹ 5 Lakhs, which was into cotton spinning business. The fair value of the net identifiable assets of Spun Ltd was ₹ 4.5 Lakhs and goodwill was ₹ 0.5 Lakhs. On 31st March 2023, the government changed its policy on textile sector having adverse impact on business of companies like Spun Ltd.

Internal discussion on government policies indicate that revenue of Spun Ltd is estimated to fall by 20% in coming three to five years. The adverse effect on market place and strict regulatory conditions indicate impairment. As a result, Spun Ltd. has to estimate the recoverable amount of goodwill and net assets on 31st March 2023.

Sah Fashions Ltd. uses straight line depreciation. The useful life of Spun Ltd assets is estimated to be 15 years with no residual value. Further, no independent cash inflows can be identified to any individual assets. So the entire operation of Spun Ltd is to be treated as a cash generating unit (CGU). Due to the regulatory entangle, it is not possible to determine the selling price of Spun Ltd. as a CGU. Its value in use is estimated by the management at ₹ 3.02 Lakhs.

Issue 3

Company has received invoices for inputs and input services from various suppliers during the month of April 2023. Invoices involve total Input Tax Credit (ITC) (IGST, CGST and SGST) of ₹ 5 Lakh. Suppliers have furnished their GST return for the concerned month and in their GSTR-1 invoices involving ITC of ₹ 3 Lakh only were uploaded. Murari is of the view that as the Company is having all the physical copies of the invoices not uploaded in GST return, there would be no problem in availing GST ITC. In one instance, Company received the material from supplier but not invoice. GST department issued notice to the concerned supplier for evasion of tax who on receiving the tax has deposited the same under section 74. The amount of ITC involved was ₹ 0.15 Lakhs for which the invoice was issued by the supplier afterwards and has now been included in ₹ 5 lakh and is now reflecting in GSTR 2A. Also in one case, the material was imported on which eligible ITC was ₹ 0.70 Lakhs (included in ₹ 5 lakhs) but the same was not reflecting in GSTR 2A.

Issue 4

Company at the Annual General Meeting (AGM) held on 30th September 2019 appointed Gana as a Non-Executive Director on the board of the Company for a period of three years. On 2nd October 2020, Gana met with an accident and died on the spot. The Board of Directors of the Company on 16th October 2020 appointed Hero to fill the casual vacancy so created. Appointment of Hero was made for a term of three years by the Board unconditionally. The Annual General Meeting (AGM) was held on 29th September 2021.

Issue 5

Besides Company related matters, Sahana asked Madan to advise her in her individual tax matters too. She is planning to buy a residential flat for her own residence, which is priced at ₹ 48.50 Lakhs. The person selling the flat, Rainbow is a NRI as per the provisions of Income Tax Act, 1961 and he will be visiting India to execute the sale deed. After the title gets transferred, the flat will be renovated with a total cost of ₹ 60 Lakhs approximately. Madan was quite astonished when he got to know that the renovation cost is more than the purchase price of the flat. Sahana informed Madan that she is purchasing the flat due to her father's emotional attachment with the locality and evaluating to finalise the contractor for the renovation work to make the interiors as per her liking. Apparently, Murari informed her that there would not be any compliance under the Income-tax Act, 1961 towards flat purchased and proposed renovation.

MCQs: Provide the correct option to the following Questions:

- 2.1 Is the maximum depreciation allowable under Income Tax Act, 1961 calculated by Murari correct? If not, what is the maximum allowable depreciation as per details given in Issue 1?
- Yes, the depreciation calculated is wrong and the correct maximum depreciation should be ₹ 14.3 Lakhs
 - No, the depreciation calculated is wrong and the correct maximum depreciation should be ₹ 14.9 Lakhs
 - No, the depreciation calculated is wrong and the correct maximum depreciation should be ₹ 13.5 Lakhs
 - No, the depreciation calculated is wrong and the correct maximum depreciation should be ₹ 12.9 Lakhs
- 2.2 What is the amount of impairment loss which Sah Fashions Ltd is required to transfer to Statement of profit and Loss and how the same should be allocated?
- Impairment loss is ₹ 1.98 Lakhs and the same should be allocated to goodwill and other assets proportionately.
 - Impairment loss is ₹ 1.38 Lakhs and the same should be allocated to goodwill and other assets proportionately.
 - Impairment loss is ₹ 1.68 Lakhs and the same should be allocated first to goodwill and then the balance to all other assets.
 - Impairment loss is ₹ 1.38 Lakhs and the same should be allocated first to goodwill and then the balance to all other assets.
- 2.3 The eligible amount of GST input tax credit as per the facts mentioned in Issue 3 above is
- ₹ 4.2680 Lakhs

- (b) ₹ 3.8350 Lakhs
(c) ₹ 3.6925 Lakhs
(d) ₹ 3.8502 Lakhs
- 2.4 Considering the facts in Issue 4, is appointment of Hero as a director of the Company valid?
- (a) Appointment of Hero by Board of Directors is not valid as it is against the provisions of the Companies Act, 2013 and he should have been appointed by the members in extra ordinary general meeting.
(b) Appointment of Hero by Board of Directors is valid but should be approved by members in general meeting held on 29th September 2021.
(c) Appointment of Hero by Board of Directors is valid, as the approval of shareholders is not required for appointment of directors.
(d) Appointment of Hero by Board of Directors is not valid as a director cannot be immediately appointed in place of director who expires.
- 2.5 Is Sahana not required to comply with any provisions under Income-tax Act, 1961, considering her individual returns are not subject to audit under the provisions of Income Tax Act, 1961?
- (a) TDS is required to be deducted u/s 194-IA on purchase of property, but no TDS is required to be deducted on contract work of renovation as individuals are not required to deduct TDS.
(b) TDS is required to be deducted u/s 195 on purchase of property and also TDS is required to be deducted on contract work of renovation as the contract value is ₹ 60 Lakhs.
(c) TDS is not required to be deducted u/s 195, as the amount of purchase consideration is less than ₹ 50 Lakhs but TDS is required to be deducted on contract work of renovation as the contract value is ₹ 60 Lakhs.
(d) TDS is not required to be deducted u/s 194-IA as the amount of purchase consideration is less than ₹ 50 Lakhs and no TDS is required to be deducted on contract work of renovation as individuals are not required to deduct TDS.

(2 x 5 = 10 Marks)

Descriptive Questions

- 2.6 Sahana is intrigued by the concept of impairment and wants to understand, if an asset once impaired, can it be reversed. In this context:
- (i) Explain in brief the accounting for reversal of impairment.
(ii) Source of information which indicates reversal of impairment loss **(4 + 2 = 6 Marks)**

2.7 Sahana wants to know if her Company missed some invoices while claiming GST ITC, till what time that ITC can be claimed. She believes the same may be taken till filing GSTR 3B return for the month of March of the concerned financial year. Is her view appropriate? **(3 Marks)**

2.8 "The executive and non-executive directors have different roles and responsibilities. The responsibility of independent directors with reference to financial reporting and approval, as part of an Audit Committee requires a special mention." Explain with examples.

(6 Marks)

ANSWERS TO CASE STUDY - 2

PART – A

2.1 (c)

2.2 (d)

2.3 None of the above options is correct

2.4 (b)

2.5 (b)

Answer to Question No. 2.6

(i) Accounting for reversal of impairment (Paragraphs 110-116 of Ind AS 36)

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years. Any increase in excess of this amount would be a revaluation and would be accounted for under the appropriate Standard (e.g. Ind AS 16 Property, Plant and Equipment).

A reversal of an impairment loss for an asset other than goodwill is recognized immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another Ind AS. Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with that other Ind AS.

A reversal of an impairment loss on a revalued asset is recognized in other comprehensive income and increases the revaluation surplus for that asset. However, to the extent that an impairment loss on the same revalued asset was previously recognised in profit or loss, a reversal of that impairment loss is also recognised in profit or loss. After a reversal of an impairment loss is recognised, the depreciation (amortization) charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

(ii) Indications of reversals of impairment loss (Paragraph 111 of Ind AS 36)

In assessing whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased, an entity shall consider, as a minimum, the following indications:

External sources of information

- (a) there is observable indication that the asset's value has increased significantly during the period;
- (b) significant changes with a favorable effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which the asset is dedicated; and
- (c) market interest rates or other market rates of return on investments have decreased during the period, and those decreases are likely to affect the discount rate used in calculating the asset's value in use and increase the asset's recoverable amount materially.

Internal sources of information

- (a) significant changes with a favourable effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, the asset is used or is expected to be used; and
- (b) evidence is available from internal reporting that indicates that the economic performance of the asset is, or will be, better than expected.

Answer to Question No. 2.7

A registered person is not entitled to take ITC in respect of any invoice/debit note for supply of goods or services or both after the **30th day of November following the end of financial year** to which such invoice/debit note pertains or furnishing of the relevant annual return, whichever is earlier.

Thus, in accordance with above provisions, the view taken by Sahana that ITC of missed invoices may be taken till filing GSTR 3B return for the month of March of the concerned financial year is **not correct**.

The ITC of missed invoices can be taken till 30th day of November following the end of financial year to which such invoice pertains or furnishing of the relevant annual return, whichever is earlier.

Answer to Question No. 2.8**Different Roles of Executive and Non-Executive Directors**

The Board of Directors may comprise both executive and non executive directors. The executive directors are responsible for managing different business operations. A whole time director and

the Managing Director are covered under this category. In contrast, the non- executive directors participate through Board Meetings in discussions relating to formulation of policies from the efficient management of the business. Professional directors and nominee directors are included in this category. They are not as active as that of executive directors and they are held liable only if they knowingly consented for wrongful acts.

Responsibility of Independent Directors with reference to financial reporting and approval as apart of Audit Committee According to Section 177 (4), every Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall, inter alia, include,-

- (a) recommendation for appointment, remuneration and terms of appointment of auditors of the company;
- (b) review and monitor the auditor's independence and performance, and effectiveness of audit process;
- (c) examination of the financial statement and the auditors' report thereon;
- (d) evaluation of internal financial controls and risk management systems.
- (e) valuation of undertakings or assets of the Company, wherever it is necessary.
- (f) approval or any subsequent modification of transactions of the company with related parties.
- (g) scrutiny of inter-corporate loans and investments
- (h) monitoring the end use of funds raised through public offers and related matters.

The Independent Director (ID) is a person of integrity and possesses relevant expertise and experience in one or more fields of finance, law, management, sales, marketing, administration, research, corporate governance, technical operations or other disciplines related to the company's business. Majority of members, being an independent directors in the Audit Committee leads to promote the principles of corporate governance by enabling disclosures, transparency, and accountability of the Company.

All the afore mentioned transactions have a critical impact with reference to the financial reporting process and approval of the financial statements. Accordingly, the Independent Directors in their capacity as members of the audit committee play a key role.

CASE STUDY - 3

Apara and Sampad had completed their articleship training from a reputed CA Firm in Chennai. Both were good in studies and after qualifying they decided to become partners in profession and partners in life. Sampad was proficient in interpretation of laws and direct tax, while Apara was good in indirect tax, audit and financial reporting. They started their Firm at Kochi in the name of Aparasampad & Co., Chartered Accountants.

Currently, they have a well-established practice spread across various spheres including FEMA, Corporate law, international taxation, valuation, etc. Aparna and Sampad had in the past done few engagements for Greenly Ltd. Ramnik, the Vice President (Finance) of Greenly Ltd. invited Aparna and Sampad for a meeting along with Finance team, internal auditors and tax consultants of the company. As Greenly Ltd was a coveted client for the Firm, Aparna and Sampad attended the meeting. During the meeting, Ramnik discussed the following points:

I. Greenly Ltd is one of the leading laundry in Delhi. For cleaning of suits, it charges ₹ 625 per suit set. The price has been derived by the laundry as under:

- | | |
|-----------------------|---|
| a. Cleaning Materials | ₹ 37 |
| b. Labour | ₹ 180 (3 hours @ ₹ 60/-) |
| c. Variable overheads | ₹ 80 |
| d. Fixed Overheads | ₹ 60 (3 hours @ ₹ 20 per hour) plus mark up 75% on total cost |

The Company is known for timely delivery and quality service and hence, it charges premium for its services. The labour charges have been derived by dividing the total salary paid by the total number of hours available. Variable overheads depend on the number of suits cleaned while fixed overhead rate is derived at by dividing the total cost of all related expenses by the number of labour hours available. Fixed Overhead generally includes office rent and administrative salary. A conference is being held in Delhi on account of T20 and a hotel is also required to provide premium laundry services for which the Company has been approached for its lowest quotes. There is possibility of 150 suits being given for laundry on priority basis. The Company has sufficient material of cleaning in stock even for this additional special order. It is believed that 55% of the additional work can be done in normal working hours and for rest of the work, overtime by some of the employees will be required. Overtime hours are paid at one and one half of the normal hourly rate.

II. Greenly Ltd is having 3 years average profit of ₹ 10 Crores and during the financial year 2022-23, it is required to spend on account of corporate social responsibility (CSR). It wants to incur this expenditure through an NGO named Green Foundation. Green Foundation was formed by few likeminded individuals, who wanted to take up the cause of education for kids living in slums. It was registered under section 12A and section 80G of the Income tax Act, 1961, but not registered with Ministry of Corporate Affairs (MCA). However, the foundation is carrying out certain CSR projects on a smaller scale for some entities since 2019.

III. The Company purchased a land in city outskirts on 1st August 2010 for a consideration of ₹ 1.25 Crores to construct a factory, for which the Stamp duty valuation on that date was ₹ 1.75 Crores. Later, management decided to sell that land to fund the business diversification objectives. On 1st August 2022, the land on city outskirts was sold for ₹ 5.00 Crores. The stamp duty valuation was ₹ 5.40 Crores. Cost inflation index for FY 2010-11 and FY 2022-23 is 167 and 331 respectively.

- IV. ABC LLP, the Statutory auditors of Greenly Ltd resigned due to personal reasons and Aparasampad & Co. was proposed to be appointed as the subsequent auditor of the Company by the Board of Directors. This was a great opportunity for both Aparasampad and Sampad, as they were trying to get some business from Greenly Ltd.
- V. After the meeting was completed, Ramnik met Sampad and had a casual discussion with him. He told that his daughter; Sweetie, was pursuing post-graduation from Stanford University, USA for which he had remitted USD 50,000 i.e., ₹40 Lakhs for her maintenance abroad under Liberalised Remittance Scheme. Thankfully, he did not have to do any other remittance during the year.
- VI. While Sampad was busy in a discussion with Ramnik, CA. Mani, the internal auditor of Greenly Ltd and a close friend of Aparasampad approached her for a quick chat. Mani informed Aparasampad that his practice was going good and he was appointed as statutory auditor of a listed entity. Lately, he has been busy finalising the audit letter communicating the key points of audit to those charged with Governance and audit committee.

MCQs: Provide the correct option to the following Questions:

- 3.1 From remittance of ₹40 Lakhs by Ramnik, the authorised dealer is:
- (a) Not required to make any collection of tax at source.
 - (b) Required to make collection of tax at source of ₹1.65 Lakhs.
 - (c) Required to make collection of tax at source of ₹2 Lakhs.
 - (d) Required to make collection of tax at source of ₹0.165 Lakhs.
- 3.2 The capital gain arising on sale of land at city outskirts by the Company would be
- (a) ₹2.62 Crores
 - (b) ₹1.53 Crores
 - (c) ₹1.42 Crores
 - (d) ₹2.37 Crores
- 3.3 While drafting audit letter communicating the key points of audit to those charged with Governance and audit committee, Mani was thinking if he needs to generate a Unique Document Identification Number (UDIN):
- (a) Yes, separate UDINs are to be generated for the Statutory audit report and Letter to those charged with governance.
 - (b) No, UDIN is required only for all Certificates, all Audit Reports and all other Audit, Assurance and Attestation functions and not for any letters etc. making communications.
 - (c) Yes, one single UDIN can be generated for all documents of one client. UDINs are required to be generated client wise instead of document wise.

- (d) No, one single UDIN can be generated for the whole year for one engagement which may include various communications by auditor to management and those charged with Governance.
- 3.4 Greenly Ltd wants to ascertain whether it can incur the CSR through Green Foundation.
- (a) It cannot incur CSR expenditure through Green Foundation, as it is not registered with Ministry of Corporate Affairs (MCA) for the purpose of undertaking CSR activity.
- (b) It can incur CSR expenditure through Green Foundation, as the Foundation is registered under section 12A and section 80G of the Income-tax Act.
- (c) It can incur CSR expenditure through Green Foundation, as it is into undertaking similar CSR activities.
- (d) It can incur expenditure through Green Foundation, as it is carrying out certain CSR projects since 2019.
- 3.5 During the conclusion of the audit, Aparajita was thinking if she is required to report the fact of the resignation by the previous auditor?
- (a) Yes. As per Companies (Auditors Report) Order, 2020 Aparajita & Co. should report the resignation of ABC LLP and state if the Firm has taken into consideration the issues or objections raised by ABC LLP.
- (b) No. Since the resignation of ABC LLP is due to personal reasons, the same need not be reported in the Auditors Report.
- (c) Yes. As per provisions of Section 143(3) of the Companies Act, 2013, the fact of previous auditor's resignation should be reported.
- (d) Yes. The fact of previous auditors resignation should be reported as per Companies (Audit and Auditors) Rules, 2014. **(2 x 5 = 10 Marks)**

Descriptive Questions

- 3.6 Enumerate the procedure for appointment of the statutory auditors in case of casual vacancy. Aparajita wants to draw the attention of the readers of the financial statements by way of an Emphasis of Matter (EOM) paragraph in the Audit Report issued by them indicating the fact of their appointment due to resignation of the existing auditor. Explain the circumstances in which an auditor may consider to include an Emphasis of Matter (EOM) paragraph in their audit report. **(2 + 3 = 5 Marks)**
- 3.7 Sampad discussed with Aparajita and thought that it would be handy and easy to explain the clients the details of Liberalised Remittance Scheme (LRS), if they have standard document. Draft a note covering various aspects of LRS. **(5 Marks)**

3.8 Ramnik requests you to:

- (i) Compute the incremental cost of Greenly Ltd. which may be taken as a base for quoting the minimum price per suit.
- (ii) Indicate the aspects to be considered for making lowest quote. (3 + 2 = 5 Marks)

ANSWERS TO CASE STUDY - 3

PART – A

3.1 (b)

3.2 (b)

3.3 (b)

3.4 (b)

3.5 (a)

Answer to Question No. 3.6

Procedure for appointment of the Statutory Auditors in case of Casual Vacancy:

As per **Section 139(8) of the Companies Act, 2013**, any casual vacancy in the office of an auditor shall –

- (i) In the case of a Company other than a Company whose accounts are subject to audit by an auditor appointed by the Comptroller and Auditor-General of India, be filled by the Board of Directors within 30 days. If such casual vacancy is as a result of the resignation of an auditor, such appointment shall also be approved by the company at a general meeting convened within three months of the recommendation of the Board and he shall hold the office till the conclusion of the next annual general meeting.
- (ii) **In the case of a Company whose accounts are subject to audit by an auditor appointed by the Comptroller and Auditor-General of India, be filled by the Comptroller and Auditor-General of India within 30 days.** It may be noted that in case the Comptroller and Auditor-General of India does not fill the vacancy within the said period, the Board of Directors shall fill the vacancy within next 30 days.

Emphasis of Matter paragraph is a paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.

Circumstances in which an auditor may consider to include an **Emphasis of Matter (EOM) Paragraph their Audit Report:** SA 706 contains specific requirements for the auditor to include Emphasis of Matter paragraphs in the auditor's report in certain circumstances.

These circumstances include:

- (i) When a financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation.
- (ii) To alert users that the financial statements are prepared in accordance with a special purpose framework.
- (iii) When facts become known to the auditor after the date of the auditor's report and the auditor provides a new or amended auditor's report (i.e., subsequent events).
- (iv) An uncertainty relating to the future outcome of exceptional litigation or regulatory action.
- (v) A significant subsequent event that occurs between the date of the financial statements and the date of the auditor's report.
- (vi) Early application (where permitted) of a new accounting standard that has a material effect on the financial statements.
- (vii) A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.

In view of above, contention or Apara, to draw the attention of the readers of the financial statements by way of an Emphasis of Matter (EOM) paragraph in the Audit Report issued by them indicating the fact of their appointment due to resignation of the existing auditor, **is not correct.**

Answer to Question No. 3.7**Note covering various aspect of the Liberalized Remittance Scheme (LRS)**

The Liberalized Remittance Scheme (LRS) is part of the Foreign Exchange Management Act (FEMA) 1999, which lays down the guidelines for outward remittances from India.

Liberalized Remittance Scheme (LRS)

- It applies to all resident individuals, including minors.
- It allows to freely remit up to USD 250,000 per financial year (April – March).
- It can be for any permissible current or capital account transaction or a combination of both.
- This is inclusive of foreign exchange facility for the purposes mentioned in Para 1 of Schedule III of Foreign Exchange Management (CAT) Amendment Rules 2015, dated May 26, 2015.

- In case of remitter being a minor, the LRS declaration form must be countersigned by the minor's natural guardian. The Scheme is not available to corporates, partnership firms, HUF, Trusts etc.
- Remittances under the Scheme can be consolidated in respect of family members subject to individual family members complying with its terms and conditions.

Exception: Clubbing is not permitted by other family members for capital account transactions such as opening a bank account/investment/purchase of property, if they are not the co-owners/co-partners of the overseas bank account/investment/property.

Answer to Question No. 3.8

- (i) 'Greenly Ltd' can use the incremental cost numbers for pricing the 'rush order'. The minimum price that firm would charge is ₹238.50 per suit (= ₹ 35,775/150). This price is well below normal price of ₹ 625.

Particulars	Amount (₹)
Cleaning materials (150 × ₹ 37)	5,550
Labour (150 × 3 × 45% × ₹ 60 × 1.5)	18,225
Variable overheads (150 Suits × 80)	12,000
Incremental cost	35,775
Quote per Suit	238.5

(ii) Aspects to be considered for quoting lowest price

Firms face situations where they are confronted with the opportunity of offering for a one time special offer. In this situation, only the incremental cost of the undertaking the order should be taken into consideration. Quote should be made at prices that exceeds incremental costs.

However, in decision making other conditions are equally important. For instance, if this is a one-time deal with **no prospect of repeat business**, then 'Greenly Ltd' might well charge a premium over the normal price. Long-term implications also matter. The prospect of "getting a foot in the door" to quote for future business would push the price downward. Therefore, 'Greenly Ltd' can price based on both the short-run benefits from accepting the order and the long-run consequences.

CASE STUDY - 4

Wanton Terun Limited (WTL) is a fast growing listed company focussing on innovation in the Textile and Garments Industry. The Company has grown in last one decade from Punjab (India) to the homes of millions of customers across 50 countries and is aiming the target of becoming the most trusted brand that takes conscious care of its customers, employees and all

stakeholders, and treats them 'the best.' Company also has 5 subsidiaries operating outside India in the same business line of garments and trading of some special types of yarns. Financial Statements of the Company for the financial year 2022-2023 have already been prepared and audit was completed as per all regulatory requirements.

After gaining experience as CFO of the Company WTL for last 15 years, Tiru has resigned and started his own venture in professional consultancy with some other players in the same business domain. Management of the Company gave an advertisement in all leading newspapers for hiring qualified professional for the post of CFO. Fifty applications were received by the Company and all the candidates were competent and had good exposure in financial reporting, corporate governance, MIS reporting, capital budgeting, direct and indirect tax matters.

Management of the Company decided to have interview board for selecting the appropriate candidate for the post of CFO. After looking at the recent developments in various areas relating to the operations of the Company, accounting and other technical aspects of Companies Act, GST etc., following issues (as per books of accounts of the company) were selected on which opinion of all the candidates was sought and whosoever gives the correct response will be selected for next round of interviews. You are also interested in this job profile and have been asked the following issues during the interview:

Issue 1

Company is operating in 50 countries, so employees of the Company travel worldwide to oversee the operations and for business expansion. For this purpose, foreign currency is taken from authorized dealers (who charge GST as per relevant provisions of GST Act and applicable valuation guidelines) and used for meeting all overseas expenses including stay, local travelling and food expenses in foreign countries. For the upcoming business trip, employees will be travelling to United States of America and require US\$ 10,000. Company purchased foreign currency (9900 US\$) by paying ₹ 7.40 Lakhs, however the customs exchange rate and bank buying rate on same will lead to amount of ₹ 7.45 Lakhs and ₹ 7.50 Lakhs respectively for equivalent number of dollars on the same date.

During the last overseas visit of Senior Vice President (Marketing), the Company received export order worth ₹ 10 Crores for specified types of garments for which yarn was required to be imported. Company imported special yarn from Germany (for ₹ 6.50 Crores) for manufacture of garments and then the garments were manufactured and exported out of India for an agreed consideration of ₹ 10 Crores. Garments exported by the Company qualify for duty drawback under Customs Act, 1962. Market Value of the exported garments was ₹ 11.70 Crores and duty drawback rate was 40%.

Issue 2

One of the overseas subsidiaries SSS Inc. has provided financial assistance to WTL. The said financial assistance is outstanding in the books of accounts of the Company as Foreign Currency Loan (FCL) on which it paid an interest of ₹ 32 Crores in the last financial year. The amount of TDS, as applicable, has been deducted and deposited within the due date. Profits before interest, taxes, depreciation and amortization (EBITDA) of the borrower in the previous year were ₹ 100 Crores and the amount of depreciation was ₹ 15 Crores.

Issue 3

Company has to comply with listing obligations and disclosure requirements relating to corporate governance and for this, independent and a qualified audit committee is already formed and functioning. The audit committee consisted of six directors (having wide experience in corporate matters) with four of them being independent directors. One of the directors P (an independent director) has resigned as a director of the Company. WTL proposes to appoint Q as an independent director who is already serving as managing director in one company and independent director in three other listed entities. During the current year, the Company proposed to increase the share capital by issuing 10 Lakh equity shares (amounting to ₹ 100 Lakhs) with superior rights and is in the process of completing the required formalities.

Issue 4

Arunima is woman director of the Company. Due to her other engagements, she tendered her resignation from directorship with effect from 1st March 2023, vide her letter dated 15th February 2023, which was received by the Company on 20th February 2023. The Board took note of the resignation in its meeting held on 15th March 2023.

Issue 5

Aver Private Ltd was acquired by WTL and the same was accounted as a business combination as per Ind AS 103. However, there was an existing share-based scheme in Aver Private Ltd with a vesting condition for 4 years in which 3 years had already lapsed at the date of acquisition. WTL agreed to replace the existing award for the employees of the acquired entity. The fair value of the option under share-based payment scheme on acquisition date ₹ 1,200, while the fair value of option replacing the existing scheme was ₹ 1,500. Also, only one more year was left for vesting after the acquisition.

MCQs: Provide the correct option to the following Questions:

4.1 In respect of purchase of foreign currency from authorized dealer, whether the GST will be applicable and if yes, what will be the value of services on which GST will be charged under rule 32(2)(a)? Also calculate the GST amount assuming tax rate @ 18%.

- (a) GST will be applicable on these services and the value of services will be ₹ 7,450.
GST amount will be ₹ 1,341

- (b) GST will be applicable on these services and the value of services will be ₹ 7,400. GST amount will be ₹ 1,332
- (c) GST will be applicable on these services and the value of services will be ₹ 5,200. GST amount will be ₹ 936
- (d) GST on transactions below US\$ 10,000 is specifically exempted, so GST will not be applicable.
- 4.2. With respect to facts given in Issue 2 above, the interest to be reported by tax auditor under the form 3CD of Income-tax Act, 1961 would be:
- (a) ₹ 30 Crores and ₹ 2 Crores under clause 30B
- (b) ₹ 32 Crores and ₹ 2 Crores under clause 30B
- (c) ₹ 32 Crores and ₹ 34.50 Crores under clause 30A
- (d) ₹ 32 Crores under clause 30A
- 4.3. In the background of circumstances described in Issue 3, the Company Secretary contends that the Audit Committee should be reconstituted, even if Q is appointed as an independent director. Is the Company Secretary's contention appropriate?
- (a) Contention of Company Secretary is correct and the Audit Committee should be reconstituted, as it should have majority of members as independent directors.
- (b) Contention of Company Secretary is not correct and the existing Audit Committee can continue as independent directors constitute more than two third of the total number of directors of audit committee.
- (c) Contention of Company Secretary is correct and the Audit Committee shall be reconstituted, as it should have only independent directors as members.
- (d) Contention of Company Secretary is not correct and the Audit Committee is not required to be reconstituted due to change in its members.
- 4.4 WTL shall appoint another woman director on the Board of the Company on or before:
- (a) 1st June 2023
- (b) 20th May 2023
- (c) 15th June 2023
- (d) 15th May 2023

4.5 In your opinion, what will be the upper limit of amount of drawback as per guidelines under Rule 9?

- (a) ₹ 4.00 Crores
- (b) ₹ 4.68 Crores
- (c) ₹ 3.90 Crores
- (d) ₹ 3.33 Crores

(2 x 5 = 10 Marks)

Descriptive Questions

4.6 Mr Q, before accepting the appointment as a director, discussed with the Company about the implications of GST on his appointment and emoluments. Explain if the services provided by the directors are under the ambit of Goods and Service Tax Act. (5 Marks)

4.7 In the background of facts stated in issue 5, compute the value of option under the share based payment as per Ind AS 102. (4 Marks)

4.8 In case you are appointed as CFO of the company:

- (i) Indicate the areas for establishing and maintaining internal controls for financial reporting which will be certified by you.
- (ii) Mention the aspects that you would certify to the Board of directors along with the Chief Executive Officer of the Company. (3 + 3 = 6 Marks)

ANSWERS TO CASE STUDY – 4

PART – A

4.1 (b)

4.2 (b)

4.3 (c)

4.4 (a)

4.5 (c)

Answer To Question No. 4.6

Services provided by the independent directors who are not employees of the said company to such company, in lieu of remuneration as the consideration for the said services, are clearly outside the scope of Schedule III of the CGST Act and are **therefore taxable**.

As per Schedule III of the CGST Act, services by an employee to the employer in the course of or in relation to his employment are non-supplies, i.e. they are neither supply of goods nor supply of services.

Further, tax on services supplied by a director of a company to the said company located in the taxable territory **is payable by the recipient under reverse charge.**

Thus, services provided by Mr. Q, being an independent director to WTL, are taxable under reverse charge and tax on emoluments payable to Mr. Q is payable by the company (WTL) on reverse charge basis.

Answer to Question No. 4.7

Computation of Value of Option under the share based payment

Pre-acquisition period		3
Post-acquisition period		1
Total fair value at acquisition date		₹ 1,200
Value to be recorded as per business combination under Ind AS 103		₹ 1,200/4 X 3 = ₹ 900
Value to be recorded as per IND AS 102	(A)	₹ 1,200 /4 X 1 = ₹ 300
Fair value of the replacement of such award		₹ 1,500
Difference from acquisition date fair value	(B)	₹ 1,500 - ₹ 1,200 = ₹ 300
Total value to be accounted over vesting period	= A + B	₹ 300 + ₹ 300 = ₹ 600

ALTERNATE ANSWER

Pre-acquisition period		3
Post-acquisition period		1
Total fair value at acquisition date		₹ 1,200
Value to be recorded as per business combination		₹ 1,200/4 X 3 = ₹ 900

Since the fair value of the new award at the time of acquisition is ₹ 1,500, balance ₹ 1500 - ₹ 900 i.e. **₹ 600 will be recorded as an employee expenses in the books.**

Answer to Question No. 4.8

- (i) **Areas for establishing and maintaining Internal Controls for Financial Reporting Part B of Schedule II** clearly brings out that the responsibility entrusted to the CEO and CFO is in relation to establishing and maintaining internal controls over financial reporting. The Compliance Certificate has to assert that they have evaluated the effectiveness of internal control systems of the listed entity pertaining to financial reporting.

The Compliance Certificate will further state the manner in which deficiencies (if any) in the design or operation of such internal controls has been disclosed to the auditors and the Audit Committee.

The Compliance Certificate will also state the steps they have taken or propose to take to rectify these deficiencies in the design or operation of such internal controls pertaining to financial reporting.

(ii) **Aspects to certify to the Board of Directors along with CEO of the Company**

The Chief Executive Officer and the Chief Financial Officer shall certify to the Board that:

- (a) They have reviewed financial statements and the cash flow statement for the year and that to the best of their knowledge and belief:
 - (i) These statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
 - (ii) These statements together present a true and fair view of the listed entity's affairs and are in compliance with existing accounting standards, applicable laws and regulations.
- (b) There are, to the best of their knowledge and belief, no transactions entered into by the listed entity during the year which are fraudulent, illegal or violative of the listed entity's code of conduct.
- (c) They accept responsibility for establishing and maintaining internal controls for financial reporting and that they have evaluated the effectiveness of the internal control systems of the listed entity pertaining to financial reporting and they have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of internal controls, if any, of which they are aware and the steps they have taken or propose to take to rectify these deficiencies.
- (d) They have indicated to the auditors and the Audit Committee:
 - (i) Significant changes in internal control over financial reporting during the year;
 - (ii) Significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and
 - (iii) Instances of significant fraud of which they have become aware and the involvement therein, if any, of the management or an employee having a significant role in the listed entity's internal control system over financial reporting.

CASE STUDY - 5

BASP & Co. Chartered Accountants is a firm of Chartered Accountants, having offices across major towns of south India. They provide consultancy in the field of GST, income-tax and corporate law consultancy. ABC Private Ltd is a one of the major clients of the firm having a dynamic and professional Finance team., Tan & Kan, the Partners of BASP & Co, had regular meetings with Jay, the Director (Finance) of ABC Private Ltd and his team. During one of the meetings, Jay seemed to have quite some points for discussion with Tan & Kan. Having seen new members in the audit team, Jay gave a quick overview about the Company and its

operations for their understanding. He explained that the Company manufactures and supplies air conditioners (AC), refrigerators, and other products.

He went on to explain the following points:

- (A) The Company is expanding its business and establishing a new unit with an estimated budget of ₹ 250 Lakhs. The break-up of this expenditure is as follows:

Civil construction	₹ 120 Lakhs (excluding GST)
Plant and Machinery	₹ 130 Lakhs (excluding GST)

The civil construction consists of construction of foundation for installation of Plant and Machinery, Factory Shed, etc. The cost of construction of foundation is ₹ 20 Lakhs included in total construction cost. CGST and SGST for both civil construction and Plant and Machinery is 9% each i.e. 18% in aggregate. The details of expenditure are as under:

Date	Details	Amount ₹ Lakhs
1 st April 2021	Advance given for Plant & Machinery	40
	Advance to contractor for civil construction	10
15 th April 2021	Work of construction begins	
30 th April 2021	Civil construction work expenses	25
31 st July 2021	Civil construction work expenses	25
1 st October 2021	Payment made to suppliers of Plant and Machinery and delivery received	90
31 st December 2021	Construction work expenses	20
31 st March 2022	Final payment made (including outstanding GST)	40

- (B) During the financial year 2022-23, in one of the Board meetings, the management sought an approval from the Board, for investing in equity shares of other Companies as per the provisions of the Companies Act, 2013. The Board approved the management's proposal, after due deliberations and discussions. The Company purchased 10,000 shares of Milaan Ltd. on 1st January 2022 at a price of ₹ 20 per share. Milaan Ltd. declared bonus of one share for every 2 shares held on 31st March 2022 as record date for issue of bonus. The Company sold 10,000 shares purchased on 1st January 2022 on 31st August 2022 at ₹ 15 per share.
- (C) In addition to manufacture and supply of ACs, the Company also does installation for the same. It had received advance of ₹ 5 Lakhs for supply of 5 split air-conditioners to Bavana Ltd. for installation at their factory in Haryana on 15th February 2023. The Company supplied the ACs and installed them on 28th February 2023 and issued the invoice on the same date i.e. 28th February 2023. The supply was chargeable to tax@ 18% but was

reduced to 12% from 25th February 2023. The Company charged GST @ 18% while the buyer Bavana Ltd. contended that GST should have been charged @ 12% as the supply was made after the change of rate.

- (D) The Company had entered into an agreement with Humlog Private Ltd, for supply man-power on contract basis. This agreement was in existence for more than 8 years now and both the parties renewed the agreement every two years. However, the Company noticed that the services provided were not upto the mark. Though the agreement was due for renewal this month, the Company raised a dispute relating to quality of man-power and was planning to invoke the arbitration clause.
- (E) During the financial year 2018-2019, the Company bought back equity shares worth ₹ 5 Crores resulting in 5% decrease in combined outstanding of paid up share capital and free reserves. Further to this, during the financial year 2020-2021 bonus shares were issued in the ratio of 3:2. Bonus shares were issued using the amount lying in securities premium account. Both the actions of the Company were according to the guidelines prescribed under Companies Act. Tan and Kan endorsed this fact and also added that appropriate disclosures were made in the financial statements.
- (F) Jay was happy to inform that the Company's operations were going on smoothly and they were on a growth trajectory. During the financial year 2021-22, the Company had a turnover of ₹ 100 Crores and there was loan outstanding from a bank of ₹ 75 Crores and deposits of ₹ 30 Crores.
- (G) After the audit discussions were over, Jay and Kan had a general discussion. During the conversation he mentions that Shahi, a shareholder and non executive director of the Company has become the present Member of Parliament. His son, Abhir is studying abroad in US. As the present term of Parliament is coming to an end next year and his term also will come to an end. Shahi is willing to contest next election as an independent candidate. He has many friends and relatives in US and he asked his son to contact them, to collect fund for his election. Jay also told Ranga, Shahi's friend who is a contractor working for Ministry of Transport, Shipping and National Highways also accompanied Shahi on the US trip as part of government delegation.
- (H) Jay asked Tan and Kan, if they could help his friend Merun, Partner Mahim & Co, Chartered Accountants. Jay and Merun were close friends and they often used to have professional and academic discussions. Tan and Kan gladly agreed to provide clarifications to Merun, if he had any technical query. Jay set up a zoom call between Merun and them. During the call, Merun said he would be more comfortable and confident, if some other Chartered Accountant reviews the financial statements and audit reports he is signing.

MCQs: Provide the correct option to the following Questions:

- 5.1 Is ABC Private Ltd required to appoint an internal auditor during the financial year 2022-23 for complying with the provisions of Companies Act, 2013?
- (a) The Company is required to appoint internal auditor as one of limits of appointment of internal auditor is met by the company.
 - (b) The Company being a private company is not required to appoint internal auditors.
 - (c) The Company is not required to appoint the internal auditors, as the appointment of internal auditor is a matter of Board's decision.
 - (d) The Company is not required to appoint internal auditor because the thresholds prescribed under the Act, have not been met.
- 5.2 The Company will treat the loss on sale of shares as:
- (a) Loss of ₹ 50,000 on sale of 10,000 shares will be claimed as a loss.
 - (b) There will be gain of ₹ 1,666.67 as the cost of shares will be spread across total 15,000 shares.
 - (c) The Company cannot claim the loss of ₹ 50,000. However, this loss of ₹ 50,000 will become cost of acquisition of remaining 5000 shares received as bonus.
 - (d) Loss of ₹ 50,000 cannot be claimed as loss and the cost of acquisition of bonus shares will be 'nil'.
- 5.3 In the background of the facts given above, the amount which ABC Private Ltd. is entitled to take credit for Input tax (ITC) of ₹
- (a) ₹ 45 Lakhs
 - (b) ₹ 27 Lakhs
 - (c) ₹ 23.40 Lakhs
 - (d) ₹ 21.60 Lakhs
- 5.4 Advise ABC Private Ltd, what is the correct position of law in the facts given in case study:
- (a) Since payment was received prior to change of rate of tax, old rate will be applicable.
 - (b) Since provision of supply and issue of invoice is after the change in rate of tax, and only payment has been received before the change in rate, new rate shall be applicable.
 - (c) Since the time of supply shall be earlier of date of receipt of payment and date of issue of invoice, old rate shall be applicable.

- (d) *Since provision of service is after the change in rate of tax, new rate shall be applicable. Date of invoice is not relevant.*
- 5.5 *Whether the transactions of buy back and bonus shares are required to be reported in the financial statements for the financial year 2022-2023?*
- (a) *As per schedule III to the Companies Act, 2013, the comparative information for last financial year needs to be presented and the said transactions do not pertain to last financial year, hence no reporting is required.*
- (b) *As per schedule III to the Companies Act, 2013, only transaction of buy back completed in last three financial years is required to be reported.*
- (c) *As per schedule III to the Companies Act, 2013, only transaction of bonus shares issued during last three financial years is required to be reported.*
- (d) *As per schedule III to the Companies Act, 2013 both bonus shares issued and shares bought back during last five financial years needs to be reported. (2 x 5 = 10 Marks)*

Descriptive Questions

- 5.6 *Explain the circumstances in which an arbitration agreement can be terminated. Will the Company be successful in invoking the arbitration clause against Humlog Private Ltd.*
(3 + 2 = 5 Marks)
- 5.7 *Jay feels it is not appropriate for Shahi to seek funds for election in such a manner. With reference to the Foreign Contribution (Regulation) Act, 2010, explain who are prohibited from taking any contributions from a foreign source.*
(5 Marks)
- 5.8 *In background of Merun's discussion with Tan and Kan, answer the following:*
- (i) *Can the financial statements and audit report signed by Merun be reviewed by some other Chartered Accountant? If yes, who can do such review in terms of Standard on Quality Controls Auditing, Review, Other Assurance and Related Services.*
- (ii) *What should be the contents of the review policy and procedures, if Merun's firm is required to establish such policy?*
(2 + 3 = 5 Marks)

ANSWERS TO CASE STUDY - 5

PART – A

- 5.1 (d)
- 5.2 (c)
- 5.3 (b)
- 5.4 (b)

5.5 (d)**Answer to Question No. 5.6**

Following are the **Circumstances in which an Arbitration agreement can be terminated:**

Like the manner in which parties enter into an arbitration agreement, they can also terminate an arbitration agreement.

Thus, an arbitration agreement could be put to an end by:

1. **Mutual Consent:** Like any contract, the parties involved can jointly agree to put an end to a particular arbitration agreement.
2. **Termination of Principal Contract:** If the principal contract is terminated through discharge or novation, the arbitration agreement terminates with the contract. However, if the principal contract is breached, then the arbitration agreement survives because of the operation of the doctrine of separability.
3. **Death of Parties:** Under the Indian Law, an arbitration agreement is not discharged by the death of any party.
It shall be enforceable by or against the legal representatives of the deceased.
4. **Operation of Law:** An arbitration agreement can be extinguished by the operation of law by virtue of which any right of action is extinguished.

Yes, company will be successful in invoking the arbitration clause against Humlog Private Ltd. on the basis of the termination of principal contract meant for supply of man-power on contract basis.

Answer to Question No. 5.7

As per **Section 3 of the Foreign Contribution (Regulation) Act (FCRA), 2010**, certain prohibitions are imposed on acceptance of foreign contribution.

Following are the categories of persons on whom directly /indirectly prohibitions are imposed on acceptance of foreign contribution:

- (1) No foreign contribution shall be accepted by any:
 - (a) candidate for election;
 - (b) correspondent, columnist, cartoonist, editor, owner, printer or publisher of a registered newspaper;
 - (c) public servant, Judge, Government servant or employee of any corporation or any other body controlled or owned by the Government;
 - (d) member of any Legislature;
 - (e) political party or office-bearer thereof;

- (f) organization of a political nature as may be specified under Section 5(1) by the Central Government;
 - (g) association or company engaged in the production or broadcast of audio news or audio visual news or current affairs programmes through any mode of mass communication
 - (h) correspondent or columnist, cartoonist, editor, owner of the association or Company referred to in clause (g).
- (2) The Act also prohibits acceptance of foreign contribution by the following persons:
- (a) Person, resident in India, and citizen of India resident outside India- shall not accept any foreign contribution, or acquire or agree to acquire any currency from a foreign source, on behalf of any political party, or any person referred to in (1) above, or both.
 - (b) Person, resident in India- shall not deliver any currency, whether Indian or foreign, which has been accepted from any foreign source, to any person if he knows or has reasonable cause to believe that such other person intends, or is likely, to deliver such currency to any political party or any person referred to in (1) above, or both.
 - (c) Citizen of India resident outside India- shall not deliver any currency, whether Indian or foreign, which has been accepted from any foreign source, to—
 - (i) any political party or any person referred to in (1) above, or both; or
 - (ii) any other person, if he knows or has reasonable cause to believe that such other person intends, or is likely, to deliver such currency to a political party or to any person referred to (1) above, or both.

In the give case study, Shahi, who is Member of Parliament and willing to contest next election as an independent candidate. He is seeking funds for his election. He asked his son, Abhir to contact his friends and relatives in US to collect funds.

According to Section 3(1)(a) of the Foreign Contribution (Regulation) Act, 2010 provides that no foreign contribution shall be accepted by any candidate for election.

Therefore, Jay was correct that it is not appropriate for Shahi to seek funds for election in such stated manner.

Answer to Question No. 5.8

- (i) As per **SQC 1**, some sole practitioners or small firms may wish to use other firms to facilitate engagement quality control reviews. Accordingly, financial statements and audit report signed by Merun can be reviewed by some other Chartered Accountant.

The firm's policies and procedures should address the appointment of engagement quality control reviewers and establish their eligibility through:

- (a) The technical qualifications required to perform the role, including the necessary experience and authority; and

- (b) The degree to which an engagement quality control reviewer can be consulted on the engagement without compromising the reviewer's objectivity.

(ii) Engagement Quality Control Review:

The firm should establish policies and procedures requiring, for appropriate engagements, an engagement quality control review that provides an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the report. Such policies and procedures should:

- (a) Require an engagement quality control review for all audits of financial statements of listed entities;
- (b) Set out criteria against which all other audits and reviews of historical financial information, and other assurance and related services engagements should be evaluated to determine whether an engagement quality control review should be performed; and
- (c) Require an engagement quality control review for all engagements meeting the criteria established in compliance with subparagraph (b).

The firm's policies and procedures should require the completion of the engagement quality control review before the report is issued.

The firm should establish policies and procedures setting out:

- (a) The nature, timing and extent of an engagement quality control review;
- (b) Criteria for the eligibility of engagement quality control reviewers; and
- (c) Documentation requirements for an engagement quality control review.

PAPER – 6F: MULTI-DISCIPLINARY CASE STUDY

The question paper comprises five case study questions. The candidates are required to answer any four case study questions out of five.

All your workings should form part of your answer.

CASE STUDY – 1

Majestic Industries Limited is a company; they are manufacturing ancillary products for power sector. With opening up of power sector to private sector over the past decade, the company is planning big to contribute its might. Due to various and far reaching changes brought in tax laws and company law, the company is facing certain issues the facts of which are as under :

Facts of the Case:

- The company has been claiming deduction of employees' contribution to Provident fund irrespective of the fact that the payment was delayed in some months. In one of the assessment year, the assessing officer has disallowed the claim of those months where there were delays in payment. However, the tribunal in appeal filed by the company, it has been allowed. The accountant is in dilemma for assessment year 2022-23 whether he can still continue to claim the same. The accountant of the company provides you the following information regarding employees' as well as employers' contribution to provident fund with it dates of payment. The due date for filing the tax return for the company in this case is 31-10-2022.

Employees' Contribution to PF	Employers' Contribution to PF	Due date for payment	The actual amount paid	The actual date of both payments to the concerned authorities
1,33,000	1,33,000	20-05-2021	2,66,000	13-05-2021
1,34,000	1,34,000	20-06-2021	2,68,000	19-06-2021
1,33,500	1,33,500	20-07-2021	2,67,000	25-07-2021
1,34,000	1,34,000	20-08-2021	2,68,000	08-10-2021
1,33,500	1,33,500	20-09-2021	2,67,000	16-10-2021
1,32,500	1,32,500	20-10-2021	2,65,000	13-10-2021
1,34,500	1,34,500	20-11-2021	2,69,000	20-11-2021
1,33,000	1,33,000	20-12-2021	2,66,000	22-03-2022
1,50,000	1,50,000	20-01-2022	3,00,000	29-03-2022
1,49,000	1,49,000	20-02-2022	2,98,000	29-09-2022
1,47,000	1,47,000	20-03-2022	2,94,000	29-10-2022
1,48,000	1,48,000	20-04-2022	2,96,000	Not Paid

2. The board of the company is spending as CSR responsibility of the company on the CSR Activities. CFO of the company provides you the following information:

₹ In Crore

Particulars	31-3-2022	31-03-2021	31-03-2020	31-03-2019
Net profit	3.50	7.50	4.25	3.00
Sales (turnover)	600.00	850.00	700.00	710.00

Company is also making CSR contribution through BMC foundation, an independent NGO registered under section 12A & 80G of the Income Tax Act, 1961, but the foundation has not yet taken registration with Ministry of Company Affairs (MCA) for carrying on CSR activities.

3. The CFO informed the board that the reporting requirement of financial statements has increased tremendously. For many information, ageing analysis has been introduced, more information regarding immovable property, utilization of borrowings, benami properties etc., has been introduced and accordingly scope of CARO has also been enlarged. The chief accountant of the company provides the following details of Trades Payable as at 31-03-2022:

Outstanding payments:

Less than 180 days	₹ 15,00,000
Over 180 days and less than a year	₹ 11,20,000
For a period between 1 to 2 years	₹ 5,00,000
For a period between 2 to 3 years	₹ 3,00,000

GST charged by suppliers is @ 12% which is included in the above outstanding payment. The company is regularly claiming available ITC in their books but has not made any reversal of ITC in respect of outstandings arising during the year. Trade payables in the above is due for payment, are undisputed and payable to non MSMEs.

4. NAN Consultants (Delhi) impart accounting software training to accounts and finance personnel of the company at their Delhi office which is also registered under GST. The agreement to render this service was entered into with its head office at Mumbai.

MCQs: Provide the correct option to the following questions.

- 1.1 The Employees' contribution to provident fund will be deductible to the extent of:
- (A) ₹ 16,62,000
 (B) ₹ 11,28,000
 (C) ₹ 5,34,000
 (D) ₹ 15,14,000

- 1.2 *The Employers' contribution to provident fund will be deductible to the extent of:*
- (A) ₹ 16,62,000
 - (B) ₹ 11,28,000
 - (C) ₹ 5,34,000
 - (D) ₹ 15,14,000
- 1.3 *Whether in the light of the case study, is the company required to form a CSR committee during financial year 2021-22:*
- (A) *The company is not required to form a CSR committee as the total contribution is less than ₹ 50 lakh and the board shall perform the functions of CSR Committee.*
 - (B) *The company is not required to form a CSR Committee as the company does not meet any of the criteria of net profit, turnover, or net worth during the year 2021-22.*
 - (C) *The company is not required to form a CSR committee as the total contribution is less than ₹ 50 lakh and the board can decide who shall perform the functions of CSR committee.*
 - (D) *The company is not required to form a CSR Committee as the average net profit of the company for the last 3 years is ₹ 4.92 crore only.*
- 1.4 *Whether the company is required to make reversal of Input tax credit (ITC) in the given case study and if yes, then of what amount (ignore interest):*
- (A) *No reversal of ITC is required to be made in the books.*
 - (B) *Yes, ₹ 1,34,400*
 - (C) *Yes, ₹ 1,12,000*
 - (D) *Yes, ₹ 1,20,000*
- 1.5. *With respect to the training imparted by NAN consultants, what should be the place of supply?*
- (A) *Mumbai*
 - (B) *Delhi*
 - (C) *Mumbai or Delhi at the discretion of the consultant.*
 - (D) *In terms of section 12(5), GST is not leviable with respect to training or performance appraisal services. Therefore, the question of place of supply does not arise.*

(5 x 2 = 10 Marks)

Descriptive Questions

- 1.6. In the given case study, as a Tax auditor how will you report in Form 3CD the employees' contribution to provident fund and any disallowance which is to be made as per section 40(a) (ii) of the Income Tax Act, 1961 ? **(4 Marks)**

1.7 In the context of the case study, explain the provisions and requirement relating to formation of CSR Committee by the company under the Companies Act, 2013.

(7 Marks)

1.8 How will you disclose the information relating to trade payables provided in para no 3 of the case study in the financial statements?

(4 Marks)

ANSWERS TO CASE STUDY 1

PART – A

1.1 (C)

1.2 (D)

1.3 (A)

1.4 (D)

1.5 (A)

1.6 The auditor is required to report the employee's contribution to provident fund in Form 3CD as under

Clause 20(b): Details of contributions received from employees for various funds as referred to in section 36(1)(va):

S. No.	Nature of fund	Sum received from employees	Due date for payment	The actual amount paid	The actual date of payment to the concerned authorities
1	Employee's Contribution to PF	1,33,000	20.05.2021	1,33,000	13.05.2021
2	Employee's Contribution to PF	1,34,000	20.06.2021	1,34,000	19.06.2021
3	Employee's Contribution to PF	1,33,500	20.07.2021	1,33,500	25.07.2021
4	Employee's Contribution to PF	1,34,000	20.08.2021	1,34,000	08.10.2021
5	Employee's Contribution to PF	1,33,500	20.09.2021	1,33,500	16.10.2021
6	Employee's Contribution to PF	1,32,500	20.10.2021	1,32,500	13.10.2021
7	Employee's Contribution to PF	1,34,500	20.11.2021	1,34,500	20.11.2021
8	Employee's Contribution to PF	1,33,000	20.12.2021	1,33,000	22.03.2022

9	Employee's Contribution to PF	1,50,000	20.01.2021	1,50,000	29.03.2022
10	Employee's Contribution to PF	1,49,000	20.02.2021	1,49,000	29.09.2022
11	Employee's Contribution to PF	1,47,000	20.03.2021	1,47,000	29.10.2022

Further as regards disallowance under section 40 (a) (ii) of the Income Tax Act, 1961 no reporting is to be done for the same by tax auditor in Form 3CD but only the amount needs to be disallowed by the assessee per se at the time of filling of the tax return for the respective assessment year.

- 1.7 According to section 135(1) of the Companies Act, 2013, every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during the immediately preceding financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director.

Provided that where a company is not required to appoint an independent director under sub-section (4) of section 149, it shall have in its Corporate Social Responsibility Committee two or more directors.

As per Rule 3(1), every company including its holding or subsidiary, and a foreign company defined under clause (42) of section 2 of the Act having its branch office or project office in India, which fulfills the criteria specified in sub-section (1) of section 135 of the Act shall comply with the provisions of section 135 of the Act and these rules:

“Net worth” [As per Section 2(57)] means the aggregate value of the paid-up share capital and all reserves created out of the profits, securities premium account and debit or credit balance of the profit and loss account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation.

Exclusion of Companies [Rule 3(2) of the Companies (CSR) Rules, 2014]

Every company which ceases to be a company covered under subsection (1) of section 135 of the Act for three consecutive financial years shall not be required to-

- (a) constitute a CSR Committee; and
- (b) comply with the provisions contained in sub-section (2) to (6) of the said section, till such time it meets the criteria specified in sub-section (1) of section 135.

In the present case, **though** the Net profit of the Majestic Industries Limited as on 31-03-2021 (i.e. immediately preceding financial year) was ₹ 7.50 crore, ~~hence~~ the company is

not required to constitute CSR committee since, according to section 135(9) of the Companies Act, 2013, where the amount to be spent by a company under sub-section (5) does not exceed fifty lakh rupees, the requirement under sub-section (1) for constitution of the Corporate Social Responsibility Committee shall not be applicable and the functions of such committee provided under this section shall, in such cases, be discharged by the Board of Directors of such company. As per the figures of net profits given in the case study the amount to be spent works out to ₹ 9.83 lakh $[(7.50+4.25+3.00)/3]*2\%$

1.8 Extracts of Balance Sheet of Majestic Industries Limited as at 31st March, 2022

Particulars	₹
LIABILITIES	
Current liabilities	
(a) Financial Liabilities	
(i) Trade payables	<u>34,20,000</u>
Total liabilities	<u>XXXX</u>
Total equity and liabilities	<u>XXXX</u>

Trade payables

Ageing for trade payables outstanding as at 31st March, 2022 is as follows:

Particulars	Less than 1 year	1-2 years	2-3 years	More than 3 years	Total
Undisputed – Other than MSME	26,20,000	5,00,000	3,00,000	-	34,20,000

Note: The information regarding operating cycle is not provided in the question. It is assumed that all the trade payables are within the scope of operating cycle and hence are classified as current liabilities.

CASE STUDY: 2

About You

You are part of a renowned firm of Chartered Accountants based in New Delhi which is engaged in modern fields of practice such as Forensic Audit, International Taxation (Direct and Indirect), Information Systems Audit, Risk Based Audit, Registered Valuers etc.,

About FSL

One of your friends has recommended your name to M/s Forever Source Limited (FSL), a listed entity engaged in the manufacturing and export of speciality chemicals used in textile industry and having annual turnover of ₹ 50 crores.

Issues

- I. Management has finalized the financial results for the half year ended 30th September 2022. Revenue, net profit and cash profit of the company has increased manifold, hence, the management has decided to buy-back the shares of the company and has gone ahead with its decision after complying with all the requirements. Company has utilized the balance lying in free reserves and securities premium account for the purpose of buy-back. Following relevant information is available for your kind perusal which is before buy-back:

Particulars	Amount (₹ In Lakh)
EQUITY AND LIABILITIES	
(1) Shareholders' funds	
(a) Share capital	1000.00
(b) Reserves and Surplus	2000.00
Total	3000.00

Company has bought back five percent of its share capital (three percent from open market and balance from Mr. Raman, one of the investors in the company).

- II. Since the company deals in specialty chemicals, different types of inventories are lying with the company. For valuation purposes, the same is classified into four categories (Category 1, Category 2, Category 3 and Category 4). Company has to comply with inventory valuation norms prescribed by IND AS 2-INVENTORIES. Following information (category wise) is available from the company records.

(Amount in Rupees Thousands)

Inventory Item	Cost	Estimated Sales Price	Selling Cost	Fair Value
Category 1	10,000	9,800	700	9,500
Category 2	16,000	20,000	400	19,600
Category 3	18,000	19,000	400	18,100
Category 4	8,000	9,500	350	9,000

Staff of the Company has valued the inventory at ₹ 52,000 (in 000's) as by every other means (Fair Value or the selling price) valuation is greater than ₹ 52,000 (in 000's)

- III. Company, to increase its customer reach, keeps on advertising through various modes in national and international market. Recently, one of the friends of Mr. Rohit suggested him to use the online advertisement platform being operated by Worldwide Online Advertisement Agency (WOAA). WOAA do not have any permanent establishment (PE) in India. Mr. Rohit has used the online advertising platform for certain period of time for an agreed consideration of ₹ 2,50,000. WOAA has rendered services as per the terms and

conditions and agreed payment has been made by FSL after complying with all the legal requirements as per Income Tax Act, 1961.

Result of using online advertisement has started pouring in. Company has received various enquiries and one enquiry has matured into sales contract of ₹75 Lakh (excluding GST @ 18%) with M/s Agro Research Limited (ARL). ARL is a newly incorporated company (during the year 2021-22) and has started its business in the month of August 2021 and has a turnover of ₹150.00 Lakh only till date. ARL has provided all documents including its PAN to the seller company. The product was supplied in the month of September 2021 and the entire contract consideration has also been received in the same month itself.

- IV. On 1st April 2021, FSL has invested in the equity shares of newly formed company DEF Limited (DEF) at a cost of ₹1 Lakh to acquire 20% share in the voting power of DEF. As per technical terms, DEF is considered to be an associate of FSL. At the end of F.Y. 2021-2022, DEF earned profit of ₹10,000 and other comprehensive income of ₹2000. In that year, DEF also declared dividend of ₹4,000. This transaction has been appropriately reflected in cash flow statement of FSL prepared for the F.Y 2021-2022.

During the year ended 31st March 2022, FSL has capitalized development costs which satisfied the criteria as per Ind AS 38 'Intangible Assets'. The total amount capitalized was ₹16 Lakh. The development project has begun to generate economic benefits for FSL from 01st January 2022. The directors of FSL have estimated that the project would generate economic benefits for five years from that date. The development expenditure is fully deductible against taxable profits for the year ended 31st March 2022.

- V. FSL has an Audit Committee which regularly meets and considers the financial statements. FSL has 6 Directors which consist of 3 independent directors. Audit Committee consists of 3 directors out of which 2 directors are independent directors. All the directors are persons with ability to read and understand the financial statement. Statutory auditors of FSL are invited by the Audit Committee from time to time to attend the meeting.

However, statutory auditors are reluctant to attend the meeting.

Note that the company is an Ind AS compliant and answers on Direct Tax laws should relate to assessment year 2022-23.

MCQs: Provide the correct option to the following questions:

- 2.1 What is the status of reporting requirement of transaction of buy-back of securities done by Forever Source Limited (FSL) under the Income-tax Act 1961?
- (A) No reporting is required under the Income-tax Act as the same is applicable for companies having share capital of ₹100.00 Crores and above.
- (B) Reporting of ₹50.00 lakhs will be done in Statement of Financial Transactions.
- (C) Reporting of buy back of ₹30.00 lakhs will be done in Statement of Financial Transactions.

- (D) Reporting of ₹ 20.00 lakhs will be done in Statement of Financial Transactions.
- 2.2 What is your opinion on valuation of inventories done by the company officials?
- (A) Valuation done by company is correct.
- (B) Valuation done by company is incorrect and the correct valuation is ₹ 51,100 (in 000's)
- (C) Valuation done by company is incorrect and the correct valuation is ₹ 51,500 (in 000's)
- (D) Valuation done by company is incorrect and the correct valuation is ₹ 51,800 (in 000's)
- 2.3 The deferred tax Asset/liability in relation to development cost incurred by the company (assuming tax rate 20%) and its classification while reporting in the financial statements will be:
- (A) Deferred Tax Asset of ₹ 3,60,000 will be recognised as current asset.
- (B) Deferred Tax liability of ₹ 3,04,000 will be recognised as non-current liability.
- (C) Deferred Tax Asset of ₹ 3,04,000 will be recognised as non-current asset.
- (D) Deferred Tax liability of ₹ 3,04,000 will be recognised as current liability.
- 2.4 What are the tax liabilities (deduction or collection of tax i.e. TDS/TCS) on Sale/Purchase transaction between Forever Source Limited (FSL) and Agro Research Limited (ARL)?
- (A) TCS is required to be collected by FSL amounting to ₹ 7,500.
- (B) TDS will be deducted by ARL amounting to ₹ 7,500.
- (C) TDS will be deducted by ARL amounting to ₹ 8,850.
- (D) TCS is required to be collected by FSL amounting to ₹ 3,850.
- 2.5 What will be the amount of tax leviable on the payment made by First Source Limited (FSL) to Worldwide Online Advertisement Agency (WOAA)?
- (A) TDS will be deducted on payment made to non-resident amounting to ₹ 75,000.
- (B) Equalisation levy amounting to ₹ 15,000 u/s 165 of Finance Act, 2016.
- (C) Equalisation levy amounting to ₹ 5,000 u/s 165 of Finance Act, 2016.
- (D) TDS will be deducted on advertisement u/s 194C amounting to ₹ 5000.

(5 x 2 = 10 Marks)

Descriptive Questions

- 2.6 In view of reluctance of statutory auditor to attend the Audit Committee meeting in the given case study, you are required to comment on the Role of Auditor in Audit Committee. Also comment whether the constitution of Audit Committee is valid. **(5 Marks)**

- 2.7 Give examples of temporary differences transactions that may affect taxable profit or loss of an enterprise. **(5 Marks)**
- 2.8 In case investment in DEF Limited has been done in a way other than cash, do you think that transaction would also have been reported in Cash Flow Statement? Which are non-cash transactions relating to investing activities which are not required to be reported in Cash Flow Statement? **(5 Marks)**

ANSWERS TO CASE STUDY 2**PART – A**

- 2.1 (D)
2.2 (B)
2.3 (B)
2.4 (D)
2.5 (B)

PART – B

- 2.6 Role of Auditor in to attend the Audit Committee Meeting: Regulation 18(1)(f)** stipulates that a representative of the statutory auditor, when required, shall be invited to the meetings of the Audit Committee. Similarly, Section 177 of the Companies Act, 2013 provides the auditors of a company and the key managerial personnel the right to be heard in the meetings of the Audit Committee when it considers the auditor's report but they shall not have the right to vote.

The auditor must ensure that he communicates frequently and openly with the Audit Committee on key accounting or auditing issues that, in the auditor's judgment, give rise to a greater risk of material misstatement of the financial statements, and also ensure that he addresses any questions or concerns voiced by the Audit Committee.

He can contribute significantly in assisting and advising the Audit Committee on improving corporate governance, oversight of financial reporting process, implementation of accounting policies and practices, compliance with accounting standards, strengthening of the internal control systems in regard to financial reporting and reporting processes.

The auditor must devote substantial professional time in assisting the management and the Audit Committee to enable them to discharge their functions effectively and in certification of the requirements of corporate governance.

The auditor has to keep in mind that his role is not to drive corporate governance directly. Rather, it is the management's responsibility to do so and, in the process, he should play a significant role in assisting management to ensure better standards of corporate governance.

Composition of Audit Committee: As per section 177 of the Companies Act, 2013, the Audit Committee shall consist of a minimum of three directors with independent directors forming a majority. It may be noted that majority of members of Audit Committee including its Chairperson shall be persons with ability to read and understand, the financial statement.

In the given case, Forever Source Limited, a listed entity, has audit committee which regularly meets and consider the financial statements. The Audit committee of FSL consist of 3 directors out of which 2 directors are independent director which is in compliance with section 177 of the Companies Act, 2013.

It is also required that all members of Audit Committee shall be financially literate. As per fact of the case all the directors of FSL are persons with ability to read and understand the financial statements which is also in compliance with section 177 of the Act, it can be concluded that composition of Audit Committee of FS Limited is valid.

ALTERNATIVE SOLUTION

Composition of Audit Committee: As per Regulation 18(1) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the main features of a qualified and independent audit committee to be set up are as follows:

1. The Audit Committee shall have minimum three directors as members. At least two-thirds of the members of audit committee shall be independent directors, however, in case of a listed entity having outstanding SR (Superior Rights) equity shares, the audit committee shall only comprise of independent directors.
2. All members of Audit Committee shall be financially literate and at least one member shall have accounting or related financial management expertise.

Explanation (i): The term “financially literate” means the ability to read and understand basic financial statements i.e. balance sheet, profit and loss account, and statement of cash flows.

Explanation (ii): A member will be considered to have accounting or related financial management expertise if he or she possesses experience in finance or accounting, or requisite professional certification in accounting, or any other comparable experience or background which results in the individual’s financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.

3. The Chairperson of the Audit Committee shall be an independent director and he/she shall be present at Annual General Meeting to answer shareholder queries.
4. The Company Secretary shall act as the secretary to the committee.
5. The Audit Committee at its discretion shall invite the finance director or the head of the finance function, head of internal audit and a representative of the statutory auditor and any other such executives to be present at the meetings of the committee,

provided that occasionally, the Audit Committee may meet without the presence of any executives of the listed entity.

In the given case, Forever Source Limited, a listed entity, has audit committee which regularly meets and consider the financial statements. The Audit committee of FSL consist of 3 directors out of which 2 directors are independent director which is compliance with Regulation 18(1) of the SEBI LODR 2015 as according to the same the Audit Committee shall have minimum three directors as members. At least two-thirds of the members of audit committee shall be independent directors.

Further, it is also given in the Regulation 18(1) i.e. all members of Audit Committee shall be financially literate and at least one member shall have accounting or related financial management expertise. As per fact of the case all the directors of FSL are persons with ability to read and understand the financial statements which is also in compliance with, however, **assuming** that one of the director is having accounting or related financial management expertise and Chairperson of the Audit Committee is independent director, it can be concluded that composition of Audit Committee of FS Limited is valid.

2.7 Examples of temporary differences transactions that affect taxable profit or loss of an enterprise:

1. Interest revenue is received in arrears and is included in accounting profit on a time apportionment basis but is included in taxable profit on a cash basis.
2. Revenue from the sale of goods is included in accounting profit when goods are delivered but is included in taxable profit when cash is collected.

In this case, there is also a deductible temporary difference associated with any related inventory.

3. Depreciation of an asset is accelerated for tax purposes.
4. Development costs have been capitalized and will be amortised to the statement of profit and loss but were deducted in determining taxable profit in the period in which they were incurred.
5. Prepaid expenses have already been deducted on a cash basis in determining the taxable profit of the current or previous periods.

2.8 Investing transactions that do not require the use of cash or cash equivalents shall be excluded from a statement of cash flows. Such transactions shall be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing activities. Many investing activities do not have a direct impact on current cash flows although they do affect the capital and asset structure of an entity. Such non-cash items will not form part of the cash flow statement.

Accordingly, in case investment in DEF Limited has been done in a way other than cash, then that transaction would not be reported in the Statement of Cash Flows.

Examples of non-cash transactions relating to investing activities which are not required to be reported in the Statement of Cash Flows are:

- (a) the acquisition of assets by assuming directly related liabilities;
- (b) the acquisition of assets by means of a lease;
- (c) the acquisition of an entity by means of an equity issue;

CASE STUDY: 3

M/s HK & Co., based in New Delhi, is a leading firm of Chartered Accountants having clients from all verticals of business and service industry. Firm has 20 partners having professional experience of more than three decades.

During the month of July 2022, different engagement teams handled various assignments. and CA H Kumar has been asked to review and guide the engagement teams in the following assignment.

Assignment with the firm: JK Limited (JKL)

JK Limited is interested in acquiring the running enterprise rather than starting a new project. The company has its interest in one of the divisions of M/s ARP Limited (a listed entity) (ARP). M/s ARP Limited is a multi-industry company having its presence from auto components to textile mills to food processing business. All these businesses are under the same roof i.e. ARP Limited. Shares of ARP Limited are actively traded and current market price is ₹ 15 per share. Summarized Balance sheets of ARP Limited and JK Limited are as follows:

(Amount in rupees thousands)

	ARP Limited	JK Limited
Non-Current Assets	1000	600
Current Assets:		
Trade Receivables	500	100
Cash and Cash Equivalents	500	50
Total	2000	750
Shareholders' Funds	800	500
Long Term Debt	200	50
Current Liabilities and Provisions	1000	200
Total	2000	750

Shareholders' funds of ARP Limited represent 70,000 shares of ₹ 10 each and rest is retained earnings/reserves and surplus. Data pertains to the entire company and not of a particular division. Segment wise valuation will lead to higher valuation of the company. Hardware division of the ARP Limited will be bought for ₹ 60 Crores and for this acquisition, funds will be borrowed by the management of JK Limited.

One of the verticals of JKL is engaged in export of gold jewellery and ornaments. JKL has a paid up Equity share capital of ₹ 4 lakh divided into 40 thousand equity shares of ₹ 10 each. Results for half year ended 30th September 2022 has indicated 15% growth in revenue and 20% in profits as compared to results of half year ended 30th September 2021. Order book of the company is strong enough to maintain this growth for next five years. After looking at the financial results for the half year ended 30th September 2022, the management has decided to recommend interim dividend of ₹ 2 per equity share. Accordingly, the board meeting has been called and resolution has been passed with record date set as 23rd October 2022.

One of the executive directors of the company, Mr. Tulip is very well connected with persons having political interests and connections. Mr. Joseph from South Africa contacted Mr. Tulip and offered him to engage JKL in one transaction in which his company can earn some handsome amount in one go. The details of the transactions are that Company of Mr. Joseph will transfer ₹ 5.00 crore in bank account of JKL and then JKL will transfer ₹ 3.50 crores in small amounts in different accounts to be specified by Mr. Joseph. Since bank account of JKL generally receives foreign payments, so nobody will doubt the transaction. Thus, the company will be earning ₹ 1.50 crores simply by using its bank account.

Another vertical of JKL is engaged in the manufacturing and exports of drilling machinery. The company has made the following cash payments during the audit period 2021-2022 to the local transporters for carrying finished goods from factory premises to the container freight station (CFS):

- (i) Payment of 6 invoices of ₹ 4,000 each made in cash to Mr. X on 04th July 2021.
- (ii) Payment of 2 invoices of ₹ 21,000 each made in cash to Mr. Y on 05th July 2021 and 06th July 2021 respectively.
- (iii) Payment of ₹ 40,000 made in cash to Mr. Z on 07th July 2021 against an invoice for expenses booked in F.Y. 2020-21.

Further management of JKL has decided to buy a sick company, Machine Industries Limited (MIL) having negative net worth. Financial consultants were hired to give their opinion on the decision and all of them have recommended to JKL to merge itself with the Machine Industries Limited (MIL) rather than merge MIL to JKL. However, management is not inclined to take this step and still undecided on the method of merger.

Further another vertical of JKL is engaged in agricultural operations. Your audit manager CA Ms. Shweta is doing the statutory audit of JKL. During the course of audit, she overheard that there has been some mis-happening in the Company and the management has got an investigation done. There is suspicion of some fraud having taken place. She has requested the management to provide the details of such investigation but the response of the management has been evasive. She requested the management to provide the representation of management in respect of fraud. However, she did not get any response.

Provide the correct option to the following questions.

- 3.1 By which date JKL should have recommended the dividend as per Listing Obligations and Disclosure Requirements (LODR)? (Assume no holiday in the month of Oct. 2022)
- (A) 08th October 2022
 - (B) 17th October 2022
 - (C) 12th October 2022
 - (D) 21st October 2022
- 3.2 Do you think Mr. Tulip should accept the offer of Mr. Joseph and route the transaction through the bank accounts of the company?
- (A) Yes, since the transaction is being routed through banking channel, so no risk/liability involved.
 - (B) No, as the transaction will be covered under offence of Money Laundering and leg of transaction amounting to ₹ 5.00 crores will be classified as Layering.
 - (C) No, as the transaction will be covered under offence of Money Laundering and leg of transaction amounting to ₹ 5.00 crores will be classified as Placement.
 - (D) No, as the transaction will be covered under offence of Money Laundering and leg of transaction amounting to ₹ 5.00 crores will be classified as Integration.
- 3.3 Considering the balance sheet of J K Limited (JKL), what is the maximum amount that management can further borrow as per the provisions of the Companies Act, 2013?
- (A) ₹ 550 thousands being the consolidated amount of capital invested in the form of shareholders' funds and Long term debt.
 - (B) ₹1,500 thousands being three times of shareholders' funds.
 - (C) ₹ 450 thousands being the shareholders' funds as reduced by existing debt.
 - (D) ₹ 250 thousands being the shareholders' funds as reduced by total existing debt and current liabilities and provisions.
- 3.4 Which approach can be used by JK Limited (JKL) to value division of ARP Limited considering the fact that segment wise valuation of ARP Limited will lead to overall higher valuation of the company?

- (A) Valuation using Net Book Value.
(B) Valuation by multiples.
(C) Valuation using Chop Shop method.
(D) Valuation using balance sheet approach.
- 3.5 As a tax auditor, which of the cash payments made by JKL given in case study (3) above will be reported by tax auditor in Form 3CA-3CD?
- (A) (i), (ii) and (iii)
(B) (i) and (iii)
(C) (ii) and (iii)
(D) Only (iii) **(5 x 2 = 10 Marks)**

Descriptive Questions

- 3.6 You are required to guide CA Ms. Shweta how she should approach in case of JKL when the management has neither provided the investigation report nor any representation in respect of suspected fraud. **(6 Marks)**
- 3.7 Calculate the Enterprise value of ARP Limited using entity value as the base under relative valuation method. **(4 Marks)**
- 3.8 Explain the concept of reverse merger and advise the management of JKL the benefits, if any, in case merger of JKL with Machine Industries Limited (MIL) is done following the suggestion of financial consultants in the given case study. **(5 Marks)**

ANSWERS TO CASE STUDY 3**PART – A**

- 3.1 None of the options given is correct.
3.2 (B)
3.3 (C)
3.4 (C)
3.5 (D)

PART – B

- 3.6 **Auditor's Responsibilities Relating to Fraud:** As per SA 240 on "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements", the auditor is responsible for obtaining reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error.

As per SA 580 “Written Representations”, if management modifies or does not provide the requested written representations, it may alert the auditor to the possibility that one or more significant issues may exist.

In the given case, CA. Sweta came to know that management has got an investigation done as there is suspicion of fraud taken place. She requested the management to provide the details of such investigation and representation of management in respect of fraud, however she did not get any response.

In the instant case, the auditor observed that there was a special audit conducted at the instance of the management on a possible suspicion of fraud. Therefore, the auditor requested for special audit report which was not provided by the management despite of many reminders. The auditor also insisted for written representation in respect of fraud on/by the company. For this request also management remained silent.

It may be noted that, if management does not provide one or more of the requested written representations, the auditor shall discuss the matter with management; re-evaluate the integrity of management and evaluate the effect that this may have on the reliability of representations (oral or written) and audit evidence in general; and take appropriate actions, including determining the possible effect on the opinion in the auditor’s report.

Further, as per section 143(12) of the Companies Act, 2013, if an auditor of a company, in the course of the performance of his duties as auditor, has reason to believe that an offence involving fraud is being or has been committed against the company by officers or employees of the company, he shall immediately report the matter to the Central Government (in case amount of fraud is ₹ 1 crore or above) or Audit Committee or Board in other cases (in case the amount of fraud involved is less than ₹ 1 crore) within such time and in such manner as may be prescribed.

The auditor is also required to report as per Clause (xi) of Paragraph 3 of CARO, 2020, Whether any fraud by the company or any fraud on the company by its officers or employees has been noticed or reported during the year; If yes, the nature and the amount involved is to be indicated.

If, as a result of a misstatement resulting from fraud or suspected fraud, the auditor encounters exceptional circumstances that bring into question the auditor’s ability to continue performing the audit, the auditor shall:

- (i) Determine the professional and legal responsibilities applicable in the circumstances, including whether there is a requirement for the auditor to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities;
- (ii) Consider whether it is appropriate to withdraw from the engagement, where withdrawal from the engagement is legally permitted; and
- (iii) If the auditor withdraws:
 - (1) Discuss with the appropriate level of management and those charged with

governance, the auditor's withdrawal from the engagement and the reasons for the withdrawal; and

- (2) Determine whether there is a professional or legal requirement to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities, the auditor's withdrawal from the engagement and the reasons for the withdrawal.

3.7 Enterprise Value of ARP Limited

	₹
Market Value of Equity Shares (70,000 x ₹ 15)	10,50,000
Add: Long Term Debt	2,00,000
Less: Cash and Cash Equivalents	5,00,000
Enterprise Value	7,50,000

- 3.8 In ordinary case, the company taken over is the smaller company; in a 'reverse takeover', a smaller company gains control of a larger one. The concept of takeover by reverse bid, or of reverse merger, is thus not the usual case of amalgamation of a sick unit which is non-viable with a healthy or prosperous unit but is a case whereby the entire undertaking of the healthy and prosperous company is to be merged and vested in the sick company which is non-viable. A company becomes a sick industrial company when there is erosion in its net worth. This alternative is also known as taking over by reverse bid.

Reverse merger leads to the following benefits for acquiring company:

- Easy access to capital market.
- Increase in visibility of the company in corporate world.
- Tax benefits on carry forward losses acquired (public) company.
- Cheaper and easier route to become a public company.

CASE STUDY: 4

GSV Associates is a firm of Chartered Accountants. The firm is noticed with the following issues relating to their clients.

Facts of the case

1. *Happy Happy Limited is listed with the Bombay Stock Exchange. The Directors of the company want to appoint Mr. Shyamlesh as an independent director at the forthcoming Annual General Meeting (AGM) to be held on September 24, 2022. Mr. Sanjay, son-in-law of Mr. Shyamlesh, is a Managing Partner of Sanjay and Associates LLP, firm of Lawyers. Mr. Sanjay is acting as a legal advisor to Generic Laboratory Limited, an*

Associate Company of Happy Happy Limited. It is to be noted that Adv. Sanjay charged consultation fees from Generic Laboratory Limited as given below in rupees:

Year	Fees	Gross turnover of Sanjay and Associates
2019-20	2,00,00,000	40,00,00,000
2020-21	10,00,00,000	50,00,00,000
2021-22	0.00	45,00,00,000

2. Mr. Shyam Lal is millionaire and is fond of travelling and has investments in various countries. He has been in India for 300 days during last 4 years i.e. 2017-18, 2018-19, 2019-20 and 2020-21. During previous year 2021-22, he has been in India for 75 days. He has income from sources in India aggregating to ₹25.00 lakh. Mr. Shyam Lal is not liable to tax in any other country or territory by reason of his domicile or residence or any other criteria of similar nature. He thinks that since he is in India for 75 days only, he cannot be resident in India. However, he has heard that law in India is changed and so he approached CA. Vivek with the above information for determination of his correct residential status as per Income-tax.
3. The firm is presently doing 200 tax audits which include 50 audits of clients who offer their income on presumptive basis. During the year, the firm is approached by other clients for whom the firm has been rendering consulting services to undertake their tax audits. Partners seek your expert view how many more tax audits may be added by the firm.
4. Mr. V. Kumar has sold his residential property for a total consideration of ₹3.75 crores on 15th January 2022 (the date on which transfer got completed). He paid brokerage of ₹12.00 lakh and actual cost of acquisition in 1995 was ₹20.00 lakh and thereafter in 2009-2010 there has been further improvement costing ₹30.00 lakh. The fair market value determined as on 1st April 2001 comes to ₹24.40 lakh. Mr. Kumar has purchased a flat on 30th November 2021 for his residence for ₹1.00 crore and has incurred further cost on stamp duty, furnishing etc. ₹33.00 lakh. He also deposited ₹50.00 lakh in 54EC Capital Gains Bond. Cost inflation index for F.Y. 2009-10 was 148 and for F.Y. 2021-22 was 317. Mr. Kumar approached CA. Vivek for computation of his Capital Gain from sale of his residential property.
5. Mr. Manish, an article of the firm approached CA Sushil with the following complex web of relationship with different entities to understand whether they are related parties as per Ind AS.

Company 'A' is the subsidiary of company 'B'. Company 'B' is the subsidiary of company 'C'. Company 'D' is the subsidiary of company 'A'. Company 'X' is the associate of company 'D' and company 'Y' is the Joint Venture (JV) of Company 'X'.
6. Z Limited has removed its Managing Director Mr. Keshav Prasad and is required to compensate him for loss of office. Mr. Keshav Prasad vacated the office of Managing Director on 31.05.2021 though his original tenure of appointment with Z Limited was to

continue up to 31.12.2023. He had joined on 1st April 2019. He has drawn remuneration during the last three years per month as under:

2019-20	₹ 20 lakh
2020-21	₹ 25 lakh
2021-22 (upto 31 st May 2021)	₹ 30 lakh

MCQs: Provide the correct option to the following questions.

4.1 You are required to identify the correct statement from those given below:

- (A) Happy Happy Limited can appoint Mr. Shyamlesh as an Independent Director irrespective of the fact that Mr. Sanjay, his relative, is Legal Advisor to Generic Laboratory Ltd. which is its Associate Company.
- (B) Happy Happy Limited cannot appoint Mr. Shyamlesh as an Independent Director as he is relative of Mr. Sanjay, who is Managing Partner of the firm which is legal advisor to Generic Laboratory Ltd., its Associate Company, irrespective of the amount of fees charged by Mr. Sanjay from its Associate Company.
- (C) Happy Happy Limited cannot appoint Mr. Shyamlesh as an Independent Director as he is relative of Mr. Sanjay, Managing Partner of the firm which is Legal Advisor to Generic Laboratory Ltd., its Associate Company, and the fees charged by Mr. Sanjay exceeds the percentage as specified in the Companies Act, 2013, during one year out of the three immediately preceding financial years.
- (D) Happy Happy Limited can appoint Mr. Shyamlesh as an Independent Director even though his son in law Mr. Sanjay is the Managing Partner of the firm which is Legal Advisor to Generic Laboratory Ltd., its Associate Company, as Mr. Sanjay did not charge any fee during the immediately preceding financial year.

4.2 The residential status of Mr. Shyamlal will be _____

- (A) Resident
- (B) Non-resident
- (C) Not-ordinarily resident as he is not a resident of any other country based on domicile and his income excluding, income from foreign sources exceeds ₹ 15 lakh.
- (D) Not-ordinarily resident as he is having income above ₹ 15 lakh.

4.3 GSV Associates can accept further audit under section 44AB of _____

- (A) 90 audits
- (B) 40 audits
- (C) Nil
- (D) 60 audits

- 4.4 For reporting purposes as per Ind AS, which are the related parties of company 'C' ?
- (A) A, B, D
 (B) A, B, D, X
 (C) A, B, D, Y
 (D) A, B, D, X, Y
- 4.5 The maximum amount of compensation to which Mr. Keshav Prasad is entitled for premature termination of his office as Managing Director shall be -
- (A) ₹ 715.48 lakh
 (B) ₹ 930 lakh
 (C) Nil
 (D) ₹ 697.50 lakh
- (5 x 2 = 10 Marks)**

Descriptive Questions

- 4.6 Explain 'not-ordinarily resident' status of an Individual. **(5 Marks)**
- 4.7 Compute the capital gain in respect of property sold in point (4) of the case study **(5 Marks)**
- 4.8 Explain the reasons for which a Managing Director or the whole time director may be denied the compensation for loss of office. **(5 Marks)**

ANSWERS TO CASE STUDY 4

PART – A

- 4.1 (C)
 4.2 (B) or (C)
 4.3 None of the options is correct.
 4.4 (B)
 4.5 (A)

PART – B

- 4.6 As per section 6(6), an individual is said to be not-ordinarily resident in India in any previous year, if such individual satisfies any one of the following conditions:
- (i) He has been a non-resident in India in any 9 out of the 10 previous years preceding the relevant previous year, or
- (ii) He has been in India for a period of 729 days or less during the 7 previous years preceding the relevant previous year, or

(ii) He is an Indian citizen or person of Indian origin (who, being outside India, comes on a visit to India in any previous year) having total income, other than the income from foreign sources [i.e., income which accrues or arises outside India (other than income derived from a business controlled in or profession set up in India) and which is not deemed to accrue or arise in India], exceeding ₹ 15 lakhs during the previous year, who has been in India for 120 days or more but less than 182 days during that previous year, or

(iv) He is an Indian citizen who is deemed to be resident in India under section 6(1A).

4.7 Computation of capital gains of Mr. V. Kumar for A.Y. 2022-23

Particulars	₹	₹
Sale Consideration		3,75,00,000
Less: Brokerage		12,00,000
Net sale consideration		3,63,00,000
Less: Indexed cost of acquisition [₹ 24,40,000, being higher of Fair market value on April 1, 2001 and ₹ 20,00,000, being actual cost of acquisition x 317/100]	77,34,800	
Less: Indexed cost of improvement [₹30,00,000 x 317/148]	<u>64,25,676</u>	<u>1,41,60,476</u>
		2,21,39,524
Less: Exemption under section 54 [₹1 crore + ₹ 33 lakhs]	1,33,00,000	
Purchase of residential house within the stipulated time (within one year before or two years after the date of sale)		
Less: Exemption under section 54EC , assuming invested within six months from the date of transfer	<u>50,00,000</u>	1,83,00,000
Long term capital gains [Since the property is held for more than 24 months]		38,39,524

4.8 Prohibition on payment of compensation for loss of office of Managing Director or Whole-time director or Manager [Section 202 of the Companies Act, 2013]: No payment of compensation shall be made in the following cases-

(i) where the director resigns from his office as a result of the reconstruction of the company, or of its amalgamation and is appointed as the managing or whole-time director, manager or other officer of the reconstructed company or of the body corporate resulting from the amalgamation;

- (ii) where the director resigns from his office otherwise than on the reconstruction of the company or its amalgamation *i.e.* resigns on his own;
- (iii) where the office of the director is vacated under section 167(1);
- (iv) where the company is being wound up, (by an order of the Tribunal or voluntarily), due to the negligence or default of the director;
- (v) where the director has been guilty of fraud / breach of trust / of gross negligence/gross mismanagement in relation to the conduct of the affairs of the company or any subsidiary company or holding company thereof; and where the director has instigated/ has taken part directly or indirectly in bringing about, the termination of his office.

CASE STUDY: 5

Brightstar Limited is currently engaged in different business segments and is also looking to expand its operations. The Company is also exploring investment from an overseas investor to carry out the expansion plan. During the month of April 2022, an overseas investor showed interest to acquire 51% stake in Brightstar Limited and has appointed an independent consultant to carry out the due diligence of Brightstar Limited. As per one of the conditions of Memorandum of Understanding (MoU), the Company is required to submit its financial statements for the year ended 31st March, 2022 as per IFRS.

Brightstar Limited is in the process of computation of the deferred taxes as per applicable IFRS and wants guidance on the tax treatment for the following:

The Company had acquired 40% stake in SUN Limited for an aggregate amount of ₹ 90 crore. The shareholding gives Brightstar Limited significant influence over SUN Limited but not control and therefore the said interest in SUN Limited is accounted using the equity method. Under the equity method, the carrying value of investment in SUN Limited was ₹ 140 crore on 31st March, 2021 and ₹ 150 crore as on 31st March, 2022. As per the applicable tax laws, profits recognized under the equity method are taxed if and when they are distributed as dividend or the relevant investment is disposed of. The tax rate is 20%.

The Company measures its head office property using the revaluation model. The property is revalued every year as on 31st March. On 31st March 2021, the carrying value of the property (after revaluation) was ₹ 80 crore whereas its tax base was ₹ 44 crore. Carrying amount of property in the books of the company on 31st March 2021 was equal to the carrying amount of the property as per tax records. During the year ended 31st March 2022, the Company charged depreciation. in its Statement of Profit or Loss of 4 crore and claimed a tax deduction for tax depreciation of ₹ 2.50 crore. On 31st March, 2022, the property was revalued to ₹ 90 crore. As per the tax laws, the revaluation of Property, Plant & Equipment does not affect taxable income at the time of revaluation. The tax rate is 20%.

During the year, Brightstar Limited delivered manufactured products to customer K. The products were faulty and on 1st October 2021 customer K commenced legal action against the Company claiming damages in respect of losses due to the supply of faulty product. Upon investigating the matter, Brightstar Limited discovered that the products were faulty due to defective raw material procured from supplier F. Therefore, on 1st December 2021, the Company commenced legal action against F claiming damages in respect of the supply of defective raw materials.

Brightstar Limited has estimated that its probability of success of both legal actions, the action of K against Brightstar Limited and action of Brightstar Limited against F, is very high.

On 1st October 2021, Brightstar Limited has estimated that the damages it would have to pay K would be ₹ 10 crore. This estimate was revised to ₹ 10.40 crore as on 31st March 2022 and ₹ 10.50 crore as at 15th May 2022. This case was eventually settled on 1st June 2022, when the Company paid damages of ₹ 10.60 crore to K.

On 1st December 2021, Brightstar Limited had estimated that it would receive damages of ₹ 7.00 crore from F. This estimate was revised to ₹ 7.20 crore as at 31st March 2022 and ₹ 7.40 crore as on 15th May 2022. This case was eventually settled on 1st June 2022 when F paid ₹ 7.50 crore to Brightstar Limited. Brightstar Limited in its financial statements for the year ended 31st March 2022, provided ₹ 7.20 crore. The financial statements were authorised by the Board of Directors on 26th April 2022.

On 1st April 2021, Brightstar Limited purchased ₹ 20 lakh options to acquire shares in CASA Ltd., a listed entity. The Company paid ₹ 0.50 per option which allows the Company to purchase shares in CASA Ltd. for a price of ₹ 4 per share. The exercise date for the option was 31st December 2021. On 31st December 2021, when the market value of a share in CASA Ltd. was ₹ 5.20 per share, the Company exercised all its options to acquire shares in CASA Ltd.*

*In addition to the purchase price, the Company has also incurred directly attributable cost of ₹ 2 lakh for purchase of ₹ 20 lakh shares** in CASA Ltd. The Company has classified these shares as trading portfolio. However, the Company has not disposed of any of the shares in CASA Ltd. between 31st December 2021 to 31st March 2022. The market value of the shares of CASA Ltd. as on 31st March 2022 is ₹ 5.80 per share.*

Brightstar Limited acquired 100% of Methane Private Limited, on 1st January 2021. The fair value of the purchase consideration was ₹ 20 crore consisting of ordinary shares of 200 each of Brightstar Limited. The fair value of the net assets acquired was ₹ 15 crore. At the time of the acquisition, the value of the ordinary shares of Brightstar Limited and the net assets of Methane

* PS: Read '₹ 20 lakh options' as '20 lakh options'

**PS: Read '₹ 20 lakh shares' as '20 lakh options'

Private Limited were only provisionally determined. On 30th November 2021 it was finally determined that the fair value of Brightstar Limited's shares was ₹ 22 crore and the fair value of net assets of Methane Private Limited was ₹ 16 crore. However, the directors of Brightstar Limited have seen the fair value of the company's shares decline since 1st January 2021 and wanted to adopt the fair value of the shares as of 1st February 2022, which will result in the fair value of consideration being valued at ₹ 18 crore.

One of the subsidiaries of Brightstar Limited started its business in India with Indian Rupee as its functional currency. After several years, the entity expanded and started exporting its products to Europe. During the year ended 31st March 2021 only 30% of the business was conducted in Euro. By the end of 31st March 2022, 90% of the business was conducted with Europe and the transactions were denominated in Euro. The raw materials required (for the products to be exported to Europe) are all imported materials and the purchase transactions are denominated in Euro.

Brightstar Limited has constructed a shopping mall earlier. A portion of a mall is renovated by constructing a food court, spa and gaming zone so as to increase the footfalls in the mall. The food court and gaming zone are expected to result in a significant increase in sales for the shops and outlets of the mall.

Brightstar Limited previously had a defined pension plan (a defined benefit plan) under which the employees who joined before 1st April 2020 were enrolled. With respect to employees who joined on or after 1st April 2020 were all enrolled in the industrial pension plan. The Company found that the industrial pension plan was more beneficial to the employees than the defined pension plan. Hence, during 2021-2022, it decided to shift all the employees from defined pension plan to the industrial pension plan. The entity paid ₹ 10 crore to the employees who in turn agreed to forfeit the pension entitlement from the defined pension plan. The liability recognized in the financials, for the year ended 31st March 2021, with respect to the pension liability was ₹ 14 crore.

MCQs: Provide the correct option to the following questions.

- 5.1 What is the value of purchase consideration and fair value of net assets of Methane Private Limited as at the date of acquisition?
- (A) Purchase consideration ₹ 22 crore, net asset value ₹ 16 crore.
 - (B) Purchase consideration ₹ 20 crore, net asset value ₹ 15 crore,
 - (C) Purchase consideration ₹ 18 crore, net asset value ₹ 16 crore.
 - (D) Purchase consideration ₹ 22 crore, net asset value ₹ 15 crore.
- 5.2 What will be the functional currency of the subsidiary of Brightstar Limited for the year 2021-2022?

- (A) Changed to Euro at the end of financial year 2021-2022, if it is considered that the underlying transactions, events and conditions of business have changed.
- (B) Changed to Euro at the beginning of financial year 2021-2022, if it is considered that the underlying transactions, events and conditions of business have changed.
- (C) Changed to Euro at the end of financial year 2021-2022, if it is considered that the underlying transactions, events and conditions of business have changed.
- (D) The functional currency remains to be Indian Rupee.
- 5.3 What should be the accounting treatment for the cost incurred for the renovation?
- (A) Expenses incurred for food court and gaming zone should be charged to statement of profit or loss;
- (B) Expenses incurred for food court, spa and gaming zone should be charged to statement of profit or loss;
- (C) Expenses incurred for food court, spa and gaming should be capitalised;
- (D) Expenses incurred for food court and gaming should be capitalised.
- 5.4 What is the entry to be passed in the books of CASA Ltd. of account as on 31st March 2022 with respect to legal action commenced by customer K on the company?
- | | | | | |
|---|---------------------------------|-----|---------------|---------------|
| A | Statement of Profit or Loss A/c | Dr. | ₹ 10.40 crore | |
| | To Current Liability A/c | | | ₹ 10.40 crore |
| B | Statement of Profit or Loss A/c | Dr. | ₹ 10.60 crore | |
| | To Non-Current Liability A/c | | | ₹ 10.60 crore |
| C | Statement of Profit or Loss A/c | Dr. | ₹ 10.50 crore | |
| | To Current Liability A/c | | | ₹ 10.50 crore |
| D | Other Comprehensive Income A/c | Dr. | ₹ 10.40 crore | |
| | To Current Liability A/c | | | ₹ 10.40 crore |
- 5.5 What will the accounting treatment of the action of Brightstar Limited against supplier F as per applicable IFRS?
- (A) Asset receivable shall be recognised for ₹ 7.50 crore
- (B) Asset receivable shall be recognised for ₹ 7.40 crore
- (C) Asset receivable shall be recognised for ₹ 7.20 crore
- (D) It will be considered as contingent asset which will not be recognized in the books of CASA Ltd. **(5 x 2 = 10 Marks)**

Descriptive Questions

- 5.6 How should the discontinuation of old defined pension plan be accounted in the financials of Brightstar Limited for the year ended 31st March 2022 as per Ind AS? **(2 Marks)**
- 5.7 With respect to SUN Limited, what will be the deferred tax and where will it be impacted? **(2 Marks)**
- 5.8 Compute the deferred tax liability as on 31st March, 2022 and the charge/credit to the Statement of Profit or Loss and/ or Other Comprehensive Income on head office property. **(6 Marks)**
- 5.9 The Company has requested you to suggest the accounting treatment of the above arrangement and transaction of acquisition of shares in CASA Ltd. **(5 Marks)**

ANSWERS TO CASE STUDY 5**PART – A**

- 5.1 (A)
- 5.2 (A) or (C)
- 5.3 (D)
- 5.4 (A)
- 5.5 (D)

PART – B

- 5.6 The discontinuation of old defined pension plan is a curtailment event. Brightstar Limited is supposed to recognise gain or loss on settlement when the legally bind agreement has been reached, that eliminates all further legal or constructive obligations for the benefits provided under the pension plan in exchange for lump sum payment.

As per para 109 of IAS 19 'Employee Benefits', the gain or loss on a settlement is the difference between:

- (a) the present value of the defined benefit obligation being settled, as determined on the date of settlement
- (b) the settlement price, including any plan assets transferred and any payments made directly by the entity in connection with the settlement.

Accordingly, Brightstar Limited recognises a settlement gain of ₹ 4 crore (ie ₹ 14 crore – ₹ 10 crore) in its financial statements for the year ended 31 March 2022.

5.7 DTL created on accumulation of undistributed profits as on 31.3.2022

	Carrying value	Value as per tax records	Tax base	Taxable temporary differences	Total Deferred tax liability @ 20%	Charged to P&L during the year
a	b	c	d	e= b-d	f = e x 20%	g
31 March 2021	140 crore	90 crore	90 crore	50 crore	10 crore	10 crore
31 March 2022	150 crore	90 crore	90 crore	60 crore	12 crore	2 crore (12 crore – 10 crore)

5.8 (a) In case deferred tax is created only on account of depreciation

	Carrying value without revaluation	Value as per tax records	Tax base	Taxable (deductible) temporary difference	Total Deferred tax liability/ (asset) @ 20%	Credit to P&L during the year
a	b	c	d	e= b-d	f = e x 20%	g
31 March 2021	44 crore	44 crore	44 crore	nil	nil	nil
Less: Depreciation for the year 2021-2022	(4 crore)	(2.50 crore)				
Carrying value as on 31 March 2022	40 crore	41.50 crore	41.50 crore	(1.50 crore)	DTA (0.30 crore)	DTA (0.30 crore)

(b) Computation of tax effect taking into account the revalued figures and adjusting impact of tax effect on account of difference in depreciation

	Carrying value after revaluation	Value as per tax records	Tax base	Taxable (deductible) temporary difference	Total Deferred tax liability/ (asset) @ 20%	Credit to P&L during the year	Charged to OCI during the year
a	b	c	d	e= b-d	f = e x 20%	g	h
31 March 2021	80 crore	44 crore	44 crore	36 crore	DTL 7.2 crore	-	DTL 7.2 crore
Revalued again on 31.3.2022 (It is assumed that revaluation has been done after taking into consideration the impact of	90 crore	41.50 crore (44-2.50)	41.50 crore	48.50 crore	DTL 9.7 crore	DTA (0.30 crore) (Refer table (a) above)	DTL 10 crore (Refer Note below) [10 DTL (B/F) – 0.30 DTA = 9.70 DTL]

depreciation for the current year)							
Additional DTL/DTA required during the year (IV-I)					DTL 2.50 crore	DTA (0.30 crore) (Refer table (a))	DTL (2.80 crore) (Refer Note below)

Note:

As per para 65 of IAS 12 'Income Taxes', when an asset is revalued for tax purposes and that revaluation is related to an accounting revaluation of an earlier period, or to one that is expected to be carried out in a future period, the tax effects on account of revaluation of asset and the adjustment of the tax base are recognised in other comprehensive income in the periods in which they occur.

Here, it is important to understand that only the tax effects on account of revaluation of asset and the adjustment of the tax base are recognised in other comprehensive income. However, tax effects on account of depreciation of asset and the adjustment of the tax base are recognized in profit and loss.

Accordingly, first of all the tax effect has been calculated assuming that there is no revaluation (Refer Table (a) above). Later the DTA arrived due to difference in depreciation is adjusted with the DTL created due to revaluation. DTA of ₹ 0.30 crore on account of depreciation will be charged to Profit and Loss and DTL of ₹ 2.80 crore will be charged to OCI. Net effect in the year 31.3.2022 will be DTL 2.50 crore (DTL 2.80 crore – DTA 0.30 crore) [Refer Table (b) above].

- 5.9 The option to acquire shares in CASA Ltd. Would be regarded as a derivative financial instrument. This is because the value of the option depends on the value of an underlying variable (CASA Ltd.'s share price). As per paragraph 4.1.4 and 4.2.1 of IFRS 9 'Financial Instruments', all derivatives are measured at fair value. On 1st April 2021, when Brightstar Limited purchased 20 lakh options to acquire shares in CASA Ltd. At ₹ 0.50 per option, Brightstar Limited will recognise Option Asset for ₹ 10 lakh by passing the following journal entry:

Option on CASA Ltd. Shares	Dr.	₹ 10 lakh	
To Bank			₹ 10 lakh

Brightstar Limited shall measure the option at fair value at the end of every reporting period and also before exercise. The increase in share price on exercise date represents fair value of the option as the time value is zero on exercise date. Therefore, Brightstar Limited will measure the option at ₹ 24 lakh [20 lakh option x (5.2 – 4)] and recognise fair value gain of ₹ 14 lakh (24-10) in profit or loss.

The following journal entry will be passed:

Option on CASA Ltd. Shares	Dr.	₹ 14 lakh	
To Fair value gain			₹ 14 lakh

On exercise of the option on 31st December 2021, Brightstar Limited will pay ₹ 80 lakh for 20 lakh shares of CASA Ltd and the option derivative will be converted to shares of CASA Ltd. Therefore, Brightstar Limited will pass the following entry:

Investment in CASA Ltd. Equity shares	Dr.	₹ 104 lakh	
To Bank			₹ 80 lakh
To Option on CASA Ltd. Shares			₹ 24 lakh

Paragraph 5.1.1 of IFRS 9 'Financial Instruments' requires that the transaction costs shall be added to fair value if the financial asset is measured at other than fair value through profit or loss.

In the given case, ₹ 2 lakh incurred by Brightstar Limited for acquiring equity shares of CASA Ltd. Will not be added to the fair value of the equity shares of CASA Ltd. This is because equity shares of CASA Ltd. Are classified at fair value through profit or loss in accordance with paragraph 4.1.4 of IFRS 9 Financial Instruments. Therefore, Brightstar Limited shall recognise ₹ 2 lakh incurred on acquisition of equity shares of CASA Ltd. In profit or loss as on 31st March 2022.

The investment is included in the statement of financial position at 31st March 2022 as a current asset at its fair value of ₹ 116 lakh. The increase in fair value of ₹ 12 lakh is taken to the profit and loss.

PAPER – 6F: MULTI-DISCIPLINARY CASE STUDY

The question paper comprises five case study questions. The candidates are required to answer any four case study questions out of five.

All your workings should form part of your answer.

CASE STUDY – 1**Facts of the Case**

PS Limited (PSL) is manufacturers for Electric circuits, boards and switchgear. Its products are sold to customers through retail network and its distributors are situated across the country. The company also exports these products but only to a few countries worldwide. The company is also engaged in taking projects on turn-key basis. The company has plants in Himachal Pradesh, Tamil Nadu, Maharashtra and Andhra Pradesh.

The company has a high reputation amongst its stakeholders viz. shareholders, workers and customers. The attrition rate of employees is also very low compared to other players in the market. The main reason for such low rate is because the company believes in 'family' concept of our country and treats the employees as part of the large family and has several schemes to keep their morale high. Employees are also part of decision making and they are also made to share profit of the company according to a well-defined profit-sharing plan. The terms of the profit sharing plan are as under:

- (a) *The profit sharing pool will be the least of the following three limits:*
 - (i) *40% of earning before taxes, to the extent it is in excess of the minimum acceptable target profit margin;*
 - (ii) *0.65% of gross revenue*
 - (iii) *absolute amount of ₹ 3.00 Crores*
- (b) *Minimum acceptable target profit will be equivalent to the average of last three year's net operating profit of industry.*
- (c) *The individual employee will be entitled to share profit in the pool in proportion to his salary to the total salary of all employees.*

The information for the year 31st March, 2021 is as under:

1. *The earning before tax of PSL is ₹ 50 Crores.*
2. *Net Operating Assets employed by PSL is ₹ 130 Crores.*
3. *During the year, Gross revenue of PSL is ₹ 400 Crores.*
4. *Total Salary to employees during the year was ₹ 45 Crores.*

Industry's average net operating profit of last 3 years is 10% of net operating assets.

During the year ended 31st March 2021, PSL (the company) ordered two aircrafts for convenience of visit by higher officials to its various plants for a total price of ₹ 5 Crores each, on 1st February 2021. These aircrafts will be delivered in September 2023. The company has made a down payment of 50% for each aircraft at the time of placing the order on 1st February 2021. The balance amount is payable on delivery. The advance paid by the company has fully been funded by bank borrowings taken on 1st February 2021. The company has paid interest of ₹ 3,00,000 during the financial year 2020-21. The manufacturer has informed that manufacture of each aircraft, including planning, production of parts and assembly, involves a typical time of 24 to 30 months. The manufacturer will start the manufacturing process for the aircraft from 30th September 2021.

The trade payables of the company consist of outstanding dues of various trade payables as follows - Micro enterprises (₹ 75 crore), Medium enterprises (₹ 50 crore), Small enterprises (₹ 55 crore) and others (₹ 65 crore). Further, out of above trade payables, ₹ 40 Crores are outstanding for more than 6 months as on balance sheet date.

The company PS Limited has taken on contract a turnkey project for ₹ 300 lakh. As per terms of the contract, the company will be entitled to get performance bonus @ 1% of the contract value and will be based on timing of the completion of the project. On the other hand, if the completion gets delayed, there is a penalty clause in the contract.

NBV Associates, Chartered Accountants are statutory auditors of PS Ltd. for the year ended 31st March, 2021. CA B.V. is conducting the audit as audit partner. While conducting audit for the year he came to know that a fraud amounting to ₹ 5 Crores being committed by one of the employees.

Provide the correct option to the following Questions

Multiple Choice Questions

- 1.1 Mr. R is one of the employees of PS Limited and is entitled to participate in profit sharing plan. What will be the amount of his share, if his annual salary is ₹ 54 lakh:
- (a) ₹ 3.12 lakh
 - (b) ₹ 3.00 lakh
 - (c) ₹ 7.00 lakh
 - (d) ₹ 2.60 lakh
- 1.2 The Profit Sharing pool of PS Limited will be:
- (a) ₹ 3.00 Crores
 - (b) ₹ 7.00 Crores
 - (c) ₹ 2.60 Crores

- (d) ₹ 2.00 Crores
- 1.3 The capitalisation of borrowing cost for purchase of aircraft should commence on:
- (a) 1st February 2021.
 - (b) September 2023 when the aircrafts are delivered.
 - (c) 30th September 2021 when the manufacturing of aircraft is started.
 - (d) 1st April 2021.
- 1.4 What amount of trade payables shall be separately disclosed in the Balance Sheet as required by the amended Schedule III of the Company's Act 2013?
- (a) ₹ 40 crore (Outstanding for more than 6 months).
 - (b) ₹ 130 crore (Dues of Micro and Small Enterprises).
 - (c) ₹ 180 crore (Dues of Micro, Small and Medium Enterprises).
 - (d) No separate disclosure is required.
- 1.5 NBV Associates should report the fraud to/in:
- (a) Audit Committee/ Board of Directors of PS Limited and in Auditor's Report.
 - (b) Shareholders of PS Ltd and no further reporting.
 - (c) In Auditor's Report only.
 - (d) Central Government and in Auditor's Report. **(2 x 5 = 10 Marks)**

Descriptive Questions

- 1.6 Explain profit sharing plan, as performance management tool and group incentive plan. **(3 Marks)**
- 1.7 Define qualifying asset for capitalising the borrowing cost and explain when the capitalisation should commence and cease. **(5 Marks)**
- 1.8 Explain "Variable Consideration" and how it will be accounted for in terms of Ind AS. **(7 Marks)**

ANSWER TO CASE STUDY 1**PART – A**

- 1.1 (a)
1.2 (c)
1.3 (c)
1.4 (b)
1.5 (d)

PART – B**1.6 Profit Sharing Plan**

Profit Sharing is a group incentive arrangement where cash bonus is paid to worker or employees, calculated based upon the reported profit of concerned division (responsibility centre) of entity or of entity as a whole. Since profit sharing is based upon the profit, hence can be said a compensation plan based upon short – term performance.

Profit share plan must define the percentage of profit to be shared and who are eligible employees for participation and what will the ratio of participation by each employee/worker in the bonus pool and formula for computing each of these percentage or ratio. The criteria for participation in share may be score or salary/wage.

Profit share plan may be used to boost the motivation among the employees to enhance and promote their performance hence profit-sharing plan can be considered as performance management tool. Profit sharing plan can also be considered as pre-stage of Kaizen Costing.

1.7 Qualifying asset:

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. (Para 5 of Ind AS 23). Financial assets, and inventories that are manufactured, or otherwise produced over a short period of time, are not qualifying assets. Assets that are ready for the intended use for sale when acquired are not qualifying asset.

Though substantial period has not been defined in Ind AS 23, still in general it is considered as 1 year or more or as deemed fit by the entity.

In the given case, aircrafts are qualifying assets as it takes substantial period of time (i.e. 24 to 30 months) to get ready for intended use.

Commencement of capitalisation:

As per paragraph 17 of Ind AS 23, an entity shall begin capitalising borrowing costs as part of the cost of a qualifying asset on the commencement date. The commencement date for capitalisation is the date when the entity first meets all of the following conditions:

- (a) It incurs expenditures for the asset.
- (b) It incurs borrowing costs.
- (c) It undertakes activities that are necessary to prepare the asset for its intended use or sale.

Activities necessary to prepare the asset for its intended use or sale includes technical or administrative work prior to the commencement of physical construction such as the activities associated with obtaining permits prior to starting of physical construction.

However, such activities exclude the holding of an asset when no production or development that changes the asset's condition is taking place.

In the given case, Capitalisation of borrowing cost for purchase of aircrafts should commence on 30th September, 2021, since on this date all aforementioned conditions are satisfied. Hence 30th September, 2021 is the commencement date for capitalisation of borrowing costs and accordingly capitalisation of borrowing cost will commence from 30th September, 2021.

Cessation of capitalisation:

As per para 22 of Ind AS 23, an entity shall cease capitalising borrowing costs when **substantially all the activities** necessary to prepare the qualifying asset for its intended use or sale **are complete**. Sometimes physical construction is complete but routine admin work might continue like decoration, furnishing etc.

Further, as per para 24 of Ind AS 23, when an entity completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity shall cease capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale. If one part is dependent on the other then continue capitalisation of borrowing cost unless the entire asset is substantially completed.

1.8 Definition of variable consideration

If the consideration promised in a contract includes a variable amount, an entity shall estimate the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer. (Para 50 of Ind AS 115)

An amount of consideration can vary because of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, or other similar items. The promised consideration can also vary if an entity's entitlement to the consideration is contingent on the occurrence or non-occurrence of a future event. For example, an amount of consideration would be variable if either a product was sold with a right of return, or a fixed amount is promised as a performance bonus on achievement of a specified milestone. (Para 51 of Ind AS 115)

In some contracts, penalties are specified. In such cases, penalties shall be accounted for as per the substance of the contract. Where the penalty is inherent in determination of transaction price, it shall form part of variable consideration. (Para 51AA of Ind AS 115)

Accounting for variable consideration

Further, para 53 of Ind AS 115 states that an entity shall estimate an amount of variable consideration by using either of the following methods, depending on which method the entity expects to better predict the amount of consideration to which it will be entitled:

- (a) **The expected value** — the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts. An expected value may be

an appropriate estimate of the amount of variable consideration if an entity has a large number of contracts with similar characteristics.

- (b) **The most likely amount** — the most likely amount is the single most likely amount in a range of possible consideration amounts (ie the single most likely outcome of the contract). The most likely amount may be an appropriate estimate of the amount of variable consideration if the contract has only two possible outcomes (for example, an entity either achieves a performance bonus or does not).

An entity is required to choose between the expected value method and the most likely amount method. The choice is based on the method which better predicts the amount of consideration to be entitled. That is, the method selected is not meant to be a free choice. Rather, an entity selects a method that is best suited, based on the specific facts and circumstances of the contract.

In accordance with the above, in this case, PS Limited should recognise the amount of revenue only to the extent of ₹ 300 lakh assuming all the conditions of revenue recognition are met. In this case, the balance amount of performance bonus (as addition to revenue) or penalty (as deduction from revenue) which is linked to future event should be recognised after the completion of the project.

CASE STUDY - 2

Facts of the Case:

TP Limited is a company which deals in various commodities. Previous year the company achieved a turnover of ₹1000 Crores. The paid up equity capital of the company is ₹15 Crores. The Company is a listed public company. The company has its offices in Mumbai, Kolkata, Chennai and Delhi. The Company trades in Commodity "X" which is mainly dealt at Mumbai Market. However, the company also obtains the information from Kolkata Market regarding this product. The company has gathered the following information/data in this regard:

	Market Mumbai	Market Kolkata
Volume (annual, in millions ₹)	30	120
Transactions (per day)	25	65
Price (at period end, ₹)	110	107
Transport costs (₹)	(8)	(4)
Potential fair value (₹)	102	103
Transaction costs (₹)	(3)	(5)
Net proceeds (₹)	99	98

M/s YM Associates, Chartered Accountants are Auditors of the Company. The company has an Audit Committee and a Risk Management Committee in place. Both the committees met twice

during the year. Further, in one of the meetings of Audit Committee conducted during the FY 2020-21, the internal control system and auditor's report of TP Ltd. were discussed. Mr. Yasvardhan, audit partner was also present at one of the meeting and the Audit Committee called for the comments of Mr. Yasvardhan if any. Certain important decisions regarding the changes in the internal control system were duly taken by majority voting.

The Company is having Mr Tara Prasad as its Managing Director and Ms. Julie as Company Secretary. The Company has appointed CA. Vinod as CFO who is also CFO in another unlisted company. Ms. Julie resigned from Company Secretary's post on 1st January 2021.

MX Limited is an associate of TP Limited. NCLT has passed an order for conducting meeting of the members for considering the scheme of compromise and arrangement, the necessity of which has arisen on account of certain disputes with the creditors of the company. Company has sent notice of the meeting to all its 1000 members holding total 30 lakh shares. On the date of meeting, only 580 members holding 18 lakh shares attended the meeting and 400 members holding 14 lakh shares voted in favour of the scheme of compromise and arrangement and remaining voted against the scheme.

Provide the correct option to the following Questions

Multiple Choice Questions

- 2.1 Is the company justified in holding meeting of its Audit Committee and Risk Management Committee twice in the F.Y. 2020-21?
- (a) Yes, the company is justified as the meetings of both the committees were held as per the company's requirement and the important matters were duly discussed and conducting a meeting involves expense and when all the matters were discussed in two meetings it is wise on the part of the company that they did not hold more meetings.
 - (b) No, the company is not justified in holding two meetings of both the committees as the Audit Committee should meet at least four times in a year and Risk management committee can meet once in a year.
 - (c) The company is not justified in holding two meetings of the Audit Committee as an audit committee should meet at least four times in a year; however, the company can hold two meetings of Risk management committee.
 - (d) The company is justified as it is at the discretion of the Board of Directors to hold the meetings of the various committees of the company as per the company's requirement to discuss the matters.

- 2.2 *With respect to the meeting of Audit Committee attended by Mr. Yasvardhan, what all rights can be exercised by Mr. Yasvardhan?*
- (a) *Mr. Yasvardhan has right to be heard and to vote in the meeting of Audit Committee of TP Ltd when it considers the auditor's report.*
 - (b) *Mr. Yasvardhan has right to vote in the meeting of Audit Committee of TP Ltd when it considers the auditor's report.*
 - (c) *Mr. Yasvardhan, being statutory auditor does not have right to be heard and to vote in the meeting of Audit Committee of TP Ltd even if it considers the auditor's report. Such rights vest with the internal auditors of the company.*
 - (d) *Mr. Yasvardhan has right to be heard in the meeting of Audit Committee of TP Ltd when it considers the auditor's report but shall not have right to vote.*
- 2.3 *The fair Value of Commodity "X" will be*
- (a) ₹ 102
 - (b) ₹ 103
 - (c) ₹ 99
 - (d) ₹ 98
- 2.4 *TP Limited has violated the provisions of the Companies Act, 2013 by appointing CA. Vinod as its CFO:*
- (a) *There is no violation of law as whole-time key management personnel can hold office in more than one company even if it is not its Subsidiary company.*
 - (b) *Yes, there is violation of company law as whole-time key managerial personnel shall not hold office in more than one company except in its subsidiary company at the same time.*
 - (c) *The appointment of CFO is not a mandatory requirement; hence, appointment of CFO who is also CFO in other company does not violate the provisions of law.*
 - (d) *There are 2 other whole-time key management personnel and therefore, if one person is holding office in other company, does not violate the provision of law.*
- 2.5 *The vacancy created by resignation of Ms. Julie shall be filled:*
- (a) *By the board at a meeting of the board within 6 months from the date of such vacancy.*
 - (b) *By the Managing director within 6 months from the date of such vacancy.*
 - (c) *By the shareholders in its meeting within 6 months from the date of such vacancy.*
 - (d) *At will of the board of directors, there is no time limit to fill the vacancy.*

(2 x 5 = 10 Marks)

Descriptive Questions

- 2.6. Explain the constitution of Audit Committee as per the provisions of the Companies Act, 2013 and SEBI (LODR) Regulations 2015. **(4 Marks)**
- 2.7. Explain the term 'Fair Value' in terms of Ind AS. Also define the term 'Principal Market' and how it is determined. **(3 Marks)**
- 2.8. In terms of case study given, explain whether the scheme got proper approval of the members or not. Also explain the procedure for compromise or arrangements with creditors or members as per the provisions of the Companies Act 2013. **(8 Marks)**

ANSWER TO CASE STUDY 2**PART – A**

- 2.1 (c)
 2.2 (d)
 2.3 (b)
 2.4 (b)
 2.5 (a)

PART – B**2.6 Constitution of Audit Committee :**

- I. **Audit Committee under Section 177 of the Companies Act, 2013 :** (i) As per section 177 read with Rule 6 of the Companies (Meetings of Board and its Powers) Rules, 2014, every listed public company and the following classes of companies shall constitute an Audit Committee –
- (a) all public companies with a paid-up capital of ten crore rupees or more;
 - (b) all public companies having turnover of one hundred crore rupees or more;
 - (c) all public companies, having in aggregate, outstanding loans, debentures and deposits, exceeding fifty crore rupees.

However, following class of unlisted public companies shall not be covered:

- (1) a joint venture;
- (2) wholly owned subsidiary; and
- (3) a dormant company as covered u/s 455.

Explanation- The paid-up share capital or turnover or outstanding loans, debentures and deposits, as the case may be, as existing on the date of last audited Financial Statements shall be taken into account for the purposes of this rule.

Section 139(11) provides that where a company is required to constitute an Audit Committee under section 177, all appointments, including the filling of a casual vacancy of an auditor under this section shall be made after taking into account the recommendations of such committee.

(ii) The Audit Committee shall consist of a minimum of three directors with independent directors forming a majority. It may be noted that majority of members of Audit Committee including its Chairperson shall be persons with ability to read and understand, the financial statement.

II. Audit Committee Under LODR Regulations: Every listed entity shall constitute a qualified and independent audit committee in accordance with the terms of reference, subject to the following:

1. The Audit Committee shall have minimum three directors as members. Two-thirds of the members of audit committee shall be independent directors, however, in case of a listed entity having outstanding SR (Superior Rights) equity shares, the audit committee shall only comprise of independent directors.
2. All members of Audit Committee shall be financially literate and at least one member shall have accounting or related financial management expertise.

Explanation (i): The term “financially literate” means the ability to read and understand basic financial statements i.e. balance sheet, profit and loss account, and statement of cash flows.

Explanation (ii): A member will be considered to have accounting or related financial management expertise if he or she possesses experience in finance or accounting, or requisite professional certification in accounting, or any other comparable experience or background which results in the individual’s financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.

3. The Chairperson of the Audit Committee shall be an independent director and he/she shall be present at Annual General Meeting to answer shareholder queries.
4. The Company Secretary shall act as the secretary to the committee.
5. The Audit Committee at its discretion shall invite the finance director or the head of the finance function, head of internal audit and a representative of the statutory auditor and any other such executives to be present at the meetings of the committee, provided that occasionally, the Audit Committee may meet without the presence of any executives of the listed entity.

2.7 Definition of fair value

Ind AS 113 defines fair value as **the price** that would be received to sell an asset or paid to transfer a liability in **an orderly transaction** between **market participants** at the measurement date.

A fair value measurement is for a particular asset or a liability. Therefore, an entity shall take into account the characteristics of the asset or the liability, if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Definition of principal market

Principal market is the market which is normally the place in which the assets / liabilities are being transacted with highest volume and with high level of activities comparing with any other market available for similar transactions. If there is principal market, the price in the market must be used even if the prices in the other market are more advantageous.

Determination of fair value in principal market

The transaction costs are not a characteristic of an asset or a liability, but a characteristic of the transaction. Hence, it would not be appropriate to consider any transaction cost further while assessing fair values from such principal markets. It is the cost that would be incurred to transport the asset from its current location to its principal (or most advantageous) market. Hence, transport cost would be considered, if in case it is an inherent part of the Assets/ Liability so transacted e.g. commodity.

2.8 As per section 230 (6) of the Companies Act, 2013 where majority of persons at a meeting held **representing 3/4th in value**, voting in person or by proxy or by postal ballot, agree to any compromise or arrangement and if such compromise or arrangement is sanctioned by the Tribunal by an order. The majority of person representing 3/4th Value shall be counted of the following:

- the creditors, or
- class of creditors or
- members or
- class of members, as the case may be,

The majority is dual, in number and in value. A simple majority of those voting is sufficient. Whereas the 'three-fourth' requirement relates to value. The three-fourth value is to be computed with reference to paid-up capital held by members present and voting at the meeting.

In this case out of 1,000 members (holding 30 lakh shares), 580 members attended the meeting. As 400 members voted in favour of the scheme the requirement relating to majority in number (i.e. 291) is satisfied. 580 members who participated in the meeting held 18,00,000 shares, three-fourth of which works out to 13,50,000 and 400 members

who voted for the scheme held 14,00,000 shares. As both the requirements are fulfilled, the scheme is approved by the requisite majority.

Section 230 of Companies Act, 2013 deal with the basic procedures to be followed for any compromise and arrangement, meetings of creditors, members and security holders for approval and powers of NCLT. According to this section:

- (1) **Power of Tribunal to call for a meeting on an application filed for a compromise/arrangement [Sub-section 1)]:** Where a compromise or arrangement is proposed between—
 - (a) **a company and its creditors** or any class of them; or
 - (b) **a company and its members** or any class of them,
the Tribunal may, on the application of the company or of any creditor or member of the company, or in the case of a company which is being wound up, of the liquidator, appointed under this Act or under the Insolvency and bankruptcy Code, 2016, as the case may be, order a meeting of the creditors or class of creditors, or of the members or class of members, as the case may be, to be **called, held and conducted** in such manner as the Tribunal directs.
- (2) **Disclosures by applicant [Sub-section (2)]:** The Company or any other person, by whom an application is made, shall disclose to the Tribunal by affidavit—
 - (a) **all material facts** relating to the company, such as the latest financial position of the company, the latest auditor's report on the accounts of the company and the pendency of any investigation or proceedings against the company;
 - (b) **reduction of share capital** of the company, if any, included in the compromise or arrangement;
 - (c) **any scheme of corporate debt restructuring** consented to by not less than seventy-five percent of the secured creditors in value, including—
 - (i) a creditor's responsibility statement in the prescribed form;
 - (ii) safeguards for the protection of other secured and unsecured creditors;
 - (iii) report by the auditor that the fund requirements of the company after the corporate debt restructuring as approved shall conform to the liquidity test based upon the estimates provided to them by the Board;
 - (iv) where the company proposes to adopt the corporate debt restructuring guidelines specified by the Reserve Bank of India, a statement to that effect; and
 - (v) a valuation report in respect of the shares and the property and all assets, tangible and intangible, movable and immovable, of the company by a registered valuer.

(3) **Notice of meeting conducted on order of Tribunal [Sub-section (3)]:** Where a meeting is proposed to be called in pursuance of an order of the Tribunal, a notice of such meeting shall be sent to-

- all the creditors or class of creditors, and
- to all the members or class of members,
- and the debenture-holders of the company,
- Sectoral regulators u/s 230(5)

individually at the address registered with the company.

Annexure with Notice: Notice of meeting shall be accompanied by a statement disclosing the following:

- details of the compromise or arrangement,
- a copy of the valuation report, if any, and
- explaining their effect on creditors, key managerial personnel, promoters and non-promoter members, and the debenture-holders and
- the effect of the compromise or arrangement on any material interests of the directors of the company or the debenture trustees, and
- such other matters as may be as prescribed under Rule 6 of the Companies (Compromises, arrangements and amalgamations) Rules, 2016.

Advertisement of notice: Such notice and other documents shall also be placed on:

- the website of the company, if any, and
- in case of a listed company, these documents shall be sent to the Securities and Exchange Board and stock exchange where the securities of the companies are listed, for placing on their website and
- shall also be published in newspapers in such manner as prescribed under Rule 7 of the Companies (Compromises, arrangements and amalgamations) Rules, 2016.

Time period for the receipt of the copies of the compromise or arrangement:

Where the notice for the meeting is also issued by way of an advertisement, it shall indicate the time within which copies of the compromise or arrangement shall be made available to the concerned persons free of charge from the registered office of the company.

(4) **Notices to sectoral regulators to make representation, if likely to be affected by the compromise or arrangement [Sub-section (5)]:** A notice along with all the

documents in such form as may be prescribed shall also be sent to other sectoral regulators and shall require that representations, if any, to be made by them shall be made within a period of thirty days from the date of receipt of such notice, failing which, it shall be presumed that they have no representations to make on the proposals.

- (5) **The Tribunal may dispense with calling of a meeting** of creditor or class of creditors where such creditors or class of creditors, having at least ninety per cent value, agree and confirm, by way of affidavit, to the scheme of compromise or arrangement. [Sub-section (9)]

- (6) **Vote to the adoption of the compromise or arrangement [Sub-section (4)]:** A notice shall provide that the persons **to whom the notice is sent may vote** in the meeting either themselves or through proxies or by postal ballot to the adoption of the compromise or arrangement within **one month** from the date of receipt of such notice:

Provided that any objection to the compromise or arrangement shall be made only by persons holding not less than ten per cent of the shareholding or having outstanding debt amounting to not less than five per cent of the total outstanding debt as per the latest audited financial statement.

- (7) **Binding order of Tribunal[Sub-section (6)]:** Where, at a meeting held, majority of persons representing **three-fourths in value** of the creditors, or class of creditors or members or class of members, as the case may be, voting in person or by proxy or by postal ballot, **agree to any compromise or arrangement** and if such compromise or arrangement is **sanctioned by the Tribunal** by an order, the same **shall be binding** on the company, all the creditors, or class of creditors or members or class of members, as the case may be, or, in case of a company being wound up, on the liquidator, "appointed under this Act or under the Insolvency and Bankruptcy Code, 2016, as the case may be," and the contributories of the company.

- (8) **Particulars to be stated in the order [Sub-section (7)]:** An order made by the Tribunal, shall provide for all or any of the following matters, namely:—

- (a) **where the compromise or arrangement provides for conversion of preference shares into equity shares**, such preference shareholders shall be given an option to either obtain arrears of dividend in cash or accept equity shares equal to the value of the dividend payable;
- (b) the **protection of any class** of creditors;
- (c) if the compromise or arrangement results in the **variation of the shareholders' rights**, it shall be given effect to under the provisions of section 48;
- (d) if **the compromise or arrangement is agreed to by the creditors** under sub-section (6), any proceedings pending before the Board for Industrial and

Financial Reconstruction (BIFR) established under section 4 of the Sick Industrial Companies (Special Provisions) Act, 1985 shall abate;

- (e) **such other matters** including exit offer to dissenting shareholders, if any, as are in the opinion of the Tribunal necessary to effectively implement the terms of the compromise or arrangement:

Provided that no compromise or arrangement shall be sanctioned by the Tribunal unless a certificate by the company's auditor has been filed with the Tribunal to the effect that the accounting treatment, if any, proposed in the scheme of compromise or arrangement is in conformity with the accounting standards prescribed under section 133.

- (9) **Filing of order of tribunal with registrar [Sub-section (8)]:** The order of the Tribunal shall be filed with the Registrar by the company **within** a period of **thirty days** of the receipt of the order.
- (10) **Exemption in relation to buy-back of securities [sub-section (10)]:** No compromise or arrangement in respect of any buy-back of securities under this section shall be sanctioned by the Tribunal unless such buy-back is in accordance with the provisions of section 68.
- (11) **Inclusion of takeover offer [Sub-section (11)]:** Any compromise or arrangement may include **takeover offer** made in such manner as may be prescribed.

Provided that in case of listed companies, takeover offer shall be as per the regulations framed by the Securities and Exchange Board.

- (12) **Application to tribunal by aggrieved party [Sub-section (12)]:** An aggrieved party may make an **application to the Tribunal** in the event of any grievances with respect to the **takeover offer of companies other than listed companies** in such manner as may be prescribed and the Tribunal may, on application, pass such order as it may deem fit.

Explanation— For the removal of doubts, it is hereby declared that the provisions of section 66 (reduction of share capital) shall not apply to the reduction of share capital effected in pursuance of the order of the Tribunal under this section.

Since reduction of share capital requires an application to Tribunal by company after passing Special Resolution and on confirmation by Tribunal, reduction of share capital gets effected. However, in the case of compromise under section 230 if that results into reduction of capital, compliance of section 66 is not required to be made separately in such cases.

CASE STUDY-3**Facts of the Case:**

BMV LLP, a firm of Chartered Accountants has various divisions/verticals. Each division is headed by a Chartered Accountant who is qualified and has done specialised course. Each head is known for his knowledge and integrity amongst professionals and in Industry. BMV is also known as financial analyst as well as consultant for mergers and acquisitions. The firm has been approached by its clients to render professional advice on several issues highlighted in the under mentioned case scenarios:

CASE SCENARIO - 1

Tame Limited is a company engaged in telecommunication services and presently its major presence is in North India. The company wants to expand its business in South. The company has got two options. One is to expand itself by opening its own network which will take substantial time and efforts and results will also be not fast. On the other hand, the company may target to acquire an existing telecom company having sufficient customer base in South and to integrate its North India operation with the acquired company. It will yield quick results.

The company is willing to appoint the firm to identify and to take the process of acquisition forward. After study the M&A vertical of the firm has identified a company M/s Pool Limited which has got presence in South but is not doing too well. The information of both the companies is given below:

	<i>Tame Ltd.</i>	<i>Pool Ltd.</i>
<i>Total Earnings (E) (in lakh)</i>	<i>₹ 1200</i>	<i>₹ 400</i>
<i>Number of outstanding shares (S) (in lakh)</i>	<i>400</i>	<i>200</i>
<i>Price earnings ratio (PIE)</i>	<i>8</i>	<i>7</i>

The PIE ratio of the combined entity is expected to be 10?

CASE SCENARIO - 2

Ms. Devina is fond of making cakes, pickles, papad and other eatables homemade and her friends persuaded her to take it as a venture. Before starting it as a venture, she wants to try it whether she should turn her hobby into a regular business or not. She lives in New Delhi. To start with, she promoted her products through her social media friends and started getting orders from nearby places like Noida (Uttar Pradesh), Faridabad (Haryana); Gurugram (Haryana). All these places fall within 'National Capital Region (NCR). She expects to have monthly turnover of ₹ 10,000.

CASE SCENARIO - 3

M/s GAAR Limited enters into a 3 years lease of an immovable property with M/s GAP Limited for annual lease rental of ₹60,000 per annum. There is extension clause in the agreement which provides that lease may be extended to 5 years and in the present circumstances, it is most likely that the lease term will be extended. In case of extended period, the lease rent will be increased by 10%. Lessee's incremental rate of borrowing is 9%. M/s GAAR Limited has given residual guarantee to M/s GAP Limited of ₹50,000. If the lessee terminates the contract at any time before 3 years, the lessee will be required to pay ₹30000 as penalty to the lessor. PV Ratio of 5 years at 9% are as 0.917, 0.842, 0.772, 0.708, 0.650 respectively.

CASE SCENARIO - 4

Mr. B one of the partners of the firm is facing a dilemma as to whether the firm BMY LLP should accept the appointment as Statutory Auditors of M/s Foam Limited wherein Mr. B had sent a communication in writing addressed to the outgoing auditor Mr. Dalai under certificate of posting and the outgoing auditor has sent an acknowledgement vide their official email, but this email address of the outgoing auditor is not registered with the Institute of Chartered Accountants of India. Mr. B is of the opinion that this is not a positive evidence of delivery and violates the code of ethics, if the firm accepts the audit assignment.

CASE SCENARIO - 5

An investor has got investment in 3 stocks and is willing to know the beta of his portfolio. The following information in respect of these 3 stocks is given below:

Security	No. of Shares	Market Price	β
SVL	15000	60	0.90
SCL	8000	35	1.00
MLS	7500	30	1.50

Provide the correct option to the following Questions

Multiple Choice Questions

- 3.1 The exchange ratio acceptable to M/s Pool Limited in case scenario - 1 will be:
- 0.42:1
 - 0.50:1
 - 0.35:1
 - 0.65:1
- 3.2 Will Ms. Devina in case scenario - 2 be required to take registration under GST Act, 2017 and whether she will be entitled to avail the composition levy scheme under the said Act:

- (a) She will not be required to take registration as her turnover is less than the basic limit fixed for registration.
- (b) She will be required to take registration as Composition supplier and will be eligible to take benefit of composition levy scheme.
- (c) As her sales are inter-state, she will be required to take registration but can take benefit of composition levy scheme.
- (d) She will be required to take registration and will not be entitled to take benefit of composition levy scheme as her sales are inter-state and when there is inter-state sale, there is neither basic exemption nor composition levy can be availed except for notified supplies.
- 3.3 What shall be the amount of lease liability and the finance cost for first year of M/s GAAR Limited under case scenario - 3:
- (a) Lease Liability ₹ 2,41,488 and Finance Cost ₹ 21,733
- (b) Lease Liability ₹ 3,62,000 and Finance Cost ₹ 32,580
- (c) Lease Liability ₹ 2,73,988 and Finance Cost ₹ 24,659
- (d) Lease Liability ₹ 3,03,988 and Finance Cost ₹ 27,359
- 3.4 With respect to the dilemma being faced by Mr. B partner of the firm in case scenario-4 regarding acknowledgment of the communication from the retiring auditor's vide their official email is not a positive evidence of delivery?
- (a) The dilemma of Mr. B is correct as it is not a positive evidence of delivery.
- (b) The dilemma of Mr. B is not correct as it is a positive evidence of delivery as the same is received from the official email of the outgoing auditor, as per the code of ethics.
- (c) The dilemma of Mr. B is not correct as statutory auditors are not required to communicate with the retiring or outgoing auditors in this case.
- (d) The dilemma of Mr. B is correct as the email address of the outgoing auditor vide which acknowledgement has come is not registered with the Institute of Chartered Accountants of India.
- 3.5 What would be the portfolio beta in case scenario - 5 above?
- (a) 1.133
- (b) 1.016
- (c) 1.074
- (d) 1.213

(2 x 5 = 10 Marks)

Descriptive Questions

- 3.6 Explain about the professional misconduct as defined in Part I of the First Schedule to the Chartered Accountants Act regarding accepting a position as an auditor previously held by another chartered accountant without first communicating with him in writing. **(4 Marks)**
- 3.7 Define 'Lease' as per Ind AS and explain its various components. **(4 Marks)**
- 3.8 Explain the circumstances when a supplier is required to seek registration under the Goods and Services Tax Act 2017 and can avail the benefit of Composition Scheme. **(7 Marks)**

ANSWER TO CASE STUDY 3**PART – A**

- 3.1 (a)
- 3.2 (d)
- 3.3 (c)
- 3.4 (b)
- 3.5 (b)

PART – B

- 3.6 As per Clause 8 of Part I of the First Schedule of the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he **accepts a position as auditor previously held by another chartered accountant or a certified auditor who has been issued certificate under the Restricted Certificate Rules, 1932 without first communicating with him in writing.**

It must be pointed out that professional courtesy alone is not the major reason for requiring a member to communicate with the existing accountant who is a member of the Institute or a certified auditor. The underlying objective is that the member may have an opportunity to know the reasons for the change in order to be able to safeguard his own interest, the legitimate interest of the public and the independence of the existing accountant. It is not intended, in any way, to prevent or obstruct the change. When making the inquiry from the retiring auditor, the one proposed to be appointed or already appointed should primarily find out whether there are any professional or other reasons why he should not accept the appointment.

It is important to remember that every client has an inherent right to choose his accountant also that he may, subject to compliance, with the statutory requirements in the case of limited companies, make a change whenever he chooses, whether or not the reasons which had impelled him to do so are good and valid. The change normally occurs where there has been a change of venue of business and a local accountant is preferred or where the partner who has been dealing with the client's affairs retires or dies; or where

temperaments clash or the client has some good reasons to feel dissatisfied. In such cases, the retiring auditor should always accept the situation with good grace.

The existence of a dispute as regards the fees may be root cause of an auditor being changed. This would not constitute valid professional reasons on account of which an audit should not be accepted by the member to whom it is offered. However, in the case of an undisputed audit fees for carrying out the statutory audit under the Companies Act, 2013 or various other statutes having not been paid, the incoming auditor should not accept the appointment unless such fees are paid. In respect of other dues, the incoming auditor should in appropriate circumstances use his influence in favour of his predecessor to have the dispute as regards the fees settled. The professional reasons for not accepting an audit would be:

- (a) Non-compliance of the provisions of Sections 139 and 140 of the Companies Act, 2013 as mentioned in Clause (9) of the Part - I of First Schedule to The Chartered Accountants Act, 1949; and
- (b) Non-payment of undisputed Audit Fees by auditees other than in case of Sick Units for carrying out the Statutory Audit under the Companies Act, 2013 or various other statutes; and
- (c) Issuance of a qualified report.

In the first two cases, an auditor who accepts the audit would be guilty of professional misconduct. As per Council General Guidelines, 2008 the *provision for audit fee in accounts signed by both the auditee and the auditor along with other expenses, if any, incurred by the auditor in connection with the audit, shall be considered as “undisputed audit fee”* and “sick unit” shall mean a unit registered for not less than five years, which has at the end of any financial year accumulated losses equal to or exceeding its entire net worth.

In the last case, however, he may accept the audit if he is satisfied that the attitude of the retiring auditor was not proper and justified. If, on the other hand, he feels that the retiring auditor had qualified the report for good and valid reasons, he should refuse to accept the audit. There is no rule, written or unwritten, which would prevent an auditor from accepting the appointment offered to him in these circumstances. However, before accepting the audit, he should ascertain the full facts of the case. For nothing will bring the profession to disrepute so much as the knowledge amongst the public that if an auditor is found to be “inconvenient” by the client, he could readily be replaced by another who would not displease the client and this point cannot be too over-emphasised.

Sometimes, the retiring auditor fails without justifiable cause except a feeling of hurt because of the change, to respond to the communication of the incoming auditor. So that it may not create a deadlock, the auditor appointed can act, after waiting for a reasonable time for a reply.

Members should therefore communicate with a retiring auditor in such a manner as to retain in their hands positive evidence of the delivery of the communication to the addressee. In the opinion of the Council, the following would in the normal course provide such evidence:-

- (a) Communication by a letter sent through "Registered Acknowledgement due", or
- (b) By hand against a written acknowledgement, or
- (c) Acknowledgement of the communication from retiring auditor's vide email address registered with the Institute or his last known official email address, or
- (d) Unique Identification Number (UDIN) generated on UDIN portal (subject to separate guidelines to be issued by the Council in this regard)

3.7 Definition of lease

A lease is defined as a contract, or part of a contract that conveys the **right to control** the use of an **identified asset** for a **period of time** in **exchange for consideration**. An entity is required to assess at the inception of a contract, whether the contract is or contains a lease.

Various components of a lease

The component of a lease are:

- (i) A contract
 - (ii) Identified Asset
 - (iii) Right to control the use
 - (iv) Period of time
 - (v) Consideration
- (i) Contract: Contract may be oral or written.
 - (ii) Identified Asset: A contract contains a lease only if there is an identified asset.

An asset may be identified by being:

- i. explicitly specified in a contract, or
- ii. Implicitly specified at the time the asset it is made available for use by the customer

A customer does not have the right to use the identified assets if, at inception of contract, a supplier has the substantive rights to substitute throughout the period of use. A supplier's right to substitute an asset is SUBSTANTIVE when BOTH the following conditions are met:

- i. The Supplier has the practical ability to substitute alternative assets throughout the period of use.

- ii. The supplier would benefit economically from the exercise of its right to substitute the asset.

An identified asset must be physically distinct. A physically distinct asset may be an entire asset or a portion of asset.

(iii) Right to Control:

- i. For the purpose of assessing the right of use of unidentified asset, an entity shall see whether, throughout the period of use, the customer has both of the following:
 1. right to obtain substantially all of the economic benefits from use of the identified asset and
 2. right to direct the use of identified asset.
- ii. If the customer has the right to control the use of an identified asset for only a portion of the term of the contract, the contract contains a lease for that of the term.

(iv) 'A period of time' may be described in terms of use of an identified asset (for example the number of production of units that an item of equipment will be used to produce). It includes any non-consecutive periods of time.

Lease term is a non-cancellable period for which a lessee has the right to use an underlying asset, beginning from the commencement date and includes any rent free periods provided by the lessor to the lessee, together with both:

- i. periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- ii. periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

(v) Consideration: Lease payments are defined as payments made by a lessee to a lessor relating to the right to use an underlying asset during the lease term, comprising the following:

- fixed payments (including in substance fixed payments), **less** any lease incentives
- variable lease payments that depend on an Index or a rate the exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.
- Residual value guarantees

- 3.8 As per section 22 of the CGST Act, 2017, every supplier is liable to obtain registration in s State/Union Territory (other than Special Category States of Nagaland, Mizoram, Manipur, Tripura), from where he makes a taxable supply of goods and/or services, if his aggregate turnover in a financial year exceeds the threshold limit of ₹ 20 lakh.

Further, an enhanced threshold limit of ₹ 40 lakh is available as per Notification No. 10/2019 CT dated 07.03.2019 to a supplier engaged exclusively in the supply of goods in specified States. However, this enhanced threshold limit is not available to persons required to take compulsory registration under section 24 of the CGST Act, 2017. One of the specified categories of persons required to obtain registration compulsorily irrespective of the quantum of their aggregate turnover, under said section, is persons making inter-State taxable supply of goods.

In the given case, since Ms. Devina is engaged in the inter-State supply of goods, she is required to obtain registration compulsorily irrespective of her aggregate turnover.

While applying for registration, she also needs to examine whether she is eligible to avail the benefit of the composition scheme.

As per section 10 of the CGST Act, 2017, every registered person is eligible to avail the benefit of the composition scheme if his aggregate turnover, in other than specified Special Category States, in the preceding financial year does not exceed ₹ 1.5 crore, subject to fulfillment of specified conditions.

One of the conditions for availment of composition scheme for goods is that registered person should not be engaged in making any inter-State outward supplies of goods.

Therefore, even though the aggregate turnover of Ms. Devina does not exceed ₹ 1.5 crores in the preceding financial year, she is not eligible to avail the benefit of the composition scheme since she is engaged in making inter-State outward supplies of goods.

CASE STUDY - 4

Facts of the Case:

1. *A public limited company (hereinafter referred to as 'the company'), which is a wholly owned subsidiary of a listed company, is in the business of exploration and production of oil and gas and other hydrocarbon related activities outside India.*
2. *The company operates overseas projects directly and/or through subsidiaries, by participation in various joint arrangements and investment in associates. The company was following Accounting Standards as notified under the Companies (Accounting Standards) Rules, 2006 (ASs) until 31st March, 2016. However, in accordance with the Notification of Ministry of Corporate Affairs, the company has adopted Indian Accounting Standards (Ind ASs) with effect from 1st April, 2016;*
3. *Mineral rights are granted by the host governments in accordance with the applicable legal and fiscal regime in the host country which are incorporated into the binding contractual*

arrangements entered into with the host governments. Mineral rights can be granted through direct license or through Production Sharing Agreement (PSA), under which the host government having ownership rights over the hydrocarbons, grants the rights to a company or consortium (usually called contractor) subject to certain obligations/ payments by the contractor including sharing of hydrocarbons, with the government or its nominated agency as per principles contained in PSA.

4. The overseas oil and gas operations are generally conducted in joint arrangements with other partners. Main reason for holding mineral rights through jointly controlled entities/subsidiaries is because of host country's regulations and / or various business considerations (strategic/risk management/financing etc.). When the project is already in existence through a corporate structure and the company joins the project later on, the investment in jointly controlled entities/subsidiaries is a legacy issue.
5. Till the financial year 2014-15, the company has been preparing its consolidated financial statements for the group comprising of standalone financial statements of the company, its subsidiaries and jointly controlled entities in accordance with the applicable Accounting Standards (AS).
6. The company accounted for the investments in subsidiaries and jointly controlled entities in its standalone financial statements in accordance with the requirement of Accounting Standard (AS) 13, 'Accounting for Investments'. In consolidated financial statements of the company, the company was consolidating financial statements of its subsidiaries on a line by line basis following the consolidation procedures mentioned in paragraph 13 of Accounting Standard (AS) 21, 'Consolidated Financial Statements'. Similarly, in its consolidated financial statements, the company was reporting its interest in jointly controlled entities using proportionate consolidation as per the requirements of paragraphs 29 to 39 of Accounting Standard (AS) 27, 'Financial Reporting of Interests in Joint Ventures'.
7. Further, the company recognised goodwill in respect of subsidiaries and jointly controlled entities in accordance with the requirements of paragraph 13(b) of AS 21 and paragraph 36 of AS 27 respectively in its consolidated financial statements.
8. The company considered that such goodwill mainly arises due to corporate structure and the line by line consolidation of subsidiaries' / proportionate consolidation of jointly controlled entities' financial statements prepared on historical costs convention which do not take into consideration the valuation of underlying oil and gas reserves for which excess amount (i.e. goodwill calculated as per the relevant AS requirements) has been paid by the company at the time of acquisition.
9. The company further considered that in oil and gas E&P companies, the goodwill generated on acquisition of mineral rights either through jointly controlled entities or subsidiaries, inherently derives its value from the underlying mineral rights and, accordingly, value of such goodwill depletes as the underlying mineral resources are extracted.

10. *Therefore, taking a prudent approach and considering the above substance, the company framed the accounting policy for amortisation of the goodwill in respect of its subsidiaries/jointly controlled assets over the life of the underlying mineral rights using UOP method as under: "Goodwill Amortisation: The company amortises goodwill (on consolidation) based on 'Unit of Production Method' considering the related Proved Reserves."*
11. *This allowed the company to utilise the value of goodwill over the life of mineral rights and completely charging off the goodwill over the life of the reserves.*
12. *For financial year 2015-16, the company has stated that it had availed transition exemption under Ind AS 101, 'First-time Adoption of Indian Accounting Standards' and has not applied the principles of Ind AS 103, 'Business Combinations' retrospectively and, therefore, did not fair value the acquisition of shares in joint ventures (jointly controlled entities as per ASs) / subsidiaries which happened before the transition date of 1st April, 2015. Carrying amount of goodwill at the date of transition to Ind AS in accordance with applicable ASs has been taken as carrying value of the goodwill in the opening Ind AS Balance sheet.*
13. *According to the company, prospectively from the transition date, i.e., 1st April, 2015, acquisition of interest/share in subsidiary is to be accounted for in accordance with Ind AS 103 and acquisition of interest/share in joint venture/associate will be accounted for in accordance with Ind AS 28, 'Investments in Associates and Joint Ventures'.*
14. *The company understands that paragraph 32(a) of Ind AS 28 specifically prohibits amortisation of goodwill relating to an associate or a joint venture. It is noticed that there is no such specific prohibition laid down by Ind AS 103. It is also noticed that paragraph 10 (b) of Ind AS 36, Impairment of Assets requires testing of goodwill acquired in a business combination for impairment, annually.*
15. *Accordingly, as per the company, by simple reading of the applicable Ind ASs, it appears that Ind ASs envisage testing of goodwill annually for impairment rather than its amortisation. This seems to align with the concept of fair valuation of acquired assets and liabilities and goodwill/capital reserve being a residual amount. This however may not be the case where goodwill is carried at historical value in the manner as stated above. Accordingly, considering the substance over form of the goodwill to be in the nature of 'acquisition costs' (as discussed in paragraphs 8 to 13 above), the company intends to continue amortisation of the goodwill recognised under ASs in respect of its subsidiaries/ joint ventures (jointly controlled entities under ASs) over the life of the underlying mineral rights using Unit of Production method, under Ind ASs also post transition date in accordance with the same accounting policy as under: "Goodwill amortization: The company amortises goodwill (on consolidation) based on 'Unit of Production Method' considering the related proved reserves."*

Provide the correct option to the following Questions**Multiple Choice Questions**

- 4.1 As per Ind AS 110 which of the following parent entities are not exempted to present consolidated financial statement:
- (a) *If debt or equity instruments are not traded in a public market; it did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and its ultimate or any intermediate parent produces financial statements that are available for public use and comply with Ind AS. Further its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements.*
 - (b) *An investment entity that is required to measure all of its subsidiaries at fair value through profit & loss account.*
 - (c) *Subsidiaries to which post-employment benefit plans or other long term employee benefit plans applies.*
 - (d) *The parent that controls one or more other associate companies.*
- 4.2 On consolidated financial statements the Auditor issues:
- (a) *Independent Auditors Report on Consolidated Financial Statement.*
 - (b) *Companies (Auditor's Report) Order, 2020 on Consolidated Statement.*
 - (c) *Independent Auditors Report on Consolidated Financial Statement as well as Companies (Auditor's Report) Order, 2020 on Consolidated Statement.*
 - (d) *Neither Independent Auditors Report on Consolidated Financial Statement nor Companies (Auditor's Report) Order, 2020 on Consolidated Statement.*
- 4.3 In the consolidated financial statements the financial statement of parent and group prepared as one entity with respect to:
- (a) *assets, liabilities and equity only.*
 - (b) *income and expenses only.*
 - (c) *income, expenses and cash flows only.*
 - (d) *assets, liabilities, equity, income, expenses and cash flows.*
- 4.4 The due date of filing the FLA (Foreign Liabilities & Assets) annual return under FEMA, 1999 is:
- (a) *by 30th May of the close of the financial year.*
 - (b) *by 15th June of the close of the financial year.*
 - (c) *by 30th June of the close of the financial year.*

(d) by 15th July of the close of the financial year.

4.5 The general permission is not available to persons (individual) resident in India for purchase/acquisition of securities abroad when such purchase/acquisition is:

(a) out of the funds held in the RFC account.

(b) by way of bonus shares on existing foreign currency shares.

(c) by remitting up to the limit prescribed by the Reserve Bank from time to time, per financial year under the Liberalised Remittance Scheme (LRS).

(d) by remitting under LRS to set up special purpose vehicle for further investment.

(2 x 5 = 10 Marks)

Descriptive Questions

4.6 You have been asked to explain regarding appropriate accounting treatment under Ind AS for amortisation of the goodwill by the company and that whether the accounting treatment as suggested in paragraph 15 of the case study in respect of amortisation of goodwill by the company is appropriate? **(7 Marks)**

4.7 What are the formalities under the Foreign Exchange Management Act, 1999 for setting up a jointly controlled entity abroad? **(5 Marks)**

4.8 What is the process of acquiring of shares of an existing company abroad under the Foreign Exchange Management Act, 1999? **(3 Marks)**

ANSWER TO CASE STUDY 4

PART – A

4.1 (d)

4.2 (a) or (b) or (c)

4.3 (d)

4.4 (d)

4.5 None of the options given is correct

PART – B

4.6 Point (g) of para C4 of Ind AS 101 states that the carrying amount of goodwill or capital reserve in the opening Ind AS Balance Sheet shall be its carrying amount in accordance with previous GAAP at the date of transition to Ind AS after the two adjustments. One of the adjustment states that the standard requires the first-time adopter to recognise an intangible asset that was subsumed in recognised goodwill or capital reserve in accordance with previous GAAP, the first-time adopter shall decrease the carrying amount of goodwill or increase the carrying amount of capital reserve accordingly (and, if applicable, adjust deferred tax and non-controlling interests)

As per the facts given in para 8 of the case study the entity paid excess amount to avail the rights to use the underlying oil and gas reserves. However, since the rights was not recorded in the books at that time, the value of goodwill subsumed the value of that intangible asset which should now be separately identified in the books. Hence, value of goodwill will be reduced accordingly.

However, regardless of whether there is any indication that the goodwill may be impaired, the first-time adopter shall apply Ind AS 36 in testing the goodwill for impairment at the date of transition to Ind AS and in recognising any resulting impairment loss in retained earnings (or, if so required by Ind AS 36, in revaluation surplus). **The impairment test shall be based on conditions at the date of transition to Ind AS.** No other adjustments (eg- previous amortisation of goodwill) shall be made to the carrying amount of goodwill / capital reserve at the date of transition to Ind AS.

However, once goodwill is recognised in the opening transition date balance sheet, the entity has to follow the provisions of Ind AS, which states that goodwill is not amortised but rather tested for impairment annually.

Accordingly, the amortization of goodwill based on 'Unit of Production' method is not correct after implementing Ind AS.

4.7 Formalities under the Foreign Exchange Management Act, 1999, for setting up a jointly controlled entity abroad.

A resident individual may make overseas direct investment in the equity shares and compulsorily convertible preference shares of a Joint Venture (JV) or Wholly Owned Subsidiary (WOS) outside India. However, the limit of overseas direct investment by the resident individual is prescribed by RBI.

There are two routes through which investment can be made outside India:

Mode of direct investment outside India

(1) Automatic route for direct investment or financial commitment outside India

As per the Regulation 6 of the Foreign Exchange Management (Transfer or Issue of Any Foreign Security) (Amendment) Regulations, 2004, an **Indian Party has been permitted** to make investment/ undertake financial commitment in overseas Joint Ventures (JV)/ Wholly Owned Subsidiaries (WOS), as per the ceiling prescribed by the Reserve Bank.

With effect from July 03, 2014, it has been decided that any **financial commitment (FC) exceeding USD 1 (one) billion (or its equivalent) in a financial year** would require **prior approval** of the **Reserve Bank** even when the total FC of the Indian Party is within the eligible limit under the automatic route [i.e., within 400% of the net worth (Paid up capital + Free Reserves) as per the last audited balance sheet].

Requirements for investments/ financial commitments: The criteria for overseas direct investment under the Automatic Route is as under:

- i. The **Indian Party can invest up to the prescribed limit** of its net worth (as per the last audited Balance Sheet) in JV / WOS **for any bonafide activity** permitted as per the law of the host country. The prescribed limit vis-a-vis the net worth will not be applicable where the investment is made out of balances held in the EEFC account of the Indian party or out of funds raised through ADRs/GDRs;
- ii. The **Indian Party is not on the Reserve Bank's exporters' caution list / list of defaulters** to the banking system published/ circulated by the Credit Information Bureau of India Ltd. (CIBIL) /RBI or any other credit information company as approved by the Reserve Bank or under investigation by the Directorate of Enforcement or any investigative agency or regulatory authority; and
- iii. The **Indian Party routes all the transactions** relating to the investment in a JV/WOS through **only one branch of an authorised dealer** to be designated by the Indian Party.

Process: The Indian Party should approach an Authorized Dealer **with an application in Form ODI and the prescribed enclosures / documents** for effecting the remittances towards such investments.

Investments (or financial commitment) in JV/WOS abroad by Indian Parties through the **medium of a Special Purpose Vehicle (SPV)** are also permitted under the Automatic Route if the Indian Party is not appearing in the Reserve Bank's caution list or is under investigation by the Directorate of Enforcement or included in the list of defaulters to the banking system circulated by the Reserve Bank/any other Credit Information company as approved by the Reserve Bank.

(2) Approval route for direct investment or financial commitment outside India

- (i) **Prior approval of the Reserve Bank** would be required in all other cases of direct investment (or financial commitment) abroad.
- (ii) Reserve Bank would, inter alia, take into account the **following factors** while considering such applications:
 - (a) **Prima facie viability** of the JV / WOS outside India;
 - (b) **Contribution to external trade and other benefits** which will accrue to India through such investment (or financial commitment);
 - (c) **Financial position and business track record** of the Indian Party and the foreign entity; and
 - (d) **Expertise and experience of the Indian Party in the same or related line of activity** as of the JV / WOS outside India.

Therefore, under the approval route (proposals not covered by the conditions under the automatic route) prior approval of the Reserve Bank would be

required. For which a specific application in Form ODI with the documents prescribed therein is required to be made through the Authorized Dealer Category – I banks.

With effect from August 05, 2013, a **resident individual** (single or in association with another resident individual or with an 'Indian Party' as defined in the Notification) satisfying the criteria as per Schedule V of the Notification, **may make overseas direct investment** in the equity shares and compulsorily convertible preference shares of a Joint Venture (JV) or Wholly Owned Subsidiary (WOS) outside India. The limit of overseas direct investment by the resident individual shall be within the overall limit prescribed by the Reserve Bank of India under the provisions of Liberalised Remittance Scheme, as prescribed by the Reserve Bank from time to time.

- 4.8** The following is the process for acquiring of shares of an existing company abroad under the Foreign Exchange Management Act, 1999:
1. Schedule I of Regulation 3(1)(A) of Foreign Exchange Management (Permissible Capital Account Transactions) Regulations, 2000 allows investment by a person resident in India in foreign securities.

Thus, a person resident in India is eligible to invest in the foreign securities.

2. As per Regulation of 4 of the Foreign Exchange Management (Permissible capital account transactions) Regulations, 2000, an amount of USD 2,50,000 per financial year can be utilized for making permissible capital account transactions.
3. As per the Regulation 6 of the Foreign Exchange Management (Transfer or Issue of Any Foreign Security) (Amendment) Regulations, 2004, an Indian Party has been permitted to make investment/ undertake financial commitment in overseas Joint Ventures (JV)/ Wholly Owned Subsidiaries (WOS), as per the ceiling prescribed by the Reserve Bank.

According to that any financial commitment (FC) exceeding USD 1 (one) billion (or its equivalent) in a financial year would require prior approval of the Reserve Bank even when the total FC of the Indian Party is within the eligible limit under the automatic route [i.e., within 400% of the net worth (Paid up capital + Free Reserves) as per the last audited balance sheet].

CASE STUDY - 5

Facts of the Case:

1. *HV Company Limited (hereinafter referred as HVCL) manufactures heavy equipment for construction industry.*
2. *An order for supply of 90 Nos. of equipment (T-model dumpers) was received from AB Infra Limited (herein after referred as ABIL). The unit price of the equipment was agreed*

at ₹ 190 lakhs each. 64 Nos. of equipment were supplied during the year 2017-18 and balance quantity remaining to be supplied as on 31.03.2018. HVCL has 51* Nos. of the equipment in its inventory as on 31.03.2018. HVCL considered that the contract was an onerous contract and therefore, the net realisable value of inventory has been taken as value of inventory as on 31.3.2018. One of the terms of the supply order was that the supplier would be responsible for warranty towards technical defects in the equipment supplied during the two years' period from the date of supply.

3. From the details of cost of production and cost of sales, it was pointed out by the auditors of the HVCL that the cost of fulfilling the contract exceeds the economic benefits expected to be received from it. Hence, the contract is onerous and provision towards the same needs to be made.
4. The management of HVCL replied to the auditors that Ind AS 37 defines an onerous contract as a contract in which the unavoidable costs of meeting the obligation under the contract exceeds the economic benefits expected to be received under the contract. The unavoidable costs under a contract reflect the least net cost of exiting from the contract by way of compensation or penalties. As per the terms of the contract, if contractor failed to supply, the customer can purchase the equipment at the risk and cost of the defaulting supplier with forfeiture of security deposit as applicable. As the subject contract is on-going contract, such exiting cost cannot be measured. Unavoidable cost does not include allocated share of cost that will be incurred regardless of whether the entity fulfils the contract or not. Moreover, other expenditure like administrative overheads, R&D, finance charges, head quarter expenditure, sales overheads etc., are of the nature of period cost and the purpose of these expenditure related to the said sales order is already completed in 2017-18 itself with receipt of sale order. Hence, there is no non-compliance of Ind AS 37.
5. Indian Accounting Standard (Ind AS) 37, 'Provisions, Contingent Liabilities and Contingent Assets' defines an onerous contract as, "a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it". Further, as per Ind AS 37, "the unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it." The company believed that unavoidable costs of meeting the obligations under the contract are only costs that: "are directly variable with the contract and therefore incremental to the performance of the contract;" do not include allocated or shared costs that will be incurred regardless of whether the entity fulfils the contract or not; and cannot be avoided by the entity's future actions.
6. The management of HVCL has further submitted to the auditor the details of costs that have been considered for creation of provision towards onerous contract:

* To be read as 5

- (a) *Material cost - includes cost of material procured, cost of freight & insurance incurred for material procurement and handling, loading and unloading charges incurred.*
- (b) *Labour cost/ Factory Overheads - includes salaries and other expenses of direct production department, and also expenses allocated from indirect departments to direct department.*
- (c) *Material Overheads - Includes salaries and other expenses (including expenses allocated from other departments) booked under departments linked with materials like purchases, stores and quality control.*
7. *The provision has been made considering the above costs only. For example, the value of provision created for a quantity of 21 Nos. remaining to be produced is as per working shown below:*

Particulars	Value (₹ in lakhs)
(i) <i>Cost of production (which includes material cost, labour cost/factory overhead and material overhead)</i>	199.00
(ii) <i>Selling price</i>	190.00
(iii) <i>Differential cost of 9 Lakh per equipment (No. of equipment remaining to be produced 21)</i>	189.00
(iv) <i>Costs incurred towards administrative overheads, finance charges, R & D expenses, sales overhead, head quarter expenditure etc., are considered as period cost and hence not considered for creation of provision.</i>	

8. *HVCL has prepared its computation of taxable income for A.Y. 2018-19 declaring an income of ₹ Nil under the normal provisions and Book Profits under section 115JB of the Income Tax Act of ₹ 8.56 Crores.*

The loss to be returned by the company under normal provisions of the income tax in the return was ₹ 5.23 Crores.

Provide the correct option to the following Questions

Multiple Choice Questions

- 5.1 *Under the provision of 115JB, the basic rate of income tax applicable on the Book Profit is:*
- (a) 15%
- (b) 18.5%
- (c) 22.5%
- (d) 25%

- 5.2 The company covered under the provisions of Section 115JB requires to upload a report from the Chartered Accountant in:
- (a) Form -3CA
 - (b) Form -3CEB
 - (c) Form-15CB
 - (d) Form-298
- 5.3 As per Ind AS 37, a legal obligation is derived:
- (a) from legislation.
 - (b) from a contract (through its explicit or implicit terms).
 - (c) from any operation of law.
 - (d) from legislation or from a contract or from any other operation of law.
- 5.4 In calculating the Book Profit, deduction is allowed with respect to:
- (a) brought forward business loss.
 - (b) unabsorbed depreciation.
 - (c) brought forward business loss or unabsorbed depreciation whichever is lower.
 - (d) brought forward business loss or unabsorbed depreciation whichever is higher.
- 5.5 As per Ind AS 37, an entity shall recognise:
- (a) A provision when an entity has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.
 - (b) A provision irrespective of any present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.
 - (c) A contingent liability.
 - (d) A contingent asset. **(2 x 5 = 10 Marks)**

Descriptive Questions

- 5.6 Whether the company's accounting treatment of cost for creation of provision towards onerous contracts is in line with the provisions of Ind AS 37? **(6 Marks)**
- 5.7 Please explain how provision for onerous contract made in the books of account have to be dealt with in preparation of computation of taxable income by HVCL for A.Y. 2018-19? **(5 Marks)**

- 5.8 Please also explain how HVCL shall consider the warranty clause in the supplies of equipment made to ABIL in preparation of computation of taxable income for A.Y. 2018-19? **(4 Marks)**

ANSWER TO CASE STUDY 5

PART – A

5.1 (a) or (b)

Note - The relevant assessment year for May 2022 examination is A.Y.2022-23 for which the applicable rate under section 115JB is 15%. Accordingly, (a) would be the correct answer. However, in the case study, the facts relate to P.Y.2017-18, when the rate was 18.5%. Accordingly, the answer can be either (a) or (b).

5.2 (d)

5.3 (a) or (b) or (c) or (d) [All the options are correct]

5.4 (c)

5.5 (a)

PART – B

- 5.6 As per Ind AS 37, onerous contract is a contract in which **the unavoidable costs** of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable cost under a contract reflects the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation for penalties arising from failure to fulfilling it.

Ind AS 37 provides that the amount recognised shall be the best estimate of the expenditure required to settle the present obligation, which is the amount that an entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time. In case of onerous contracts, that an amount that an entity would rationally pay to settle the obligation would be the lower of the compensation or penalties arising from failure to fulfil the contacts and excess of unavoidable cost of meeting the obligations under the contract from the economic benefits expected to be received under it.

The cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of both-

- (a) the incremental costs of fulfilling that contract—for example, direct labour and materials; and
- (b) an allocation of other costs that relate directly to fulfilling contracts— for example, an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling that contract among others.

Accordingly, HVCL has correctly measured the cost for creation of provision for onerous contracts by considering material cost, labour cost (to the extent it relates directly to

production) and material overheads (to the extent it relates directly to production). However, expenses allocated to this department from indirect departments should be avoided in computing the cost for the purpose of creating provision for onerous contracts.

Further, HVCL is correct that the period cost will not be considered for measurement of cost for the purpose of creation of provision on onerous contracts.

- 5.7** ICDS X deals provisions, contingent liabilities and contingent assets except those resulting from executory contracts.

Whereas Ind AS 37 excludes onerous contracts from the definition of executory contracts, in ICDS X there is no such exclusion. Therefore, when executory contracts are excluded from the purview of ICDS X, onerous contracts, which fall within the meaning of executory contracts, are also excluded from the scope of ICDS X.

Accordingly, as per the provisions of the Income-tax Act, 1961, provision for onerous contracts is **not** allowable as deduction in the hands of HVCL while computing its taxable income.

For computation of book profit under section 115JB for levy of minimum alternate tax (MAT) @15% (*plus* surcharge, if applicable, and HEC@4%), the amount set aside to provisions made for meeting liabilities, other than ascertained liabilities, has to be added back.

Accordingly, provision for onerous contract made in the books of account as is debited to the Statement of profit and loss of HVCL need not be added back, since it represents provision for an ascertained liability. Hence, such provision is deductible while computing book profit for levy of MAT.

Note – The relevant assessment year applicable for May, 2022 examination is A.Y.2022-23, when the rate of MAT is 15%. Accordingly, the rate of 15% has been referred to in the answer, even though the case study contains facts for the year 2017-18 and the question also makes reference to A.Y.2018-19, when the applicable rate of MAT is 18.5%.

- 5.8** As per ICDS X, a provision has to be recognised when:

- (a) a person has a present obligation as a result of a past event
- (b) it is reasonably certain that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (c) a reliable estimate can be made of the amount of the obligation. If these

One of the terms of the supply order is that the supplier, HVCL, would be responsible for warranty towards technical defects in the equipment supplied during the two year period **not** from the date of supply.

Provision for warranty has to be recognized as per ICDS X, if it is reasonably certain, from the statistical data, that an outflow of resources embodying economic benefits will be required to settle the obligation.

If provision for warranty is made on scientific and reliable basis and without such warranty ABIL would not be prepared to buy the equipment, the warranty would become an integral part of the sale price and hence, the provision for warranty would be allowable as business expenditure.

In this case, since provision of warranty is one of the terms of the supply order, it is evident that ABIL would not be prepared to buy the equipment without such warranty. Accordingly, provision for warranty is allowable while computing taxable income under the provisions of the Income-tax Act, 1961, assuming that it is made on scientific basis.

Also, provision for warranty made on scientific and reliable basis is an ascertained liability, Hence, such provision is also allowable while computing book profit for levy of MAT.

PAPER – 6F: MULTI-DISCIPLINARY CASE STUDY

The question paper comprises five case study questions. The candidates are required to answer any four case study questions out of five.

All your workings should form part of your answer.

CASE STUDY - 1**Facts of the Case**

1. *Telecom Inc., an American company (herein after mentioned as "the Contractor") has been awarded contract by Powering Grids Corporation of India Ltd. (hereinafter mentioned as PGCIL or 'The Principal') for augmentation of its telecom network along with its grid spread all over the country. The Applicant has won the contract as L-1 under Global Tender Process in the month of July, 2020.*
2. *The contract awarded consists of two separate agreements:*
 - (i) *Off-Shore Agreement for supply of DWDM system, all associated hardware, cables, accessories and fittings, Telecommunication Management Network (TMN) and all other associated works/items described in the technical specification for a viable and fully functional Fiber Optic Transmission System (FOTS). The price fixed for the Supply Agreement was USD 20,000,000.*
 - (ii) *On-Shore Agreement for performance of all activities viz. installation, testing, commissioning, training and maintenance of DWDM system all associated hardware, cables, accessories and fittings, TMN during the warranty period of one year as well subsequent period of five (5) years from the date of expiry of warranty period. The price fixed for Service Agreement was INR 1,75,00,000/ for installation, testing and commissioning and ₹ 60,00,000/- per annum for maintenance period of five years.*
3. *Telecom Inc. has appointed Mr. Swami, an experienced telecom engineer having more than 20 years' experience as its Country Manager to look after successful completion of the awarded contract.*
4. *Both the contracts have a clause that the Contractor shall comply with all the laws applicable to it in India. The Contractor has approached you as a Chartered Accountant to guide and help them to comply with various local regulatory requirements.*
5. *In the first introductory meeting, Mr. R Smith, Director (Sales) of Telecom Inc. as well as Mr. Swami, provided you with copies of both the Agreement awarded to the Applicant by PGCIL and copy of appointment letter issued to Shri Swami as Country Manager. During the discussion, you were also given the following information:*
 - (a) *Telecom Inc. has been operating in different parts of the world but this was their first contract in India. However, it has sold certain parts, being manufactured in USA, in India through direct sales to the consuming parties.*

- (b) Agreement for supply of material shall be executed by direct supplies of goods/materials to PGCIL from USA.
 - (c) For executing the on-shore service agreement, the American Company wanted to set up an office in Mumbai and shall appoint suitable personnel to handle the contract at various location of PGCIL
6. You have been asked to explain the company about various local laws applicable to them and formalities required to be completed before they can start execution of the contract as well as formalities under various laws applicable, to be complied with during the period required to complete the contract awarded.

Part-A**Multiple Choice Questions**

Provide the correct option to the following questions:

- 1.1 Since the contracts has been awarded to Telecom Inc. by PGCIL, a public sector undertaking. It can commence business activities in India:
- (a) without waiting for any other approval from any other regulator.
 - (b) after taking permission from RBI.
 - (c) after taking permission from tax authorities
 - (d) after taking approval from RBI and Registrar of Companies.
- 1.2 Since supply and service contracts are awarded together, the payments received in USA towards supply of material shall:
- (a) be taxable in India as income accrue or arise or deemed to accrue or arise in India.
 - (b) be taxable in India as income received or deemed to receive in India.
 - (c) not be taxable as no income received or-deemed to received in India.
 - (d) not be taxable as neither income received or deemed to received nor income accrue or arise or deemed to accrue or arise in India.
- 1.3 Telecom Inc. project office has to file with the RBI every year:
- (a) Foreign Asset and Liability statement
 - (b) Annual Performance Report
 - (c) Annual Activity Certificate
 - (d) Annual Report
- 1.4 The income tax rate applicable to Telecom Inc. will be:
- (a) 22%
 - (b) 25%

(c) 30%

(d) 40%

1.5 Can the Telecom Inc. hold two PAN under the Income Tax Act, 1961, one for supply contract and other for service contract:

(a) PAN is not required for it.

(b) Yes, two PAN are compulsory.

(c) Yes, it has option to hold two PAN.

(d) No. It cannot hold two PAN.

(2 x 5 = 10 Marks)

Part-B

Descriptive Questions

1.6 Explain in brief but in sequential manner, various steps required to be taken by Telecom Inc. under the Companies Act, 2013 and the Foreign Exchange Management Act, 1999 before commencing its business operations in India? **(10 Marks)**

1.7 Explain the compliance, M/s. Telecom Inc., shall have to make under the Income Tax Act, 1961 while filing its Return of Income for its first financial year ended 31-3-2021. **(5 Marks)**

ANSWER TO CASE STUDY 1

PART – A

1.1 (b)

1.2 (d)

1.3 (c)

1.4 (d)

1.5 (d)

PART – B

1.6 Steps Taken by the Telecom Inc. under the Companies Act, 2013

As per section 379 of the Companies Act, 2013, Sections 380 to 386 (both inclusive) and sections 392 and 393 shall apply to all foreign companies. Further, in order to acquire the status of Foreign Company and to comply with the provisions of Chapter XXII of the Companies Act, 2013, not less than 50% of the shareholders of Telecom Inc. shall be consisting of body corporates incorporated in India. Telecom Inc. will also be required to comply with other provisions of this Act as may be prescribed with regard to the business carried on by its place of business in India as if it were a company incorporated in India.

According to Section 380 of the Companies Act, 2013, following steps will be taken by the Telecom Inc. w.r.t. filing of Documents, etc., to Registrar before commencing of its business operations in India:

- (i) Every foreign company shall, within 30 days of the establishment of its place of business in India, deliver to the Registrar for registration:
- (a) a **certified copy of the charter, statutes or memorandum and articles**, of the company or other instrument constituting or defining the constitution of the company.
 - (b) the **full address** of the registered or principal office of the company;
 - (c) a **list of the directors and secretary** of the company containing such particulars as may be prescribed under Rule 3 of the Companies (Registration of Foreign Companies) Rules, 2014;
 - (d) the **name and address or the names and addresses of one or more persons resident in India** authorised to accept on behalf of the company service of process and any notices or other documents required to be served on the company;
 - (e) the **full address of the office of the company** in India which is deemed to be its principal place of business in India;
 - (f) **particulars of opening and closing of a place of business** in India on earlier occasion or occasions;
 - (g) **declaration** that none of the directors of the company or the authorised representative in India has ever been convicted or debarred from formation of companies and management in India or abroad; and
 - (h) **any other information** as may be prescribed.
- (ii) **Form, procedure and time for making application and submission of prescribed documents:** According to the Companies (Registration of Foreign Companies) Rules, 2014, the above information shall be filed with the Registrar within 30 days of the establishment of its place of business in India, in Form *FC-1* along with prescribed fees and documents required to be furnished as provided in section 380(1). The application shall also be supported with an attested copy of approval from the Reserve Bank of India under the Foreign Exchange Management Act or Regulations, and also from other regulators, if any, approval is required by such foreign company to establish a place of business in India or a declaration from the authorised representative of such foreign company that no such approval is required.
- (iii) **Office where documents to be delivered and fee for registration of documents:**
1. According to the Rule 8 of the Companies (Registration of Foreign Companies) Rules, 2014, any document which any foreign company is required to deliver to the Registrar shall be delivered to the Registrar having jurisdiction over New Delhi.
 2. It shall be accompanied with the prescribed fees.

3. If any foreign company ceases to have a place of business in India, it shall forthwith give notice of the fact to the Registrar, and from the date on which such notice is so given, the obligation of the company to deliver any document to the Registrar shall cease, provided it has no other place of business in India.

Steps to be taken by the Telecom Inc. under the FEMA, 1999

As per section 6(6) of the FEMA, without prejudice to the provisions of this section, the Reserve Bank may, by regulation, prohibit, restrict, or regulate establishment in India of a branch, office or other place of business by a person resident outside India, for carrying on any activity relating to such branch, office or other place of business.

¹Criteria for opening branch office in India by foreign entities

The general criteria for opening branch office in India by a foreign entity is as follows:

- (i) Applications from foreign companies (a body corporate incorporated outside India, including a firm or other association of individuals) for establishing BO/LO/PO in India shall be considered by the AD Category-I bank as per the guidelines given by Reserve Bank of India (RBI).
- (ii) In some cases, AD Category-I bank, can itself grant approval, if within guidelines issued by RBI.

However, in certain cases, RBI approval is required. In that case, application shall be forwarded to RBI.

When Prior approval of RBI for opening BO/LO/PO in India in certain cases

²In some cases, BO/LO/PO can be opened in India only with approval of RBI. In that case, application shall be forwarded to RBI for approval.

An application from a person resident outside India for opening of a BO/LO/PO in India shall require prior approval of Reserve Bank of India and shall be forwarded by the AD Category-I bank to the General Manager, Reserve Bank of India, Central Office Cell, Foreign Exchange Department, 6, Sansad Marg, New Delhi - 110 001.

RBI shall process the applications for approval in consultation with the Government of India, where the principal business of the applicant falls in the Telecom sector besides with Defence, Telecom, Private Security and Information and Broadcasting. However, prior approval of Reserve Bank of India shall not be required in cases where Government approval or license/permission by the concerned Ministry/Regulator has already been granted. The term "permission" used in the Government of India Notification dated

¹Provisions are contained in para 1 of RBI (FED) Master Direction No.10/2015-16 dated 1-1-2016 Regulation 3 of Foreign Exchange Management (Establishment in India of Branch or Office or liaison office or a project office or other Place of Business) Regulations, 2016

²Regulation 5 of FEM (Establishment in India of Branch or Office or liaison office or a project office or any other Place of Business) Regulations, 2016

January 21, 2019 does not include general permission, if any, available under Foreign Direct Investment in the automatic route, in respect of the above four sectors.

- 1.7 Payment in respect of off-shore supply of DWDM System by Telecom Inc. would not be chargeable to tax in India, since such supply is made outside India and it would not be deemed to accrue or arise in India. However, activities of installation, testing, commissioning, training and maintenance of DWDM system would fall within the scope of technical services. As per section 9(1)(vii), FTS payable by a person who is a resident in India would be deemed to accrue or arise in India in the hands of the non-resident payee. Thus, such payment would be chargeable to tax in India in the hands of Telecom Inc.

In case Telecom Inc., an American company, set up an office in Mumbai for executing the on-shore service agreement, such office would constitute a Permanent establishment of Telecom Inc.

Since Telecom Inc. has a PE in India and the agreements with Powering Grids Corporation of India Ltd. are effectively connected with such PE and such agreements have been entered into in the year 2020. Accordingly, as per section 44DA, the income from rendering technical services shall be computed under the head "Profits and gains of business or profession" in accordance with the provisions of the Income-tax Act, 1961; and shall be subject to tax@40% (plus surcharge@2% and HEC@4%).

Telecom Inc. is required to maintain books of account under section 44AA and get the same audited under section 44AB and furnish report before the specified date i.e., the date one month prior to the due date of filing return u/s 139(1) for A.Y.2021-22.

Telecom Inc. is required to obtain PAN as per section 139A.

CASE STUDY - 2

You have been appointed as statutory auditors of XYZ Limited in its 12th annual general meeting held on 28-09-2020 for a period of five years. Your appointment has been made in place of M/s AB and Company, Chartered Accountants, who were rotating out as per requirements of the Companies Act.

XYZ Limited is unlisted public company in which CDE Limited, a listed company, holds 50% equity shares. The balance 50% equity shares are held by Mr. FG and his close relatives.

The management of XYZ Limited is being done by Mr. FG and his son. CDE Limited has also appointed two of his directors as directors of XYZ Limited.

CDE Limited is listed on both National Stock Exchange (NSE) as well as Bombay Stock Exchange (BSE).

XYZ Limited is a manufacturing company engaged in the production of piston, an auto part for commercial trucks.

CDE Limited is also a manufacturing company engaged in the production of commercial trucks having its assembly plants at three different locations in the country.

Upto 31st March, 2017, the entire production of XYZ Limited of pistons was purchased by CDE Limited. However, with effect from April 1st 2017, XYZ Limited has started contract manufacturing for CDE Limited and for that purpose an agreement has been entered into between the two companies.

The salient features of the Agreement are as follows:

- (1) The installed capacity of XYZ Limited is 200,000 piston per annum. The optimum production level is expected to be not less than 80% of the installed capacity.*
- (2) All the raw materials/parts for production shall be procured and supplied by CDE Limited to XYZ Limited. Sufficient quantity levels of raw material/parts shall be maintained with XYZ Limited for smooth and uninterrupted production.*
- (3) 5% production loss shall be permitted to XYZ Limited.*
- (4) Any production scrap shall be disposed of by XYZ Limited at its own expense. Receipt from sale of scrap shall be to the credit of XYZ Limited only.*
- (5) An estimated cost sheet shall be prepared by XYZ Limited based on the prevailing cost of raw materials/parts, wages and stores/consumables and shall be approved by CDE Limited in advance before the start of every new financial year.*
- (6) XYZ Limited shall be given 30% of the cost of production as its contract receipt.*
- (7) The production shall be stored by XYZ Limited in its warehouse and shall be despatched to various assembly plants of CDE Limited as per delivery schedule provided to it three months in advance.*
- (8) The payment of invoices raised by XYZ Limited on the respective assembly plants of CDE Limited shall be made by the respective plants where the products shall be delivered with 30 days from the receipt of the products.*
- (9) CDE will not interfere in day to day operation.*

During the financial year ended 31-03-2021, you noticed the following transactions in the accounts of XYZ Limited:

- (1) An advance against supplies of ₹ 2,00,00,000 was received from CDE Limited. However, the same has been utilised by XYZ Limited to replace an old machinery with the new one to improve the quality of the finished products. No supplies were made against the said advance by the company to CDE Limited.*
- (2) An export order has been fulfilled by XYZ Limited at the instruction of CDE Limited at a price mutually agreed by the importer and CDE Limited.*

- (3) A consignment of 2500 pistons supplied to one of the units of CDE Limited has been rejected due to inferior quality material used for production.
- (4) The Assessing officer has disallowed depreciation on plant and machinery claimed by the company for AY 2018-19 on the ground that the arrangement of contract manufacturing has been made by the parties with malafide to claim depreciation on plant and machinery whereas the substance of the arrangement is nothing but giving the entire plant on lease and therefore, the income has been assessed under the 'Income from House Property' instead of under the head 'Profit or gains from business or profession'. The company has filed an appeal against the said assessment order before the CIT (appeals) and the appeal was pending as on date.

Part-A**Multiple Choice Questions**

Provide the correct option to the following questions:

- 2.1 AB and Co. were not eligible for reappointment as statutory auditor of XYZ Limited as:
- (a) They have given a modified opinion for the year ended 31-3-2020.
 - (b) They might have completed two terms of five years each as auditors of the company.
 - (c) The management has liberty to appoint any other Chartered accountant every year.
 - (d) They are a smaller firm than your firm.
- 2.2 After you have received your appointment as statutory auditor of XYZ Limited, you were required to:
- (a) start your audit assignment immediately.
 - (b) communicate with the previous auditors for knowing their objection in accepting the assignment by you, if any.
 - (c) wait for the retiring auditor to communicate with you.
 - (d) start your audit assignment pending confirmation from previous auditor about their objection, if any.
- 2.3 As provided in the Companies Act, 2013, the relationship of XYZ Limited with CDE Limited is that of an associate because:
- (a) CDE Limited holds 50% equity shares of XYZ Limited.
 - (b) CDE Limited was purchasing the entire production of XYZ Limited.
 - (c) XYZ Limited has utilised a sum of ₹ 2,00,00,000 given by CDE Limited.
 - (d) CDE Limited hold significant influence over XYZ Limited and does not fulfil definition of control under Ind AS.

- 2.4 In terms of Indian Accounting Standard (Ind AS)-16 Property, Plant and Equipment, the replacement of old machinery shall be accounted for by XYZ Ltd. as
- an addition to PPE as the expenditure fulfils the definition of PPE.
 - an addition to PPE as it is a very big expenditure.
 - revenue expenditure as it is relating to replace of existing plant.
 - revenue expenditure, as the management has incurred that expenditure from its short term resources.
- 2.5 As the statutory auditors of XYZ Limited, your query for using the advance against supplies towards replacement of machinery, shall be that:
- whether it was used with the consent of the party.
 - advance against supplies can never be used for any other purpose, why it was done?
 - company has actually used short term funds for long term purpose. Reasons required as this matter needs to be reported.
 - machinery should always be purchased by taking term loan from bank. Why did company not do that? **(2 x 5 = 10 Marks)**

Part-B**Descriptive Questions**

- 2.6 What are the compliances which XYZ Limited, must have taken to comply with the provisions of the Companies Act, 2013 for entering into an agreement for contract manufacturing for CDE Limited? **(5 Marks)**
- 2.7 What are the disclosure requirements which you would like to verify from the financial statement of XYZ Limited for the year ended 31.03.2021 with respect to its transactions with CDE Limited? Whether your audit scope will include TDS and GST compliances also? **(5 Marks)**
- 2.8 Please explain with reasoning, whether the disallowance of depreciation made and the income being assessed under the head 'Income From House Property' instead of Business Profits by the Assessing Officer, was justified. **(5 Marks)**

ANSWER TO CASE STUDY 2**PART – A**

- 2.1 (b)
 2.2 (b)
 2.3 (d)
 2.4 (a)

2.5 (a) or (b) or (c)**PART – B**

2.6 In the instant case, XYZ Limited is unlisted public company in which CDE Limited, a listed company holds 50% equity shares. This means these companies are Associates companies by virtue of Section 2(6) of the Companies Act, 2013.

According to Section 2(76)(viii)(A) “related party”, with reference to a company, means any company which is a holding, subsidiary or an associate company of such company. Hence, CDE Limited and XYZ Limited are related parties and hence compliances under Section 188 shall be applicable.

According to Section 188(1), except with the consent of the Board of Directors given by a resolution at a meeting of the Board and subject to such conditions as may be prescribed, no company shall enter into any contract or arrangement with a related party with respect to sale, purchase or supply of any goods or materials.

Provided that no contract or arrangement, in the case of a company having a paid-up share capital of not less than such amount, or transactions exceeding such sums as under Rule 15 of the Companies (Meeting of Board and its Powers) Rules, 2014 shall be entered into except with the prior approval of the company by a resolution.

Provided further that no member of the company shall vote on such resolution, to approve any contract or arrangement which may be entered into by the company, if such member is a related party.

Provided also that nothing in this sub-section shall apply to any transactions entered into by the company in its ordinary course of business other than transactions which are not on an arm’s length basis.

Explanation. — In this sub-section, the expression “arm’s length transaction” means a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.

(2) Every contract or arrangement entered into under sub-section (1) shall be referred to in the Board’s report to the shareholders along with the justification for entering into such contract or arrangement.

(3) Where any contract or arrangement is entered into by a director or any other employee, without obtaining the consent of the Board or approval by a resolution in the general meeting under sub-section (1) and if it is not ratified by the Board or, as the case may be, by the shareholders at a meeting within three months from the date on which such contract or arrangement was entered into, such contract or arrangement shall be voidable at the option of the Board or, as the case may be, of the shareholders and if the contract or arrangement is with a related party to any director, or is authorised by any other director, the Directors concerned shall indemnify the company against any loss incurred by it.

(4) Without prejudice to anything contained in sub-section (3), it shall be open to the company to proceed against a director or any other employee who had entered into such contract or arrangement in contravention of the provisions of this section for recovery of any loss sustained by it as a result of such contract or arrangement.

(5) Any director or any other employee of a company, who had entered into or authorised the contract or arrangement in violation of the provisions of this section shall, —

- (i) in case of listed company, be liable to a penalty of twenty-five lakh rupees and
- (ii) in case of any other company, be liable to a penalty of five lakh rupees.

2.7 In the given situation, XYZ Limited is unlisted public company in which CDE Limited, a listed company holds 50% equity shares. CDE Limited has also appointed two of his directors as directors of XYZ Limited. XYZ Limited has started contract manufacturing for CDE Limited and for the same formal agreement is being done wherein all the raw material/part for production shall be procured and supplied by CDE Limited to XYZ Limited. Further, XYZ Limited will be preparing estimated cost sheet based on prevailing cost of raw material/parts, wages and stores /consumable and shall be approved by CDE Limited in advance for every year. XYZ Limited shall be given 30% of cost of production as its contract receipt. In view of above, it can be said that the relationship of XYZ Limited and CDE Limited is that of an associate.

Ind-AS 24, “Related Party Disclosure”, requires disclosure to be made separately prescribed categories such as the parent; entities with joint control of, or significant influence over, the entity; subsidiaries; associates; joint ventures in which the entity is a joint venturer; key management personnel of the entity or its parent; and other related parties.

As per Ind-AS 24 Related Party Disclosure, if an entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. **At a minimum, disclosures shall include:**

- (a) the amount of the transactions.
- (b) the amount of outstanding balances, including commitments, and:
 - (i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and
 - (ii) details of any guarantees given or received.

Further, examples of transactions that are disclosed if they are with a related party includes purchases or sales of goods (finished or unfinished); purchases or sales of property and other assets; rendering or receiving of services; leases; commitments to do something if a particular event occurs or does not occur in the future, including

executory contracts¹ (recognised and unrecognised); settlement of liabilities on behalf of the entity or by the entity on behalf of that related party etc.

Further, disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated.

In the given situation, the auditor is required to verify that whether shareholding is being disclosed appropriately. Further, receipt of advance against supplies of Rs. 2,00,00,000 utilized for replacement of old machinery and no supplies were made to CDE Limited against the said advance, is being disclosed in accordance with IND-AS 24.

Auditor is also required to verify that export order fulfilled by XYZ Limited at the instruction of CDE Limited is prevailing at arm's length price.

Further, in case of pending appeal before CIT (Appeals) auditor is also required to assess and ensure disclosure of contingent liabilities is in accordance with IND-AS 37.

In view of large number of transactions between XYZ Ltd. & CDE Ltd., statutory auditor will have to verify TDS & GST compliances in respect of those transactions.

- 2.8** The Assessing Officer has disallowed depreciation on plant and machinery claimed by the company (XYZ Ltd. in the present case) on the ground that arrangement of contract manufacturing has been made by the parties with malafide to claim depreciation whereas the substance of the arrangement is nothing but giving the entire plant on lease.

In the present case, XYZ Ltd. was earlier manufacturing the piston and selling it to CDE Ltd. However, from 1.4.2017 it had entered into an agreement with CDE Ltd. for contract manufacturing. As per the agreement, raw materials/ parts of production are provided by the CDE Ltd and XYZ Ltd. is processing those raw materials in its plant and machinery and returning back it to the CDE Ltd. There is no clause of lease in the agreement.

Section 32 imposes a twin requirement of "ownership" and "usage for business" as conditions for claim of depreciation thereunder. As far as usage of the asset is concerned, the section requires that the asset must be used in the course of business. It does not mandate actual usage by the assessee itself.

XYZ Ltd. is entitled to claim depreciation in respect of the plant and machinery since it is the only legal owner of the plant and machinery and using such plant for the purpose of its business i.e., contract manufacturing.

Accordingly, the contentions of the Assessing Officer to disallow depreciation claimed by XYZ Ltd. and assess the income under the head "Income from house property" instead of "Profits and gains of business or profession" are not justified.

CASE STUDY - 3**Facts of the Case**

1. *Mr. HPR and Mr. NPR were batch mates in animation course. While preparing for the final phase of their course, both agreed to explore setting up a joint studio for animation in Haryana.*
2. *After successfully completing their course and after lots of deliberation, both of them decided to form a Limited Liability Partnership. The main objects of the firm was decided to undertake the business of advertising & publicity, mass communication, graphic designing & exhibition designing Animation (2D/3D), photography for advertising and to carry on business as advertiser, publishers and undertake all such work which falls within the purview of modern methods of advertising, marketing including export market and applied Arts including setting up of a fully equipped Studio for Shooting films and such other business as the partners may from time to time unanimously agree upon.*
3. *On 20-08-2018 a Limited Liability Partnership (LLP) under the name M/s. HPNR LLP was incorporated. Both Mr. HPR and Mr. NPR were declared as 'Designated Partners'. Their monthly remuneration was fixed at ₹ 1,00,000 per month for each.*
4. *Both the partners contributed fixed capital of ₹ 25 lacs each. The bank account was opened in the name of the LLP and a commercial space of 1000 sq. ft. was taken on lease by the LLP.*
5. *Capital contributed was invested in high quality computer hardware systems and software to develop 3D animation. LLP also hired two technical staff at a monthly remuneration of ₹ 35,000 each. They themselves developed a website for the firm with an estimated expense of ₹ 2,50,000.*
6. *Mr. HPR one of the designated partner, prepared an excel sheet to maintain a table for time allotted and time consumed for every assignment by the partners as well as employees of the firm.*
7. *As initially there was no assignment available to the Firm, it was decided to utilize the man power to create animated objects which can be sold as such to the buyers or can be used in animation assignments for specific clients.*
8. *After aggressive marketing through personal contacts by both the partners, a contract to make an animation film from a well-established Health Care Company was secured. The contract was for an amount of ₹ 25 Lacs plus applicable taxes. The Firm completed the assignment during the month of June, 2019 and handed over the same to the client. Their job was very well appreciated by the client.*
9. *In the process of preparing the animation film, the LLP purchased some on-line digital assets and some on-line services from individual professionals for special sound and visual effects. The payments for the above-mentioned on-line purchases of digital assets as well as services were made in foreign currency through Credit Card of one of the partners.*

10. In the month of April, 2019, HPNR received a notice from an international designing software company for using its software without any proper license acquired by the LLP from the month of December, 2018. However, HPNR claimed that it is using only the free version of similar software available in the public domain. The software company has sent a notice to the LLP to buy the official copy of their license as well as pay a compensation of ₹ 5,00,000 for illegal use of their software. The LLP has sent a reply through a lawyer denying any liability towards illegal use of software. The matter was pending as on date.

Part-A**Multiple Choice Questions**

Provide the correct option to the following questions:

- 3.1 For incorporation of the Limited Liability Partnership under the LLP Act, the following form was submitted by Mr. HPR and Mr. NPR with the Registrar:
- (a) LLP Form-1
 - (b) LLP Form-2
 - (c) LLP Form-3
 - (d) LLP Form-4
- 3.2 M/s. HPNR was liable to comply with tax withholding requirements with effect from
- (a) From the first day of incorporation of LLP.
 - (b) As and when a transaction exceeding ₹ 20,000 was executed.
 - (c) From the first day of year next to the year in which the LLP will have tax audit.
 - (d) M/s. HPNR is not liable to withhold tax at source.
- 3.3 The income tax rate applicable to M/s. HPNR will be
- (a) Slab rate
 - (b) 20%
 - (c) 30%
 - (d) 40%
- 3.4 Expenditure incurred on development of the website by M/s. HPNR has to be:
- (a) Capitalised as an intangible expenditure.
 - (b) Charged to Profit and Loss Account.
 - (c) Charged to Profit and Loss over a period of 5 years.
 - (d) Capitalised as part of PPE.

- 3.5 In respect of legal notice received from International Designing Software company claiming a compensation of ₹ 5,00,000, M/s HPNR shall have to:
- Make a provision of the amount in the books of accounts.
 - Only disclose the same a contingent liability at this stage.
 - Make provision of atleast 50% of the compensation demanded.
 - Neither make any provision nor make any disclosure at this stage. **(2x5 = 10 Marks)**

Part-B**Descriptive Questions**

- 3.6 The management of HPNR has approached you to help them in deciding as to how animated objects created by the firm shall be accounted for in the books of accounts and how the same shall be valued for reflected them as on 31-03-2019 ? **(5 Marks)**
- 3.7 You have also been requested to explain whether in respect of payments made for on-line digital assets purchased by the firm and payments made for on-line services taken by the company for special visual effects and sound effects any tax was required to be deducted at source by HPNR ? **(5 Marks)**
- 3.8 Whether any GST compliances are required to be made with respect to online digital assets purchased and on-line services availed ? Also explain whether use of such online digital assets purchased and online services are utilised for animation products exported outside India will make any difference? **(5 Marks)**

ANSWER TO CASE STUDY 3**PART – A**

- 3.1 (b)
- 3.2 None of the options given is correct.
- 3.3 (c)
- 3.4 (a)
- 3.5 (d)

PART – B

- 3.6 **Animation objects are created and sold to the buyer:** Paragraph 6 of Ind AS 2 defines inventories as assets-
- held for sale in the ordinary course of business;**
 - in the process of production for such sale; or
 - in the form of materials or supplies to be consumed in the production process or in the rendering of services.

As the animated objects are held for sale, the animated objects shall be accounted as inventories.

Paragraph 9 of Ind AS 2 states that inventories shall be measured at the lower of cost and net realisable value.

Therefore, the animated objects shall be measured at lower of cost and net realisable value. Further, cost will include the cost of manpower used to create those animated objects.

- 3.7** HPNR LLP purchased some online digital assets and some online services from individual professionals for special sound and visual effects. If online digital assets considered to be a computer software, the payment made in respect thereof would be royalty, since consideration is paid for transfer of right to use a computer software. Payment for online services from individual professionals for special sound and visual effects would be fall within the scope of fees for technical services (FTS) whether or not such services are rendered in India.

As per section 9(1)(vi), royalty payable by a person who is a resident in India would be deemed to accrue or arise in India in the hands of the non-resident payee, since royalty is paid in respect of business carried out in India. Likewise, as per section 9(1)(vii), FTS payable by a person who is a resident in India would be deemed to accrue or arise in India in the hands of the non-resident payee, since FTS is paid in respect of business carried out in India.

Thus, payments made for online digital assets and online services would be taxable in the hands of non-residents. Accordingly, HPNR would be liable to deduct tax at source on such payments under section 195.

- 3.8** Supply of online digital assets³ and online services qualifies as supply of online information and database access or retrieval (OIDAR) services.

In the given case, since payment for the online digital assets purchased and online services availed was made in foreign currency, it has been assumed that the supplier of said services is located outside India. Recipient of services, HPNR LLP, is located in India.

In such case where supplier of OIDAR service is located outside India and recipient is located in India, place of supply is the location of the recipient of said services, viz. India.

Further, tax on supply of a service supplied by any person who is located in a non-taxable territory to any business entity located in the taxable territory is payable under reverse charge by the recipient of such service.

³ It has been assumed that the delivery of the online digital assets is mediated by the information technology over internet/electronic network

Since in the given case, OIDAR services have been imported by HPNR LLP (being a business entity) from individual professionals (located outside India), tax on such services is payable by HPNR LLP under reverse charge. Thus, HPNR LLP needs to undertake necessary compliances.

Section 24 of the CGST Act provides that, persons who are required to pay tax on inward supplies under reverse charge are required to obtain registration compulsorily irrespective of the quantum of its aggregate turnover. Accordingly, HPNR LLP has to obtain compulsory registration under GST⁴.

In case online digital assets and online services are utilized for animation products exported outside India, the requirement of HPNR LLP to get compulsorily registered as above will remain unchanged.

In case of export of services, the exporter - HPNR LLP - will have an option to either:

- (i) pay IGST on the services exported and claim refund of such IGST paid

or

- (ii) export such services under bond/Letter of Undertaking without payment of IGST and claim refund of ITC.

CASE STUDY - 4

Facts of the Case

1. Defence Innovators Limited is a public sector undertaking and is engaged in the construction of warships and submarines.
2. XYZ Private Limited approached Defence Innovators Limited for construction of "specially designed" ships for it, which will be used by XYZ Private Limited for transportation of specific goods.
3. The offer was accepted by the Defence Innovators Limited and both the companies entered into an agreement for the construction and delivery of 3 particular specially designed ships.
4. Defence Innovators Limited has agreed for construction of 3 ships on 'Fixed Price' basis with variable component in respect to certain items.
 - (i) The break-up of the contract price is as under:

Sr. No.	Cost Element	1st ship	2nd ship	3rd ship	Total
(A)	Fixed cost element	xxx	xxx	xxx	xxx
(B)	Variable cost items	xxx	xxx	xxx	xxxx

⁴ It has been assumed that HPNR LLP is not registered under GST in absence of any explicit information relating thereto.

(C)	Base and Depot (B & D) spares (Budgetary)				xxxx
(D)	Grand Total (A+B+C)				xxxxx

Note: The above cost is exclusive of duties and other statutory levies applicable at the time of delivery of the vessel(s) and will be paid at actual.

(ii) Payment Terms:

(a) Fixed price element:

The payment will be made by the buyer against the completion of particular stage.

(b) Variable price element:

The payment will be made at actual with % of profit against the documentary evidence.

(c) Advance of ₹ 5 Lakhs in cash within 10 days of date of signing of contract.

5. Base and depot (B & D) spares for all three ships shall be procured by Defence Innovators Limited and will be paid on the cost of the item with certain percentage.
6. The contract states that "certain equipment" out of variable cost items, will be supplied by XYZ Private Limited at 'free of cost' for installation on board of ship. It is, therefore, to be noted as under:
 - (i) Some equipments are procured by Defence Innovators Limited in the presence of the XYZ Private Limited's representative for technical scrutiny as well as negotiating the prices. The vendors of these equipment are paid by Defence Innovators Limited. The cost of the equipment alongwith the cost of installation and profit thereon is claimed and reimbursed by XYZ Private Limited to Defence Innovators Limited.
 - (ii) And there are certain other equipments for which orders are directly placed and also paid by the XYZ Private Limited. These equipments are known as 'Buyer Furnished Equipment (BFE)' and are delivered to the company 'free of cost' for installing in the ship. The labour cost of Installation of these are already included in the price component of the contract.
7. The period required for construction of one ship was approximately four years.

PART-A

Multiple Choice Questions:

- 4.1 For Defence Innovators Limited, a resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise is known as :
 - (A) Asset

- (B) *Income*
(C) *Liability*
(D) *Cash inflow projections*
- 4.2 *In case of Defence Innovators Limited, to determine the value at which inventories are carried in the financial statements, including the ascertainment of cost of inventories and any write-down thereof to net realizable value, company is required to consider :*
- (A) *AS-1*
(B) *AS-2*
(C) *AS-3*
(D) *AS-7*
- 4.3 *With reference to advance payment of ₹ 5 Lakhs, Defence Innovators Limited will be required to report it in Tax Audit Form 3 CD under:*
- (A) *Section 269S8*
(B) *Section 269ST*
(C) *Section 269T*
(D) *No reporting required*
- 4.4 *For receipt of advance in cash, Defence Innovators Limited would be liable to a penalty under Income Tax Act, 1961 of:*
- (A) *₹ 5 Lakhs*
(B) *₹ 2.5 Lakhs*
(C) *₹ 50,000*
(D) *No Penalty in this case*
- 4.5 *Under CGST Act, a registered person can send for job work any inputs or capital goods without payment of tax and bring back:*
- (A) *without payment of tax*
(B) *with payment of tax*
(C) *Neither as per (A) nor (B)*
(D) *Both as per (A) and (B)*
- (2 x 5 = 10 Marks)**

PART-B**Descriptive Questions:**

- 4.6 *Whether the cost of Buyer Furnished Equipment's (BFE's) supplied by XYZ Private Limited to Defence Innovators Limited for installing the same in the ships can be considered as*

'inventory' by Defence Innovators Limited and then on delivery of ship will be recognised as revenue in its books of account ? Elaborate. (7 Marks)

- 4.7 *How BFEs shall be dealt with under GST Act by Defence Innovators Ltd. in its books when it is certain that these shall not be sent back to XYZ Pvt. Ltd. till the constructed ships are delivered? Explain in detail. (8 Marks)*

ANSWER TO CASE STUDY 4

PART – A

- 4.1 (A)
4.2 (B)
4.3 (B)
4.4 (A)
4.5 None of the options given is correct.

PART – B

- 4.6 It is to be noted that before any item can be recognised as an inventory, it should meet the definition of 'asset' as given in the Framework for the Preparation and Presentation of Financial Statements, issued by the Institute of Chartered Accountants of India as follows:

"An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity".

The orders in respect of Buyer Furnished Equipment's (BFEs) are directly placed by the buyer and also payment in respect of them is made by the buyer. These are then supplied to the company for installing in the ship and the buyer pays installation charges which are included in the contract price. Thus, the company has neither incurred any cost on BFEs nor any amount is recoverable on account of such equipment except installation charges. Accordingly, such equipments are not 'assets' that may be considered as a part of its contract work-in progress.

In fact, after installation in the ship, BFEs are returned to the buyer after completion of the ship. Thus, these are only held by the company in the capacity of a bailee. Since, it cannot be considered as an 'asset', therefore, it can neither be considered as 'inventory' nor as 'work-in-progress'.

Further, it can also not be considered as a part of sale value or revenue of the company as no consideration would be receivable with respect to the cost of such equipment.

- 4.7 As per section 15(2)(b) of the CGST Act, 2017, the value of supply shall include any amount that the supplier is liable to pay in relation to such supply but which has been incurred by the recipient of the supply and not included in the price actually paid or payable for the goods or services or both.

Further, CBIC vide Circular No. 47/21/2018 GST dated 08.06.2018 has clarified that while calculating the value of the supply made by a component manufacturer using moulds and dies owned by Original Equipment Manufacturers (OEM) sent free of cost (FOC) to him, the value of such moulds and dies shall not be added to the value of supply made by him because the cost of moulds/dies was not to be incurred by the component manufacturer and thus, does not merit inclusion in the value of supply in terms of section 15(2)(b).

However, if the contract between OEM and component manufacturer was for supply of components made by using the moulds/dies belonging to the component manufacturer, but the same have been supplied by the OEM to the component manufacturer on FOC basis, the amortised cost of such moulds/dies shall be added to the value of the components.

In the given case, as per the terms of the contract between supplier – Defence Innovators Limited and recipient - XYZ Private Limited, it is the responsibility of the recipient to supply “Buyer Furnished Equipments (BFEs)” to the supplier, free of cost.

Thus, the value of the BFEs will not be included in the value of the ships supplied by it.

CASE STUDY - 5

ABOUT YOU

You are an open minded, highly sensible, competent professional with value added; decision making capabilities. You are also a Director on the Board, Chairman and/or Member of Committees of the Board of many listed and unlisted entities. You are also in the Board of SF Limited (SFL) as a Professional Director.

BACKGROUND OF SFL

It is fundamental to any business to keep updating the business strategies and plans to suit the changing business scenario. In the modern marketplace, there is no mercy for the mediocre. The rule applies to all sectors, be it a small scale industry or a big contributor. SFL is one such small scale growing enterprise belonging to SF Group of Companies which has several companies in its umbrella including listed and unlisted public limited / private limited companies engaged in various businesses.

SFL is involved in development of castings applicable for automobiles and tractors to industrial engines, construction equipment and power generation equipment. It meets the stringent requirement of diverse segments. It even caters to the exceptionally high standards of Defence applications. The indigenous expertise that drives the organisation enables it to keep pace with the constantly changing requirements of the market.

It has won the much coveted quality certifications including ISO 9000, QS 9000 and ISO 14001 certifications that endorse its capabilities.

MANAGEMENT OVERVIEW

The top Management of SFL is driven by a highly competent Board of Directors. The Board drives the business plans, operating, investment and financing activities besides taking all key decisions. The Board is supported by Mr. Seshadri, Special Director (Costing and Finance) who has a thorough insight of the day-to-day activities.

CORPORATE CULTURE

While the Company is historically Board managed, nevertheless, it believes in the principle of developing with everyone. SFL looks at its responsibilities to all stakeholders and is equally concerned with the society, environment and work force. SFL spends on an average ₹ 5 Lakhs on CSR activities which is the approved budget every year.

BUDGET OVERVIEW

For an efficient functioning of the Company and to have hands on information as to what is happening in the Company on a day to day basis, Budgets are set by the Board which is pushed down to various teams and the actuals are regularly compared with the budgets for taking remedial actions in case of any adverse situations. As compared to earlier years, it was found that of late, the variance between the budget and the actual is widening and has become a cause of concern to the top management. Under the circumstances, it was emphasized that every personnel in the Company should participate in the budgetary process and perhaps even asking every manager to set his own targets and consolidate the same for setting the targets for the Company.

YOUR CALL

At the Board Meeting of the Company proposed to be convened on 10th January, 2020, besides approving and taking on record, inter alia, the unaudited financial results of the Company for the third quarter and nine months ended 30-09-2019, certain additional matters are proposed to be discussed as below. You have been specially invited to the said Board Meeting for your valuable inputs.

DISCUSSION - 1

- (a) New venture of online shopping of automobile spares has been proposed to be added by the Company during the current year.

DISCUSSION - 2

- (b) To evaluate the cost and price statement in respect of an enquiry for the supply of 2,50,000 numbers of special type of auto components.

Back Up

The Company has received an enquiry for supply of 2,50,000 numbers of special type of auto components. The Company can execute the assignment provided a capital investment of

₹ 3,00,000 and working capital to the extent of 3 months' cost of sales are made available. The costs estimated are as follows:

Raw Materials	@ ₹ 3.25 per unit
Direct Labour Hours	8,000
Labour Rate	₹ 4.50 per hour
Factory Overheads	₹ 4 per direct labour hour
Selling and Distribution expenses	₹ 30,000

Borrowed funds will be available @ 11.5% on additional capital outlay. The company expects a net Return of 25% on Sales.

DISCUSSION - 3

- (c) To evaluate the requirements of the Companies Act, 2013 regarding appointment of Internal Auditors for the group companies. (This information is sought by the Independent Directors).

Certain Financial Information of Group Companies

Figures are in ₹ crores and correspond to the previous year

Name	Nature	Equity Share Capital	Turnover	Loan from Bank and PFI	Public Deposit
ABC Ltd.	Listed	100	190	50	24
XYZ Ltd.	Unlisted Public	60	190	50	24
LMN Ltd.	Unlisted Private	60	190	50	-

OTHER INPUTS FOR DISCUSSION:

Post your introduction meeting with SFL, Mr. Karthik, the Senior Manager (Finance) of SFL explained his expectations from you and has also put forward the following inputs for your suitable advice:

- (i) Despite a robust internal check and internal control system prevailing in the Company, a theft of Cash of ₹ 15 lakhs by the cashier in January 2020 was detected only in May 2020 on which date the final accounts were not yet approved by the Board as the accounts were under audit.
- (ii) Mr. Q, a Director of SFL proceeding on a long foreign tour, appointed Mr. Y as an alternate director to act for him during his absence. The articles of the company provide for appointment of alternate directors. Mr. Q claims that he has a right to appoint an alternate director.

- (iii) Mr. Karthik expressed his apprehension that giving utmost freedom and flexibility- to the employees to set their own targets in the budget setting process would have a potential danger.
- (iv) Mr. Karthik also informed that in view of the excellent contributions for the progress of the Company, there is a proposal to appoint Mr. Seshadri, who is the Special Director (Costing and Finance) of SFL as the Managing Director of two other Companies unrelated to SFL.
- (v) Mr. Karthik also affirmed that there is a Corporate Insolvency Resolution Process going on before the Hon'able NCLT in one of the group companies and he wants to know which of the following statements are correct under Section 21 of the Insolvency and Bankruptcy Code, 2016:
- (1) A financial creditor or the authorized representative of the financial creditor, if it happens to be a related party of the corporate debtor shall not have any right of representation, participation or voting in a meeting of the committee of creditors.
 - (2) A financial creditor regulated by a financial sector regulator, if it is a related party of the corporate debtor solely on account of conversion or substitution of debt into equity shares or instruments convertible into equity shares prior to the insolvency commencement date shall not have any right of representation, participation or voting in a meeting of the committee of directors.

You are requested to thoroughly go through the following questions and provide the correct answer in your capacity as an advisor. Please note that an advisor cannot afford to do mistakes. Hence, utmost care is required while giving your answer.

PART-A

Multiple Choice Questions

- 5.1 The theft of cash of ₹ 15 lakhs:
- (A) Need not be adjusted to the reported value of assets, liabilities, incomes or expenses for the year ended 31.03.2020.
 - (B) Need to be adjusted to the reported value of assets, liabilities, incomes or expenses for the year ended 31.03.2020
 - (C) Need to be adjusted to the reported value of assets, liabilities, incomes or expenses only for the year ended 31.03.2021
 - (D) A provision for bad debts should be made in the accounts.
- 5.2 With reference to Mr. Karthik's apprehension in para (iii) above, there is potential danger of having:
- (A) Sheer Failure
 - (B) Non-Performance
 - (C) Resistance

(D) *Slackness in Budget*

- 5.3 *The contention of Mr. Q to appoint an alternate director is:*
- (A) *Correct as the Articles of the Company provide for appointment of alternate Directors.*
- (B) *Incorrect as the authority to appoint alternate director has been vested in the board of directors only and that too subject to empowerment by the Articles.*
- (C) *Incorrect as the authority to appoint alternate director has been vested in the board of directors only and with approval of shareholders by passing a special resolution.*
- (D) *Incorrect as the authority to appoint alternate director has been vested only with the approval of shareholders by passing a special resolution.*
- 5.4 *As per Section V of Part II of Schedule V of the Companies Act, 2013 in respect of managerial remuneration where Mr. Sheshadri is appointed as managerial person in 2 companies, he may draw remuneration provided:*
- (A) *Total remuneration drawn from the companies shall be as per their effective capital.*
- (B) *Total remuneration drawn from the companies does not exceed the higher maximum limit admissible from anyone of the companies of which he is a managerial person.*
- (C) *A person cannot be appointed as managerial person in 2 companies at the same time.*
- (D) *Remuneration shall be paid subject to approval of members in general meeting.*
- 5.5 *Under the provisions of the Insolvency and Bankruptcy Code as enshrined in Section 21 of the Code, analyse the correctness of the statements as given in above para (v) in "Other inputs for discussion":*
- (A) *Statement 1 is correct whereas, statement 2 is incorrect.*
- (B) *Statement 1 is incorrect whereas, statement 2 is correct.*
- (C) *Both the statements (Statement 1 and 2) are correct*
- (D) *Both the statements (Statement 1 and 2) are incorrect. (2 x 5 = 10 Marks)*

PART-B

Descriptive Questions

- 5.6 *Considering the inputs in Discussion 1 as an advisor, what factors would be considered by you in formulating the audit strategy of the Company? (5 Marks)*
- 5.7 *In the light of the inputs given above in Discussion 2, compute a Cost and Price Statement, indicating the price that should be quoted to the customer. (5 Marks)*
- 5.8 *In the light of the inputs given above in Discussion 3, explain which of the group companies are required to appoint an internal auditor under the provisions of the Companies Act, 2013? (5 Marks)*

ANSWER TO CASE STUDY 5**PART – A**

5.1 (B)

5.2 (D)

5.3 (B)

5.4 (B)

5.5 (A)

PART – B

5.6 Formulation of Audit Strategy: While formulating the audit strategy for a company, following factors may be considered -

General Factors:

- (i) The engagement objectives.
- (ii) The results of the business review, including major developments in the client's business and industry, significant operating results and financial arrangements.
- (iii) Preliminary judgements as to materiality.
- (iv) Identified inherent risks. The team should also consider the risk of fraud and, in particular, any evidence of a high level of risk to the firm. They should take into account the results of procedures for the acceptance and continuation of clients.
- (v) The degree to which the team should carry out further assessment of controls as a means of reducing substantive tests.
- (vi) The broad nature, extent and timing of substantive tests, or changes to the previous year's strategy for substantive testing.
- (vii) Main points relating to planning and controlling the audit or comments on the adequacy of the existing arrangements.

Specific Factors for Online Shopping:

The auditor shall also obtain an understanding of the information system including the related business processes due to new venture of online shopping in the following areas:

- (i) The classes of transactions in the entity's operations that are significant to the financial statements;
- (ii) The procedures, within both information technology (IT) and manual systems, by which those transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements;

- (iii) The related accounting records, supporting information and specific accounts in the financial statements that are used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information is transferred to the general ledger. The records may be in either manual or electronic form;
- (iv) How the information system captures events and conditions, other than transactions, that are significant to the financial statements;
- (v) Controls surrounding journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments.

5.7

Cost and Price Statement

Particulars		Amount (₹)
Raw Material	2,50,000 × ₹ 3.25	8,12,500
Direct Labour	8,000 × ₹ 4.5	36,000
Factory Overhead	8,000 × ₹ 4	32,000
Selling & Distribution		30,000
Cost of Sale		9,10,500
Add: Interest on investment (5,27,625* × 11.5%)		60,677
Total Cost		9,71,177
Add Profit (1/3)		3,23,726
Total Sales Value		12,94,903
Units		2,50,000
Rate Per Unit		5.179 or 5.2

*** Investment**

Working Capital ($9,10,500 \times \frac{3}{12}$)	2,27,625
Fixed Capital	3,00,000
Total	5,27,625

5.8 Applicability of Provisions of Internal Audit: As per section 138 of the Companies Act, 2013, following class of companies (prescribed in Rule 13 of Companies (Accounts) Rules, 2014) shall be required to appoint an internal auditor or a firm of internal auditors, namely:-

- (A) every listed company;
- (B) every unlisted public company having-
 - (1) paid up share capital of fifty crore rupees or more during the preceding financial year; or

- (2) turnover of two hundred crore rupees or more during the preceding financial year; or
 - (3) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year; or
 - (4) outstanding deposits of twenty five crore rupees or more at any point of time during the preceding financial year; and
- (C) every private company having-
- (1) turnover of two hundred crore rupees or more during the preceding financial year; or
 - (2) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year.

In the given case, ABC Ltd. is a listed company. As per section 138 of the Companies Act, 2013, every listed company is required to appoint an internal auditor or a firm of internal auditors. Thus, in view of above, ABC Ltd. is required to appoint internal auditor.

Further, XYZ Ltd., is an unlisted public company. The company is having 60 crore as equity share capital which is exceeding the prescribed limit of rupees fifty crore as per section 138. Thus, XYZ Ltd. is required to appoint internal auditor as per section 138 of the Companies Act, 2013.

LMN Ltd. is unlisted private company and having 60 crore rupees as Equity Share Capital, 190 crore as turnover and 50 crore rupees loan from Bank and PFI. In view of provisions of section 138 of the Companies Act, 2013 discussed above, all the limits are below prescribed limit for private company. Therefore, LMN Ltd. is not required to appoint internal auditor.

It can be concluded that ABC Ltd. and XYZ Ltd. is required to appoint the internal auditor as per the provisions of the Companies Act, 2013 whereas LMN Ltd. is not required to do the same.

PAPER – 6F: MULTI-DISCIPLINARY CASE STUDY

The question paper comprises five case study questions. The candidates are required to answer any four case study questions out of five.

All your workings should form part of your answer.

CASE STUDY -1**About You**

You are a knowledgeable Chartered Accountant and appointed as a partner in an established firm of Chartered Accountants based out of Mumbai. You are very much excited on your becoming a partner and cannot afford to wait to sign your first set of audited accounts.

A New Client

Your audit firm added a new client, "Sunshine Cot Spin Ltd" (SCSL), a family owned, closely held, Public Limited Company, located at Pune to act as the Statutory Auditors of the Company and audit the books of accounts of the Company for the financial year 2020-2021. The Company is engaged in spinning and weaving of cotton yarn. The Audit firm's Senior Partner, CA. Sriman Narayan, (fondly referred to as 'SN') has allocated the client to you to conduct the audit. The senior partner is very close to the family which owns the Company and you strongly believe that this is atleast part of the reason why the Company decided to appoint your audit firm.

About SCSL

SCSL has evolved to be a significant player in cotton yarn spinning in Pune, commanding a premium market for their products and also exports its products to several countries. SCSL has two manufacturing plants at Pune housing around 1.5 lakh sq ft each. The spinning division in factory 'A' has an installed capacity of 2.25 lakh spindles, producing around 20 tonnes of cotton yarn per day. The weaving division at factory 'B' has an installation of 50 Suzler projectile machines. The export sales constituted around 30% of the total revenues as at 31st March, 2021. In Nov 2019, the Company was awarded a certificate of recognition as an export house by the Joint Director of Foreign Trade. One of the Company's division is also continuously engaged in leasing of properties - Mobile Towers as its principal or ancillary generating activities. Going forward, the company's strategy is to expand their existing capacity in spinning and weaving as well as enter in the textile chain including processing, garments and home textiles. Their vision is to scale new heights in the textile industry from fibre to finished products and to be at the forefront of the industry.

Commencement of the Audit Process

The CFO of the Company made available to you the audited accounts of the last five years and the draft summary of management prepared financial statements for the FY 2020-2021 subject to audit of certain items that need clarifications and resolutions from the statutory auditors.

Before the commencement of the audit, you reviewed the Company's audited accounts of the previous year. You noticed that the Auditors Report was qualified due to non-compliance with a mandatory accounting standard with respect to valuation of a high valued property that the Company owns. The audit opinion adds that the auditor is unable to quantify the impact of this non-compliance with the accounting standard. At this point, you made a telephonic conversation with the previous auditor informing them about your firm's appointment as auditor and also discussed the qualification in the previous audit report.

You were wondering whether the audit qualification issued was appropriate in the circumstances and you feel that a 'limitation of scope' opinion may have been more appropriate rather than "except for dis-agreement with accounting treatment due to non-compliance with an accounting standard".... You are considering the impact of this issue when CA.SN comes into your office. He provides you certain important inputs of SCSL and then asks whether you have any clarifications to be sought. At this juncture, you inform CA.SN what you have found. He immediately replies: "I don't see any issues. If the Company does not believe that it is worth paying for this information, then who are we to tell them otherwise. It is a family business after all. If we have to, then, we can also adopt the same approach as the previous auditors and qualify the audit report on the same grounds." CA.SN further stated that you should go ahead with the audit work and reassess the position once the audit fieldwork has been completed by your team.

Precarious situation and the way forward

Now you are in a very precarious situation. You need to build a strategy. On the one hand, as an individual, you don't feel like to compromise anything in the audit process as well as your Independence and on the other hand, the relationship of CA.SN with the Company matters you a lot. Finally, after a good thought, you have proposed to balance the situation with an appropriate presentation of a matter that needs proper reporting and / or by pointing out the legal position before hand with a view to avoid / rectify any lapse or shortcomings to the satisfaction of both the Company's management and CA.SN. You always believe in Professional Scepticism / Professional Judgement and is of the opinion that it is your legitimate right to advise your clients to comply with the rule of law, promote transparency in financial and business transactions, make your clients much more tax complaint vis-a-vis intelligent tax planning rather than tax dogging and tax evasion.

Accordingly, you made a detailed audit program and deputed your audit team to look meticulously into every material aspects and conduct the audit from the propriety angle. You also instructed that all observations made by the audit team would be reviewed by you with proper assessments to ensure that the financial statements reflects a true and fair view.

Review of accounts and records

On a review of the books of accounts, draft financial statements / minutes of the Board meetings and other secretarial and regulatory records, the following observations were made by your audit team:

1. *During the FY 2020-2021, the company had entered into certain related party transactions. A payment of ₹ 4 lakhs per month was made to a partnership firm which is a 'related party' within the meaning of the Companies Act, 2013 for marketing services rendered by them. Based on an independent assessment, the consideration paid was higher than the arms length by ₹ 0.50 lakhs per month. Whilst the transactions was accounted in the financial statements based on the amounts paid, no separate disclosure of this related party transaction has been made in the notes to accounts forming part of the financial statements highlighting the same as related party transaction. Further, regarding related party transactions, the Management of the Company has insisted the statutory auditors to rely on the management representation letter regarding the proper accounting, presentation and disclosure of such related party transactions.*
2. *The long term borrowings from a subsidiary Company has no written terms and neither the interest nor the principal has been repaid so far.*
3. *Certain computers and peripherals were received from the subsidiary company free of cost, the value of which is ₹ 0.75 lakhs and no accounting or disclosure of the same has been made in the notes to accounts.*
4. *The Company also sells its products to local dealers in Maharashtra. One of the conditions of sale is that interest will be charged at the rate of 2% p.m., for delayed payments. On scrutiny of the accounts, the audit team found that the percentage of interest recovery is only 10% on such overdue outstanding due to various reasons. During the year 2020-21, the Management has recognized the entire interest receivable as income in the Statement of Profit and Loss.*
5. *One of their division also deals in Leasing of properties - Mobile Towers. The accountant showed the rent arising from the leasing of such properties as 'other income' in the Statement of Profit and Loss.*
6. *During the course of the audit, you were provided with various oral representations during meetings and discussions. Whereas, while finalizing the audit, you requested the Management to provide all such oral representations into writing. The Management has informed you that since it has provided you full access to whatever records, documents and evidences were available with them without any exception, providing any representations in writing to external auditors is not possible. They have requested you to co-relate the same with the oral representations.*

7. You as the engagement partner has requested the Management to provide email addresses of trade receivables of the company for the purpose of obtaining balance confirmation from the trade receivables. The Management asked its Sales Manager to send confirmation requests to the trade receivables and collect all the responses and provide the same to the Auditors. The Management informed that confirmation with respect to two of its trade receivables namely X Limited and Y Limited will not be available as a dispute is going on with them. With respect to other trade receivables, the Sales Manager provided you all the balance confirmations.
8. While verifying the inventories as on 31st March, 2021, you observed that significant amount of inventories belonging to the Company are held by third parties. However, the Company has kept all the records of the inventories maintained by the third parties.
9. SCSL purchased new computers for ₹ 10 lakhs on October 5, 2020, installed the same in its office and put the said computers to use on the same date.
10. The Company has incurred an expenditure of ₹ 10 lakhs on advertisement in a souvenir of a registered political party.
11. While preparing the Ind AS financial statements for the previous year ended 31.03.2020, SCSL has observed that it had presented certain material liabilities as non-current in its financial statements for the year ended 31.03.2019. While preparing annual financial statements for the year ended 31.03.2021, management discovers that these liabilities should have been classified as current. The Management intends to restate the comparative amounts for the prior period presented (i.e as at 31.03.2020).
12. Other Issues of Management for your professional advice SCSL is considering a new sales strategy for one of its small subsidiary company that will be valid for the next 4 years. They want to know the value of new strategy. Following information relating to the year which has just ended is available:

Income Statement

Amount (in ₹ '000)

Sales	20,000
Gross Margin (20%)	4,000
Administration, Selling and Distribution Expenses (10%)	2,000
PBT	2,000
Tax (30%)	600
PAT	1,400
Balance Sheet Information	
Fixed Assets	8,000
Current Assets	4,000

Equity	12,000
--------	--------

If it adopts the new strategy, sales will grow at the rate of 20% per year for three years. The gross margin ratio, assets turnover ratio, the capital structure and the income tax rate will remain unchanged. Depreciation would be 10% of net fixed assets at the beginning of the year. The company's target rate of return is 15%.

At this juncture, before proceeding further, Mr. SN has desired to have an interim meeting with you to get an hands on summary of the audit observations and also with proper solutions to address them. So get ready to comprehend, analyse and apply to arrive at a correct solution to the issues given here under:

You are requested to provide the correct option to the following questions. Please indicate your option in capital letters. No reasoning is required. Note that the financial statements of the Company for the year under review are prepared using IND AS and your answers on Direct Tax Laws should relate to Assessment Year 2021-22.

- 1.1 *In respect of the inputs given in para (1) above, is there any further responsibility of the statutory auditor with regard to the other formalities to be performed for related party transactions (RTP)?*
- (A) *There is no further responsibility as the best audit evidence for the RTP is the Management representation letter.*
- (B) *There is no further responsibility, as the statutory auditor is responsible for verifying the balances and disclosure of RTPs. The identification of RTPs is the responsibility of the Management.*
- (C) *Yes, the statutory auditor has the responsibility to perform the audit procedures to identify, assess and respond to the material misstatements arising from the entity's failure to account for/ disclose related party relationships, transactions and balances.*
- (D) *Yes, the statutory auditor has the ultimate responsibility to detect fraud and error with respect to RTPs.*
- 1.2 *With respect to the inputs given in para (7) above, which of the following is warranted as per the requirement of the relevant SA?*
- (A) *As the Statutory Auditor, you should not have relied on the explanation provided by the Management with respect to the trade receivables namely X Limited and Y Limited and you should have performed alternative procedures with respect to such trade receivables.*
- (B) *As the Statutory Auditor, based on the risk assessment and materiality, you should have obtained direct responses atleast from some significant, if not all, trade receivables instead of the sales manager receiving direct responses and forwarding the same to you.*
- (C) *Both (A) and (B)*

- (D) You should give a qualified opinion as balance confirmations with respect to two trade receivables were not available.
- 1.3. With respect to the inputs given in para (9) above, the allowable depreciation under the Income Tax Act would be:
- (A) ₹ 1.5 Lakhs
 - (B) ₹ 2 Lakhs
 - (C) ₹ 3 Lakhs
 - (D) ₹ 4 Lakhs
- 1.4 With respect to the inputs given in para (10) above, which of the following statement is correct as per the Income Tax Act?
- (A) Such expenditure is an allowable deduction while computing its business income.
 - (B) Such expenditure is not an allowable deduction while computing its business income.
 - (C) Such expenditure is not an allowable deduction while computing its business income but is allowable as a deduction from gross total income.
 - (D) Such expenditure is neither allowable as a deduction from business income nor allowable as a deduction from gross total income.
- 1.5 With respect to the inputs given in para (11) above, which of the following statement is valid as per the Companies Act, 2013?
- (A) Change in Estimate - Restatement of previous year comparative is not required.
 - (B) Change in Estimate - Restatement of previous year comparative is required.
 - (C) Prior period error - Restatement of previous year comparative is not required.
 - (D) Prior period error - Restatement of previous year comparative is required.
- (2 x 5 = 10 Marks)**
- 1.6 With reference to the case study, comment on whether communication made with the previous auditor is in line with relevant clause of Schedule to the Chartered Accountants Act, 1949 and Code of Ethics. **(3 Marks)**
- 1.7 Comment whether the classification referred in para (5) above is correct or not in the light of Schedule III to the Companies Act, 2013. **(4 Marks)**
- 1.8 In respect of the inputs given in para (12) above, determine the incremental value due to adoption of the new strategy in line with the strategic financial management principles adopted by the company. **(8 Marks)**

ANSWER TO CASE STUDY 1**PART – A**

- 1.1 (C)
- 1.2 (C)
- 1.3 (B)
- 1.4 (C)
- 1.5 (D)

PART – B

- 1.6 As per Clause (8) of Part I of the First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant is deemed to be guilty of professional misconduct if he accepts a position as auditor previously held by another chartered accountant or a certified auditor who has been issued certificate under the Restricted Certificate Rules, 1932 without first communicating with him in writing.

It must be pointed out that professional courtesy alone is not the major reason for requiring a member to communicate with the existing accountant who is a member of the Institute or a certified auditor. The underlying objective is that the member may have an opportunity to know the reasons for the change in order to be able to safeguard his own interest, the legitimate interest of the public and the independence of the existing accountant. It is not intended, in any way, to prevent or obstruct the change. When making the inquiry from the retiring auditor, the one proposed to be appointed or already appointed should primarily find out whether there are any professional or other reasons why he should not accept the appointment.

In the given situation, the incoming auditor has informed the previous auditor about their appointment and discussed about the qualifications given in audit report over telephone. Mere informing about appointment over telephone instead of writing is not correct in accordance with Clause 8. Therefore, the incoming auditor would be held guilty of professional misconduct under Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949 for not communicating with previous auditor in writing.

- 1.7 General Instructions for the Preparation of Statement of Profit and Loss of Division II under Schedule III to the Companies Act, 2013, requires revenue from operations to be separately disclosed in the notes, showing revenue from:
- (a) Sale of products;
 - (b) Sale of services; and
 - (c) Other operating revenues

The term “other operating revenue” is not defined. This would include Revenue arising from a company’s operating activities, i.e., either its principal or ancillary revenue-generating activities, but which is not revenue arising from sale of products or rendering of services. Whether a particular income constitutes “other operating revenue” or “other income” is to be decided based on the facts of each case and detail understanding of the company’s activities.

The classification of income would also depend on the purpose for which the particular asset is acquired or held.

In the given case, it is mentioned that one of their divisions also deals in Leasing of properties – Mobile Towers. The company is primarily engaged in spinning and weaving of cotton yarn. The revenue arising out of mobile towers division may be considered as either its principal or ancillary revenue-generating activities. Accordingly, the rent arising from leasing of Mobile towers properties would be classified under the head “Revenue from Operations” in the Statement of Profit and Loss. Hence, it cannot be shown under the head “Other Income”.

1.8 Projected Balance Sheet

	Year 1	Year 2	Year 3	Year 4
Fixed Assets (40% of Sales)	9,600	11,520	13,824	13,824
Current Assets (20% of Sales)	4,800	5,760	6,912	6,912
Total Assets	14,400	17,280	20,736	20,736
Equity	14,400	17,280	20,736	20,736

Projected Cash Flows

	Year 1	Year 2	Year 3	Year 4
Sales	24,000	28,800	34,560	34,560
PBT (10% of sale)	2,400	2,880	3,456	3,456
PAT (70%)	1,680	2,016	2,419.20	2,419.20
Depreciation	800	960	1,152	1,382
Addition to Fixed Assets	2,400	2,880	3,456	1,382
Increase in Current Assets	800	960	1,152	-
Operating cash flow (FCFF)	(720)	(864)	(1,036.80)	2,419.20

Projected Cash Flows:-

Present value of Projected Cash Flows:-

Cash Flows	PVF at 15%	PV
-720	0.870	-626.40
-864	0.756	-653.18
-1,036.80	0.658	<u>-682.21</u>
		-1,961.79

$$\text{Residual Value} = 2419.20/0.15 = 16,128$$

$$\begin{aligned} \text{Present value of Residual value} &= 16128/(1.15)^3 \\ &= 16128/1.521 = 10603.55 \end{aligned}$$

$$\text{Total shareholders' value} = 10,603.55 - 1,961.79 = 8,641.76$$

$$\text{Pre strategy value} = 1,400 / 0.15 = 9,333.33$$

$$\therefore \text{Incremental Value of strategy} = 8,641.76 - 9,333.33 = -691.57$$

CASE STUDY - 2

You are a young dynamic Management Consultant of 30 years of age, having graduated from a top notch business school in India and later on obtained a Doctorate degree in Finance from USA. At the age of 27 years, you started a consultancy firm in Bengaluru, India for providing scratch to end business advisory solutions to start-up companies, especially on innovative ways to finance a start-up, direct taxes, financial reporting, legal advisory under FEMA, 1999 and Insolvency and Bankruptcy Code, 2016. Your clients are spread across the country and you have a sizeable team of professionals working under your entire advisory practice.

Your client, Soft Tech Automobile Solutions Private Limited (STAS) is one of the India's start-up companies incorporated at Delhi in the year 2017. The main objective of the Company is to develop a niche, never invented before, customized software packages for two and three wheeler automobile manufacturers in India and abroad. The Company is the first ever start-up company wholly owned, managed by women technocrats with only women employees. It was promoted by Ms. Sunandha and Ms. Pracheeti, IITians from Delhi.

Ever since the promoters started their venture, they have, within a span of one year, garnered about 15 reputed automobile companies in India and twelve foreign companies in USA as their customers with long term contracts and significant business in terms of volume and money value. The promoters have also formed a wholly owned subsidiary at Singapore which has a liaison office in Mumbai and currently has very limited operations in India. The Indian liaison office, at present, employs about 30 people primarily to represent the foreign subsidiary in dealing with the customers in India.

Because of their innovative and user friendly software package, that provides high value addition, and going by the success they reaped within a year, it is for sure, that, they would flourish and branch out in their business within the next five years of their establishment. In other words, the Company is also looking at rapid expansion over the next three years. Nevertheless, what disturbs them, is the infusion of initial funds and continued working capital in the start-up to meet their commitments.

STAS is well recognized for its governance standards and is very keen to implement its zero tolerance for non-compliances policy. Under the circumstances, they have reached out to you seeking your advice on strategic financial management vis-a-vis innovative ways to finance a start up, matters on financial reporting and direct taxation. Besides the above, they also wanted you to advise them on the regulatory provisions of FEMA, 1999, IBC Code, 2016 that may impact their business. Accordingly, they have requested you to join their internal brainstorming session organized to discuss and decide on the way forward. This meeting will be attended by Ms. Sunandha, Managing Director, Ms. Pracheeti, Joint Managing Director, Ms. Anjana, Chief Financial Officer, Ms. Samanvitha, Manager, Taxation and Ms. Jaishvitha, Company Secretary. Prior to the meeting, the promoters have informed you and given the following inputs:

- (a) A few export invoices raised by the Company towards supply of goods or services were remaining outstanding from the foreign party (in excess of the stipulated thresholds for suo moto write off) and despite the Company's best efforts, the amounts have become doubtful of recovery.*
- (b) During the financial year 2020-21, the Company had changed its method of accounting compared to the previous financial year (2019-20) and had reported a closing stock of computer peripherals amounting to ₹ 2 lakhs only as on 31.03.2021. Also, the Company had borrowed a sum of ₹ 10 crores equally from two public sector banks and two NBFCs. The Company had promptly repaid few deposits amounting to ₹ 80 lakhs to the deposit holders.*
- (c) The Company acquired 5 state of the art, hitech computers, peripherals and servers (herein after referred to as 'Plant') at a cost of ₹ 2 Crores (with no break down of the component parts). The estimated useful life is 10 years. At the end of the 2nd year, one of the major component (Server) has become obsolete and requires replacement as further maintenance is uneconomical. The balance of the plant is perfect and expected to last for next 10 years. The cost of the replacement of new component is ₹ 60,00,000. The discount rate assumed is 5%*
- (d) The statutory Auditors of the Company, M/s. DEF & Associates, where CA. Mr. F, who is one of the partners of the audit firm who does not sign the audited financials of the Company had borrowed a sum of ₹ 4 lakhs from the subsidiary company for a short term repayable within 2 months. He had also purchased accounting software worth ₹ 1.10 lakhs from the said company. Both the sum borrowed and the cost of the. accounting software are not yet paid by Mr. F.*

- (e) Ms. Suman, sister of Ms. Sunandha, (the Managing Director of the Company) is a resident of Singapore and she owns an immovable property in Varanasi, which she inherited from her father, who was a resident in India. Currently, Ms. Sunandha uses the property.
- (f) Ms. Pracheeti, the Joint Managing Director wants to know the legal remedies available in India for recovering amounts rightfully due to the Company in case of a wilful default by the customer. In this regard, she is curious to understand the legal provisions of Insolvency and Bankruptcy Code, 2016 which would come handy for enforcing timely actions by the defaulting customers, where required. She also wanted to understand how the settlement of the dues would be prioritized as compared to various secured creditors of the defaulting company at the time of insolvency.
- (g) The income tax assessment of the Company was completed under Section 143(3) of the Income Tax Act, 1961 with an addition of income of ₹ 24 lakhs to the returned income. The Company had preferred an appeal before the Commissioner of Appeals which is pending disposal.

Asks from You

You are requested to advise STAS based on your understanding of their requirements, issues and clarifications sought. You can make relevant assumptions, if any, as may be required to explain your views so as to provide a holistic and relevant feedback. Your timely advices may go a long way to the dynamic women entrepreneurs in scaling new heights in their business operations. Good Luck.....!

Provide the correct options to the following questions:

- 2.1 Under the provisions of the Foreign Exchange Management Act, 1999, amounts receivable referred in para (a) above:
- (A) Will remain in the books for ever and nothing needs to be done.
- (B) To be continued to be treated as good till such time the approval from the RBI/ Authorized Dealer is obtained for write-off.
- (C) Can be written off in the accounts and claimed as an allowable expense for taxation purposes and the procedural aspects of approvals from the RBI /AD may be obtained later.
- (D) To be provided for in the accounts towards doubtful receivables, disallowed for income tax computation purposes and the write-off to be effected in compliance with the FEMA/RBI directions and income tax requirements.
- 2.2 In the light of the information provided in para (b) above, state which among the below transactions which were undertaken by the Company needs to be reported by the Statutory Auditors under fiscal laws?
- (i) ₹ 10 crore loan taken, which is exceeding the limit specified under Section 269 SS of the Income tax Act, 1961.

- (ii) Changed its method of accounting from the previous financial year.
- (iii) Repayment of deposits of ₹ 80 lakhs which is exceeding the limit specified under Section 269 T of the Income Tax Act, 1961.
- (iv) Reporting of closing stock of computer peripherals worth ₹ 2 Lakhs only.

OPTIONS

- (A) (i), (iii) & (iv)
 - (B) (ii) & (iii)
 - (C) (i) & (iii)
 - (D) (i), (ii), (iii) & (iv)
- 2.3 With respect to the acts carried out by CA. Mr. F, what can you infer about the appointment of M/s. DEF & Associates as Statutory Auditors of the Company?
- (A) It is valid since the indebtedness is not with STAS.
 - (B) It is valid since CA. Mr. F is not signing the financials of STAS.
 - (C) It is valid since the indebtedness is within the prescribed limits.
 - (D) It is not valid since the indebtedness exceeds prescribed limit of ₹ 1 lakh.
- 2.4 Can Ms. Suman continue to hold the property?
- (A) No, she cannot hold, transfer or invest in India, since she is resident outside India.
 - (B) Yes, she can continue to hold in India, since she is a person of Indian origin and the property is located in India.
 - (C) Yes, she can continue to hold in India, since this was inherited from a person who was resident in India.
 - (D) Yes, she can continue to hold in India, since her sister uses the property whenever she travels to Varanasi.
- 2.5 Under the Insolvency and Bankruptcy Code, 2016, with reference to information in para (f), the foreign subsidiary can initiate action against the defaulting companies in India for non-payment of its enforceable dues:
- (A) For any amount in excess of US \$ 100 in its capacity as financial creditor.
 - (B) For any amounts in excess of ₹ 10 million with the approval of NCLT.
 - (C) For any amount in excess of US \$ 100 in its capacity as corporate debtor.
 - (D) For any amounts in excess of ₹ 10 million without the approval of NCLT.

(2 x 5 = 10 Marks)

- 2.6 *Being the referred Management Consultant, what are some of the ways you would suggest STAS management to finance their start-up?* **(5 Marks)**
- 2.7 *In respect of the information provided in para (c) above, examine whether the cost of new component (server) be recognized as an asset and if so, what should be the carrying value of the plant at the end of the second year?* **(5 Marks)**
- 2.8 *In respect of the information provided in para (g) above, please answer the following questions:*
- (i) *Can the Commissioner make a revision under Section 263 of the Income Tax Act, 1961 both in respect of matters covered in appeal and other matters?*
- (ii) *Can STAS seek revision under Section 264 of the Income Tax Act, 1961 in respect of the matters other than those preferred in appeal?* **(5 Marks)**

ANSWER TO CASE STUDY 2**PART – A**

- 2.1 (B)
- 2.2 **None of the options given is correct.**
- 2.3 **None of the options given is correct.**
- 2.4 (C)
- 2.5 (B)

PART – B

- 2.6 Every startup needs access to capital, whether for funding product development, acquiring machinery and inventory or paying salaries to its employee. Though we can think first of bank loans as the primary source of money, only to find out that banks are really the least likely benefactors for startups. So, we suggest innovative measures include maximizing non-bank financing.

Here are some of the sources for funding a startup:

- (i) **Personal financing:** It may not seem to be innovative but you may be surprised to note that most budding entrepreneurs never thought of saving any money to start a business. This is important because most of the investors will not put money into a deal if they see that you have not contributed any money from your personal sources.
- (ii) **Personal credit lines:** One qualifies for personal credit line based on one's personal credit efforts. Credit cards are a good example of this. However, banks are very cautious while granting personal credit lines. They provide this facility only when the business has enough cash flow to repay the line of credit.

- (iii) **Family and friends:** These are the people who generally believe in you, without even thinking that your idea works or not. However, the loan obligations to friends and relatives should always be in writing as a promissory note or otherwise.
 - (iv) **Peer-to-peer lending:** In this process group of people come together and lend money to each other. Peer to peer lending has been there for many years. Many small and ethnic business groups having similar faith or interest generally support each other in their start up endeavors.
 - (v) **Crowd funding:** Crowd funding is the use of small amounts of capital from a large number of individuals to finance a new business initiative. Crowdfunding makes use of the easy accessibility of vast networks of people through social media and crowdfunding websites to bring investors and entrepreneurs together.
 - (vi) **Micro loans:** Microloans are small loans that are given by individuals at a lower interest to a new business ventures. These loans can be issued by a single individual or aggregated across a number of individuals who each contribute a portion of the total amount.
 - (vii) **Vendor financing:** Vendor financing is the form of financing in which a company lends money to one of its customers so that he can buy products from the company itself. Vendor financing also takes place when many manufacturers and distributors are convinced to defer payment until the goods are sold. This means extending the payment terms to a longer period for e.g. 30 days payment period can be extended to 45 days or 60 days. However, this depends on one's credit worthiness and payment of more money.
 - (viii) **Purchase order financing:** The most common scaling problem faced by startups is the inability to find a large new order. The reason is that they don't have the necessary cash to produce and deliver the product. Purchase order financing companies often advance the required funds directly to the supplier. This allows the completion of transaction and profit flows up to the new business.
 - (ix) **Factoring accounts receivables:** In this method, a facility is given to the seller who has sold the good on credit to fund his receivables till the amount is fully received. So, when the goods are sold on credit, and the credit period (i.e. the date upto which payment shall be made) is for example 6 months, factor will pay most of the sold amount up front and rest of the amount later. Therefore, in this way, a startup can meet his day to day expenses. **(Any 5 points)**
- 2.7 The new component will produce economic benefits to company, and the cost is measurable. Hence, the item should be recognised as an asset.

The original invoice for the plant did not specify the cost of the component; however, the cost of the replacement ₹ 60,00,000 can be used as an indication (usually by discounting) of the likely cost, two years previously.

If an appropriate discount rate is 5% per annum, ₹ 60,00,000 discounted back two years amounts to ₹ 54,42,177 [$₹ 60,00,000/(1.05)^2$], i.e., the approximate cost of component before 2 years.

The current carrying amount of the component which is required to be replaced of ₹ 43,53,742 would be derecognised from the books of account, (i.e., Original Cost ₹ 54,42,177 as reduced by accumulated depreciation for past 2 years ₹ 10,88,435, assuming depreciation is charged on straight-line basis.)

The cost of the new component, ₹ 60,00,000 would be added to the cost of plant, resulting in a revision of carrying amount of plant to ₹ 1,76,46,258 (i.e., ₹ 1,60,00,000* – ₹ 43,53,742 + ₹ 60,00,000).

*Original cost of plant ₹ 2,00,00,000 reduced by accumulated depreciation (till the end of 2 years) ₹ 40,00,000.

2.8

(i)	As per section 263, the Commissioner has the power to revise an order prejudicial to revenue, even if the order is the subject matter of appeal before Commissioner (Appeals). However, the power of the Commissioner under section 263 shall extend to only such matters as had not been considered and decided in such appeal. The doctrine of partial merger would apply in this case. Even in a case where the appeal is pending but not yet decided, the Commissioner cannot exercise his revisionary jurisdiction in respect of those issues which are the subject matter of appeal. CWT Vs Sampathmal Chordis (2002) 256 ITR 440 (Mad).
(ii)	As per section 264(4), the Commissioner shall not revise any order under section 264, where such order has been made the subject of an appeal to the Commissioner (Appeals), even if the revision pertains to a matter, other than the matter(s) covered in the appeal. Thus, the concept of total merger would apply in the case of section 264. Therefore, STAS cannot seek revision under section 264 even in respect of matters other than those preferred in appeal. As held by Hon'ble Supreme Court in the case of Hindustan Aeronautics Ltd Vs CIT (2000) 243 ITR 898.

CASE STUDY - 3

Your Position in the Professional Arena

You are an open minded, sensible, competent and innovative Management Consultant providing solutions in financial reporting, budgetary control, cost analysis, capital budgeting and other areas of costing and management reporting. You are also advising corporates on the implications of mergers and amalgamations covering various aspects inter-alia on the legal, business and corporate tax related matters.

You are specifically approached by various corporates to implement governance and ethics into the very fabric of the client's organization, revising and re-framing the compliance framework, policies, processes in line with the corporate & allied laws and other local regulations.

Professional Work

During the month of January 2021, six different Companies approached you seeking your advice with respect to their proposals as outlined below:

Proposals

(1) KG LIMITED (KGL)

KOL is a manufacturing company that produces a wide range of consumer products for home consumption. Among its popular brand are its energy efficient and environment friendly LED lamps. The Company has a quality control department that monitors the quality of production. As per the recent 'poor quality report', the current rejection rate of LED lamps is 5% of units input. 5,000 units input goes through the process each day. Each unit that is rejected costs ₹ 200 to the Company. The quality control department has proposed few changes to the inspection process that would enable early detection of defects. This would reduce the overall rejection rate from 5% to 3 % of units input. The improved inspection costs would cost the company ₹ 15,000 per day.

(2) GANGOTRI LIMITED (GL)

GL is intending to acquire Madhruk Limited (ML) (by merger) (a company not within the definition of a "small company" under the Companies Act, 2013) and the following information are available in respect of both the companies:

(In ₹)

Particulars	Gangotri Limited	Madhruk Limited
Total Current Earnings	2,50,000	90,000
Number of outstanding shares	50,000	30,000
Market price per share	21	14

Besides the above, GL has lent an amount of ₹10 lakhs to ML as an inter-corporate deposit (ICD) for meeting various working capital requirements in the year 2018 which is being rolled over every 6 months since ML is not in a position to repay the loan as per agreed tenure. It is also not servicing any interest and the amount of interest payable as per the terms is not recognized in the books of ML in view of uncertainties attached to revenue recognition.

The CFO of GL believes that this proposal of merger is completely workable and in fact the same needs to be mandatorily pursued through the fast track mechanism available under the regulatory framework. He further added that the ICD which remains as

outstanding from ML will also be eliminated on merger and hence the issue of repayment also does not arise.

(3) EL GEE INDUSTRIES LIMITED (EGIL)

EGIL manufactures standard heavy duty steel storage racks for industrial use. Each storage rack is sold for ₹ 750 each. The Company produces 10,000 racks per annum. Relevant cost data per annum are as follows:

Cost Component	Budget	Actual	Actual Cost p.a. (₹)
Direct Material	5,00,000 sq. ft.	5,20,000 sq. ft.	20,00,000
Direct Labour	90,000 hrs.	1,00,000 hrs.	10,00,000
Machine Setup	15,000 hrs.	15,000 hrs.	1,50,000
Mechanical Assembly	2,00,000 hrs.	2,00,000 hrs.	30,00,000

The actual and budgeted operating levels are the same. Actual and standard rates of material procurement and hourly labour rate are also the same. Any variance in cost is solely on account of difference in the material usage and hours required to complete production. Aggressive pricing from competitors has driven down sales. A comparable rack is available in the market for ₹ 675 each. Shankar, the marketing manager has determined that in order to maintain the company's existing market share of 10,000 racks, EGIL must reduce the price of each rack to ₹ 675.

(4) JM BAKES & CONFECTIONERS LTD (JMBCL)

JMBCL started a Bakery and Confectionery store. The MD of JMBCL, Mr. X contacted Mr. Y, representing Iyer & Co., Confectioners & Bakers (ICCB) for supply of cakes and biscuits. The communication between the parties were over email. On e-mail, there was a term of service between the parties containing that "any disputes regarding quality or delivery shall be submitted to arbitration conducted under the guidance of Indian Confectionery Manufacturers Association. Please place your order if the above terms and conditions are agreeable to you." X placed an order.

(5) SHANTHI BIOTECH LIMITED (SBTL)

SBTL had a paid up equity share capital of ₹ 20 crores divided into 20,00,000 equity shares of ₹ 10 each. The Company had 2,000 equity shareholders. A petition was submitted before the Tribunal signed by 320 members holding 40,000 equity shares of the Company for the purpose of claiming relief against oppression and mismanagement by the majority of the shareholders. Subsequently, 160 members, who had signed the petition withdrew their consent.

(6) SUPER SPINNING LTD (SSL)

While computing the statement of total income prepared in accordance with ICDS for the A.Y.2019-20, the following information was noted:

The amount of employee benefits include a sum of ₹ 4,50,000 in respect of bonus payable to employees. In the previous year 2018-2019, the Company and its employees union had a dispute over payment of bonus. In order to avoid late payment of bonus, the Company formed a trust and transferred the amount of bonus payable to employees to the said trust. The dispute was settled in the month of November, 2019 and the trust paid the amount of bonus to the employees on 30th December, 2020.

You are requested to provide the correct option to the following questions. Please indicate your option in capital letters. No reasoning is required.

- 3.1 Whether the proposal of Gangotri Limited for the merger of Madhruk Limited needs to be mandatorily pursued under "fast track mode"?
- (A) Yes
 - (B) No
 - (C) Yes, as it involves capital reduction
 - (D) Would vary on a case to case basis depending on the contents of the scheme.
- 3.2 On giving effect to the scheme of merger, the ICD provided by Gangotri Limited (GL) to Madhruk Limited (ML):
- (A) Will remain in the books of ML.
 - (B) Will be squared off.
 - (C) Will remain as a memorandum entry.
 - (D) Will remain only in the books of GL.
- 3.3 State which statement is correct with respect to the arbitration agreement made between JMBCL and ICCB under the provisions of the Arbitration and Conciliation Act,
- (A) It is not valid agreement, as the terms of service is not contained in same document of agreement.
 - (B) It is not valid, as the agreement is not laid down in particular format formally.
 - (C) It is not valid, as communication over email of the term of services is not proper.
 - (D) It is valid arbitration agreement in writing contained in correspondence between the parties over email.
- 3.4 In respect of SBTL, as per the given facts:
- (A) The petition becomes automatically void.
 - (B) The petition is nevertheless maintainable subject to the condition that approval of 80 members is obtained within a period of 30 days.
 - (C) The petition is nevertheless maintainable subject to the condition that approval of at least 40 members is obtained within a period of 30 days.

- (D) *It will not affect the maintainability of the petition.*
- 3.5 *While computing the total income of Super Spinning Limited (SSL), for the A.Y. 2019-20, the amount of bonus payable:*
- (A) *Would be allowed as a deduction*
 (B) *Would not be allowed as a deduction*
 (C) *Would be partially allowed as a deduction*
 (D) *No treatment is required.* **(2 x 5 = 10 Marks)**
- 3.6 *With reference to the inputs given for KG Limited above, analyze the proposal and suggest if it would be beneficial for the Company to implement it.* **(3 Marks)**
- 3.7 *With reference to the inputs given for Gangotri Limited as above:*
- (i) *What is the present EPS of both the companies?*
 (ii) *If the proposed merger takes place, what would be the new earnings per share for Gangotri Ltd. (assuming the merger takes place by exchange of Equity Shares and the Exchange Ratio is based on the Current Market Price)? Assume no synergy impact.* **(6 Marks)**
- 3.8 *With reference to the inputs given for El Gee Industries Limited,*
- (i) *Calculate the current cost and profit per unit and identify the non-value added activities in the production process.*
 (ii) *Calculate the new target cost per unit for a sales price of ₹ 675 if the profit per unit is maintained.* **(6 Marks)**

ANSWER TO CASE STUDY 3**PART – A**

- 3.1 (B)
 3.2 (B)
 3.3 (D)
 3.4 (D)
 3.5 (B)

PART – B**3.6 Analysis of the proposal to make changes to the inspection process:**

The company wants to reduce the cost of poor quality on account of rejected items from the process. The current rejection rate is 5% that is proposed to be improved to 3% of units input.

The expected benefit to the company can be worked out as follows:

The units of input each day = 5,000. At the current rate of 5%, 250 units of input are rejected each day. It is proposed to reduce rejection rate to 3%, that is 150 units of input rejected each day. Therefore, improvements to the inspection process would reduce the number of units rejected by 100 units each day. The resultant cost of poor quality would reduce by ₹ 20,000 each day (100 units of input × ₹ 200 cost of one rejected unit).

The cost of implementing these additional controls to the inspection process would be ₹ 15,000 each day.

The net benefit to the company on implementing the proposal would be ₹ 5,000 each day. Therefore, the company should implement the proposal.

3.7 (i) Present EPS of Gangotri Ltd. (GL) and Madhruk Ltd. (ML)

	GL	ML
Total Current Earnings (a)	₹ 2,50,000	₹ 90,000
No. of outstanding shares (b)	50,000	30,000
EPS (a)/ (b)	₹ 5.00	₹ 3.00

(ii) Calculation of new EPS of GL

No. of equity shares to be issued by GL to ML

$$= 30,000 \text{ shares} \times \frac{\text{₹ } 14}{\text{₹ } 21} = 20,000 \text{ shares}$$

Total no. of shares in GL after acquisition of ML

$$= 50,000 + 20,000 = 70,000$$

Total earnings after tax [after acquisition]

$$= \text{₹ } 2,50,000 + \text{₹ } 90,000 = \text{₹ } 3,40,000$$

$$\text{EPS} = \frac{\text{₹ } 3,40,000}{70,000} = \text{₹ } 4.86$$

3.8 (i) The current cost and profit per unit are calculated as below:

Cost Component	Units	Actual Cost p.a. for 10,000 racks (₹)	Actual Cost per rack (₹)
Revenue	10,000 racks	75,00,000	750
Direct Material	5,20,000 sq. ft.	20,00,000	200
Direct Labour	1,00,000 hrs.	10,00,000	100

Machine Setup	15,000 hrs.	1,50,000	15
Mechanical Assembly	200,000 hrs.	30,00,000	300
Total Cost	61,50,000	615	
Profit	13,50,000	135	

Therefore, the current cost is ₹ 615 p.u. while the profit is ₹ 135 p.u. Machine setup is the time required to get the machines and the assembly line ready for production. In this case, 15,000 hours spent on setting up does not add value to the storage racks directly. Hence, it is a non-value add activity.

- (ii) New sale price per rack is ₹675 per unit. The profit per unit needs to be maintained at ₹ 135 per unit. Hence, the new target cost per unit = new selling price per unit – required profit per unit = ₹ 675 - ₹ 135 = ₹ 540 per unit.

CASE STUDY - 4

You are advising companies in mergers and acquisitions. One of your clients, T Limited reached out to you with their interest in acquiring companies for their inorganic growth. They have provided you with an analysis of their initial target list along with some business insights obtained through various channels. You are required to consider the details below and answer the questions.

PB Private Limited

The promoters of this company are Z & Y who hold about 90% in the company. The remaining 10% is held by a group of minority shareholders of which 9% is held by J in his individual capacity. Whilst the promoters of the company are willing to offload their shares completely at a fair price, J, being a significant minority shareholder, may be creating problems and he may also demand higher price to capitalise on the opportunity.

J is also in the board of the Company and has issues with the Board Chairman on various matters. He has also written to the Registrar of Companies (RoC) that the matters discussed by him in the board meetings are filtered by the Chairman and the minutes do not reflect the facts and the key discussion matters appropriately. Z is the Chairman of the Board and he believes that his decision is final with respect to board minutes and even the RoC has no role to play.

Further, the promoters want to know about the powers to acquire shares of Shareholders dissenting from scheme or contract approved by the majority or how they can directly purchase Minority Shareholding, under Companies Act, 2013.

IP Limited

IP Limited is the market leader in introducing innovation in the paper industry. The advanced 3D printing capable new generation machineries are imported by the Company which has

helped the company in cutting its cost considerably and improving its profitability. Post introduction of Goods and Service Tax (GST), the Company has resorted to certain practices which were challenged by the Department. Several GST refunds received by the Company from the Goods and Service Tax department were alleged to be failing the principle of unjust enrichment under the Act. The exposure arising out of the same needs careful evaluation.

Further, the company is also having several issues with respect to supply and reversals/returns and the process of invoicing/raising of credit and debit notes requires complete overhaul. It has paid GST on several supplies without considering the subsequent reversals resulting in over payment of taxes since it was not clear on the provisions, clarity was also sought on allowable refunds. Further, the time limits for claiming refunds of excess tax paid/unutilised Input credit also requires evaluation since this could have a significant impact on the net worth of the company.

DP (Regd.)

DP (Regd.) is a partnership firm where G and K are the current partners. Earlier M was also a partner, who retired on 31.03.2019. The firm primarily focuses on exports and has got good recoveries over the past 2 years.

Majority of the exports of the firm were routed through a third party under the deemed exports category which was challenged by the GST authorities recently. The firm has also been slapped with a tax notice on their supplies made in financial year 2018-19 which if confirmed would virtually result in wiping out all the net worth and the partners may have to pay from their personal assets in view of their joint and several liability.

G and K believe that if there is a requirement to pay the tax, then M would also be required to pay the same as per the applicable provisions, though M challenges this position. In view of the tax uncertainty, the firm is willing to consider a total buy out by any large company.

Part-A

- 4.1 Presume that T Limited proposes to pursue amalgamation of PB Pvt. Ltd. and pursuant to the same, agrees to pay higher price (higher than the price decided under the scheme) to J based on his negotiation, the extra amount/compensation received by J shall be:
- (A) Fully payable to him in his individual capacity.
 - (B) Full payable to the remaining minority shareholders.
 - (C) Allocated to all minority shareholders on pro rata basis.
 - (D) Allocated to all majority shareholders on pro rata basis.
- 4.2 Z has an absolute discretion to exclude the matters raised by J in the board minutes, if it -
- (A) is relevant or material to the proceedings.
 - (B) is detrimental to the interests of the Chairman.

- (C) *is or could reasonably be regarded as defamatory of any person.*
 (D) *is a dissent in a majority decision.*
- 4.3 *The GST liability of IP Ltd. as a supplier will reduce when the:*
 (A) *Credit note is issued by the supplier.*
 (B) *Credit note is issued by the customer.*
 (C) *Debit note is issued by the supplier.*
 (D) *Debit note is issued by the customer.*
- 4.4 *M is liable to pay GST, interest and penalty of the firm due:*
 (A) *Till the date of the retirement notwithstanding any intimation to Commissioner.*
 (B) *Till the date of the intimation provided to the commissioner.*
 (C) *Indefinitely notwithstanding the retirement/intimation.*
 (D) *Not at all liable.*
- 4.5 *The time limit for making an application for claiming refund of GST taxes paid by I P Ltd. is:*
 (A) *3 years from the relevant date.*
 (B) *2 years from the relevant date.*
 (C) *None since there is no time limit.*
 (D) *None since such refund can never be claimed.* **(2 x 5 = 10 Marks)**

Part-B

- 4.6. *With the reference to the decision to acquire P B Private Limited by T limited, discuss the powers to acquire shares of Shareholders dissenting from scheme or contract approved by Majority and also discuss various provision of purchase of minority shareholding, as required by Z & Y.* **(10 Marks)**
- 4.7 *Under what circumstances IP limited is legally entitled to the GST refunds and can also retain such amounts without having the requirement to pass it on to anybody else? Also brief about what are allowable refunds.* **(5 Marks)**

ANSWER TO CASE STUDY 4**PART – A**

- 4.1 (C)
 4.2 (C)
 4.3 (A)

4.4 (A)

4.5 (B)

PART – B

4.6 POWER TO ACQUIRE SHARES OF SHAREHOLDERS DISSENTING FROM SCHEME OR CONTRACT APPROVED BY MAJORITY [SECTION 235 OF THE COMPANIES ACT, 2013]

(1) Basic requirements as to acquisition of shares [Sub-section (1)]:

- The scheme or contract involving the transfer of shares or any class of shares in a company (the transferor company) to another company (the transferee company) has been approved by the holders of not less than 9/10th in value of the shares whose transfer is involved.
- The approval from 9/10th shareholders in value shall be received within four months after making of an offer in that behalf by the transferee company.
- The shares already held at the date of the offer by Transferee Company, or by a nominee of the transferee company or its subsidiary companies shall not be counted for this purpose. The transferee company shall express his desire to acquire the remaining shares of dissenting shareholders within two months after the expiry of the said four months and shall give notice in the prescribed manner to any dissenting shareholder that it desires to acquire his shares.

(2) Order of Tribunal to acquire shares of dissenting shareholders [Sub-section (2)]: Where a notice under sub-section (1) is given, the transferee company shall, unless on an application made by the dissenting shareholder to the Tribunal, **within one month** from the date on which the notice was given and the Tribunal thinks fit to order otherwise, be entitled to and bound to acquire those shares on the terms on which, under the scheme or contract, the shares of the approving shareholders are to be transferred to the transferee company.

(3) Application by dissenting shareholders [Sub-section (3)]:

- (i) Where a notice has been given by the transferee company **on an application made by the dissenting shareholder** and the Tribunal has not, made an order to the contrary i.e. order made in favor of the company, the transferee company shall, on the expiry of one month from the date on which the notice has been given, or,
- (ii) if an application to the Tribunal by the dissenting shareholder is then pending, - Nothing is required to be done.
- (iii) after that **application has been disposed of-**
shall send a copy of the notice to the transferor company together with an

instrument of transfer, to be executed on behalf of the shareholder by any person appointed by the transferor company and on its own behalf by the transferee company, and pay or transfer to the transferor company - the amount or other consideration representing the price payable by the transferee company for the shares which that company is entitled to acquire,

- (iv) The **transferor company shall—**
- (a) thereupon register the transferee company as the holder of those shares; and
 - (b) within one month of the date of such registration, inform the dissenting shareholders of the fact of such registration and of the receipt of the amount or other consideration representing the price payable to them by the transferee company.

(4) Separate Bank account for disbursement to entitled shareholders [Sub-section (4)]: Any sum received by the transferor company under this section shall be paid into a separate bank account, and any such sum and any other consideration so received shall be held by that company in trust for the several persons entitled to the shares in respect of which the said sum or other consideration were respectively received and **shall be disbursed to the entitled shareholders within sixty days.**

(5) Scheme/contract made before the commencement of Act [Sub-section (5)]: In relation to an offer made by a transferee company to shareholders of a transferor company before the commencement of this Act, this section shall have effect with the following modifications, namely:—

- (a) in sub-section (1), for the words “the shares whose transfer is involved other than shares already held at the date of the offer by, or by a nominee of, the transferee company or its subsidiaries,”, the words “the shares affected” shall be substituted; and
- (b) in sub-section (3), the words “together with an instrument of transfer, to be executed on behalf of the shareholder by any person appointed by the transferee company and on its own behalf by the transferor company” shall be omitted.

Explanation — For the purposes of this section, “**dissenting shareholder**” includes a shareholder who has not assented to the scheme or contract and any shareholder who has failed or refused to transfer his shares to the transferee company in accordance with the scheme or contract.

Purchase of Minority Shareholding [Section 236]

(1) Notify to company for purchase of minority shareholding [Sub-section (1)]:

- In the event of an acquirer, or a person acting in concert with such acquirer - becoming registered holder of ninety per cent. or more of the issued equity share

capital of a company, or

- in the event of any person or group of persons- becoming ninety per cent. majority or holding ninety per cent. of the issued equity share capital of a company,

by virtue of an amalgamation, share exchange, conversion of securities or for any other reason, such acquirer, person or group of persons, as the case may be, shall notify the company of their intention to buy the remaining equity shares.

(2) Offer of equity shares to minority shareholders by acquirer, person or group of persons [Sub-section (2)]: The acquirer, person or group of persons shall offer to the minority shareholders of the company for buying the equity shares held by such shareholders at a price determined on the basis of valuation by a registered valuer in accordance with Rule 27.

(3) Offer to majority shareholder to purchase the minority equity shareholding [Sub-section (3)]: The minority shareholders of the company may offer to the majority shareholders to purchase the minority equity shareholding of the company at the price determined in accordance with Rule 27.

(4) Deposit of amount in separate bank account [Sub-section (4)]: The majority shareholders shall deposit an amount equal to the value of shares to be acquired by them under sub-section (2) or sub-section (3), as the case may be, in a separate bank account to be operated by the company whose shares are being transferred for at least one year for payment to the minority shareholders and such amount shall be disbursed to the entitled shareholders within sixty days:

Provided that such disbursement shall continue to be made to the entitled shareholders for a period of one year, who for any reason had not been made disbursement within the said period of sixty days or if the disbursement have been made within the aforesaid period of sixty days, fail to receive or claim payment arising out of such disbursement.

(5) Role of company whose shares are being transferred to act as a transfer agent in the event of purchase [Sub-section (5)]: In the event of a purchase under this section, the company whose shares are being transferred shall act as a transfer agent for receiving and paying the price to the minority shareholders and for taking delivery of the shares and delivering such shares to the majority, as the case may be.

(6) Company whose shares are being transferred to issue shares [Sub-section (6)]: In the absence of a physical delivery of shares by the shareholders within the time specified by the company,

- the share certificates shall be deemed to be cancelled, and

- the company whose shares are being transferred shall be authorised to issue shares in lieu of the cancelled shares and complete the transfer in accordance with law, and
 - make payment of the price out of deposit made under sub-section (4) by the majority in advance to the minority by despatch of such payment.
- (7) Right of shareholders to make an offer for sale of minority equity shareholding [Sub-section (7)]:** In the event of a majority shareholder or shareholders requiring a full purchase and making payment of price by deposit with the company for-
- any shareholder or shareholders who have died or ceased to exist, or
 - whose heirs, successors, administrators or assignees have not been brought on record by transmission,
- the right of such shareholders to make an offer for sale of minority equity shareholding shall continue and be available for a period of three years from the date of majority acquisition or majority shareholding.
- (8) Sharing of additional compensation [Sub-section (8)]:** Where the shares of minority shareholders have been acquired in pursuance of this section, and as on or prior to the date of transfer following such acquisition, the shareholders holding seventy-five per cent. or more minority equity shareholding negotiate or reach an understanding on a higher price for any transfer, proposed or agreed upon, of the shares held by them without disclosing the fact or likelihood of transfer taking place on the basis of such negotiation, understanding or agreement,-
- the majority shareholders shall share the additional compensation so received by them with such minority shareholders on a pro rata basis.
- Explanation*—For the purposes of this section, the expressions “acquirer” and “person acting in concert” shall have the meanings respectively assigned to them in clause (b) and clause (e) of sub-regulation (1) of regulation 2 of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997.
- (9) Determination of price for purchase of minority shareholders:** Rule 27 prescribes that the registered valuer shall determine the price to be paid by the acquirer, person or group of persons referred to in sub-section (1) of section 236 of the Act for purchase of equity shares of the minority shareholders of the company in accordance with the prescribed rules.
- (10) On failure of acquisition of shares [Sub-section (9)]:** When a shareholder or the majority equity shareholder fails to acquire full purchase of the shares of the minority equity shareholders, then, the provisions of this section shall continue to apply to the residual minority equity shareholders, even though,—

- (a) the shares of the company of the residual minority equity shareholder had been delisted; and
- (b) the period of one year or the period specified in the regulations made by the Securities and Exchange Board under the Securities and Exchange Board of India Act, 1992, had elapsed.

4.7

Particulars
<p>The refundable amount under GST shall, instead of being credited to the Consumer Welfare Fund, be paid to IP Limited, if such amount is relatable to —</p> <ul style="list-style-type: none"> (a) refund of tax paid on export of goods or services or both or on inputs or input services used in making such exports; (b) refund of unutilized ITC in case of zero rated supplies made without payment of tax or accumulated ITC on account of inverted duty structure; (c) refund of tax paid on a supply which is not provided, either wholly or partially, and for which invoice has not been issued, or where a refund voucher has been issued; (d) refund of tax in pursuance of section 77 of the CGST Act, 2017, i.e. tax paid on a transaction treated to be an intra-State supply, but which is subsequently held to be an inter-State supply or vice-versa.; (e) the tax and interest, if any, or any other amount paid by Innovative Papers Limited, if it had not passed on the incidence of such tax and interest to any other person; or (f) the tax or interest borne by such other class of applicants as the Government may, on the recommendations of the Council, by notification, specify [Section 54(8) of the CGST Act, 2017]. [Any 3 points] <p>The allowable refunds are as under:-</p> <ul style="list-style-type: none"> (i) Export/supply to SEZ developer/unit on payment of IGST (ii) Refund of unutilized ITC (iii) Refund of tax paid on the supply of goods regarded as deemed exports may be claimed. (iv) Refund of any balance in the electronic cash ledger after payment of tax, interest, penalty, fee or any other amount payable under this Act or the rules made there under may be claimed. (v) Refund on account of tax paid on a supply which is not provided, either wholly or partially, and for which invoice has not been issued (tax paid on advance payment). (vi) Refund of tax wrongly collected and paid to the Government (i.e. CGST & SGST paid by treating the supply as intra-State supply which is subsequently held as inter-State supply and vice versa).

- | | |
|--------|--|
| (vii) | Refund of the IGST paid by tourist leaving India on any supply of goods taken out of India by him. |
| (viii) | Tax becomes refundable as a consequence of judgment, decree, order or direction of the Appellate Authority, Appellate Tribunal or any Court. |
| (ix) | On finalization of provisional assessment, if any tax becomes refundable to taxpayer (on account of assessed tax on final assessment being less than the tax deposited by the taxpayer). |
| (x) | Refund of taxes on purchases made by UN bodies or embassies etc. |
| (xi) | Refund of taxes to the retail outlets established in departure area of an international airport beyond immigration counters making tax free supply to an outgoing international tourist. |
| (xii) | Refund of advance tax deposited by a casual taxable person/ Non-resident taxable person. |
| (xiii) | Refund of excess payment of tax. |

[Any 2 points]

CASE STUDY - 5

S Limited is company having its registered and corporate office at New Delhi. It is specialised in manufacturing machinery products and is looking to expand its operations across the nation. 60% of the S Limited's shares are held by the Government of India and rest by other investors. The company is also in the process of negotiations with other companies to take over their business for strategic advantage.

Since the company has been in existence for more than 10 years, the board resolution was passed to make political contributions amounting to ₹10,00,000 for the year ending March 31st, 2021. However, the average net profit of company for immediately preceding 3 years is ₹8,00,000 only. The management of company is concerned regarding the maximum amount of political contributions to be made considering the relevant provisions of laws being in force.

Since the timeline to continue the audit for existing auditors has come to an end. So, at the meeting held of its Board of Directors, it was decided to unanimously appoint M/s ABC Chartered Accountants. This is the first time that S Limited would be applying Ind AS for the preparation of its financials for the current financial year 2020-2021. Ind AS mandates that an entity shall present three Balance Sheets as at: (a) the end of the current period; (b) the end of the preceding period; and (c) the beginning of the preceding period, in its first-time adoption of Ind AS. During this process, the company is also required to present the opening Ind AS Balance Sheet as at the date of transition. Accordingly, following is the Balance Sheet prepared as per earlier GAAP as at the beginning of the preceding period along with the additional information:

Balance Sheet as at 31st March, 2020¹*(All figures are in '000, unless otherwise specified)*

Particulars	Amount (₹)
EQUITY AND LIABILITIES	
(1) Shareholder's Funds	
(a) Share Capital	10,00,000
(b) Reserves & Surplus	25,00,000
(2) Non-Current Liabilities	
(a) Long Term Borrowings	4,50,000
(b) Long Term Provisions	3,50,000
(c) Deferred Tax Liabilities	3,50,000
(3) Current Liabilities	
(a) Trade Payables	22,00,000
(b) Other Current Liabilities	4,50,000
(c) Short Term Provisions	12,00,000
TOTAL	85,00,000
ASSETS:	
(1) Non-Current Assets	
(a) Property, Plant & Equipment (net)	20,00,000
(b) Intangible Assets	2,00,000
(c) Goodwill	1,00,000
(d) Non-Current Investments	5,00,000
(e) Long Term Loans & Advances	1,50,000
(f) Other Non-Current Assets	2,00,000
(2) Current Assets	
(a) Current Investments	18,00,000
(b) Inventories	12,50,000
(c) Trade Receivables	9,00,000
(d) Cash and Bank Balances	10,00,000
(e) Other Current Assets	4,00,000
TOTAL	85,00,000

¹ to be read as 2019

Additional Information:

- Other current liabilities include ₹ 3,90,000 liabilities to be paid in cash such as expense payable, salary payable etc. and ₹ 60,000 are statutory government dues.
- Long term loans and advances include ₹ 40,000 loan and the remaining amount consists advance to staff of ₹ 1,10,000.
- Other non-current assets of ₹ 2,00,000 consists Capital advances to suppliers.
- Other current assets include ₹ 3,50,000 current assets receivable in cash and Prepaid expenses of ₹ 50,000.
- Short term provisions include Dividend payable including DDT of ₹ 2,00,000. The dividend payable had been as a result of board meeting wherein the declaration of dividend for financial year 2018-2019 was made. However, it is subject to approval of shareholders in the annual general meeting.

Chief Financial Officer of S Limited has also presented the following information against corresponding relevant items in the Balance Sheet:

- Property, Plant & Equipment consists a class of assets as office buildings whose carrying amount is ₹ 10,00,000. However, the fair value of said office building as on the date of transition is estimated to be ₹ 5,00,000. Company wants to follow revaluation model as its accounting policy in respect of its property, plant and equipment for the first annual Ind AS financial statements.
- The fair value of Intangible Assets as on the date of transition is estimated to be ₹ 2,50,000. However, the management is reluctant to incorporate the fair value changes in books of account although auditor does not agree to the same.
- S Ltd. had acquired 80% shares in Excel Private Limited few years ago thereby acquiring the control in it at that time. S Ltd. recognised goodwill as per erstwhile accounting standards by accounting the excess of consideration paid over the net assets acquired at the date of acquisition. Fair value exercise was not done at the time of acquisition. Now auditors insist the company that fair value exercise must be done with retrospective effect as on the date of transition.
- Trade receivables include an amount of ₹ 20,000 as provision for doubtful debts measured in accordance with previous GAAP. Now as per latest estimates, the provision needs to be revised to ₹ 25,000.
- Six years ago, company had given a loan of ₹ 1,00,000 to an entity for the term of 10 years. Transaction costs were incurred separately for this loan. The loan carries an interest rate of 7% p.a. and it was carried at cost in its initial recognition. The principal amount is to be

repaid in equal instalments over the period of ten years at the year end. Interest is also payable at each year end. The fair value of loan as on the date of transition is ₹ 50,000 as against the carrying amount of loan which at present amounts ₹ 40,000. However, Ind AS 109 mandates to charge the interest expense as per effective interest method after the adjustment of transaction costs. Management says it is tedious task in the given case to apply the effective interest rate changes with retrospective effect and hence is reluctant to apply the same retrospectively in its first-time adoption.

- In the long-term borrowings, ₹ 4,50,000 of component is due towards the State Government. Interest is payable on the government loan at 4% p.a., however the prevailing rate in the market at present is 8% p.a. The fair market value of loan stands at ₹ 4,20,000 as on the relevant date.
- Under Previous GAAP, the mutual funds were measured at cost or market value, whichever is lower. Under Ind AS, the Company has designated these investments at fair value through profit or loss. The value of mutual funds as per previous GAAP is ₹ 2,00,000 as included in 'current investments'. However, the fair value of mutual funds as on the date of transition is ₹ 2,30,000.
- Ignore separate calculation of deferred tax on above adjustments. Assume the net deferred tax income to be ₹ 50,000 on account of Ind AS transition adjustments.

During the briefing with internal audit head of S Limited, internal auditor has put an observation that a contractor, M/s DG Brothers Private Limited, has been providing the services to S Limited since the beginning of the year. M/s DG Brothers Private Limited does billing to S Limited's corporate office each month at ₹ 50,000 (exc. GST). From the invoice particulars, it is found that M/s DG Brothers Private Limited is situated at Ghaziabad, Uttar Pradesh and having PAN no. XXXXXXXXXXX. The total invoice amount comes to ₹ 59,000 incorporating GST @ 18%. Meanwhile, company deducts Tax Deduction at Source (TDS) of M/s DG Brothers Private Limited each month amounting to ₹ 500 on the amount of ₹ 50,000 and not on ₹ 59,000. Accountant is worried that he should have been deducting TDS on ₹ 59,000 as its non-compliance would require the company to pay interest on late payment of TDS / Short deduction.

There is another service provider, Amit Shukla who as a professional had assisted the company for Ind AS adjustments. Amit Shukla billed ₹ 10,00,000 to the company on 16th January, 2021. Company booked the said invoice in its books with the date as mentioned in invoice and deducted the TDS accordingly. However, company has deposited the due TDS amount on 30th April, 2021.

Part-A**(Multiple Choice Questions)**

- 5.1 Appointment of S Limited's statutory auditors at annual general meeting is not valid since:
- (A) Prior approval of Central Government has not been taken.
 - (B) Prior approval of Comptroller and Auditor General of India has not been taken.
 - (C) Appointment should be valid for 1 year only.
 - (D) Comptroller and Auditor General of India auditors can only appoint the auditors.
- 5.2 Calculate the amount of political contribution S Limited can make to political party for the year ending 31st March, 2020.
- (A) ₹ 10,00,000
 - (B) ₹ 8,00,000
 - (C) Nil
 - (D) No Limit
- 5.3 Calculate the amount of TDS to be deducted by S Limited against the monthly invoice of M/s DG Brothers Private Limited.
- (A) ₹ 1,180
 - (B) ₹ 1,000
 - (C) ₹ 885
 - (D) ₹ 750
- 5.4 Calculate the interest on late payment of TDS, S Limited is required to pay and deposit to the account of Central Government in the case of Amit shukla.
- (A) ₹ 5,000
 - (B) ₹ 7,500
 - (C) ₹ 4,500
 - (D) ₹ 4,000
- 5.5 The place of supply and tax leviable in case of services provided by M/s DG Brothers Private Limited to S Limited is-
- (A) Delhi, CGST & SGST
 - (B) Delhi, IGST

(C) Uttar Pradesh, CGST & SGST

(D) Uttar Pradesh, IGST

(2 x 5 = 10 Marks)

Part-B

(Descriptive Questions)

- 5.6 Discuss in brief about the provisions/ requirements of the relevant Ind AS, which is required for preparation of S Limited's opening Balance Sheet as on the date of transition. **(3 Marks)**
- 5.7 Prepare transition date Balance Sheet of S Limited as per Indian Accounting Standards, according to the format prescribed in Division II - Ind AS Schedule III to the Companies Act, 2013. **(4 Marks)**
- 5.8 Show necessary explanation for each of the items presented by chief financial officer in the form of notes, which may or may not require the adjustment as on the date of transition. **(8 Marks)**

ANSWER TO CASE STUDY 5

PART – A

5.1 (D)

5.2 (C)

5.3 (B) or (D)

(Note: For the period between 14.5.2020 and 31.03.2021, tax is to be deducted at source at the rate reduced by 25% on the payment made to residents. Accordingly, rate of TDS u/s 194C where payee is a company is 2% for the period between 1.4.2020 to 13.5.2020 and 1.5% for the period between 14.5.2020 and 31.03.2021.

The question requires the candidates to calculate the amount of TDS to be deducted by S Limited against the monthly invoice of M/s. DG Brothers Private Ltd. It, however, does not state for which month the computation of TDS is to be made. Therefore, it is possible to compute tax deducted at source by applying rate of tax @2% or @ 1.5%. Accordingly, the answer given in option (B) ₹ 1,000 (₹ 50,000 x 2%) would be correct for the month of April and May (upto 13th May), 2020. The answer given in option (D) ₹ 750 (₹ 50,000 x 1.5%) would be correct, for the months of May, 2020 (after 13th May) to March, 2021.)

5.4 (C)

5.5 (B)

(Note: It has been assumed that M/s DG Brothers Private Limited is not a works contractor. Thus, answer has been given by applying section 12(2)(a) of the IGST Act, 2017, i.e. the place of supply of services made to a registered person shall be the location of such person.)

PART – B

- 5.6** Ind AS 101 prescribes the accounting principles for first-time adoption of Ind AS. It lays down various 'transition' requirements when a company adopts Ind AS for the first time. Conceptually, the accounting under Ind AS should be applied retrospectively at the time of transition to Ind AS. However, to ease the process of transition, Ind AS 101 has given certain exemptions from retrospective application of Ind AS.

An entity shall prepare and present an opening Ind AS Balance Sheet at the date of transition to Ind AS. This is the starting point for its accounting in accordance with Ind AS.

An entity shall, in its opening Ind AS Balance Sheet:

- recognise all assets and liabilities whose recognition is required by Ind AS;
- not recognise items as assets or liabilities if Ind AS do not permit such recognition;
- reclassify items that it recognised in accordance with previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with Ind AS; and
- apply Ind AS in measuring all recognised assets and liabilities.

The accounting policies in opening Ind AS Balance Sheet may differ from those that it used for the same date using previous GAAP. The resulting adjustments arise from events and transactions before the date of transition to Ind AS, shall be recognised directly in retained earnings (or, if appropriate, another category of equity) at the date of transition to Ind AS.

5.7 Transition Date (Opening) Ind-As Balance Sheet of S Limited

As at 1st April 2019

(₹)

Particulars	Previous GAAP	Transitional Ind AS adjustments	Opening Ind AS Balance Sheet
ASSETS			
Non-current assets			
Property, plant and equipment (Note 1 of Ans 5.8)	20,00,000	(5,00,000)	15,00,000
Goodwill (Note 2 of Ans 5.8)	1,00,000	-	1,00,000
Other Intangible assets (Note 3 of Ans 5.8)	2,00,000	-	2,00,000

Financial assets:			
Investment	5,00,000	-	5,00,000
Loans (Note 4 of Ans 5.8)	40,000	10,000	50,000
Other financial assets	1,10,000	-	1,10,000
Other non-current assets	2,00,000	-	2,00,000
Current assets			
Inventories	12,50,000	-	12,50,000
Financial assets			
Investments (Note 5 of Ans 5.8)	18,00,000	30,000	18,30,000
Trade receivables (Note 6 of Ans 5.8)	9,00,000	-	9,00,000
Cash and bank balances	10,00,000	-	10,00,000
Other financial assets	3,50,000	-	3,50,000
Other current assets	<u>50,000</u>	<u>-</u>	<u>50,000</u>
TOTAL ASSETS	<u>85,00,000</u>	<u>(4,60,000)</u>	<u>80,40,000</u>
EQUITY AND LIABILITIES			
Equity			
Equity share capital	10,00,000	-	10,00,000
Other equity	25,00,000	(2,10,000)	22,90,000
Non-current liabilities			
Financial liabilities			
Borrowings (Note 7 of Ans 5.8)	4,50,000	-	4,50,000
Provisions	3,50,000	-	3,50,000
Deferred tax liabilities (Net)	3,50,000	(50,000)	3,00,000
Current liabilities			
Financial liabilities			
Trade payables	22,00,000	-	22,00,000
Other financial liabilities	3,90,000	-	3,90,000
Other current liabilities	60,000	-	60,000
Provisions (Note 8 of Ans 5.8)	<u>12,00,000</u>	<u>(2,00,000)</u>	<u>10,00,000</u>
TOTAL EQUITY AND LIABILITIES	<u>85,00,000</u>	<u>(4,60,000)</u>	<u>80,40,000</u>

OTHER EQUITY

	Retained Earnings (₹)	Total
As on the date of transition	22,90,000 (W.N.1)	22,90,000

Working Note 1:

Retained earnings balance:	
Balance as per Earlier GAAP	25,00,000
Transitional adjustment due to revaluation of PPE	(5,00,000)
Transitional adjustment due to loan's fair value	10,000
Transitional adjustment due to increase in mutual fund's fair value	30,000
Transitional adjustment due to decrease in deferred tax liability	50,000
Transitional adjustment due to decrease in provisions (dividend)	<u>2,00,000</u>
Total	<u>22,90,000</u>

Disclosure forming part of financial statements:

Proposed dividend on equity shares is subject to the approval of the shareholders of the company at the annual general meeting and should not be recognized as liability as at the Balance Sheet date.

- 5.8** Explanation for the items as presented by chief financial officer against the corresponding relevant items which may or may not require adjustment on the date of transition as per Ind AS 101 in S Limited's opening Ind AS balance sheet:

Note 1: Property, plant & Equipment:

As per para D5 of Ind AS 101, an entity may elect to measure an item of property, plant and equipment at the date of transition to Ind AS at its fair value and use that fair value as its deemed cost at that date.

Para D7AA has to be applied for all items of property, plant and equipment. So, if D5 exemption is taken for buildings, Ind AS will have to be applied retrospectively for other assets as well. Since, an entity elects to measure an item of property, plant and equipment at the date of transition to Ind AS at its fair value and use that fair value as its deemed cost at that date, it is assumed that the carrying amount of other assets based on retrospective application of Ind AS is equal to their fair value of ₹ 10 lakhs.

Note 2: Goodwill:

Ind AS 103 mandatorily requires measuring the assets and liabilities of the acquiree at its fair value as on the date of acquisition. However, a first time adopter may elect to not apply the provisions of Ind AS 103 with retrospective effect that occurred prior to the date of transition to Ind AS.

Hence company can continue to carry the goodwill in its books of account as per the previous GAAP.

Note 3: Intangible assets:

Para D7 read with D6 of Ind AS 101 states that a first-time adopter may elect to use a previous GAAP revaluation at, or before, the date of transition to Ind AS as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to:

- (a) Fair value; or
- (b) Cost or depreciated cost in accordance with Ind AS, adjusted to reflect, for example, changes in a general or specific price index.

However, there is a requirement that Intangible assets must meet the definition and recognition criteria as per Ind AS 38.

Hence, company can avail the exemption given in Ind AS 101 as on the date of transition to use the carrying value as per previous GAAP.

Note 4: Loan:

Para B8C of Ind AS 101 states that if it is impracticable (as defined in Ind AS 8) for an entity to apply retrospectively the effective interest method in Ind AS 109, the fair value of the financial asset or the financial liability at the date of transition to Ind AS shall be the new gross carrying amount of that financial asset or the new amortised cost of that financial liability at the date of transition to Ind AS.

Accordingly, ₹ 50,000 would be the gross carrying amount of loan and difference of ₹ 10,000 (₹ 50,000 – ₹ 40,000) would be adjusted to retained earnings.

Note 5: Mutual Funds:

Para 29 of Ind AS 101 states that an entity is permitted to designate a previously recognised financial asset as a financial asset measured at fair value through profit or loss in accordance with paragraph D19A. The entity shall disclose the fair value of financial assets so designated at the date of designation and their classification and carrying amount in the previous financial statements.

D19A states that an entity may designate a financial asset as measured at fair value through profit or loss in accordance with Ind AS 109 on the basis of the facts and circumstances that exist at the date of transition to Ind AS.

Note 6: Trade receivables:

Para 14 of Ind AS 101 states that an entity's estimates in accordance with Ind AS at the date of transition to Ind AS shall be consistent with estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.

Para 15 of Ind AS 101 further states that an entity may receive information after the date of transition to Ind AS about estimates that it had made under previous GAAP. In accordance with paragraph 14, an entity shall treat the receipt of that information in the same way as non-adjusting events after the reporting period in accordance with Ind AS 10, Events after the Reporting Period.

The entity shall not reflect that new information in its opening Ind AS Balance Sheet (unless the estimates need adjustment for any differences in accounting policies or there is objective evidence that the estimates were in error). Instead, the entity shall reflect that new information in profit or loss (or, if appropriate, other comprehensive income).

Note 7: Government Grant:

Para 10A of Ind AS 20 states that the benefit of a government loan at a below-market rate of interest is treated as a government grant. The loan shall be recognised and measured in accordance with Ind AS 109, Financial Instruments. The benefit of the below-market rate of interest shall be measured as the difference between the initial carrying value of the loan determined in accordance with Ind AS 109, and the proceeds received. The benefit is accounted for in accordance with this Standard.

However, Para B10 of Ind AS 101 states, a first-time adopter shall classify all government loans received as a financial liability or an equity instrument in accordance with Ind AS 32, Financial Instruments: Presentation. Except as permitted by paragraph B11, a first-time adopter shall apply the requirements in Ind AS 109, Financial Instruments, and Ind AS 20, Accounting for Government Grants and Disclosure of Government Assistance, *prospectively* to government loans existing at the date of transition to Ind AS and shall not recognise the corresponding benefit of the government loan at a below-market rate of interest as a government grant. Consequently, if a first-time adopter did not, under its previous GAAP, recognise and measure a government loan at a below-market rate of interest on a basis consistent with Ind AS requirements, it shall use its previous GAAP carrying amount of the loan at the date of transition to Ind AS since the carrying amount of the loan in the opening Ind AS Balance Sheet. An entity shall apply Ind AS 109 to the measurement of such loans after the date of transition to Ind AS.

Note 8: Dividend

Dividend should be deducted from retained earnings during the year when it has been declared and approved. Accordingly, the provision declared for preceding year should be reversed (to rectify the wrong entry). Retained earnings would increase proportionately due to such adjustment.

PAPER – 6F: MULTIDISCIPLINARY CASE STUDY

The question paper comprises five case study questions. The candidates are required to answer any four case study questions out of five.

All your workings should form part of your answer.

CASE STUDY-1**Background**

Aroma Technologies Limited, (the Company), a listed entity, is one of the world's leading professional services companies, transforming clients' business, operating and technology models for the digital era. With Corporate headquarters in Chennai, India and global presence across 15 countries worldwide, the Company utilizes its expertise in 20 different industries to leverage analytics, enhance interactive experiences, automate processes, develop platforms, modernize infrastructures and engineer digital solutions that help clients capitalize on the tremendous opportunities the latest technologies could offer.

The Company's sound management track record of shifting ahead of client needs and building new capabilities has earned a niche for itself, both with domestic as well as International Clients for its cutting edge digital services, timely execution of projects at a competitive and commercially viable costs to the clients.

The Company is managed by a dynamic Board of Directors who are qualified professionals in Information Technology, Engineering, Accounting, Finance and Business Administration. The Company has earned a good reputation with the shareholders, bankers, customers at large, equity analysts and general investors.

CEO & Managing Director

Mr. Kumar, is the extrovert CEO & Managing Director of the Company steering the Board in all policy matters and decision making process. He is of the strong view that though at one hand, India is gearing up for simplifying various economic laws and aiming at ease of doing business, at the other, huge penalties for non-compliances have been made more severe and therefore, utmost care is warranted to adhere to all applicable statutory compliances. As a consequence, though not mandated in India, he has introduced 'compliance audit' in the Company and instructed the Internal Auditor and the Audit Committee to monitor and report on the statutory compliances to the Board. Mr. Kumar is also keen to understand the Company's obligations under the SEBI (LODR) Regulations, 2015 in regard to Board or Non-Executive Directors.

About You

You are a young, qualified Chartered Accountant and the Audit Manager of a reputed CA Firm, appointed as the statutory Auditors of the Company, to audit the books of accounts of the Company for the Financial Year 2019-20.

You were informed by Mrs. Sudha, Director (Accounts and Finance) that it is the policy of the Company to publish Audited Financial Results (Standalone and Consolidated) on a quarterly

basis to the Stock Exchanges rather than publishing un-audited financial results and therefore your involvement to audit the books of accounts shall be on a continuous basis.

Going forward, on 04-04-2020, you were informed that a meeting of the Audit Committee and the Board of Directors is scheduled to be convened on 22-04-2020 and 23-04-2020 respectively to consider amongst other items, *inter-alia* to approve and take on record the audited financial results of the Company for the fourth quarter / year ended 31-03-2020. He also informed you that three days prior to the Audit Committee Meeting, an internal meeting with the Top Management would be scheduled to discuss any matter arising out of the Audit.

A draft of the management prepared un-audited financial statements for the fourth quarter / year ended 31.03.2020 was given to you for your perusal and audit.

While auditing the books of accounts, you wanted to adopt certain audit procedures and made certain audit observations as under:

- (1) As part of the audit process, you wanted to use confirmation procedures as audit evidence. In view of the fact that positive confirmations were not responded favorably, you intended to use negative confirmation requests.
- (2) TDS receivable as per books is more than the cumulative balance as per Form 26AS by ₹ 12.00 Lakhs. No valid explanation was provided for the difference amount.
- (3) The Company follows the method of providing depreciation as per Section 123 of the Companies Act, 2013 using the useful lives prescribed as per Schedule II of the Companies Act. It has provided depreciation on computers which are used during all the 3 shifts using the rates stipulated for continuous process plant since these assets are used for 24 hours (3 shifts).
- (4) Gratuity liability was not provided for employees who have joined the Company during the past 4 years, the aggregate amount of which would be ₹ 15 Lakhs, on the basis that they are yet to complete 5 years of continuous service.
- (5) Certain unclaimed dividends amounting to ₹ 42 lakhs pertaining to prior periods beyond 7 years have been added back to the Statement of Profit and Loss under 'other income.'
- (6) The Company is in the process of selling its office along with the freehold land available at one of its offices at Chennai and is actively on the lookout for potential buyers. Whilst the same was purchased at ₹ 25 Lakhs in 2007, the current market value is ₹ 250 Lakhs. This property is pending to be registered in the name of the Company, due to certain procedural issues associated with the Registration though the Company is having a valid possession and has paid its purchase cost in full. The Company has disclosed this amount under 'Property, Plant and Equipment' though no disclosure of non-registration is made in the financial statements.
- (7) The Company paid "Online advertisement charges" to a domestic Company amounting to ₹ 8,00,000. No Tax was deducted at source.

- (8) On a test check of cost records, you were informed that the annual Budgets are set based on the decision of the Board of Directors which is pushed down to various teams. Whilst during the initial years, the budgets were exceeded, of late, the variance between the budget and the actual is somewhat widening and has become a cause of concern to the senior management. One of the foreign director is concerned about this variation and has mandated the local management to find solutions for dealing with the same. In particular, he has emphasized on the need for involving everyone in the budgetary process and perhaps even considering the possibility of asking each and every manager to set his own targets and consolidate the same for setting the target for the Company. One of the Board members raised the issue of McDonaldization of the budget process and its suitability for the Company.
- (9) The Board of Directors (BoD) of the Company decided to undertake a valuation exercise of their shares, debentures, assets and the liabilities, net worth and goodwill of the Company as at 31.03.2020. In this connection, the Chairman of the Audit Committee (AC), Mr. Jaish, proposed to appoint an experienced Registered Valuer (RV) who meets all the eligibility conditions for registered valuers. Mr. Saman, a member of the Audit Committee is of the opinion that only the BoD have the power to appoint a RV and not the AC.
- (10) While conducting the audit you also wanted to conduct an inquiry of management and those charged with governance as to whether any subsequent events have occurred which might affect the financial statements.

As the Statutory Auditor of the Company, you are required to comprehend, analyse and apply to arrive at a correct solution to the issues given here under:

You are requested to provide the correct option to the following questions.

Note that the financial statements of the Company for the year under review are prepared using IND AS and your answers on Direct Tax Laws should relate to Assessment Year 2020-21.

- 1.1 In the case of online advertisement charges paid to the domestic Company, the amount liable for dis-allowance for non-deduction of tax at source would be :
- (A) ₹ 80,000
 - (B) ₹ 2,40,000
 - (C) ₹ 8,00,000
 - (D) NIL
- 1.2 For Appointment of Registered Valuer, is view of Mr. Saman valid?
- (A) Yes;
 - (B) No, appointment can be made only by the Audit Committee
 - (C) No, appointment can be made only by the Shareholders

- (D) No, appointment can be made by the Audit Committee and in its absence, by the Board
- 1.3 Based on the background in observation (8), providing freedom and flexibility to managers to set their own targets in the budget setting process has the potential danger of having_____.
- (A) Failure
- (B) Non performance
- (C) Resistance
- (D) Budget Slacks
- 1.4 Based on the background in observation (8), McDonaldization of the standard setting approach is more relevant for _____.
- (A) Automobile Services
- (B) Research and Development Services
- (C) Hairdressing, dentistry type of Services
- (D) Manufacturing Plant
- 1.5 With regard to queries of Mr. Kumar in relation with the provisions of SEBI (LODR) Regulations, 2015, the composition of Board should have not less than _ % of Directors comprising of Non-Executive Directors.
- (A) 70
- (B) 50
- (C) 40
- (D) 20 **(2 x 5 = 10 Marks)**
- 1.6 What are the factors to be considered for using negative confirmation requests in the scenario mentioned in the audit observation (1)? **(5 Marks)**
- 1.7 Based on the audit observation (10), state the matters where specific enquiry may be conducted to evaluate subsequent events. **(5 Marks)**
- 1.8 Summarize the material mis-statements/disclosure deficiencies, if any, on the Management prepared financial statements which could impact the true and fair view of the financial statements. Please provide the basis for your assessment briefly. **(5 Marks)**

ANSWER TO CASE STUDY 1**PART – A**

1.1 (B)

1.2 (D)

1.3 (D)

1.4 (C)

1.5 (B)

PART – B

- 1.6 As per SA 505, “External Confirmation”, Negative Confirmation is a request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request. Negative confirmations provide less persuasive audit evidence than positive confirmations.

Accordingly, the auditor should consider following factors for using negative confirmation requests as the sole substantive audit procedure to address an assessed risk of material misstatement at the assertion level:

- (i) The auditor has assessed the risk of material misstatement as low and has obtained sufficient appropriate audit evidence regarding the operating effectiveness of controls relevant to the assertion;
- (ii) The population of items subject to negative confirmation procedures comprises a large number of small, homogeneous, account balances, transactions or conditions;
- (iii) A very low exception rate is expected; and
- (iv) The auditor is not aware of circumstances or conditions that would cause recipients of negative confirmation requests to disregard such requests.

Further non-response for negative confirmation request does not mean that there is some misstatement as negative confirmation request itself is to respond to the auditor only if the confirming party disagrees with the information provided in the request.

But, if the auditor identifies factors that give rise to doubts about the reliability of the response to the confirmation request, he shall obtain further audit evidence to resolve those doubts.

- 1.7 As per SA 560 “Subsequent Events”, in inquiring of management and, where appropriate, those charged with governance, as to whether any subsequent events have occurred that might affect the financial statements, the auditor may inquire as to the current status of items that were accounted for on the basis of preliminary or inconclusive data and may make specific inquiries about the following matters:
- Whether new commitments, borrowings or guarantees have been entered into.

- Whether sales or acquisitions of assets have occurred or are planned.
- Whether there have been increases in capital or issuance of debt instruments, such as the issue of new shares or debentures, or an agreement to merge or liquidate has been made or is planned.
- Whether any assets have been appropriated by government or destroyed, for example, by fire or flood.
- Whether there have been any developments regarding contingencies.
- Whether any unusual accounting adjustments have been made or are contemplated.
- Whether any events have occurred or are likely to occur that will bring into question the appropriateness of accounting policies used in the financial statements, as would be the case, for example, if such events call into question the validity of the going concern assumption.
- Whether any events have occurred that are relevant to the measurement of estimates or provisions made in the financial statements.
- Whether any events have occurred that are relevant to the recoverability of assets.

1.8 Material misstatements on the management prepared financial statements which could impact the true and fair view of the financial statements are:

1. Difference between TDS as per books and TDS as per 26 AS may lead to material misstatement as there is overstatement of revenue by rupees 12.00 lakh and there is no valid explanation available for the difference amount.
2. The company followed the method of providing depreciation as per section 123 of the Companies Act, 2013 using the useful lives prescribed as per Schedule II of the Companies Act, 2013 is correct, however, they have provided depreciation using the rates stipulated for continuous process plant is not correct. As per Schedule II Computers do not fall in continuous process plant category. Further, computers are included as NESD in Part 2 of Schedule II, which is category of assets in respect of which no extra shift depreciation is permitted. Therefore, though computers are used for 24 hours i.e. triple shift but no extra shift depreciation is permitted on the same. In the instant case, the Company has provided depreciation on computers which are used during all the 3 shifts using the rates stipulated for continuous process plant as per its accounting policy is incorrect and would be misleading resulting into material misstatement and hence impacting true and fair view.
3. Pursuant to the provisions of Section 124(5) of the Companies Act, 2013, dividend which remains unpaid or unclaimed for a period of seven years from the date of its transfer to unpaid dividend account is required to be transferred by the Company to Investor Education and Protection Fund (IEPF), established by the Central Government under the provisions of Section 125 of the Companies Act, 2013. The details of unpaid dividend amount should also be disclosed in accordance with the

provisions given in the Companies Act, 2013. The Company should also transfer the 42 lakh rupees to IEPF which is unclaimed dividend pertaining to period beyond 7 years. Write back of unclaimed dividend to Statement of Profit & Loss under other income is not correct in view of provisions of the Companies Act, 2013. Therefore, financial statements will lead material misstatement and not present true and fair view.

4. Gratuity benefit is a defined benefit obligation as per which, actuarial valuation using the projected unit credit method, which recognizes each period of service as giving rise to additional unit of employee benefit entitlement. Thus, even though employee has not completed 5 years of service, liability for gratuity is to be accrued as and when service is rendered by the employees.
5. Though as per substance over form freehold land appearing in financial statements is correct however, non-registration of the same should be separately disclosed in notes to financial statements. Non-disclosure of the same in notes to accounts will be considered as disclosure deficiency that could impact the true and fair view of financial statements. Further, classification of above land should also be as Assets held for Sale in financial statements.

CASE STUDY-2

Lucknow the capital and the largest city of Uttar Pradesh, is famous as industrial hub for manufacturing industrial goods, machine parts, auto parts, household appliances, hosiery, and apparels. XYZ Ltd. is a manufacturing company based in Lucknow manufacturing pulley chains. Mr. Rony is the Managing Director of the company.

The pulley chains manufactured by the company are used by various industries and are used in hydraulic lifts, overhead hoists, conveyer belts, etc. Lucknow is also a major hub for manufacturing Tricycles. The product of the company is procured by leading Tricycles manufactures in the country. Tricycles and its parts using chain drives manufactured by XYZ Ltd. are sold not only within the country but are exported all across the world. Having expertise in the business, the company is often engaged as consultants for installation of hydraulic machines and other systems in manufacturing and automated movements of various materials. Thus, XYZ Ltd. has both manufacturing and service revenue streams. The XYZ Limited also imports machineries for its manufacturing hub at Lucknow.

XYZ Ltd. has deployed the following applications for its business activities:

<i>Application Name</i>	<i>Purpose</i>
<i>QWERTY</i>	<i>Allows employees to fill and submit time sheets</i>
<i>ASDF</i>	<i>Financial accounting and reporting (has an interface with PQRT)</i>
<i>PQRT</i>	<i>Cost Accounting and reporting (has an interface with ASDF). This was provided free of cost along with ASDF application.</i>
<i>CRT</i>	<i>Internal knowledge repository</i>

VMS	Internal share point portal used for utilities such as leave management, storing policies and procedures of XYZ Ltd., creating email signatures, meeting room booking and cab booking system etc.
SWIPE	Logs employee swipe in / swipe out data

Mr. Rony is also coordinating implementation of Ind AS in the XYZ Ltd. The company falls under phase 2 of IND AS implementation. Following are details of the financials (in ₹ Crores):

Revenue (including royalty income from patent registered in India)	1000
Direct expenses (including expense related to patent registered in India)	550
Depreciation as per books of accounts	100
Interest expense	50
Actuarial Gains	30
Advance tax	50
Expense relatable to patent chargeable to tax u/s 115BBF	50
Income relatable to patent chargeable to tax u/s 115BBF	75
Depreciation as per Income Tax	75

After implementation of Goods and Service Tax, Mr. Rony is very apprehensive of its impact on the business owing to the multiplicity of changes made over the past three years. He is disturbed by the news reports and the general grapevine that have raised several challenges in the implementation of Goods and Service Tax. Highly concerned, the company appointed ABC Co. Chartered Accountants to prepare Risk Control Table and ascertain the impact of GST on the processes followed.

ABC Co. is leading firm of Chartered Accountants in Lucknow rendering services to several big corporates in Uttar Pradesh. After a long discussion between the Managing Director of XYZ Ltd. and ABC Co., the firm of Chartered Accountants was asked to identify and suggest new controls which XYZ Ltd. should design and implement due to GST implementation and its impact on imports.

The Chartered Accountants deployed a team to study the existing processes within the company. Extensive interviews were also conducted of senior managerial personnel in the company.

It was noted that the XYZ Ltd. uses 'WSM' ERP for accounting, financial reporting and inventory management. Below are the notes prepared during process understanding discussions held with respective team members of XYZ Ltd.:

Purchase to pay process

(1) Vendor creation process

Procurement team maintains list of vendors along with the agreed prices in WSM system. In case of better prices being available, the procurement team sends an initial requirement list to the prospective vendor. The initial requirements contain details such as government proofs and tax registrations. On receipt of the requirements from the vendor, the procurement team verifies the same to ensure validity of documents shared. Once the data requirements are fulfilled, the draft agreement is prepared by legal department and the proposal is shared for senior management approval. Once approved, the vendor is added to the list of vendors in WSM application.

(2) *Purchase Requisition (PR) & Purchase Order (PO)*

Individual employees and designated department heads can raise PR. The PR contains the item details and quantity. The PR is raised in IJK tool which has in - built workflow for PR processing. The PR is sent to supervisor of the requestor for business approval. Thereafter, it is transferred to procurement team for further processing. Procurement team verifies the requested items and approvals. Then it first checks whether any stock is available in house or at any other office location. If not, then it identifies appropriate vendor and raises PO in WSM application for the requested quantity and agreed amount.

(3) *Goods receipt & invoicing*

(a) *In case of non-factory items: On delivery of the requested item, requestor performs receipt by collecting the items and informing procurement team over email that requested items have been received. The invoice is separately sent to Finance for payment. A copy of the invoice is sent to Procurement for their records.*

(b) *Goods receipt at factory / warehouse: Designated personnel verifies the delivery challan against invoice and unloads the goods. The designated personnel informs the procurement team over email that requested items have been received. The invoice is separately sent to Finance for payment. A copy of the invoice is sent to Procurement for their records.*

(4) *Payment*

Finance checks the PO raised in WSM and matches the same with invoice received. On satisfactory verification of quantity and price, the invoice is approved and payment is released. There may also exist non -PO based expenses for which invoice is the only document. These are processed on invoice receipt and payment released by Finance. Procurement is not involved in these expenses.

(5) *Reconciliations & Reporting*

On monthly basis, the Finance team files returns and makes payment of GST. The ABC Co advised on Reconciliation and Reporting of GST.

Mr. Rony asked ABC Co Chartered Accountants to explain his senior management and accounts personnel with the help of an example(s) on GST working and calculation of assessable value of the machine and custom duty in order to bring clarity as well as to avoid prosecution and penalty further implementing the same in the process of XYZ Limited. Mr. Rony also advised that the solution to the example(s) should be explained with working notes.

The ABC Co Chartered Accountants framed one example each on GST working and calculation of assessable value of the machine and custom duty for the benefit of senior management & accounts personnel of XYZ Limited and Mr. Rony as follows:

1. L Ltd. of Bhopal (Madhya Pradesh) is a supplier of machinery. L Ltd. has supplied machinery to PQR Enterprises in Indore (Madhya Pradesh) on 1st October, 2019. The invoice for supply has been issued on 1st October, 2019. Thus, the time of supply of machinery is 1st October, 2019. L Ltd and PQR Enterprise are not related.

Following information is provided:

Basic price of machinery excluding all taxes but including design and engineering charges of ₹ 10,000 and loading charges of ₹ 20,000 - ₹ 20,00,000.

L Ltd. provides 3 years free warranty for the machinery. L Ltd. also provides an extended one year warranty on payment of additional charges of ₹ 1,00,000. PQR Enterprises opted for extended one year warranty.

L Ltd. has collected consultancy charges in relation to pre-installation planning of ₹ 10,000 and freight and insurance charges from place of removal to buyer's premises of ₹ 20,000.

L Ltd. received subsidy of ₹ 50,000 from Central Government for supplying the machinery to backward region since receiver was located in a backward region. L Ltd. also received ₹ 50,000 from the joint venture partner of PQR Enterprises for making timely supply of machinery to the recipient.

A cash discount of 1% on the basic price of the machinery is offered at the time of supply, if PQR Enterprises agrees to make the payment within 30 days of the receipt of the machinery at his premises. Discount @ 1% was given to PQR Enterprises as it agreed to make the payment within 30 days.

The machinery attracts CGST and SGST @ 18% (9% + 9%) and IGST @18%.

2. N Ltd., New Delhi has imported certain machine (by sea) from South Korea. From the following particulars furnished by it, work out the assessable value of the machine and customs duty payable by N Ltd. with appropriate working notes :

S. No.	Particulars	Amount (₹)
(i)	CIF value of the machine	4,23,379.69
(ii)	Freight incurred from port of entry to Inland Container depot	25,000.00
(iii)	Unloading and handling charges paid at the place of importation	40,000.00
(iv)	Designing charges paid to Consultancy firm in Mumbai	10,000.00

Notes:

- (1) Basic Customs Duty leviable is 10% advalorem.
- (2) Integrated tax leviable under section 3(7) of the Customs Tariff Act, 1975 is 18%.
- (3) Ignore GST Compensation Cess.

You are requested to provide the correct option to the following questions.

2.1 Goods and Service Tax is :

- (A) Source based tax on consumption of goods and services;
- (B) Destination based tax only on sale of goods and services;
- (C) Destination based tax on consumption of goods and services;
- (D) Source based tax on supply of goods and services.

2.2 For Royalty Income received by XYZ Ltd, the tax deducted at source, if any, by the payer on account of XYZ Ltd would be reflected in Form 26AS of XYZ Ltd against which section of Income Tax Act, 1961 ?

- (A) 193
- (B) 194A
- (C) 194I
- (D) 194J

2.3 If XYZ Ltd sells pulley chains to a business entity situated in a SEZ (Special Economic Zone) at Noida, Uttar Pradesh, then applicable tax would be:

- (A) CGST & SGST, being intra-state supply;
- (B) CGST & UTGST, being intra-state supply;
- (C) Only IGST, being inter-state supply;
- (D) Only CGST, being inter-state supply;

- 2.4 If XYZ Ltd purchases machinery for ₹ 118 Lakhs (inclusive of 18% GST) and capitalized it in the books of accounts at ₹ 118 Lakhs without claiming ITC, then Actual Cost for charging depreciation under Income Tax Act, 1961 would be:
- (A) ₹ 118 Lakhs;
 (B) ₹ 100 Lakhs (no Depreciation allowed on GST component);
 (C) ₹ 82 Lakhs;
 (D) ₹ 109 Lakhs (as Depreciation allowed only on central levy CGST and not State levy SGST)
- 2.5 Assuming that entire revenue of XYZ Ltd is value of supply and subject to outward GST liability, what is the applicable periodicity of filing of GSTR-1 return ?
- (A) Monthly
 (B) Quarterly
 (C) Half-yearly
 (D) Annually **(2 x 5 = 10 Marks)**
- 2.6 Compute the CGST and SGST or IGST payable, as the case may be, on the machinery purchased by PQR Ltd from L Ltd along with explanatory notes. **(10 Marks)**
- 2.7 Work out the assessable value of the machine and customs duty payable by N Ltd. with appropriate working notes. **(5 Marks)**

ANSWER TO CASE STUDY 2**PART – A**

- 2.1 (C)
 2.2 (D)
 2.3 (C)
 2.4 (A)
 2.5 (A)

PART – B**2.6 Computation of GST payable on the machinery**

Particulars	₹
Price of the machinery [Note 1]	20,00,000
Add: Extended warranty cost ¹ [Note 2]	Nil

¹ It has been assumed that the extended warranty of one year on payment of additional charges is optional for the buyer of machinery.

Freight and insurance charges [Note 3]	20,000
Consultancy charges in relation to pre-installation planning [Note 4]	10,000
Subsidy received from Central Government [Note 5]	Nil
Receipts from joint venture of PQR Enterprises [Note 5]	50,000
Less: 1% discount on basic price = ₹ 20,00,000 x 1% [Note 6]	(20,000)
Value of supply of machinery	20,60,000
CGST @ 9% [Note 7]	1,85,400
SGST @ 9% [Note 7]	1,85,400
Notes:	
1.	L Ltd. and PQR Enterprises are not related and price is assumed to be the sole consideration for the supply. Therefore, in terms of section 15 of the CGST Act, 2017, the value of the supply is the transaction value i.e., price actually paid or payable for the machinery by PQR Enterprises. Incidental expenses, including commission and packing, charged by the supplier to the recipient of a supply and any amount charged for anything done by the supplier in respect of the supply of goods and/or services or both at the time of, or before delivery of goods or supply of services is includible in the value of the supply in terms of section 15 of CGST Act, 2017. Therefore, design and engineering charges and loading charges are includible in the value of supply of the machinery.
2.	Extended warranty service provided by L Ltd. is a separate service liable to tax separately at the applicable rate. Thus, it is not included in the value of the machinery.
3.	Supply of machinery (goods) with supply of ancillary services like freight and insurance is a composite supply, the principal supply of which is the supply of machinery ² . Thus, value of such ancillary supply is includible in the value of composite supply.
4.	Any amount charged for anything done by the supplier in respect of the supply of goods at the time of, or before delivery of goods is includible in the value of supply in terms of section 15 of CGST Act, 2017.
5.	Subsidies provided by the Central Government and State Governments are not includible in the value of supply in terms of section 15 of the CGST Act, 2017.

² It has been presumed that the machinery has been agreed to be supplied at the premises of PQR Enterprises by L Ltd.

	However, subsidy directly linked to the price received from a non-Government body is includible in the value in terms of section 15. ³
6.	Cash discount has been given to PQR Enterprises upfront at the time of supply and thus would have been recorded in the invoice and hence, the same is excluded from the value of supply in terms of section 15 of the CGST Act, 2017.
7.	In the given case- <ul style="list-style-type: none"> • the location of the supplier is in Bhopal (Madhya Pradesh); and • the place of supply of machinery is the location of the machinery at the time at which the movement of the same terminates for delivery to the recipient i.e., Indore (Madhya Pradesh). <p>Therefore, the given supply is an intra-State supply as the location of the supplier and the place of supply are in the same State. Thus, the supply will be leviable to CGST and SGST.</p>

Note: The question provides that cash discount is 1% on 'basic price of machinery'. Basic price of machinery provided in the question is including design and engineering charges and loading charges of ₹ 10,000 and ₹ 20,000 respectively. Thus, in the above answer, the cash discount has been computed as 1% of ₹ 20,00,000. However, it is also possible to take a view that the basic price of the machinery is ₹ 19,70,000 [₹ 20,00,000 – ₹ 10,000 – ₹ 20,000] and design and engineering charges and loading charges are added to such price. In that case, cash discount will be computed as 1% of ₹ 19,70,000 and value of supply of machinery and tax payable thereon will change accordingly.

2.7 Computation of assessable value of the machine and customs duty payable

Particulars	Amount (Rs.)
CIF value ⁴ [Assessable value for customs purpose]	4,23,379.69
Add: Basic custom duty @10%	42,337.97
Add: Social Welfare Surcharge @ 10% on ₹ 42,337.97	<u>4,233.80</u>
Total	4,69,951.46
Add: Integrated tax @ 18% [Note 4]	<u>84,591.26</u>
Total duty and integrated tax payable (rounded off) (₹ 42,337.97 + ₹ 4,233.80 + ₹ 84,591.26)	1,31,163

³ It has been assumed that the subsidy received from Central Government and subsidy received from joint venture partner of PQR Enterprises have been considered in the basic price of the machinery of ₹ 20,00,000 given in the question. Further, since the question provides the information of a single machinery, it is logical to presume that the subsidy received from joint venture partner of PQR Enterprises is directly linked to the price of that machinery.

⁴ It has been assumed that expenses incurred by the importer in point (ii), (iii) and (iv) of the question have not been included in the CIF value of the machine given.

Notes:

1. Freight incurred from port of entry to Inland Container depot is not includible in assessable value.
2. Only charges incurred for delivery of goods "to" the place of importation are includible in the transaction value. The loading, unloading and handling charges associated with the delivery of the imported goods at the place of importation are not to be added while computing the assessable value.
3. Charges for design and engineering work is includible in the assessable value only when the same is undertaken elsewhere than in India and necessary for the production of the imported goods.
4. Integrated tax is levied on the sum total of the assessable value of the imported goods, customs duties and applicable social welfare surcharge.

CASE STUDY - 3

You are a Fellow Chartered Accountant, computer savvy, possessing excellent interpersonal and communication skills, hands on proven track record of industrial experience with a sound clarity of thought on the technical aspects of multidisciplinary economic legislation and is a much sought after professional.

You have recently joined as Vice President (Accounts and Finance) with M/s. Orange Highway Stabilizers (India) Limited (OHSIL), a listed MNC, having its registered office at Mumbai. OHSIL, is engaged in the business of building highway projects in India. It has a tremendous track record of showing consistent business growth and is one of the key companies closely monitored by the Analysts and other shareholders.

The Company is professionally managed and various financial Institutional investors are holding about 43% of the overall equity share capital of the Company. The Board of Directors of the Company is broad based having Indian and foreign nationals as Board members. The Board meetings of the Company are usually held at the Registered Office in India in person and at times through Video Conferencing.

The Management has very high expectations from you regarding the role you need to play, given the timing as well as the multiple challenges impacting the organization. Therefore, timing of your entry in the Company has become very crucial since the Board of Directors of the Company are planning to convene a Board Meeting on 05.05.2020 wherein certain matters especially with respect to presentation of financial statements, compliance of corporate and economic laws and direct taxation aspects as applicable to the Company are proposed to be discussed and approved.

Also, the foreign Independent directors wanted to know from you the current state of affairs, compliance standards and regulatory assessment hygiene on the various laws and regulations which may potentially have an impact on the Company. They wanted to know specifically from you the regulatory requirements under the Companies Act, 2013 relating to :

- (a) Appointment of Mr. Alex as a Key Managerial Personnel,
- (b) Validity of appointment of Mr. 'X', a turnaround specialist, as the Whole Time Director of "Status One Highway Limited" (SOHL) (a wholly owned subsidiary of OHSIL) w.e.f. 01.01.2020 on which date he would be 70 years of age. You are informed that at the extraordinary general meeting of the Company held on 15-03-2020, the shareholders have not passed a special resolution with regard to the appointment of Mr. 'X', but the votes cast in favour of the motion exceeded the votes cast against the motion. The Company has provided you the following inputs extracted from the latest audited Balance Sheet as at 31st March, 2020.

S. No.	Particulars	Amount (₹ In Lakhs)
01.	Authorized Equity Share Capital	1,560
02.	Paid Up Equity Share Capital	860
03.	Share Application Money Account (Company is in process of Follow on Public Issue (FPO))	60
04.	Reserves and Surplus (including General Reserve - 600 & Revaluation Reserve - 80)	680
05.	Long Term Borrowings	800
06.	Investments	160
07.	Accumulated Losses	40

Besides the above, you have been provided with the following information in advance for your perusal impacting the presentation of financial statements and direct tax matters so that you can provide the necessary inputs at the time of Board Meeting.

Information:

During the financial year 2019-2020:

- (i) In respect of its on-going projects, the Assessee Company (OHSIL) had made some structural changes contrary to what was earlier approved by the municipal authorities. OHSIL hence paid a sum of ₹ 19,80,000 as regularization fee in respect of such changes made in the construction plan.
- (ii) Depreciation as per Income Tax Act, 1961 is ₹ 51,14,00,000. This includes ₹ 78,00,000 in respect of firefighting equipment purchased from POI Ltd and installed in various highway sites / business premises/offices of the assessee. During the year, as there was no incidence of fire, these equipment were not used.
- (iii) The Company earned ₹ 2,20,000 by way of sale of carbon credit. This has been credited to 'Capital Reserve'.

- (iv) As per the books of account, other expenses include ₹ 14,45,000 as expenditure incurred on CSR activities referred to in Section 135 of the Companies Act, 2013.
- (v) The Company performed a revaluation of all its plant and machinery at the beginning of 01.04.2019. The following information relate to one of the machinery :

Particulars	Amount ₹ ('000)
Gross carrying amount	200
Accumulated depreciation (SLM)	(80)
Net carrying amount	120
Fair value	150

The useful life of the machinery is 10 years and the Company uses the Straight Line method of depreciation. The revaluation was performed at the end of 4 years.

- (vi) The Company has borrowed US \$ 250 million from Chase Inc, a financial institution resident in the US, to invest in one of its ongoing building of highway projects in India. The rate of interest charged is 8% per annum. The US \$ may be assumed ₹ 69.

Based on the above inputs, you are requested to deal with the following issues and present your appropriate solutions at the time of the Board Meeting scheduled on 05.05.2020. Please note that the financial statements of the Company for the year under review are prepared using IND AS and your answers on Direct Tax Laws should relate to Assessment Year 2020-'21.

You are required to provide the correct option to the following questions.

- 3.1 As per the Companies Act, 2013, for the appointment of Mr. Alex, the company can use combination of :

- (i) Manager, Company Secretary and Chief Financial Officer
(ii) Chief Executive Officer, Company Secretary and Chief Financial Officer
(iii) Managing Director, Company Secretary and Manager
(iv) Managing Director, Company Secretary and Chief Financial Officer

Which options are available for the Company?

- (A) (i), (ii) and (iii)
(B) (ii), (iii) and (iv)
(C) (i), (ii) and (iv)
(D) (i), (iii) and (iv)

- 3.2 ₹ 19,80,000 paid to municipal authorities to regularize the deviation from earlier approved construction plan in its on-going projects is :
- (A) Eligible for a 100% deduction under Section 37 of the Income Tax Act, 1961 as it was paid in the normal course of business as a regularization fee.
 - (B) Eligible for a deduction under Section 37 of the Income Tax Act, 1961 to an extent of 50% only.
 - (C) Eligible for a deduction under Section 37 of the Income Tax Act, 1961 to an extent of 75%.
 - (D) Does not qualify for a deduction under Section 37 of the Income Tax Act, 1961 as it is in the nature of a penalty to compound an offence.
- 3.3 As per the Income Tax Rules, 1962, depreciation on purchases from POI Ltd. is :
- (A) Not allowable as one of the conditions for the claim of depreciation is that the asset must be used for the purpose of business or profession.
 - (B) Allowable as stand-by equipment, whereby an asset can be said to be in use even when it is kept "ready for use".
 - (C) Not allowable as fire fighting equipments are not assets but are in the nature of revenue expenditure
 - (D) Allowable only to an extent of 50 %
- 3.4 The tax liability on the earning of ₹ 2,20,000 credited to Capital Reserve would be:
- (A) ₹ 67,980 (@ 30.9%)
 - (B) ₹ 45,320 (@ 20.6%)
 - (C) ₹ 22,660 (@ 10.3%)
 - (D) NIL (exempt)
- 3.5 Expenditure ₹ 14,45,000 incurred on CSR Activities which is included in other Expenses
- (A) Shall be deemed to have been incurred for the purpose of business and hence shall be allowed as deduction under Section 37 of the Income Tax Act, 1961.
 - (B) Shall not be deemed to have been incurred for the purpose of business and hence shall not be allowed as deduction under Section 37 of the Income Tax Act, 1961.
 - (C) Shall be deemed to have been incurred for the purpose of business and hence shall be allowed only to an extent of 50% as deduction under Section 37 of the Income Tax Act, 1961.
 - (D) Shall be deemed to have been incurred for the purpose of business and hence shall be allowed to an extent of 125% as deduction under Section 35 of the Income Tax Act, 1961. **(2 x 5 = 10 Marks)**

- 3.6 On the basis of the facts and figures of "Status One Highway Limited" (SOHL) advise in respect of the following under the provisions of the Companies Act, 2013.
- (i) Validity of the appointment of Mr. 'X' as Whole Time Director.
- (ii) Compute the effective capital for payment of managerial remuneration. **(5 Marks)**
- 3.7 In the light of Ind AS 16, explain how should the Company account for revaluation of Plant and Machinery and depreciation subsequent to revaluation? **(7 Marks)**
- 3.8 In respect of US \$ 250 million from Chase Inc. to invest in one of its ongoing building of highway projects in India, state with reasons whether the income of the non-resident is deemed to accrue or arise in India? Will your answer differ in case the money is invested in one of its ongoing projects in Sri Lanka? **(3 Marks)**

ANSWER TO CASE STUDY 3

PART – A

3.1 (C)

3.2 (D)

3.3 (B)

3.4 (--)

(Note: For A.Y. 2020-21, health and education cess @ 4% is applicable on the tax payable plus surcharge, if any. Accordingly, the tax liability computed @ 10.4% would be ₹ 22,880. However, in three of the options tax liability is computed applying the tax rate including education cess @3%; and the fourth option is Nil. Thus, none of the options are correct.)

3.5 (B)

PART – B

- 3.6 (i) As per section 196(3) of the Companies Act, 2013, no company shall appoint or continue the employment of any person as managing director, whole-time director or manager who is below the age of 21 years or has attained the age of 70 years. However, where a person has attained the age of seventy years, he may still be appointed to such office if a special resolution is passed in this respect. In such a case, the explanatory statement annexed to the notice for such motion shall indicate the justification for appointing such person.

Further, where no such special resolution is passed but votes cast in favour of the motion exceed the votes, if any, cast against the motion and the Central Government is satisfied, on an application made by the Board, that such appointment is most beneficial to the company, the appointment of the person who has attained the age of seventy years may be made.

In the given question, the appointment of Mr. X is not valid as special resolution was not passed. However, it could have been regularized (since the votes cast in favour

exceeded votes cast against the motion of appointment of Mr. X as whole time director) by seeking approval of the Central Government, which, if satisfied, can accord such approval.

- (ii) As per Explanation 1 to Section II of Part II of Schedule V “effective capital” means the aggregate of the paid-up share capital (excluding share application money or advances against shares); amount, if any, for the time being standing to the credit of share premium account; reserves and surplus (excluding revaluation reserve); long-term loans and deposits repayable after one year (excluding working capital loans, over drafts, interest due on loans unless funded, bank guarantee, etc., and other short-term arrangements) as reduced by the aggregate of any investments (except in case of investment by an investment company whose principal business is acquisition of shares, stock, debentures or other securities), accumulated losses and preliminary expenses not written off.

The effective capital shall be calculated as on the last date of the financial year preceding the financial year in which the appointment of the managerial person is made.

Calculation of Effective Capital:

Particulars	Amount (₹ in crores)
Paid up Capital (excluding share application money)	860
Add: Reserves and surplus excluding revaluation reserve	600
Add: Long term borrowings	800
Less: Investments	160
Less: Accumulated Losses	40
Effective Capital	2,060

- 3.7 As per Ind AS 16, an item of property, plant and equipment whose fair value can be measured reliably is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Accumulated depreciation at the date of revaluation

When an item of property, plant and equipment is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of the revaluation, the asset is treated in one of the following ways:

- (a) the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated

proportionately to the change in the carrying amount. The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or

- (b) the accumulated depreciation is eliminated against the gross carrying amount of the asset.

Treatment of surplus or deficit arising on revaluation

- If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.
- If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.
- The revaluation surplus included in equity in respect of an item of property, plant and equipment may be transferred directly to retained earnings when the asset is derecognised. This may involve transferring the whole of the surplus when the asset is retired or disposed of.
- However, some of the surplus may be transferred as the asset is used by an entity. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Transfers from revaluation surplus to retained earnings are not made through profit or loss.
- The effects of taxes on income, if any, resulting from the revaluation of property, plant and equipment are recognised and disclosed in accordance with Ind AS 12, *Income Taxes*.

According to the above provisions of Ind AS 16, revaluation of plant and machinery at the beginning of 1st April, 2019 would be as follows:

(Note: It is assumed that the revaluation is conducted on the plant and machinery for the first time.)

Method – I: Depreciation Elimination Approach**Journal Entries**Upward revaluation of Plant and Machinery

Accumulated depreciation	Dr.	80,000	
To Asset			80,000
Asset	Dr.	30,000	
To Revaluation reserve			30,000

The net result is that the asset has a carrying amount of ₹ 1,50,000 (2,00,000 – 80,000 + 30,000).

Subsequent depreciation on Plant and Machinery

Depreciation Account	Dr.	25,000	
To Asset			25,000

Method – II: Restatement Approach

Carrying amount (200,000 – 80,000) =	1,20,000
Fair value (revalued amount)	1,50,000
Surplus	30,000
% of surplus to the carrying amount (30,000 / 1,20,000)	25%

Journal Entries

Asset (2,00,000 x 25%)	Dr.	50,000	
To Accumulated Depreciation (80,000 x 25%)			20,000
To Revaluation Reserve			30,000

(Being the entry to increase both the original cost and the accumulated depreciation by 25%)

Subsequent depreciation on Plant and Machinery

Depreciation Account	Dr.	25,000	
To Accumulated Depreciation			25,000

Additional entry could be passed under both the approaches, if company adopts the policy to transfer difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost from revaluation surplus to retained earnings as follows:

Revaluation reserve	Dr.	5,000	
To Retained Earnings			5,000

- 3.8 (i) As per section 9(1)(vi), interest payable by a person who is a resident in India would be deemed to accrue or arise in India in the hands of the non-resident payee. However, where it is payable in respect of borrowing for the purposes of a business carried on by such person outside India or for the purposes of making or earning any income from any source outside India, the amount payable by way interest would not be deemed to accrue or arise in India, in the hands of non-resident.

Since OHSIL company has borrowed money from Chase Inc., a foreign company not resident in India, for the purpose of ongoing building of highway project in India, interest payable on the same would be income which is deemed to accrue or arise in India in the hands of Chase Inc.

- (ii) If interest is payable in respect of borrowings used for the purpose of ongoing projects in Sri Lanka, interest income would not be deemed to accrue or arise in India in the hands of Chase Inc. a foreign company not resident in India.

CASE STUDY - 4

Company Background

Compressors and Equipment Solutions Ltd (CESL), is a professionally managed Company, incorporated in the year 1999 under the erstwhile Companies Act, 1956, having its factory and registered office at Kolkata. The Company is a leading air compressor manufacturer with a broad line of innovative and technologically superior compressed air systems and has earned worldwide distinction for designing sustainable solutions that help companies achieve their productivity goals and keep the cost of ownership low.

Wholly owned subsidiary

On 12-08-2019, Sharp Falls Limited (SFL) was incorporated at Delhi and was added as a wholly owned subsidiary company of CESL.

Maintenance of Books of Accounts

Since inception, the Company has maintained proper books of accounts adopting historical cost convention, accrual basis of accounting, in alignment with generally accepted accounting principles, complying with all significant accounting policies and mandatory accounting standards and on the basis of going concern.

The books of accounts were duly audited by a reputed firm of Chartered Accountants. The income tax assessments are also completed up to Assessment Year 2018-'19 and there are no income-tax or any other statutory dues payable by the Company.

Appointment of Statutory Auditors

After completing two consecutive terms of 5 years each, the existing firm of Chartered Accountants retired at the last Annual General Meeting held on 29.09.2019 and the shareholders have appointed you as the new Statutory Auditor (Firm Registration No. XXXXX) for a period of five years as recommended by the Audit Committee and approved by the Board

of Directors of the Company in terms of Section 139 of the Companies Act, 2013 read with the Companies (Audit and Auditors) Rules, 2014 on such remuneration as may be mutually agreed upon between the Board of Directors of the Company and the Statutory Auditor.

Accordingly, you have assumed the office of Statutory Auditor and started your audit of books of accounts for the financial year 2019-20 on a monthly basis. During the month of May, 2020, the Chief Accountant has provided you with the draft management prepared financial statements (Standalone / Consolidated) for your perusal and audit.

You have formed a team of 6 members and drafted a detailed audit program. Initially you have deployed Ms. Diya, the Senior Audit Manager to review the Board Minutes, other secretarial records / regulatory records and instructed her to take note of all important and relevant data / issues for the audit.

During the course of the audit, Ms. Diya has made certain observations /collected the following management proposals / information / queries:

- (1) The previous Statutory Auditors of CESL made an adverse statement in their certificate as the Audit Committee of the Company did not meet four times a year.
- (2) CESL was considering the replacement of its existing machine with a new machine. The purchase price of the new machine is ₹ 26 lakhs and its expected life is 8 years. The Company follows a straight line method of depreciation on the original investment (scrap value is not considered for the purpose of depreciation). The other expenses to be incurred for the new machine are as follows:
 - (i) Installation charges ₹ 9,000
 - (ii) Fee paid to the consultant for his advice to buy the new machine ₹ 6,000.
 - (iii) Additional working capital required ₹ 17,000 (will be released after 8 years).

The written down value of the existing machine is ₹ 76,000 and its cash salvage is ₹ 12,500. The dismantling of this machine would cost ₹ 4,500. The annual earnings (before tax but after depreciation) from the new machine would amount to ₹ 3,15,000. Income tax rate is 35%. The Company's required rate of return is 13%.

- (3) The Managing Director of CESL informed you that there is a proposal of SFL (subsidiary of CESL) to acquire XYZ Ltd. and has offered a swap ratio of 1 : 2 (0.5 shares for every one share of XYZ Ltd.). He has provided you with the following information:

Particulars	SFL	XYZ Ltd.
Profit after tax (₹)	18,00,000	3,60,000
Equity shares outstanding (Nos.)	6,00,000	1,80,000
EPS (₹)	3	2
P/E Ratio	10 Times	7 Times
Market Price Per Share	30	14

- (4) A theft of Cash of ₹ 15 lakhs by the cashier in January 2020 was detected only in May 2020 on which date the final accounts were not yet approved by the Board as the accounts were under audit.
- (5) Mr. Ajay Patel, a Chartered Accountant by profession was appointed as GST, Auditor of CESL. The Management has requested Mr. Ajay Patel, for GST Audit and to file GSTR-3B for the months of July and August 2019 and filing of Annual Return in GSTR-9. Mr. Ajay Patel contended that he has been appointed to do only GST audit and the above are his scope limitations and cannot be conducted as the compliances and returns are to be filed by the Management.
- (6) One of the foreign director (foreign citizen) of CESL made donations in kind to various Indian residents for their personal use.

BZ and Associates, Chartered Accountants having CA.B and CA.Z as partners, were appointed as the Internal Auditors of CESL. The audit firm got their website developed as www.bzassociates.com from WYK Ltd. The color of the website was very bright and attractive to run on a 'push technology.' Further, names of the partners of the firm and the major clients were also displayed on the web-site without any disclosure obligation from any regulator.

The CEO of CESL wanted to know the situations under which a lender can avail the benefits of SARFAESI Act, 2002.

At this juncture, before further audit is carried out, you wanted to discuss and provide solutions to the above audit findings / observations with the Chairman of the Audit Committee of CESL. Accordingly, read the following paragraphs and act accordingly :

You are required to provide the correct option to the following questions.

- 4.1 A theft of cash of ₹ 15 lakhs by the cashier in January 2020 was detected only in May 2020 on which date the final accounts were not yet approved by the Board as the accounts were under audit.

The theft of cash :

- (A) Need not be adjusted to the reported value of assets, liabilities, incomes or expenses for the year ended 31.03.2020.
- (B) Need to be adjusted to the reported value of assets, liabilities, incomes or expenses for the year ended 31.03.2020.
- (C) Need to be adjusted to the reported value of assets, liabilities, incomes or expenses for the year ended 31.03.2021.
- (D) A provision for bad debts should be made in the accounts.
- 4.2 The Management has asked Mr. Ajay Patel to conduct besides GST Audit, filing of GSTR-3B and GSTR-9. Therefore, the:
- (A) Contention of the Management to Mr. Ajay Patel is tenable as preparation of annual returns and uploading periodic returns is also a part of the scope of the GST Audit.

- (B) *Contention of the Management to Mr. Ajay Patel is not tenable as preparation of annual returns and uploading periodic returns is the task of the Management.*
- (C) *Wilful refusal by Mr. Ajay Patel for preparation of annual returns and uploading periodic returns will be considered as a professional default and as a consequence, he shall be held guilty of professional negligence.*
- (D) *Both (A) and (C)*
- 4.3 *One of the foreign director (foreign citizen) of CESL made donations in kind to various Indian residents for their personal use. When shall such donation in kind be excluded from the definition of Foreign contribution under the provisions of Foreign Contribution (Regulation) Act, 2010?*
- (A) *If the market value, in India, of such article, on the date of such gift, does not exceed ₹ 25,000.*
- (B) *If the market value, in India, of such article, on the date of such gift, does not exceed ₹ 50,000.*
- (C) *If the market value, in India, of such article, on the date of such gift, does not exceed ₹ 1,00,000.*
- (D) *Any donation given in kind is excluded*
- 4.4 *Whether, web-site designed for www.bzassociates.com is in compliance with the guidelines to the Chartered Accountants Act, 1949 :*
- (A) *Yes. Web-site can have names of the partners and major clients along with its fees.*
- (B) *Yes. Web-site can have names of the major clients, but not of the Firm's Partners.*
- (C) *Web-site can be designed on "push technology" and there is no restriction on the colors used.*
- (D) *No, names of the firm's major clients cannot be displayed on firm's website without any disclosure obligation from a Regulator.*
- 4.5. *The CEO of CESL wants to know from you to state the situation under which a lender can avail the benefits of SARFAESI Act, 2002.*
- (1) *An insolvency petition has been launched against the borrower*
- (2) *The borrower is under BIFR*
- (3) *A winding up petition has been made against the borrower*
- (4) *A criminal proceeding has been launched by the lender against the borrower*
- (A) *In situations under (1) and (2)*
- (B) *In situations under (2) and (4)*
- (C) *In situations under (2) (3) and (4)*
- (D) *In all the given situations*

(2 x 5 = 10 Marks)

4.6. The previous Statutory Auditors of CESL made an adverse statement in their certificate as the Audit Committee of the Company did not meet four times a year. State a few other circumstances that might result in an adverse or qualified statement in the auditor's certificate in respect of compliance of the requirements of Corporate Governance.

(5 Marks)

4.7. CESL was considering the replacement of its existing machine with a new machine. On the basis of the inputs given in para (2) above, advise on the viability of the proposal.

$$PVIF (13\%,8) = 0.376 \quad PVIFA (13\%,8) = 4.80$$

(5 Marks)

4.8. In respect of the acquisition by SFL (another subsidiary of CESL) of XYZ Ltd, you are required to calculate:

- (i) The number of equity shares to be issued by SFL., for acquisition of XYZ Ltd.
- (ii) What would be the EPS of SFL., after the acquisition?
- (iii) Determine the equivalent earnings per share of XYZ Ltd.
- (iv) What is the expected market price per share of SFL., after the acquisition, assuming its P/E multiple remains unchanged?
- (v) Determine the market value of the merged firm, assuming its P/E multiple remains unchanged.

(1 x 5 = 5 Marks)

ANSWER TO CASE STUDY 4

PART – A

4.1 (B)

4.2 (B)

4.3 (A)

4.4 (D)

4.5 (C)

PART – B

4.6 Adverse or Qualified Statement: Depending upon the facts and circumstances, some situations may require an adverse or qualified statement or a disclosure without necessarily making it a subject matter of qualification in the Auditors' Certificate, in respect of compliance of requirements of corporate governance for e.g.,

- (a) The number of non-executive directors is less than 50% of the strength of Board of directors.
- (b) A qualified and independent audit committee is not set up.
- (c) The Chairman of the audit committee is not an independent director.
- (d) The Audit Committee does not meet four times a year.

- (e) The necessary powers in terms of Part C of Schedule II have not been vested by the Board in the Audit Committee.
- (f) The time gap between two Board meetings is more than one hundred and twenty days.
- (g) A director is a member of more than ten committees or acts as Chairman of more than five committees across all companies in which he is a director.
- (h) The information of quarterly results is neither put on the listed entity's website nor sent in a form so as to enable the stock exchange on which the entity's securities are listed to enable such stock exchange to put it on its own website.
- (i) The power of share transfer is not delegated to an officer or a committee or to the registrar and share transfer agents.

4.7

(A)	Cash Outflow	₹
	Purchase Price	26,00,000
	<i>Add:</i> Installation cost	9,000
	<i>Add:</i> Additional Working Capital	17,000
	Total Cost	26,26,000
	<i>Less:</i> Disposal of old machine net of dismantling cost	8,000
	<i>Less:</i> Tax Benefit on STCL	<u>22,225</u>
	Total Cash Outflow	<u>25,95,775</u>

(B) Cash Inflows after Taxes (CFAT)

	₹
Earnings after Depreciation but before Tax	3,15,000
Less: Tax @ 35%	1,10,250
Earning after Tax	2,04,750
Less: Tax Shield on Depreciation on Existing Machine	3,325
Earning after Depreciation	2,01,425
Add: Depreciation	3,25,000
Cash Flow after Tax (CFAT)	5,26,425

(C) Terminal Year Cash Flow

Release of Working Capital ₹ 17,000

Computation of NPV

$$= ₹ 5,26,425 \times 4.80 + ₹ 17,000 \times 0.376 - ₹ 25,95,775$$

$$= ₹ 25,26,840 + ₹ 6,392 - ₹ 25,95,775 = - ₹ 62,543$$

As the NPV of the proposal is negative, the company should continue with the existing old Machine.

Alternative Answer

(If Tax on Short Term Capital Loss on disposal of old machine is ignored)

(A) Cash Outflow		₹
	Purchase Price	26,00,000
	Add: Installation cost	9,000
	Add: Additional Working Capital	17,000
	Total Cost	26,26,000
	Less: Disposal of old machine net of dismantling cost	<u>8,000</u>
	Total Cash Outflow	<u>26,18,000</u>

(B) Cash Inflows after Taxes (CFAT)

	₹
Earnings after Depreciation but before Tax	3,15,000
Less: Tax @ 35%	1,10,250
Earning after Tax	2,04,750
Less: Tax Shield on Depreciation on Existing Machine	3,325
Earning after Depreciation	2,01,425
Add: Depreciation	3,25,000
Cash Flow after Tax (CFAT)	5,26,425

(C) Terminal Year Cash Flow

Release of Working Capital ₹ 17,000

Computation of NPV

$$= ₹ 5,26,425 \times 4.80 + ₹ 17,000 \times 0.376 - ₹ 26,18,000$$

$$= ₹ 25,26,840 + ₹ 6,392 - ₹ 26,18,000 = - ₹ 84,768$$

As the NPV of the proposal is negative, the company should continue with the existing old Machine.

4.8 (i) The number of shares to be issued by SFL Ltd.:

The Exchange ratio is 0.5

So, new Shares = 1,80,000 x 0.5 = 90,000 shares.

(ii) EPS of SFL Ltd. After acquisition:

Total Earnings	(₹ 18,00,000 + ₹ 3,60,000)	₹ 21,60,000
No. of Shares	(6,00,000 + 90,000)	6,90,000
EPS	(₹ 21,60,000)/6,90,000)	₹ 3.13

(iii) Equivalent EPS of XYZ Ltd.:

No. of new Shares	0.5
EPS	₹ 3.13
Equivalent EPS (₹ 3.13 x 0.5)	₹ 1.57

(iv) New Market Price of SFL Ltd. (P/E remaining unchanged):

Present P/E Ratio of SFL Ltd.	10 times
Expected EPS after merger	₹ 3.13
Expected Market Price (₹3.13 x 10)	₹ 31.30

(v) Market Value of merged firm:

Total number of Shares	6,90,000
Expected Market Price	₹ 31.30
Total value (6,90,000 x 31.30)	₹2,15,97,000

CASE STUDY - 5

You are a part of a reputed Chartered Accountants firm, based out of Delhi and having branches in all metros and tier -1 cities of India. The audit firm has rich exposure across all sectors of industries and offers varied services. You are at the helm of leading a blend of a vibrant team of distinguished professionals known for possessing expert knowledge on various economic legislations and mandate best reporting practices.

Your Competencies

As a professional, you aid in facing the challenges and ease of doing business in India by advising necessary compliances, efficient transaction planning, smooth transaction execution, best industry practices etc., You practice strong professional ethics and advise your clients to comply with the rule of law, promote transparency in financial and business transactions and make them tax compliant vis-a-vis intelligent tax planning rather than tax dodging and tax evasion. You are also a Director on the Board, Chairman and/or Member of Committees on the Board of many listed and unlisted entities.

Your Key Client

One of the key clients of the audit firm is Angel Motor Company (AMC), (flagship company of Angel Group of Companies), based out of Pune, having three factories at Pune, branches / dealer networks in almost all parts of India, wherein your audit firm provides audit and auxiliary services, taxation and advisory services from time to time on various business related projects, expansion strategies, funding aspects, tax implications etc.,. AMC is the third largest 2-wheeler company in India (manufacturing 14 different types of two wheelers like mopeds, scooters and sporty bikes) in terms of revenues, annual sales and annual capacity (in million units) and is also the 2nd largest exporter in India with exports to over 60 countries. AMC is the largest Company of the group in terms of size and turnover.

Professional Meeting

In view of your excellent technical and presentation skills, AMC has reached out to you seeking your expert opinions and advice on certain issues. AMC has also certain issues in their subsidiary companies. They have requested you to join their internal brain storming session organized to discuss and decide on the way forward. You have agreed to participate and provide your insights in the session. AMC will decide the way forward based on your advice and, hence, your expert guidance would be extremely crucial for the ultimate decision making by the Board.

On the appointed day, Mr. Nani, Director (Finance), formally welcomed you and your team and after pleasantries, at the request of the Chairman, Mr. Nani discussed the following matters and submitted various facts and figures in support of the discussion.

GIST OF DISCUSSION: 1

As AMC is involved in manufacturing of different types of two wheelers in its factories, of late, is concerned with shortage in production and there arose suspicion of inventory fraud. In order to curb the defalcation of inventory, the Management wants to evaluate the options for verifying the process to reveal fraud and the corrective action to be taken.

GIST OF DISCUSSION: 2

One of the subsidiary of AMC is Gogreen Ltd (GL) which is engaged in horticulture, plantation and farming activities on a large scale on a pan India basis. On 01.04.2019, the Company received a government grant of ₹40 lakhs subject to a condition that GL will continue to engage in plantation of eucalyptus trees for a continuous period of five years. GL made a reasonable assurance that the entity would comply with the above government's condition of planting eucalyptus trees for a continuous period of five years and accordingly it recognized proportionate grant of ₹ 8 lakhs in its Statement of Profit and Loss as income following the principles laid down under Ind AS.

GIST OF DISCUSSION: 3

GL is one of the key operational creditors of Multicrop Limited (ML) which is engaged in farming activities and was the sole supplier of fertilizers to ML. The arrangement between GL and ML was formally documented through a blanket purchase order on an annual basis with weekly

supply schedules and a 30 days credit period. In view of the financial crisis including heavy cash losses of ML, there was a significant backlog in the payment by ML and in line with the terms of the purchase order, the matter was referred to an Arbitral Tribunal with claims and counterclaims by both the parties. The Arbitral Tribunal delivered its award in favour of GL for the entire balance including receivables assigned to the Bank (without recourse basis) by ML and rejected the cross claims of ML. Thereafter, ML proceeded to file a petition under the Arbitration and Conciliation Act, 1996 challenging the award of the Arbitral Tribunal. Based on the opinion of Mr. Nani that the object of Insolvency and Bankruptcy Code, 2016 (IBC, 2016) is also to hold Promoters personally financially liable for the defaults of the firms they control, an application was filed by GL under Section 9 of the IBC, 2016 as the sole operational creditor of ML. The NCLT, based on the application, admitted the same since there is clear evidence of a demand and the appropriate notice has been submitted by GL as per the IBC, 2016.

GIST OF DISCUSSION: 4

01. While discussing certain matters on Direct Tax Laws, Mr. Durai, one of the participant in the brain storming session opined that under the provisions of the Income Tax Act, 1961, the Assessing Officer (AO) can complete the assessment of Income from International Transaction in disregard of the order passed by the Transfer Pricing Officer (TPO) by accepting the contention of the Assessee.

Other Issues:

02. Mr. Shiva, brother of Mr. Suresh, the Chairman of AMC, is a resident of Malaysia and he owns an immovable property in Bengaluru which he inherited from his father, who was a resident of India. Mr. Suresh wants to know whether Mr. Shiva can continue to hold the property in terms of the Foreign Exchange Management Act, 2002.
03. Mr. Sampath, the MD of the company has put forward a proposal to merge AMC with an unlisted entity "Robust Fitting Works Ltd." (Robust) through an approved restructuring route considering certain business reasons. The MD further added that Robust is going through tough times and all efforts made by the Promoters to revive the entity has become futile and the time has come now to fix the problem with the help of AMC. The MD further added that since AMC is a tax paying entity, through the merger, the possibility of setting off the carry forward losses of "Robust" including the speculative losses is possible.
04. MX Ltd., another subsidiary of AMC has not provided for any tax expense in the books of accounts due to tax losses. The Company has recognized deferred tax assets on the unabsorbed business losses based on Management assessment and on its understanding of Ind AS.
05. One of the wholly owned Indian subsidiary of AMC namely X Ltd was amalgamated and merged with Y Ltd Some workers of X Ltd refused to join as workers of Y Ltd and claimed compensation for premature termination of their services. X Ltd resisted the claim on the ground that their services are transferred to their Company by the Order of Tribunal for

amalgamation and merger and therefore, the workers are bound to join the services and cannot claim any compensation.

06. *You were informed that AMC committed an offence under the Companies Act, 2013 which is alleged to have been committed by the Company and its officers relating to entering into contracts in which the directors are interested. The Management wants to know the law related to cognizance of an offence under the Companies Act 2013.*

The ball is now in your Court. Based on the above information, you have to provide your inputs on the below aspects to your key client Company and to assist the Board in arriving at the conclusions.

You are required to provide the correct option to the following questions.

Note that the financial statements of the Company for the year under review are prepared using IND AS and your answers on Direct Tax Laws should relate to Assessment Year 2020-21.

- 5.1 *Can Mr. Shiva continue to hold the property in Bengaluru in terms of the "Foreign Exchange Management Act, 2002 ?*
- (A) No, he cannot hold, transfer or invest in India, since he is resident outside India.*
 - (B) Yes, he can continue to hold the property in India, since he is a person of Indian origin and the property is located in India.*
 - (C) Yes, he can continue to hold the property in India, since this was inherited from a person who was resident in India.*
 - (D) Yes, he can continue to hold the property, since his brother (Mr. Suresh) uses the property whenever he travels to India.*
- 5.2 *Whether the speculative losses carried forward by "Robust" is available for set-off against the profits and gains of business of "Robust" post merger under the provisions of Income Tax Act, 1961 ?*
- (A) Yes*
 - (B) No*
 - (C) Permissible, if it is within the period of 8 years.*
 - (D) If the scheme provides for such set-off, the same would be permissible.*
- 5.3 *Do you think that the "Deferred Tax Asset" recognition on the unabsorbed business loss is appropriate?*
- (A) Yes*
 - (B) No*
 - (C) Yes, since it is based on Management assessment and the same is as per Ind AS 12.*
 - (D) It depends/ based on the decision to be taken by the MD regarding the probable merger.*

- 5.4 In respect of the amalgamation and merger of X Ltd with Y Ltd, state the correct option under the provisions of the Companies Act, 2013 :
- (A) Workers contention is incorrect as they are bound with the amalgamation scheme as sanctioned by the Tribunal.
 - (B) Workers contention is correct as their services cannot be transferred without their consent.
 - (C) Workers contention is incorrect as they are not entitled to any compensation
 - (D) Both (A) and (C)
- 5.5 The law related to cognizance of an offence under the Companies Act 2013 is that:
- (A) The Court shall take cognizance of the offence only on the written complaint of the Registrar of Companies.
 - (B) The Court shall take cognizance of the offence only on the written complaint of a shareholder of the Company.
 - (C) The Court shall take cognizance of the offence only on the written complaint of a person authorized by the Central Government
 - (D) The Court shall take cognizance of the offence only on the written complaint of the Registrar, a shareholder or of a person authorized by the Central Government on that behalf. **(2 x 5 = 10 Marks)**
- 5.6 With reference to the inputs provided in the Gist of Discussion-1 above, what will be your areas of verification and the procedure to be followed for verification of defalcation of inventory? **(5 Marks)**
- 5.7 With reference to the inputs provided in the Gist of Discussion-2 above, evaluate whether the accounting treatment made by the Management is in compliance with the applicable Ind AS. If not, advise the correct treatment. **(5 Marks)**
- 5.8 With reference to the inputs provided in the Gist of Discussion-3 above, what is your view with regard to the stand taken by NCLT in admitting the application of GL for initiating insolvency proceedings against ML? **(5 Marks)**

ANSWER TO CASE STUDY 5**PART – A**

- 5.1 (C)
5.2 (B)
5.3 (C) & (A)
5.4 (D)
5.5 (D)

PART – B

5.6 Inventory Frauds: Inventory frauds are many and varied but here we are concerned with misappropriation of goods and their concealment.

- (i) Employees may simply remove goods from the premises.
- (ii) Theft of goods may be concealed by writing them off as damaged goods, etc.
- (iii) Inventory records may be manipulated by employees who have committed theft so that book quantities tally with the actual quantities of inventories in hand.

Verification Procedure for Defalcation of inventory - It may be of trading stock, raw materials, manufacturing stores, tools or of other similar items (readily) capable of conversion into cash. The loss may be the result of a theft by an employee once or repeatedly over a long period, when the same have not been detected. Such thefts usually are possible through collusion among a number of persons. Therefore, for their detection, the entire system of receipts, storage and despatch of all goods, etc. should be reviewed to localise the weakness in the system.

The determination of factors which have been responsible for the theft and the establishment of guilt would be difficult in the absence of: (a) a system of inventory control, and existence of detailed record of the movement of inventory, or (b) availability of sufficient data from which such a record can be constructed. The first step in such an investigation is to establish the different items of inventory defalcated and their quantities by checking physically the quantities in inventory held and those shown by the Inventory Book.

Afterwards, all the receipts and issues of inventory recorded in the Inventory Book should be verified by reference to entries in the Goods Inward and Outward Registers and the documentary evidence as regards purchases and sales. This would reveal the particulars of inventory not received but paid for as well as that issued but not charged to customers. Further, entries in respect of returns, both inward and outward, recorded in the financial books should be checked with corresponding entries in the Inventory Book. Also, the totals of the Inventory Book should be checked. Finally, the shortages observed on physical verification of inventory should be reconciled with the discrepancies observed on checking the books in the manner mentioned above. In the case of an industrial concern, issue of raw materials, stores and tools to the factory and receipts of manufactured goods in the godown also should be verified with relative source documents.

Defalcations of inventory, sometimes, also are committed by the management, by diverting a part of production and the consequent shortages in production being adjusted by inflating the wastage in production; similar defalcations of inventories and stores are covered up by inflating quantities issued for production. For detecting such shortages, the investigating accountant should take assistance of an engineer. For that he will be more conversant with factors which are responsible for shortage in production and thus will be able to correctly determine the extent to which the shortage in production has been inflated. In this regard,

guidance can also be taken from past records showing the extent of wastage in production in the past. Similarly, he would be able to better judge whether the material issued for production was excessive and, if so to what extent. The per hour capacity of the machine and the time that it took to complete one cycle of production, also would show whether the issues have been larger than those required.

- 5.7** AMC Ltd. is engaged in plantation and farming on a large scale. This implies that it has agriculture business. Hence, Ind AS 41 will be applicable.

Further, the government grant has been given subject to a condition that it will continue to engage in plantation of eucalyptus tree for a coming period of five years. This implies that it is a conditional grant.

In the absence of the measurement base of biological asset, it is assumed that “AMC Ltd measures its Biological Asset at fair value less cost to sell”:

- (i) As per Ind AS 41, the government grant should be recognised in profit or loss when, and only when, the conditions attaching to the government grant are met i.e. continuous plantation of eucalyptus tree for coming period of 5 years. In this case, the grant shall not be recognised in profit or loss until the five years have passed. The entity has recognised the grant in profit and loss on proportionate basis, which is incorrect.
- (ii) However, if the terms of the grant allow part of it to be retained according to the time elapsed, the entity recognises that part in profit or loss as time passes. Accordingly, the entity can recognise the proportionate grant for ₹ 8 lakh in the statement of Profit and Loss based on the terms of the grant.

Alternatively, it may be assumed that AMC Ltd. measures its Biological Asset at its cost less any accumulated depreciation and any accumulated impairment losses (as per para 30 of Ind AS 41):

In such a situation, principles of Ind AS 20 (with respect to conditional grant will apply). According to Ind AS 20, the conditional grant should be recognised in the Statement of Profit and Loss over the periods and in the proportions in which depreciation expense on those assets is recognised. Hence the proportionate recognition of grant ₹ 8 lakh (40 lakh / 5) as income is correct since the entity has reasonable assurance that the entity will comply with the conditions attached to the grant.

Note: In case eucalyptus tree is considered as bearer plant by AMC Ltd., then Ind AS 20 will be applicable and not Ind AS 41.

- 5.8** In the given case study, GL, the operational creditor was the sole supplier of fertilizers to ML. Due to financial crises and heavy losses, there was a backlog in the payment by ML in line with the terms of purchase order. The matter was referred to an Arbitral Tribunal and Award was delivered in favour of GL. Thereafter, ML filed a petition under the Arbitration and Conciliation Act, 1996 challenging the award of the Arbitral Tribunal. In the meantime, GL filed an application under section 9 of the IBC, 2016.

As per section 8 of the Insolvency and Bankruptcy Code, 2016, an operational creditor, on the occurrence of default, shall first send a demand notice and a copy of invoice to the corporate debtor. The corporate debtor shall within a period of ten days of receipt of demand notice or copy of invoice intimate to the operational creditor about the existence of a dispute, if there is any, and record of pendency of any suit or arbitration proceedings.

"Demand notice" means a notice served by an operational creditor to the corporate debtor demanding payment of the operational debt in respect of which the default has occurred.

After the expiry of ten days, if the operational creditor does not receive his payment or the confirmation of a dispute that existed even before the demand notice was sent, he may file an application before the Adjudicating Authority for initiating a Corporate Insolvency Resolution Process.

In view of the stated facts, no demand notice and copy of invoice was served to ML, on occurrence of default i.e. on non payment of due amount. Further, arbitral award which was challenged, was also pending under the Arbitration and Conciliation Act, 1996. Therefore, in the light of non-compliance of the section 8 required for initiation of Corporate Insolvency Resolution Process by operational creditor under section 9 of the IBC, NCLT's stand of admission of the application of GL for initiation of insolvency process, is not in order.

PAPER – 6F: MULTIDISCIPLINARY CASE STUDY

The question paper comprises five case study questions. The candidates are required to answer any four case study questions out of five.

All your workings should form part of your answer.

CASE STUDY-1**CONTAINS: PART-A AND PART-B****BACKGROUND**

You are a part of a credible Chartered Accountants firm based out of Chennai. Your audit firm is engaged in traditional as well as in modern areas of practice such as Insolvency Resolution Professionals, Registered Valuers, Forensic Audit, International Taxation, Risk Management, etc., besides conducting regular Statutory Audits, Internal Audits and providing business advisory especially for start-ups.

In view of your excellent communication and presentation skills with a sound clarity of thought on the technical aspects of a statute, you are very often specially chosen and consulted by a variety of large business houses. You are also known for your sharp acumen on Corporate Accounting, Indian Accounting and Auditing Standards and mandate best reporting practices.

Your institution deserves credit for making this possible and always advise your clients to comply with the rule of law, promote transparency in financial and business transactions, make your clients much more of a tax compliant vis-a-vis intelligent tax planning rather than tax dodging and tax evasion.

- (1) *Last Monday, you have been approached by Omega Soft Tech Ltd. represented by its new Managing Director, Mr. Ashish, an extrovert, holding a Doctorate degree in Financial Management from a reputed University of United Kingdom. He has taken over the mantle just a week ago from his father.*

Considering the complex regulatory set-up in India, including the litigation settlement process, especially the time taken for disposal of cases by the judiciary and the penalties for non-compliances have been made more severe, Mr. Ashish wanted to know from you the current state of affairs, compliance audit of applicable laws and regulatory assessment hygiene which may potentially have an impact on the Company. You have consented to clarify all the doubts raised by Mr. Ashish.

At the outset, Mr. Ashish wishes to understand from you the requirements of the Companies Act, 2013 in the year end for preparation of Financial Statements and seeks your views on the correctness of the management prepared unaudited draft Balance Sheet as at 31st March, 2020 as given below and the disclosures made in the notes of accounts by the Company.

Draft Balance Sheet of Omega Soft Tech Ltd. as at 31st March, 2020:

HEADING	NOTE NUMBER	31 ST MARCH, 2020	31 ST MARCH, 2019
EQUITY AND LIABILITIES			
Share Capital (includes share application money pending allotment)	1	XXX	XXX
Reserves & Surplus	2	0	0
Employee stock option outstanding	3	XXX	XXX
Share application money refundable	4	XXX	XXX
NON-CURRENT LIABILITIES			
Deferred tax Liability (Arising out of Indian Income Tax)	5	XXX	XXX
CURRENT LIABILITIES			
Trade Payables	6	XXX	XXX
Total		XXXXX	XXXXX
ASSETS			
NON-CURRENT ASSETS			
Fixed Assets - Tangible	7	XXX	XXX
CWIP (including capital advances)	8	XXX	XXX
CURRENT ASSETS			
Trade Receivables	9	XXX	XXX
Deferred Tax Assets (arising from Indian Income Tax)	10	XXX	XXX
Debit balance of Profit and Loss Account		XXX	XXX
Total		XXXXX	XXXXX

(2) Disclosures made in the notes forming part of the accounts:

(a) 'Share Capital Disclosures':

The Company has only one class of shares i.e. Equity. In view of this, the rights, preference and restrictions with respect to such shares are not disclosed as they are not applicable to equity shares. Also, the reconciliation of each class of shares outstanding at the beginning and at the end of the period, was not disclosed.

(b) *Reserves and Surplus Disclosures:*

For each of the specified head of Reserves & Surplus, only the final amount at the end of the period were reflected without movement during the year i.e. addition and deduction since last balance sheet.

Also, Debit Balance of Statement of profit and loss was reflected on Assets side of the Balance Sheet instead of showing as a negative figure under the head Reserves & Surplus.

(c) *Appropriations:*

Appropriations and allocations such as dividend, transfer to/from reserves from Profit for the year were reflected on the face of the Statement of Profit and Loss.

(d) *Trade Payables:*

Trade Payables include dues payable in respect of statutory obligations like PF, dues towards purchase of fixed assets and other contractual obligations.

- (3) *Further, Mr. Ashish informed you that during the financial year 2019-20, the Company had changed its method of accounting compared to the previous financial year (2018-19) and had reported a closing stock of computer peripherals amounting to ₹ 12 lakhs as on 31.03.2020. Also, the Company had borrowed a sum of ₹ 15 crores equally from two public sector banks and two NBFCs. The Company had promptly repaid few deposits amounting to ₹ 80 lakhs to the deposit holders.*
- (4) *In the accounts of the Company ₹ 1.25 crores towards accrual of certain liabilities relating to refurbishment of certain spares meant for a specialized operating machine is yet to be made. The spares for refurbishment were sent in March 2019. Completion of the refurbishment/receipt of spares by the Company is expected only in March, 2020.*
- (5) *Further, Mr. Ashish wants to know the legal remedies available in India under the Insolvency and Bankruptcy Code, 2016 as to how the settlement of the dues would be prioritized as compared to various secured creditors of the defaulting company including a foreign subsidiary at the time of insolvency. To have a hands on practical situation, he submitted that a Bank being a financial creditor, sent a demand notice for a claim of ₹ 15 crores on M/s. D Ltd., (a subsidiary of Omega Soft Tech Limited) being the Corporate Debtor on 6th March, 2020. When the petition was filed before NCLT under Insolvency and Bankruptcy Code, 2016, the Bank claimed that M/s. D Ltd. has defaulted ₹ 25 crores instead of original amount of ₹ 15 crores. NCLT appointed an interim insolvency resolution professional M/s. D Ltd. & made an appeal with NCLT demanding that the Bank's claim is not maintainable as there is a difference in the amount mentioned in the demand notice and the application filed under the Code.*

Asks from You,

You are requested to advise Mr. Ashish based on your understanding of his requirements, issues and clarifications sought to the following questions. You can make relevant assumptions, if any, as may be required to explain your views so as to provide a holistic and relevant feedback.

PART-A

Read carefully the following and provide the correct option. No reasoning is required.

- 1.1. Compliance Audit of applicable laws and regulations is mandatory for all Public Companies incorporated and registered under the Indian Companies Act, 2013.
- (A) No. It is applicable only when a Company is investigated by the Serious Fraud Investigation Office (SFIO) under the Companies Act, 2013.
 - (B) Yes. It is a part of the Internal Audit exercise mandatorily stipulated under the Companies Act, 2013.
 - (C) Yes. It is mandatory for all companies whether private or public incorporated and registered in India.
 - (D) It is not specifically mandated for all public companies incorporated and registered in India.
- 1.2. In the light of the information provided in para (3) above, state which among the below transactions which were undertaken by the Company needs to be reported by the Statutory Auditors under fiscal laws?
- (i) ₹ 15 crores loan taken, which is exceeding the limit specified under Section 269 SS of the Income Tax Act, 1961.
 - (ii) Changed its method of accounting from the previous financial year.
 - (iii) Repayment of deposits of ₹ 80 lakhs which is exceeding the limit specified under Section 269T of the Income Tax Act, 1961.
 - (iv) Reporting of closing stock of computer peripherals worth ₹ 12 Lakhs only.
- (A) (i), (iii) & (iv)
 - (B) (ii) & (iii)
 - (C) (i) & (iii)
 - (D) (i), (ii), (iii) & (iv)
- 1.3. In respect of data provided in para (4) above, the amount to be accrued, if any, in connection with the refurbishment of spares as at 31.03.2019 referred to above would be in the nature of:
- (A) Contingent Liability
 - (B) Crystallized Liability

- (C) *Constructive Obligation*
 (D) *Construction Obligation*
- 1.4. *In respect of the data provided in para (5) above state the correct option under the Insolvency and Bankruptcy Code, 2016*
- (A) *Contention of M/s. D is not correct as there is no requirement of demand notice in case of financial creditor.*
 (B) *Contention of M/s. D is correct as without serving a demand notice for accurate amount by financial creditor, application for corporate insolvency resolution process is not maintainable.*
 (C) *Contention of M/s. D is not correct as the demand notice was served on it.*
 (D) *Contention of M/s. D is correct and justifiable in the eyes of law.*
- 1.5. *Under the Insolvency and Bankruptcy Code, 2016 (IBC, 2016), which of the following is not part of the objectives for introduction of IBC, 2016?*
- (A) *Holding promoters personally financially liable for the defaults of the firms that they control.*
 (B) *Avoiding destruction of value.*
 (C) *Improve handling of conflicts between creditors and debtors through process of negotiation.*
 (D) *Clear allocation of losses during downturn.*

PART-B

- 1.6. *In the draft Management prepared Balance Sheet of Omega Soft Tech Limited as at 31st March, 2020, comment on the errors that the Company has made in the presentation of the draft Balance Sheet as at 31.03 .2020 in terms of Schedule III to the Companies Act, 2013.*
- 1.7. *State the non-disclosures made by the Company in para 2 (a) to (d) above pursuant to financial statements disclosure requirements as enshrined in Schedule III to the Companies Act, 2013. You may provide your answer only in the light of Schedule III as the disclosure requirements specified in Schedule III are in addition to and not in substitution of the Disclosure Requirements specified in Ind AS prescribed under the Companies Act, 2013.*

ANSWER TO CASE STUDY 1

PART – A

- 1.1 (D)
 1.2 (D)
 1.3 (B)

1.4 (A)

1.5 (A)

PART – B

1.6 Following Errors have been noticed in presentation, as per Division II of Schedule III:

- (i) Balance sheet should begin with Assets on top and then, Equity and Liabilities should be presented.
- (ii) Under the main heading of Non-Current Assets, following sub-headings are provided in the format as per Division II:
 - (a) Property, plant and equipment
 - (b) Capital work-in-progress

In view of the above, the Fixed asset- Tangible should be presented as “Property, Plant and Equipment”. CWIP should be presented as “Capital Work in Progress”.

Under Ind AS Schedule III, ‘Capital Advances’ are not to be classified under ‘Capital Work in Progress’, since they are specifically to be disclosed under ‘Other non-current assets’.

- (iii) ‘Deferred Tax Assets’ (DTA) should be presented under “Non-Current Asset”. It should be the net balance of Deferred Tax Asset, after adjusting the balance of deferred tax liability (DTL), if the enterprise has a legally enforceable right to set off assets against liabilities representing current tax; and it relates to the same governing tax laws.

Deferred Tax Liabilities has been correctly shown under Non-Current Liabilities.

Since both DTA and DTL are appearing in the balance sheet and that too arisen from same jurisdiction, Omega Soft tech Ltd. should offset Deferred Tax Asset & Deferred Tax Liabilities and the break-up of Deferred Tax Asset & Deferred Tax Liabilities into major components of the respective balance should be disclosed in ‘Notes to Account’. Hence, net figure to be disclosed under heading of ‘non-current’ item is to be based on whichever is higher - DTA or DTL.

- (iv) Trade receivables shall be presented under sub-heading “Financial assets” under heading “Current Assets”.
- (v) Share capital and Reserves & Surplus need to be presented under the heading “Equity”. The heading Equity is missing in the balance sheet given in the question. Further, the heading ‘Reserves & Surplus’ is shown under ‘Other Equity’ under Ind AS based balance sheet.
- (vi) Debit balance of ‘profit and loss’ would be presented as negative balance under “Retained Earnings” in sub-heading “Other Equity” in the notes to accounts. Such

balance of "Other Equity" even if negative, would be presented on face of balance sheet under the heading "Equity".

- (vii) Share Capital includes 'Share application money pending allotment' which is incorrect. Under Ind AS based balance sheet, 'Share application money pending allotment' forms part of 'Other equity'.
- (viii) Similarly, Division II of Schedule III requires 'Employee Stock Option outstanding' should be disclosed under the sub-sub-heading 'Other reserves' of 'Reserves and Surplus' of "Other Equity" in the notes to accounts which should be presented on face of balance sheet under the heading "Equity". In other words, Ind AS Schedule III requires 'Share Options Outstanding Account' to be shown as a part of 'Reserve and Surplus' under 'Other Reserves'.
- (ix) Share application money refundable should be presented under the sub-sub-heading "Other Financial Liabilities" under the sub-heading "Financial Liability". As this is refundable and not pending for allotment, hence, it should not form part of equity. Further, depending upon the maturity i.e. current or non-current, it shall be placed under the head accordingly.
- (x) Trade payables should be presented under sub-heading "Financial liabilities" under the heading "Current liabilities". Subsequent to notification by Ministry of Corporate Affairs dated October 11, 2018 under Section 467(1) of the Companies Act, 2013, Trade Payables should be disclosed as follows:
 - (A) total outstanding dues of micro enterprises and small enterprises; and
 - (B) total outstanding dues of creditors other than micro enterprises and small enterprises.

1.7 (a) Share Capital Disclosures:

As per Division II of Schedule III to the Companies Act, 2013, the following requirements apply against the stated issues:

In General Instruction 6D 'Equity', for each class of share capital, a company shall disclose the following in the notes to accounts:

- (d) a reconciliation of the number of shares outstanding at the beginning and at the end of the reporting period
- (e) the rights, preferences and restrictions attaching to each class of shares including restrictions on the distribution of dividends and the repayment of capital

On the basis of above lines, company should disclose the rights, preferences and restrictions attaching to equity shares even if they are of one class only. Further a reconciliation of the number of shares outstanding at the beginning and at the end of the reporting period should also be disclosed.

(b) Reserves and Surplus Disclosures:

As per Division II of Schedule III to the Companies Act, 2013, the following requirements apply against the stated issues:

In the Reserves and Surplus, a company shall disclose the following in the notes to accounts:

Additions and deductions since last balance sheet to be shown under each of the specified heads under Reserves and Surplus.

Also, debit balance of statement of profit and loss shall be shown as a negative figure under the head "Surplus". Similarly, the balance of "Reserves and Surplus", after adjusting negative balance of surplus, if any, shall be shown under the head "Reserves and Surplus" even if the resulting figure is in the negative.

On the basis of above lines, company should disclose the movement of Reserves & Surplus during the year and further, debit balance of statement of profit and loss cannot be shown in the assets side of balance sheet.

(c) Appropriations:

As per Division II of Schedule III to the Companies act, 2013, the following requirements apply against the stated issue:

In the Reserves and Surplus, a company shall disclose the following in the notes to accounts:

Surplus *i.e.*, balance in Statement of Profit and Loss disclosing allocations and appropriations such as dividend, bonus shares and transfer to/ from reserves, etc.;

Accordingly, appropriations and allocations as stated above should not be reflected on the face of the statement of Profit and Loss. Instead, they should have been adjusted through Reserves and Surplus.

(d) Trade payables:

As per Guidance Note on Division II of Schedule III to the Companies Act, 2013, the following requirements should apply:

A payable shall be classified as 'trade payable' if it is in respect of the amount due on account of goods purchased or services received in the normal course of business.

Hence, amounts due under contractual obligations or which are statutory payables can no longer be included within Trade Payables. Such items may include dues payable in respect of statutory obligations like contribution to provident fund or contractual obligations like contractually reimbursable expenses, amounts due towards purchase of capital goods, etc.

CASE STUDY-2**CONTAINS: PART-A AND PART-B**

You are an open minded, highly sensible, competent professional with value added, decision making capabilities. You have the ability to forecast the consequences of grey areas and matters of concern relating to the existing costing, capital budgeting, standard setting practices followed by the corporates and help them in providing alternative remedial measures duly aligned with the emerging financial reporting processes. You have a sharp acumen of Ind AS and Corporate Laws advising the Board of many reputed Companies.

You advocate that it is very fundamental to any business to keep updating the business strategies and plans to suit the changing business scenario. In the modern market place, there is no mercy for the mediocre. The rule applies to all the sectors of Indian economy, be it a small scale industry or a big contributor to the GDP.

SINDHUJA FOUNDRIES LIMITED (SFL)

SFL is a fast emerging Company involved in development of castings for automobiles and tractors to industrial engines, construction equipment and power generation equipment. It even caters to the exceptionally high standards of Defense applications. SFL hones its skills by enhancing its development capabilities with the most complex castings. The indigenous expertise that drives the organization enables it to keep pace with the constantly changing requirements of the market. It produces cast iron cylinder blocks, cast iron cylinder heads and cast iron transmission housings. It has won the much coveted quality certifications including ISO 9000, QS 9000 and ISO 14001 certifications that endorse its capabilities. The top Management of SFL is driven by a highly competent Board of Directors. The Board drives the business plans, operating, investment and financing activities besides all key decisions.

Mr. S. Abhi, Special Director (Costing and Accounts) of SFL based out of Chennai approached you last week seeking your views and solutions on certain matters that they are facing in controlling costs and improving the profitability amidst growing tension with the management. They also wish to seek your advice on disclosures affecting Ind AS and certain other matters. You have accepted the invitation.

COST OVERVIEW

The Company uses and adopts variance analysis and standard costing approach for setting and monitoring costs. Mr. Abhi has provided you as under, the details of variance between standards and the actuals of FY 2018-2019 and 2019-2020 which is placed for your evaluation.

Particulars	Budgeted	Actuals	Variance
Sales/production (sets in units)	6,50,000	5,00,000	1,50,000

Sales (in ₹)	10,00,00,000	8,50,00,000	1,50,00,000
Less: Variable costs (in ₹)	6,55,00,000	5,65,00,000	90,00,000
Less: Fixed Costs (₹)	3,45,00,000	3,25,00,000	20,00,000
Profit (₹)	2,00,00,000	1,60,00,000	40,00,000

Besides standard cost based monitoring, the Company also prepares value added statements. Mr. Abhi, has provided you a statement of Profit and Loss of SFL for the year ended 31.03.2020 as under:

STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED MARCH 31, 2020.

Particulars	Schd.	(₹) ('000)	(₹) ('000)
Income			
Sales			62,40,000
Other Income			55,000
Total			62,95,000
Expenditure			
Operational and Production Expenses	1	43,20,000	
Administrative Expenses	2	1,80,000	
Finance Costs	3	6,24,000	
Depreciation		16,000	(51,40,000)
			11,55,000
Provision for Taxation			(55,000)
			11,00,000
Balance as per Balance Sheet			60,000
			11,60,000
Transferred to Fixed Assets:			
Replacement Reserve		4,00,000	
Dividend paid		1,60,000	(5,60,000)
Surplus carried over to Balance Sheet			6,00,000

Sch- 1

(₹) ('000)

Production and Operating Expenses	32,10,000
Consumption of Stores	40,000
Local tax	8,000

Salaries to administrative staff	6,20,000
Other manufacturing expenses	4,42,000
Total	43,20,000

Sch- 2

Administrative expenses include salaries to Directors ₹ 5,000.

Sch-3

Interest and other charges include :

Interest on Fixed loan from bank - ₹ 51,000

Interest on working capital loan from bank - ₹ 1,29,000

GST amounts to one-tenth of total value added by manufacturing and trading activities. Balance after adjustments are other charges which are related to trading activities.

BUDGET OVERVIEW

The Budgets are set by the Board which is pushed down to various teams and the actuals are regularly compared with the budgets for taking remedial actions in case of any adverse situations. As compared to earlier years, it was found that of late, the variance between the budget and the actual is widening and has become a cause of concern to the top management. Under the circumstances, it was emphasized that every personnel in the Company should participate in the budgetary process and perhaps even asking every manager to set his own targets and consolidate the same for setting the target for the Company.

YOUR PROPOSAL

After carefully analyzing all the above inputs provided by the Special Director (Costing and Accounts), you have suggested the following measures:

A. Introduction of transparency in the reporting process by making an integrated report, value added report and strong human resource accounting details which would involve only one time investment but would lead to getting new orders by 5,000 sets.
B. Innovative reporting mechanism for better transparency and better monitoring
C. Introduction of incentive based compensation system for reducing variable cost by ₹ 15 per set and increase in the production and sales by 10,000 sets.
D. Introduction of modernization in the production process to increase the efficiency of the production process

CORPORATE CULTURE

Whilst the Company is historically Board managed, nevertheless, it believes in the principle of developing with everyone. SFL looks at its responsibilities to all stakeholders and is equally concerned with the society, environment and work force. To follow its principle of collective growth, SFL provides several benefits and values to its employees as value addition. SFL spends on an average ₹20 Lakhs on various CSR activities which is the approved budget every year. Going forward, the top Management is also exploring the possibility of accruing the CSR for each year based on the budget as more sum could be expended in later years after its accumulation. Apart from the CSR involvement, SFL has also a policy of environment conservation and accordingly has set up a small renewable energy plant out of solid waste and the power so generated is consumed on its own to support its manufacturing plants.

Other matters concerning opinion having an impact on presentation of accounts:

- (A) The Company has made a contribution of ₹ 3.5 lakhs during the financial year ended 31.03.2020 to a political party for running a school, situated in the village where most of the workers of the Company reside. It is admitted that the benefit of the school is mostly for the children of the workers of the Company. The Company has not made sufficient profits in the last four years.
- (B) An Inter Corporate Deposit of ₹ 75 lakhs has become overdue. The Company has disclosed this in the notes to accounts in Note No. 15 in Schedule No. 21 stating that ₹75 lakhs is overdue from XYZ Ltd. and the said Company is in the process of liquidation. The Management is taking steps to appoint the liquidator.
- (C) The Company had 9 Directors on the Board. 2 offices of the directors have fallen vacant.

PART-A

Read carefully the following and provide the correct option. No reasoning is required.

- 2.1. Giving utmost freedom and flexibility to set their own targets in the setting process has the potential danger of having:
 - (A) Sheer Failure
 - (B) Non-Performance
 - (C) Resistance
 - (D) Slackness in Budget
- 2.2. Under the Indian GAAP, for financial statement preparation, accrual of CSR in the books of account based on the approved budget is permissible :
 - (A) No
 - (B) Yes
 - (C) Yes, with the approval of CSR Committee.

- (D) Yes, when eligible projects are identified.
- 2.3. Regarding contribution of ₹ 3.5 lakhs during the financial year ended 31.03.2020 to a political party for running a school:
- (A) There is no bar in making political contribution of ₹3.5 lakhs despite not having profits in the last four years as the benefit of the school is mostly for the children of the workers of the Company.
- (B) The Company cannot make contribution to the political fund as it has not earned any profits in the last four years and is a violation of the provisions of the Companies Act, 2013 and should be qualified by the Auditor.
- (C) The Company cannot make contribution to the political fund as it has not earned any profits in the last four years. It is, however, not a violation of the provisions of the Companies Act, 2013. But the Auditor need to qualify his report.
- (D) As the contribution to the political fund is for the benefit of the school where children of the workers reside, it is neither a contravention of the provisions of the Companies Act, 2013 nor a matter of audit qualification. It is enough if the Company discloses such contribution in the notes forming part of the accounts.
- 2.4. Regarding the overdue inter-corporate deposits:
- (A) Since the Company is in the process of liquidation, provision for the loss is required to be made in the accounts.
- (B) No provision for the loss is required to be made in the accounts.
- (C) No provision for the loss or compliances of any accounting standard is required since adequate disclosures have been made in the notes to accounts.
- (D) The overdue inter-corporate deposit is safe and realizable in full as the management is taking steps to appoint a liquidator.
- 2.5. There were 10 directors in the Company. 2 offices of the directors have fallen vacant. The quorum for the Board meetings under the Companies Act, 2013 shall be:
- (A) 4
- (B) 2
- (C) 3
- (D) 5

PART-B

- 2.6. By using Marginal Costing approach, reconcile the budgeted profit and the actual profit and also provide a statement of reconciliation.

- 2.7. From the inputs given in the Statement of Profit and Loss for the year ended March 31, 2019, prepare a Value Added Statement for the year ended on that date. Also, show the reconciliation between total value added and profit before taxation.

ANSWER TO CASE STUDY 2**PART – A**

- 2.1 (D)
2.2 (A)
2.3 (D)
2.4 (A)
2.5 (C)

PART – B**2.6 Workings**

Particulars	Budget	Actual	Variance
Sales / Production (units)	6,50,000	5,00,000	(1,50,000)
Sales (₹)	10,00,00,000	8,50,00,000	(1,50,00,000)
Less: Variable Costs (₹)	6,55,00,000	5,65,00,000	(90,00,000)
Less: Fixed Costs (₹)	3,45,00,000	3,25,00,000	(20,00,000)
Profit	NIL	(40,00,000)	(40,00,000)

Statement of Reconciliation - Budgeted Vs Actual Profit

Particulars	(₹)
Budgeted Profit	NIL
Sales Volume Variance (A)	(79,61,538)
Sales Price Variance (F)	80,76,923
Variable Cost Variance (A)	(61,15,385)
Fixed Cost Variance (F)	20,00,000
Actual Profit	(40,00,000)

Calculation of Variances**Sales Variances**

Volume = Standard Contribution – Budgeted Contribution

$$= \text{Standard Contribution} \times (\text{Actual Quantity} - \text{Budgeted Quantity})$$

$$= \frac{\text{₹}3,45,00,000}{6,50,000} \times (5,00,000 - 6,50,000)$$

$$= 79,61,538 \text{ (A)}$$

Price = Actual Contribution – Standard Contribution

$$= \text{Actual Sales Quantity} \times (\text{Actual Contribution} - \text{Standard Contribution})$$

$$= 5,00,000 \text{ units} \times \left[\left(\frac{\text{₹}8,50,00,000}{5,00,000} - \frac{\text{₹}6,55,00,000}{6,50,000} \right) - \frac{\text{₹}3,45,00,000}{6,50,000} \right]$$

$$= 80,76,923 \text{ (F)}$$

Note: Price Variance can also be calculated through Sales Value approach i.e. based on the price. However, price variance would be the same.

Variable Cost Variances

Cost = Standard Cost for Production – Actual Cost

$$= \text{Actual Production} \times (\text{Standard Cost per unit} - \text{Actual Cost per unit})$$

$$= 5,00,000 \text{ units} \times \left[\left(\frac{\text{₹}6,55,00,000}{6,50,000} - \frac{\text{₹}5,65,00,000}{5,00,000} \right) \right]$$

$$= 61,15,385 \text{ (A)}$$

Fixed Cost Variances

Expenditure = Budgeted Fixed Cost – Actual Fixed Cost

$$= \text{₹}3,45,00,000 - \text{₹}3,25,00,000$$

$$= \text{₹}20,00,000 \text{ (F)}$$

[Note: This question has been solved by reconciling NIL budgeted profit with the actual loss of ₹ 40,00,000]

2.7

Sindhuja Foundries Limited (SFL)

Value Added Statement for the year ended 31st March, 2020

	(₹)	(₹)	%
Sales			62,40,000
Less: Cost of bought in material and services:			

Production and operational expenses ₹ (32,10,000+40,000+4,42,000)		36,92,000	
Administrative expenses ₹ (1,80,000– 5,000)		1,75,000	
Interest on working capital loan		1,29,000	
GST (Refer to working note)		1,80,000	
Other charges ₹ (4,44,000–1,80,000)		<u>2,64,000</u>	<u>(44,40,000)</u>
Value added by manufacturing and trading activities			18,00,000
Add: Other income			<u>55,000</u>
Total Value Added			<u>18,55,000</u>
Application of Value Added:			
To Pay Employees:			
Salaries to Administrative staff		6,20,000	33.42
To Pay Directors:			
Salaries and Commission		5,000	0.27
To Pay Government:			
Local Tax	8,000		
Income Tax	<u>55,000</u>	63,000	3.40
To Pay Providers of Capital:			
Interest on Fixed Loan	51,000		
Dividend	<u>1,60,000</u>	2,11,000	11.37
To Provide for Maintenance and Expansion of the Company:			
Depreciation	16,000		
Fixed Assets Replacement Reserve	4,00,000		
Retained Profit ₹ (600 - 60)	<u>5,40,000</u>	<u>9,56,000</u>	<u>51.54</u>
		<u>18,55,000</u>	<u>100.00</u>

Reconciliation between Total Value Added and Profit before Taxation:

Particulars	(₹)	(₹)
Profit before Tax		11,55,000
Add back:		
Depreciation	16,000	

Salaries to Administrative Staff	6,20,000	
Director's Remuneration	5,000	
Interest on Fixed Loan	51,000	
Local Tax	<u>8,000</u>	<u>7,00,000</u>
Total Value Added		<u>18,55,000</u>

Note: It is assumed that no input tax credit is received for this amount of GST.

Working Note:

Computation of GST

Particulars		(₹)
Interest and other charges		6,24,000
Less: Interest on Fixed loan from Bank	51,000	
Interest on working capital loan from Bank	<u>1,29,000</u>	<u>(1,80,000)</u>
GST and other charges		<u>4,44,000</u>

Let GST be x; thus, other charges = 4,44,000 -x

Thus, x = 1/10 x [62,40,000 - {36,92,000+ 1,75,000+ 1,29,000+ x + (4,44,000-x)}]

= 1/10 x [62,40,000 - 44,40,000] = 1,80,000

Other charges = 4,44,000 - 1,80,000 = 2,64,000.

CASE STUDY-3

CONTAINS: PART - A AND PART - B

Brief facts of the Case :

- The Assessee filed Income Tax Return declaring an income of ₹ 2,70,360 and agricultural Income of ₹ 53,830 on 11.10.2010. The Assessing Officer received information from the Investigation Wing that the Assessee had paid capitation fee of ₹ 24,50,000 and regular fee of ₹ 11,40,000 on account of fee & donation for admission of his daughter in P.G. Diploma during the financial year 2010-11. The Assessing Officer accordingly recorded reasons and issued notice u/s 148 of the Income Tax Act, 1961.

The Assessee submitted that return filed on 11.10.2010 may be treated as return filed in response to notice u/s 148 of the Income Tax Act, 1961. During the course of assessment proceedings the Assessing Officer asked the Assessee to furnish the details of capitation fee paid to M/s XYZ College with regard to admission of Assessee's daughter. The Assessee denied any payment of ₹ 24,50,000 on account of donation to XYZ College.

The Assessee vehemently denied of any payment made towards donation of ₹ 24,50,000 on account of admission of his daughter named Dr. G as she secured the admission based

on merit only. The Assessee's daughter Dr. G completed her MBBS in April, 2007 after completing her Internship. Further it was requested that copy of the sworn statement recorded u/s 132(4) of the Income Tax Act, 1961 along with copy of the written statement or affidavits of the person from whose premises the documents were recovered and presumptions were drawn by the Income Tax Department, and any document which is in the handwriting of the Assessee, be provided to us for our scrutiny. An opportunity for cross examining the said person (whose statement was recorded) was further requested. However, no such documents or opportunity to cross examine was allowed by the Income Tax Department. The Counsel of the Assessee was shown only typed list (cannot be considered as documentary or circumstantial evidence) and not the original diary which was also requested by the Counsel of the Assessee. The alleged list was not on letter head of the alleged XYZ College nor there was any name of the person who had signed the list. However, on enquiry it was informed that these were the initials of Chairman and Managing Trustee of the alleged XYZ College. It was further apprised that the Assessee had never met the Chairman and the Managing Trustee of the alleged XYZ College but he had paid his entire fees to the Accountant of the alleged Institute, receipts which have already been enclosed for your reference in our reply dated 24th June, 2016.

The Assessing Officer provided the list of students furnished by Shri. ABC, the Chairman and & the Managing trustee of the XYZ College wherein Shri. ABC had confirmed regarding unaccounted contribution i.e. Donation/capitation fee received from various persons.

The Assessing Officer pointed out that the name of the Assessee's daughter was appearing at Sr. No. ZZZ which showed that the XYZ College had received an amount of ₹ 24,50,000 from the Assessee's daughter. The Assessing Officer accordingly asked the Assessee to explain the source of donation made by him. The Assessee once again denied the payment of donation amounting to ₹ 24,50,000.

The Assessing Officer observed that the contention of the Assessee was not acceptable since during the search proceedings u/s 132, the documents seized from the premises of M/s XYZ College and the list of students provided by the Chairman Sh ABC, wherein Sh ABC had confirmed in the statement under oath that the XYZ College had received the donation as per the list given by him in which the Assessee's daughter name appeared at Sr. No. ZZZ for the year 2009-10 showing receipt of ₹ 24,50,000. The Assessing Officer accordingly held that the Assessee had made the said payment from unaccounted sources and accordingly added the same to the total income of the appellant.

The Assessee preferred an appeal against the order u/s 147/143(3) of the Income Tax Act, 1961 dated 31.10.2016 passed by the Income Tax Officer, Ward-56, SSSS. Sh. DEF, CA attended on behalf of the appellant.

2. The Appellant has taken the following grounds of appeal:

That the Order u/s 147/143(3) of the Income Tax Act, 1961 dated 31.10.2016 is contrary to the facts and law of the case and, therefore, is liable to be quashed and demand of ₹ 13,56,760 including interest is to be deleted.

3. During the appellate proceedings, the Appellant raised additional grounds of appeal vide its letter dated 01.06.2018 which read as under :
- (i) The Ld. AO has erred on facts and law in assessing the appellant under section 147/143(3) of the Income Tax Act, 1961 without satisfying the substantive and procedural requirements under section 153C of the Income Tax Act. Assessment could have been made only under section 153C of the Act based upon document/information during search.
 - (ii) Without prejudice, the Ld. AO has erred on facts and in law in passing the assessment order under section 147/143(3) of the Income Tax Act, 1961 with the approval of the Additional CIT, Range-DDD, SSSS vide his letter F. No. Addl. NIL dated 23-04-2015.
4. Keeping in view the fact that the additional grounds raised by the Appellant (Assessee) were purely legal grounds, these grounds were admitted. A copy of the additional grounds of appeal were also forwarded to the Assessing Officer and the Assessing Officer was requested to give his comments with regard to the additional grounds of appeal.

The Assessing Officer vide report dated 30.10.2018 submitted as under:

- (i) An information in respect of capitation fees/donations paid over and above the regular course fee to XYZ College, SSSS was received in this office from Deputy Director of Income Tax (Inv.), Unit-56, SSSS, vide their office letter dated 10.03.2015, through the Pr. Commissioner of Income Tax, SSSS.
- (ii) On perusal of the information it was found that the assessee had paid capitation/donation (over and above the regular course fee) of ₹ 24,50,000 and regular fee was also paid by DD of ₹ 4,35,000 and in cash ₹ 7,05,000 totalling to ₹ 35,90,500 on account of admission/study of his daughter named Dr. G in DCH course during the FY 2009-10 relevant to the Assessment Year 2010-11.
- (iii) On the basis of the information, the then Assessing Officer enquired about the status of filing of /TR and formed his reason to believe that the amount of ₹ 35,90,500 chargeable to tax had escaped assessment and recorded his satisfaction and sought due approval from the Joint Commissioner of Income Tax, Range-DDD, SSSS vide letter no. NIL dated 20.04.2015 which was accorded by the Addl. CIT, Range-DDD, SSSS vide their office letter dated 23.04.2015. Subsequently, notice u/s 148 of the Act was issued to the assessee on 30.04.2015.
- (iv) On the contention of the assessee w.r.t. proceedings u/s 153A/153C of the Income Tax Act, 1961 raised during appellate proceedings, list was perused which was annexed with the reasons recorded for the issue of notice u/s 148 of the Act, and it is seen that there is information for only one particular Assessment year and there were no such seized books of accounts or documents or any money or bullion or jewellery or other valuable articles which were seized during search & pertaining to the assessee. So, the provisions of section 153C of the Act are not applicable in the case because provisions of this section are same as those in section 153A and notice u/s

153C were to be issued for last six years while, there are no such seized documents for such action. There was list of donations and capitation fees found during search at the premises of XYZ College and statement on Oath.

Hence, action taken u/s 148 by the then AO is correct.

- (v) In view of the above, as against the additional grounds of appeal submitted by the assessee, it is found that due process was adopted for assessing the escaped income.
5. Further, the Appellant has relied upon the decisions which are on the issue of powers of appellate authority, i.e. the jurisdiction of Ld. Commissioner of Income Tax, Appeals, to take decision on admission of additional grounds of appeal as provided u/s 250(5) of the Act.
6. A copy of the Assessing Officer report was provided to the Appellant. Authorised Representative of the Appellant vide written statement submitted dated 04.12.2018 once again reiterated the submissions made by his submissions dated 01.06.2018.

PART-A

Read carefully the following and provide the correct option. No reasoning is required.

- 3.1. The Assessing Officer shall, before issuing any notice under section 148 of the Income Tax Act, 1961:
- (A) Shall record his reasons;
- (B) Shall not record his reasons;
- (C) Shall consult his senior officials;
- (D) Shall request representation from Assessee.
- 3.2. When a notice u/s 148 is received by the Assessee, the first thing which the Assessee is required to do is that she/he :
- (A) Should not give any response to the notice;
- (B) Should file Income Tax Return;
- (C) Should ask for the reasons for issue of notice under section 148;
- (D) Should file an Appeal.
- 3.3. When the Assessee should file objections to the notice issued section 148 of the Income Tax Act, 1961 ?
- (A) After filing Income Tax Return;
- (B) Before filing of Income Tax Return;
- (C) After taking copy of the reasons recorded for issue of notice under section 148 of the Income Tax Act, 1961;

- (D) Before taking copy of the reasons recorded for issue of notice under section 148 of the Income Tax Act, 1961.
- 3.4. Whether the Proceedings initiated u/s 148 instead of section 153C be quashed?
- (A) Yes, the Assessing Officer was not justified in reopening the assessment u/s 147 and his order was illegal and arbitrary;
- (B) No, the Assessing Officer was justified in reopening the assessment u/s 147 and his order is not illegal and arbitrary;
- (C) The Assessing Officer can complete Assessment Proceedings under both section 147 and 153C of the Income Tax Act, 1961;
- (D) The Assessing Officer can complete assessment only after prior approval of senior official.
- 3.5. Section 132 of the Income Tax Act, 1961 deals with:
- (A) Assessment Proceedings;
- (B) Settlement commission;
- (C) Search and seizures;
- (D) Advance Rulings.

PART-B

Answer the following with reference to the case study :

- 3.6. Discuss the provisions of section 147/148 of the Income Tax Act, 1961, and evaluate whether Assessing Officer was justified in completing the Assessment Proceedings u/s 147/143(3) of the Income Tax Act, 1961.
- 3.7. Discuss the provisions of section 153C of the Income Tax Act, 1961 and evaluate in the light the assessment order passed by the Assessing officer.

ANSWER TO CASE STUDY 3

PART – A

- 3.1 (A)
- 3.2 (B)
- 3.3 (C)
- 3.4 (A)
- 3.5 (C)

PART – B

- 3.6 Section 147 provides that if the Assessing Officer has **reason to believe that any income chargeable to tax has escaped assessment for any assessment year**, he **may**, subject to the provisions of sections 148 to 153, assess or reassess such income and also any other income chargeable to tax which has escaped assessment and which comes to his notice subsequently in the course of the proceedings under this section, or re-compute the loss or the depreciation allowance or any other allowance, as the case may be, for the relevant assessment year.

As per section 148, before making the assessment, reassessment or re-computation under section 147, the Assessing Officer shall serve on the assessee, a notice requiring him to furnish a return within such period as may be specified in the notice, a return of his income or the income of any other person for whom he is assessable under the Act, during the previous year corresponding to the relevant assessment year in the prescribed form and verified in the prescribed manner and setting forth such other particulars may be prescribed. The provisions of this Act shall apply accordingly as if such return were a return required to be furnished under section 139.

The Assessing Officer shall, before issuing any notice under this section, **record his reasons for doing so**.

Therefore, for making reassessment u/s 147, there are two requirements -

- (i) the Assessing Officer should have “reason to believe” that income chargeable to tax has escaped assessment; and
- (ii) he has to serve on the assessee a notice requiring him to furnish return within such period as may be specified in the notice and should **record his reasons for issue of such notice**.

Under the provisions of section 153C, these requirements are obviated by using the non obstante clause in the said section. In other words, under section 153C, the Assessing Officer is **not** required to satisfy these conditions before issue of notice. The only requirement is that a search action u/s 132 is conducted and the Assessing Officer is satisfied that “assets/ documents” found during search belongs to or relates to other person. Therefore, though the Assessing Officer is empowered to tax the income escaping tax under section 147 and 153C, section 153C comes into operation where there is search under section 132 and it overrides anything contained in, inter alia, section 147.

Therefore, in a case where the provisions of section 153C are attracted, the Assessing Officer is **not** justified in completing the assessment u/s 147.

- 3.7 153C provides for assessment or reassessment of income of any other person. Notwithstanding anything contained in, inter alia, sections 147 and section 148, where the Assessing Officer is satisfied that -

- (a) any money, bullion, jewellery or other valuable article or thing seized or requisitioned belongs to; or
- (b) any books of account or documents seized or requisitioned pertain to; or
- (c) any information contained therein, relates to,

any person, other than the person referred to in section 153A, then, the books of account or documents or assets, seized or requisitioned shall be handed over to the Assessing Officer having jurisdiction over such other person.

The Assessing Officer having jurisdiction over the other person shall proceed against such other person and issue such other person notice and assess or reassess income of such other person in accordance with the provisions of section 153A only if he is satisfied that the books of account or documents or assets seized or requisitioned have a bearing on the determination of the total income of such other person for six assessment years immediately preceding the assessment year relevant to the previous year in which search is conducted or requisition is made and for the relevant assessment year or years referred to in section 153A(1).

The Assessing Officer contended that there is information for only one particular assessment year and notice u/s 153C has to be issued for last six years while there are no such seized documents for such action. For issue of notice u/s 153C, it is not necessary that seized documents have to be available indicating escapement of income for all six years. Even if the information relates to one year, notice has to be issued for all six years.

Therefore, in this case, since during search conducted in XYZ college, information in respect of capitation fees paid by the assessee for admission of his daughter in medical college was received by the Assessing Officer. During the search proceedings u/s 132, the documents seized from the premises of M/s. XYZ College and the list of students provided by the Chairman, who had confirmed in the statement under oath that the college had received the donation as per the list given in which the assessee's daughter's name appeared.

Accordingly, the jurisdictional Assessing Officer should have proceeded to issue notice u/s 153C and make an assessment in accordance with the provisions of section 153A. However, the Assessing Officer issued notice u/s 148 to make an assessment under section 147, which is not correct, since the provisions of section 153C override section 148.

CASE STUDY-4

CONTAINS: PART-A AND PART-B

You are a young Management Consultant, having graduated from a top notch business school in India and later on became a Certified Public Accountant (CPA) from USA. At the age of 29 years, you started a consultancy firm in Jaipur, India for providing scratch to end business

advisory and regulatory related solutions. Your clients are spread across the country and you have a sizeable team of professionals working under your entire advisory practice.

Your client, M/s. New Tech Automobile Solutions Limited (NTASL) is a start-up company incorporated in the year 2017. The Company develops a niche, never invented before, customized software packages for two and three wheeler automobile manufacturers in India and abroad.

NTASL is well recognized for its governance standards and is very keen to implement its zero tolerance for non-compliances policy. Though the Company including its wholly owned subsidiary has an adequate internal control mechanism and is managed by qualified/experienced professionals, yet as a matter of abundant precaution, they have reached out to you seeking your advice/clarifications on certain matters to doubly ensure that the growth plans does not result in regulatory non-compliances having an impact on the Company's reputation and brand image.

Accordingly, they have requested you to join their internal brain storming session organized to discuss and decide the way forward. Prior to the meeting, the promoters have informed you and given the following inputs:

- (a) The Company is registered with the 'Software Technology Parks' but is not a status holder exporter.
- (b) The details of export sales and its realization during the preceding three financial years is as under:

Particulars	FY 2017-18	FY 2018-19	FY 2019-20	Average
Export Turnover (US\$)	50,000	2,50,000	4,50,000	2,50,000
Realization of export proceeds (US\$)	30,000	2,00,000	3,00,000	1,76,667

- (c) One of the export invoices amounting to US\$ 20,000 raised by the Company in the FY 2017-18 was outstanding for more than one year as on 31st March, 2019 and despite the Company's best efforts, no amounts could be recovered and therefore, during the FY 2019-20, the Company had no other alternative than to write off the entire amount of US\$ 20,000 without obtaining the approval from the Authorized Dealer (AD).
- (d) The Statutory Auditors of the Company, M/s. XYZ & Associates, where CA. Mr. F, who is one of the partners of the audit firm and does not sign the audited financials of the Company, had borrowed a sum of ₹ 4 lakhs from the subsidiary company of NTASL for a short term period, repayable within 2 months. He had also purchased accounting software worth ₹1.10 lakhs from the said company. Both the sum borrowed and the cost of the accounting software are not yet paid by Mr. F.

- (e) You were informed that for the purpose of carrying out the Statutory Audit, the Statutory Auditors of the Company would like to have the entire content of the Annual Report having various elements such as Notice calling the AGM, the Directors Report with annexures, Corporate Governance Report; Management Discussion and Analysis and other key financial highlights and the Management feels that these are beyond the purview of statutory auditors.
- (f) Further, the Management of the Company, as in the case of CFO, wants the Company Secretary also to be equally responsible for ensuring compliances and other reporting requirements relating to the financial statements wider the Companies Act, 2013.
- (g) In the Company's draft unaudited Balance Sheet as at 31.03.2020, the sub-head inventories contained an item "goods in transit" in which a consolidated amount aggregating the cost of raw materials in transit and, loose tools billed on the Company. but delivery not made to the Company had been specified.
- (h) As at 01.04.2019, the composition of the Board of Directors of NTASL comprised of 7 directors as under :

S. No.	Name	Designation
1.	Mr. X	Executive Chairman (Executive and Non-Independent)
2.	Mr. Y	Managing Director and CEO (Executive and Non-Independent)
3.	Mrs. Z	Women Director (Non-Independent)
4.	Mr. A	Independent
5.	Mr. B	Independent
6.	Mr. C	Independent
7.	Mr. D	Independent

As at 01.04.2019, the constitution of the Audit Committee comprised of the following Directors:

Name	Designation
Mr. Y	Chairman
Mr. X	Member
Mrs. Z	Member
Mr. Y	Member

The majority of the members of the Audit Committee have the ability to read and understand the financial statements but none of them have accounting or related financial management expertise. During January, 2020, the Company went for an Initial Public Issue

(IPO) and got its shares listed in a recognized Stock Exchange Referring to SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015.

- (i) The Company acquired 5 state-of-the art, hitech computers, peripherals and servers (herein after referred to as 'Plant') at a cost of ₹ 1 Crore (with no breakdown of the component parts). The estimated useful life is 10 years. At the end of the 2nd year, one of the major component (Server) has become obsolete and requires replacement as further maintenance is uneconomical. The balance of the plant is perfect and expected to last for next 10 years. The cost of the replacement of new component is ₹6,00,000. The discount rate assumed is 5%.
- (j) The income tax assessment of the Company was completed under Section 143(3) of the Income Tax Act, 1961 with an addition of income of ₹24 lakhs to the returned income. The Company had preferred an appeal before the Commissioner of Appeals which is pending disposal.

PART-A

You are requested to read carefully the following and provide the correct option. No reasoning is required.

- 4.1. Under the provisions of the Foreign Exchange Management Act, 1999 complete write-off of foreign exchange receivable arising out of export sales is permissible.
- (A) No. It is not allowed.
- (B) Yes. It can be done, subject to the condition that a credit note is raised by reversal of export sales subsequently.
- (C) Only with the approval of the Authorised dealer.
- (D) Only in compliance with the FEMA / RBI Guidelines.
- 4.2. With respect to the acts carried out by CA Mr. F, the partner of the audit firm, what can you infer about the appointment of M/s. XYZ & Associates as Statutory Auditors of the Company ?
- (A) It is valid since the indebtedness is not with NTASL.
- (B) It is valid since CA Mr. F is not signing the financials of NTASL.
- (C) It is valid since the indebtedness is within the prescribed limits.
- (D) It is not valid since the indebtedness exceeds prescribed limit of ₹ 5 lakhs.
- 4.3. Statutory Auditors have an obligation to validate all the financial and non-financial data provided along with the audited financial statements as part of the Annual Report,
- (A) No, it is only a voluntary act on the part of the Statutory Auditors.
- (B) Yes, as required under Auditing Standards.
- (C) Limited only to financial information.

- (D) Yes, to the extent it relates to the relevant information not reported as part of the financial statements.
- 4.4. The Company Secretary, similar to that of CFO, is equally responsible for ensuring compliances with the mandatory Ind Accounting Standards as applicable and other reporting requirements relating to the financial statements under the Indian Companies Act, 2013.
- (A) Yes, as is evident by his requirement to sign the audited financial statements wherever required.
- (B) No.
- (C) Yes. It is applicable for listed entities only.
- (D) Depends on the decision of the Board.
- 4.5. In the Company's Balance Sheet as at 31.03.2020, contained an item "goods in transit" in which the sub-head inventories a consolidated amount aggregating the cost of raw materials in transit and loose tools billed on the Company, but delivery not made to the Company had been specified. The disclosures made by the Company which adopted IND AS for compilations of financial statements is:
- (A) Wrong. A separate sub-head of Loose Tools under heading of Inventories i.e. as a part of Current Assets must be shown;
- (B) Correct. A separate sub-head of Loose Tools under heading of Inventories i.e. as a part of Current Assets need not be shown;
- (C) Wrong. A separate head of Loose Tools under heading of Current Assets must be shown;
- (D) Partly correct.

PART-B

- 4.6. In respect of the data provided in para (h) above,
- (i) State how a qualified and an independent Audit Committee should be constituted?
- (ii) Whether the present constitution of the Audit Committee can continue post listing of its securities in the Stock Exchange?
- 4.7. In respect of the data provided in para (i) above, examine whether the cost of new component (server) be recognized as an asset, and, if so, what should be the carrying value of the plant at the end of the second year?
- 4.8. In respect of the information provided in para (j) above, please answer the following questions with reference to the latest provisions applicable to A.Y. 2019-2020:
- (i) Can the Commissioner make a revision under Section 263 of the Income Tax Act, 1961 both in respect of matters covered in appeal and other matters?

- (ii) Can the assessee company seek revision under Section 264 of the Income Tax Act, 1961 in respect of the matters other than those preferred in appeal?

ANSWER TO CASE STUDY 4**PART – A**

- 4.1 (A)
4.2 (D)
4.3 (C)
4.4 (A)
4.5 (A)

PART – B

- 4.6 (i) **Qualified and Independent Audit Committee:** As per Regulation 18(1) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, every listed entity shall constitute a qualified and independent audit committee in accordance with the terms of reference, subject to the following:

1. The Audit Committee shall have minimum three directors as members. Two-thirds of the members of audit committee shall be independent directors, **however, in case of a listed entity having outstanding SR (Superior Rights) equity shares, the audit committee shall only comprise of independent directors.**
2. All members of Audit Committee shall be financially literate and at least one member shall have accounting or related financial management expertise.

Explanation (i): The term “financially literate” means the ability to read Qualified and Independent Audit Committee and understand basic financial statements i.e. balance sheet, profit and loss account, and statement of cash flows.

Explanation (ii): A member will be considered to have accounting or related financial management expertise if he or she possesses experience in finance or accounting, or requisite professional certification in accounting, or any other comparable experience or background which results in the individual’s financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.

3. The Chairperson of the Audit Committee shall be an independent director and he shall be present at Annual General Meeting to answer shareholder queries.
4. The Company Secretary shall act as the secretary to the committee.
5. The Audit Committee at its discretion shall invite the finance director or the head of the finance function, head of internal audit and a representative of the

statutory auditor and any other such executives to be present at the meetings of the committee, provided that occasionally, the Audit Committee may meet without the presence of any executives of the listed entity.

- (ii) In the given situation two-thirds of the members of audit committee of NTASL are not independent directors whereas two-thirds of the members of audit committee shall be independent directors.

Further, **Chairman** of Audit Committee, **Mr. Y is non-independent director** whereas the **Chairperson of the Audit Committee shall be an independent director** as per LODR Regulations 2015.

In addition, **none of the member of the Audit Committee is having accounting or related financial management expertise** whereas as per LODR Regulations 2015 at least one member **shall have accounting or related financial management expertise**.

Thus, in view of above, **present constitution of Audit Committee of NTASL cannot be continued post listing of its securities in the Stock Exchange.**

- 4.7 Recognition of Asset:** The new server will produce economic benefits to company, and the cost is measurable. Hence, the item should be recognised as an asset. The original invoice for the plant did not specify the cost of the server; however, the cost of the replacement ₹ 6,00,000 can be used as an indication (usually by discounting) of the likely cost, two years previously.

If an appropriate discount rate is 5% per annum, ₹ 6,00,000 discounted back two years amounts to ₹ 5,44,200 [₹ 6,00,000 x 0.907*], i.e., the approximate cost of server before 2 years.

*(1/1.05)²

Depreciation on the value of server as per SLM basis (as assumed) will be ₹ 54,420 (₹ 5,44,200 / 10 years). The current carrying amount of the server which is required to be replaced of ₹ 4,35,360 would be derecognized from the books of account, (i.e., Original Cost ₹ 5,44,200 - Accumulated depreciation for past 2 years ₹ 1,08,840 (54,420 x 2))

The cost of the new server, ₹ 6,00,000 would be added to the cost of plant.

It will result in a revision of carrying amount of plant to ₹ 81,64,640. (i.e., ₹ 80,00,000** – ₹ 4,35,360 + ₹ 6,00,000).

**Original cost of plant ₹ 1,00,00,000 reduced by accumulated depreciation (till the end of 2 years) ₹ 20,00,000.

- 4.8 (i)** As per section 263, the Commissioner has the power to revise an order prejudicial to revenue, even if the order is the subject matter of appeal before Commissioner (Appeals). However, the power of the Commissioner under section 263 shall extend to only such matters as had not been considered and decided in such appeal. Here

again, the doctrine of partial merger would apply.

In a case where the appeal is pending but not yet decided, the Commissioner cannot exercise his revisionary jurisdiction in respect of those issues which are the subject matter of appeal. (CWT Vs. Sampathmal Cordia (2002) 256 ITR440 (mad.))

Thus, Commissioner cannot make a revision in respect of the matters covered in appeal but can do so in respect of other matters.

- (ii) As per section 264(4), the Commissioner shall not revise any order under section 264, where such order has been made the subject of an appeal to the Commissioner (Appeals). Thus, the concept of total merger would apply in the case of section 264.

Therefore, under section 264, the Commissioner cannot revise an order which is pending before the Commissioner (Appeals), even if the revision pertains to a matter, other than the matter(s) covered in the appeal. (Hindustan Aeronautics Ltd. Vs. CIT (2000) 243 ITR 898)

CASE STUDY - 5

CONTAINS: PART- A AND PART- B

The Company

Ram Equipments Limited (REL) is a listed Company incorporated on 08.06.1959 under the provisions of the erstwhile Companies Act, 1956, having its Registered Office at Ayodhya, Uttar Pradesh.

REL is a leading air compressor manufacturer with an extensive range of innovative and technologically advanced air compressors. True to the leadership position it aspires, REL has through the decades maintained a technological edge in the air compressor market with incremental and break through innovation, through incorporation of latest technologies in its product. It has secured ISO 9001:2008, ISO 14001:2015, ISO 45001:2018 and ISO 50001 certifications and has employed best-in-class practices and advanced capabilities to manufacture products to meet International Standards.

BOARD OF DIRECTORS

The Company has a vibrant Board of Directors with a proper mix of both Executive and Non-Executive Directors, including Women Independent Directors. The CEO of the Company, Dr. Ram Varadaraj, a Phd in International Business from the University of Michigan, USA is a third generation entrepreneur from the illustrious family of Ram Bhakth, the founder of the Company. The Company adopts a robust corporate governance norms both in letter and spirit.

YOU ARE INVITED

Now, assume that you are an extrovert CA and possess excellent communication and presentation skills. You are invited on coming Friday, by the Chairman of the Audit Committee,

for a business meeting, with a view to discuss certain matters that are proposed to be discussed at the forth coming Board Meeting and other matters seeking clarifications and/or on presentations in the financial statements. You consented to clarify all issues. On the appointed day of the meeting, you were provided with the following inputs:

BOARD MEETING

To further strengthen the Board vis-a-vis to strengthen the corporate governance to the maximum extent and in compliance of the requirements of the Companies Act, 2013 to have another women director and also an independent director on the Board, the Company proposes the following appointments at the Board Meeting scheduled to be convened on 10.10.2020:

- (a) To appoint Ms. Right as the women director in the place of Ms. Smart who had recently resigned from the position of Women Director. Ms. Right already holds directorship in twelve companies including ten public companies. She is a whole time Company Secretary in practice.
- (b) To appoint Ms. Bright as an Independent Women Director. She holds directorship in eight public companies including Managing Directorship in two companies and directorship in six companies. These eight companies include directorship in REL also. In addition, she also holds alternate directorship in three companies and Independent directorship in three subsidiary companies of REL.

OTHER INPUTS SHARED:

- (A) REL is also the holding Company of Alfa White Limited (AWL) with Beta Blue Private Limited (BBPL) as a subsidiary to AWL. Now, Mr. Intelligent is a Director (Operations) of Town City Limited, which is also a subsidiary of REL. Impressed by the performance of Town City Limited, the Directors of REL approached Mr. Intelligent to act as the Joint Managing Director of REL. Upon his favourable consent, the Company (REL) proposed to pass a Board Resolution through resolution (containing the terms and conditions of appointment including remuneration) by circulation.
- (B) Also, the Board of Directors of BBPL, at their Board Meeting, wherein all the Directors present at the meeting, approved the resolution to appoint Mr. Intelligent as the Whole Time Director (WTD). Thereafter, BBPL also convened the general meeting for getting the approval of shareholders and passed an ordinary resolution to appoint Mr. Intelligent as the WTD. In the matter of the above appointments, both the Companies have duly complied with Schedule V of the Companies Act, 2013.
- (C) The Assessing Officer suspects an income of ₹10 lakhs to have escaped assessment for AY 2012-13 and issues a notice u/s 148 issued on 31.01.2019 and received by the company on 28.02.2020.
- (D) The Management prepared financial statements of one of the subsidiary Company adhering to Ind AS as at 31.03.2020 and was made available to you. On a perusal of the same, you made the following observations:

- (i) Provision for doubtful debts of trade debtors was grouped in "Provisions" under current liabilities.
 - (ii) In the Statement of Profit and Loss, prior period income was shown under "Other Income".
 - (iii) Sale proceeds of scrap incidental to manufacture were included in "Other Income".
 - (iv) Payment towards a one time voluntary retirement scheme introduced during the year was included in "Employee Benefit Expense".
- (E) Revaluation of Plant and Machinery

The Company performed a revaluation of all its plant and machinery at the beginning of 01.04.2019. The following information relates to one of the machinery:

Particulars	Amount ₹ ('000)
Gross carrying amount	200
Accumulated depreciation (SLM)	(80)
Net carrying amount	120
Fair value	150

The useful life of the machinery is 10 years and the Company uses Straight Line method of depreciation. The revaluation was performed at the end of 4 years.

Please go through carefully the above data/issues and answer the following questions in your capacity as a Chartered Accountant.

PART-A

Read carefully the following and provide the correct option. No reasoning is required.

Based on the above provided information and in the light of applicable provisions of the Companies Act, 2013, advise on the following multiple choice questions.

- 5.1. The proposed appointment of Ms. Right as the Women Director in REL would be:
- (A) Valid. Appointment of Women Director is a statutory requirement despite the number of her directorship in other Companies.
 - (B) Invalid as she is a whole time practicing Company Secretary.
 - (C) Invalid as she is already a director in 12 Companies.
 - (D) Invalid as the appointment will lead her directorship in public Companies.
- 5.2. The proposed appointment of Ms. Bright as an Independent Women Director in REL would be:
- (A) Invalid as her total holding of directorship in Public Companies is 14 which is beyond the limit of 10 Public Companies.

- (B) Invalid as her total holding of directorship in Public Companies is 11 which is beyond the limit of 10 Public Companies.
- (C) Invalid as her total holding of directorship in Public Companies is which is beyond the limit of 10 Public Companies.
- (D) Valid as her total holding of directorship in Public Companies is which is below the limit of 10 Public Companies.
- 5.3. In addition to a listed entity, which other Company is required to appoint a women Director?
- (A) A Company having a paid up capital of ₹ one hundred crore.
- (B) A Company having a Turnover off three hundred crore.
- (C) A Company having both - a paid up capital of ₹ one hundred crore and a Turnover of ₹ three hundred crore.
- (D) A Company having either a paid up capital of ₹ one hundred crore or a Turnover of ₹ three hundred crore.
- 5.4. Whether the appointment of Mr. Intelligent as the Joint Managing Director of REL is valid?
- (A) Valid with further approval of the Central Government.
- (B) Invalid as a person cannot hold more than one office as Managing Director.
- (C) Valid as a Whole Time Key Managerial Person can hold office in its subsidiary also at the same time.
- (D) Invalid due to passing of resolution through improper mode and absence of approval of general body resolution.
- 5.5. Whether the appointment of Mr. Intelligent as Whole Time Director in BBPL is valid?
- (A) Yes. In view of Section 2(71), it is a deemed public company.
- (B) Yes, subject to further approval of the Central Government.
- (C) No. In view of the restriction placed under Section 203(3) on appointment in more than one company.
- (D) No. BBPL is a private company and hence, Rule 8 & 8a of Companies (Appointment & Remuneration of Managerial Personnel) Rules, 2014 is not applicable.

PART-B

- 5.6. In the light of the information given in summary of discussion (C) - 'Other Inputs' above, provide the course of action required on the part of the company,
- 5.7. In the light of information provided in para (D)- 'Other Inputs' above, as a Chartered Accountant, give your comments to the disclosures made by the Company which adopted Ind AS for compilation of Financial Statements.

- 5.8. *In the light of information provided in para (E) - 'Other Inputs' above and Ind AS 16, explain how should the Company account for revaluation of Plant and Machinery and depreciation subsequent to revaluation?*

ANSWER TO CASE STUDY 5

PART – A

- 5.1 (D)
 5.2 (B)
 5.3 (D), (A), (B)
 5.4 (D)
 5.5 (A)

PART – B

- 5.6 If the Assessing Officer has **reason to believe that any income chargeable to tax has escaped assessment for any assessment year**, he may, subject to the provisions of sections 148 to 153, assess or reassess such income and also any other income chargeable to tax which has escaped assessment and which comes to his notice subsequently in the course of the proceedings under this section, or re-compute the loss or the depreciation allowance or any other allowance, as the case may be, for the relevant assessment year.

Before making the assessment, reassessment or recomputation under section 147, the Assessing Officer **shall serve** on the assessee, a notice requiring him to furnish a return within such period as may be specified in the notice, after recording his reasons for doing so. The provisions of this Act shall apply accordingly as if such return were a return required to be furnished under section 139.

Where the income which has escaped assessment amounts to or is likely to amount to ₹ 1 lakh or more, **notice u/s 148 has to be issued within 6 years from the end of the relevant A.Y.** with the prior approval of Principal Chief Commissioner/ Chief Commissioner/Principal Commissioner/ Commissioner.

In the present case, time limit of 6 years from the end of the relevant assessment year (i.e., A.Y. 2012-13) would expire on 31.03.2019. Since the notice was issued on before 31.03.2019 i.e., 31.01.2019, it is valid in law, irrespective of the fact that the company has received such notice after the time limit of 31.3.2019. As per section 153, Assessing Officer is required to complete the assessment within 12 months from the end of the financial year in which the notice is served, since notice is served on the company on 28.2.2020, assessment is required to be completed on or before 31.3.2021.

Since the notice is issued within the time limit, it is a valid notice, and the company is required to furnish the return in accordance with notice issued u/s 148. After filing the return

of income in pursuance to the notice, the assessee may ask for the copy of reasons recorded for issue of notice u/s 148 and can file objection to the issuance of notice.

5.7 Comments on disclosures (as extracted) made by the company from the draft financial statements under Ind AS:

- (i) The term doubtful debts is an adjustment to the carrying amount of assets, hence no provision is created separately for it. As per Division II of Schedule III (for Ind AS based Financial Statements), provision for doubtful debts should be deducted from gross amount of trade receivables after disclosing all the categories of trade receivables rather than including it under provisions under current liabilities.
- (ii) Under Ind AS, there is no concept of 'Prior period items'. In case any error related to prior period is detected during the current year, then an entity shall correct such material prior period errors retrospectively in the first set of financial statements approved for issue after their discovery by:
 - (a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or
 - (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

Since in the question it is not mentioned that prior period income pertains to which accounting year, it is assumed that it relates to previous year. Therefore, comparative amounts shall be restated. Thus, showing prior period income under current year's 'other income' is not in accordance with Ind AS 8.

- (iii) As per Guidance Note on Division II of Schedule III, sale of manufacturing scrap arising from operations for a manufacturing company should be treated as 'other operating revenue' since the same arises on account of the company's main operating activity. Therefore, presenting it under 'other Income' is not a correct treatment.
- (iv) Employee benefits include termination benefits. Payment made during the year towards one-time voluntary retirement scheme is in the nature of termination benefits. Hence, it should be shown by an entity under employee benefit expenses only. Thus, the treatment done by the company is correct.

5.8 Revaluation of Machinery: According to Ind AS 16, when an item of property, plant and equipment is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of the revaluation, the asset is treated in **one of the following ways:**

- (a) *The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount.*

The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses.

In such a situation, the revised carrying amount of the machinery will be as follows:

(Amount in '000)

Gross carrying amount	₹ 250	[(200/120) x 150]
Net carrying amount	<u>₹ 150</u>	
Accumulated depreciation	<u>₹ 100</u>	(₹ 250 – ₹ 150)

Journal entry

Plant and Machinery (Gross Block)	Dr.	₹ 50	
To Accumulated Depreciation			₹ 20
To Revaluation Reserve			₹ 30

Depreciation subsequent to revaluation

Since the Gross Block has been restated, the depreciation charge will be ₹ 25 per annum (₹ 250/10 years).

Journal entry

Accumulated Depreciation	Dr.	₹ 25 p.a.	
To Plant and Machinery (Gross Block)			₹ 25 p.a.

Alternatively,

- (b) The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amount of the adjustment of accumulated depreciation forms part of the increase or decrease in carrying amount that is accounted for in accordance with Ind AS 16.

In this case, the gross carrying amount is restated to ₹ 150 to reflect the fair value and accumulated depreciation is set at zero.

Journal entry

Accumulated Depreciation	Dr.	₹ 80	
To Plant and Machinery (Gross Block)			₹ 80
Plant and Machinery (Gross Block)	Dr.	₹ 30	
To Revaluation Reserve			₹ 30

Depreciation subsequent to revaluation

Since the revalued amount is the revised gross block, the useful life to be considered is the remaining useful life of the asset which results in the same depreciation charge of ₹ 25 per annum as per Option A (₹ 150 / 6 years).

Journal entry

Accumulated Depreciation	Dr.	₹ 25 p.a.
To Plant and Machinery (Gross Block)		₹ 25 p.a.

PAPER – 6F: MULTI-DISCIPLINARY CASE STUDY

The question paper comprises **five** case study questions. The candidates are required to answer any **three** case study questions out of three.

All your workings should form part of your answer.

CASE STUDY -1

Digital Software Ltd., is a professionally managed, profit making, dividend paying, unlisted Public Limited Company incorporated in 2009 under the Companies Act, 1956 having its Registered Office at Coimbatore, Tamil Nadu. The Company operates in 3 units at Coimbatore and 1 unit at Nagercoil, India, and has 2 subsidiaries in India and 1 wholly owned subsidiary at California, USA called Digital Software Inc., USA.

The Company provides a wide range of services such as consulting services, technology services and outsourcing services in India and to International clients spread across seven continents. The Company's segments are Banking, Financial, Insurance, Education, Hospitality, Health Care, Energy, Utilities, Communication, Logistics, etc. Besides technically qualified personnel, the Company has on its rolls several semi-skilled and unskilled workers as the Company is continuously expanding its operations.

The Company is managed by a broad based Board of Directors who are qualified professionals in information technology, engineering, accounting and finance with more than two decades of experience. The Company is practising good corporate governance in letter and spirit and has earned a good reputation with the shareholders; bankers and customers at large.

Since inception, the Company has maintained proper books of accounts adopting historical cost convention and accrual basis of accounting. All the accounting transactions are in alignment with the generally accepted accounting principles, complying with all significant accounting policies and mandatory Accounting Standards. The books of accounts are duly audited by a reputed firm of Chartered Accountants. The Company is regular in depositing all statutory dues to the Government and there are no pending disputes with any Government agencies. The Income Tax assessments have been completed up to the Assessment Year 2018-19.

The Managing Director (MD) of the Company is of the strong view that utmost care is warranted in ensuring due compliances of various laws and regulations. This strong motive and belief of the MD were duly taken into consideration by all the departmental heads and strict monitoring of the compliances were given top priority by the Audit Committee and the Board of Directors of the company.

After completing two consecutive terms of five years each, the existing firm of Chartered Accountants retired at the conclusion of the Annual General Meeting of the Company held on 14.08.2019 and the shareholders appointed your firm as the Statutory Auditor of the Company for a period of five years on such remuneration as may be mutually agreed upon between you

and the Audit Committee of the Company. Accordingly, you have assumed the office of Statutory Auditor for the financial year 2019-20.

You were informed that it is the practice of the Company to adopt financial results (both Standalone and Consolidated) on a quarterly basis and therefore your involvement to audit the books of accounts shall be on a continuous basis. You also ascertained that the audited financial results for the quarter ended 30.06.2019 were adopted at the meeting of the Board of Directors held on 10.08.2019.

On 05.10.2019, you were informed by the Director (Accounts and Finance) that a meeting of the Audit Committee and the Board of Directors is scheduled to be held on 22.10.2019 and 23.10.2019 respectively to consider amongst other subjects, inter-alia to approve and take on record the audited financial results of the Company for the second quarter/half year ended 30.09.2019. He also informed you that a week prior to the above meeting dates, an internal meeting with the top management would be scheduled to discuss with you any matter arising out of the audit. The Director (Accounts and Finance) has also submitted to you draft financial statements for the quarter/half year ended 30.09.2019 for audit.

During the course of your audit for the second quarter from O 1.07.2019 to 30.09.2019, you made the following observations:

1. One of the Company's units located in Nagercoil, had faced severe interruption during the said quarter due to cyclone and floods. Out of total 303 available working days during the whole of the financial year 2019-20, the interruptions during the second quarter of the financial year were:

(a) Floods 4 days, (b) Cyclone 3 days, and (c) Damage restoration 2 days (excluding weekly off days falling in between). The unit declared lay-off during such period, on payment of average 50% of salary to its employees. The damage to the computers and other equipments and the cost of its repairs amounted to ₹ 87 lakhs.

The following expenses were incurred :

	(₹ In lakhs)
Salaries	1,230
Power	820
Other Fixed Expenses	490
Indirect Wages and Salaries	740
Depreciation	210
Finance Charges	115

2. As at 30.09.2019, the Company's investments in subsidiaries are considered as long-term and valued at cost. One of the Indian subsidiary's net worth was fully eroded as at

30.09.2019 and the prospects of its recovery is very bleak. However, the other two subsidiaries (in India and USA) are doing exceptionally well. The Chief Accounts Officer has informed you that the Company did not provide for the decline in the value of investment in the above subsidiary because the overall investment portfolio in subsidiaries did not suffer any decline in view of the fact that the other two subsidiaries are doing exceptionally well;

3. Mr. Ramanathan, is a director of F Ltd., and R Ltd. Both companies did not file their financial statements with the Ministry of Corporate Affairs (MCA) for the year ended 31.03.2018. On 01.07.2019 Mr. Ramanathan is-proposed to be appointed as an additional director of Digital Software Ltd. for which company sought a' declaration from Mr. Ramanathan and the same was also submitted by him stating that no disqualification specified in Section 164 of the Companies Act, 2013 is attracted in his case;
4. In respect of the 3 units at Coimbatore of the company, ₹3 lakhs of employee contribution and ₹7.50 lakhs of employer contribution towards Employee State Insurance contribution have been accounted in the books of accounts in respective heads. However, only ₹4 Lakhs has been deposited with ESIC department during the second quarter ended 30.09.2019. The Chief Accounts Officer has informed you that due to bank strike for almost a week, they have not deposited the amount due but will deposit the overdue amount along with interest subsequently;
5. The Company exchanged surplus land with a book value of ₹10 lakhs for cash of ₹20 lakhs and plant and machinery valued at ₹25 lakhs;
6. The Company has re-classified a portion of current investments purchased for ₹20 lakhs to 'long term'. The market value as on the date of Balance Sheet was ₹25 lakhs;
7. The Company purchased high tech computers for US \$ 1,00,000 on 01.07.2019 payable after three months and it has entered into a forward contract for three months at US\$ 65.70 per dollar. The exchange rate per dollar on 01.07.2019 was US\$ 64.70;
8. Mr. Nani, a relative of a Key Management Personnel (KMP) of the parent Company received remuneration of ₹3,00,000 for his services in the Company for the period 01.04.2019 to 30.06.2019. On 01.07.2019, he left the job;
9. The Company launched a new software product in July 2019. The Company (incurred ₹20 Lakhs towards research for the same. Due to prevailing market conditions, the management came to the conclusion that the product (cannot be sold in the market for the next 10 years. The management, hence, wants to defer the expenditure write-off to future years.

As the Statutory Auditor of the Company, you are required to analyse and answer the following:

Part-A

Provide the correct option to the following questions :

- 1.1 On exchange of surplus land with a book value of ₹ 10 lakhs for cash of ₹ 20 lakhs and plant and machinery valued at ₹ 25 lakhs, the measurement of the assets received would be
 - (A) ₹ 25 Lakhs;
 - (C) ₹ 20 Lakhs;
 - (B) ₹ 35 Lakhs;
 - (D) ₹ 55 Lakhs.
- 1.2 On re-classification of the portion of current investments purchased for ₹ 20 lakhs to 'Long Term' on 30.09.2019 where the market value was ₹ 25 lakhs, the investments should be carried at
 - (A) ₹ 25 Lakhs;
 - (B) ₹ 20 Lakhs;
 - (C) Average of ₹ 25 Lakhs and ₹ 20 Lakhs;
 - (D) Irrevocable option between ₹ 20 Lakhs and ₹ 25 Lakhs.
- 1.3 For the high-tech computers purchased on 01-07-2019, payable after three months and for which company has entered into a forward contract, what is the amount of profit or loss on forward contract ?
 - (A) ₹ 1,00,000;
 - (B) ₹ 60,700;
 - (C) ₹ 59,700;
 - (D) ₹ 1,10,000.
- 1.4 For the purpose of reporting transactions under AS 18, for the FY 2019-20, Mr. Nani who left the company on 01-07-2019 should be identified as
 - (A) A resigned employee;
 - (B) A related party;
 - (C) Not a related party as he was not employed for full year;
 - (D) Not a related party since he is only related to the KMP and not a KMP himself.
- 1.5 For accounting of the cost of Research of ₹ 20 lakhs, which is the correct treatment as per the applicable Accounting Standard ?
 - (A) The Company has to write off the cost in the current financial year ending 31.03;2020;

- (B) The Company can write the cost over a period of 10 years;
- (C) The Company can write off the cost over a maximum period of 5 years;
- (D) The Company can write off the cost in the year in which the research can be commercially developed. **(2 x 5 = 10 Marks)**

Part-B

- 1.6 You have observed that 1 of the Company's units located in a coastal area had faced interruption in production during the second quarter of FY 2019-20 due to cyclone and floods. On the basis of the information provided, find out the abnormal expenses that could be deductible from the product cost. (Assume costs given in point 1 as annual-costs) **(5 Marks)**
- 1.7 The Chief Accounts Officer has informed you that the Company did not provide for the decline in the value of investments in the Indian subsidiary because the overall investment portfolio in subsidiaries did not suffer any decline as the other two (Indian and USA) subsidiaries are doing exceptionally well. Examine whether the contention of the Chief Accounts Officer is correct in the light of AS -13 "Accounting for Investments". **(4 Marks)**
- 1.8 In respect of the information provided in point 3 above, examine whether the declaration submitted by Mr. Ramanathan to the Company is in order for his appointment as an additional director w.e.f. 01.07.2019 ? **(3 Marks)**
- 1.9 In respect employee and employer's contribution towards Employee State Insurance contribution for the Company's units 1 to 3, explain whether the contention of the Chief Accounts officer is correct ? If not, state the correct legal position and the obligations of the Statutory Auditor while expressing a qualified or adverse opinion on the financial statements. **(3 Marks)**

ANSWER TO CASE STUDY 1

PART – A

- 1.1 (A)
- 1.2 (B)
- 1.3 (A)
- 1.4 (B)
- 1.5 (A)

PART – B

1.6 Abnormal costs

All costs – variable and fixed are accumulated under a product or service. Proportional costs for abnormal losses are deducted from cost of production of goods/service and charged to the P & L account.

It may be assumed safely that only salaries and Indirect wages are the items affected by the disruption.

303 days p.a. less 9 days of disruption + 4.5 days (since 9 days are paid for at 50%) = 303 - 9 + 4.5 = 298.5 days

Amount paid for the disrupted period = $1230/298.5 * 9 * 50\% = 18.54$ lacs

Indirect wages = $740/298.5 * 9 * 50\% = 11.16$ lacs

Damage to computers 87 lacs is not tabulated and hence is taken as not even charged to the service or product, since it cannot come under other fixed charges, depn, finance charges.

Depreciation and other expenses (excluding finance charges) are normally taken based on the budgeted fixed costs and normal level of activity as denominator to arrive at the hourly rate to be billed to clients with mark up. However, under product costing, just as we arrive at total factory cost and then adjust for closing stock and abnormal loss, we may consider in services also. But here, depreciation may be considered as being incurred on administrative assets like office equipments, etc.

For fixed expenses, consider a denominator of 303, adjust for the days lost, viz 9 days and then treat it as abnormal loss. i.e. $(210+490)/303 * 9 = 20.79$.

In the present case, the following expenses are excluded from the total expenses:

- (i) The **Finance Charge** is not charged to Cost of Production but is to be shown under the head Cost of Sales.
- (ii) **Power** is a direct cost and is excluded from the total expenses. Power would not have been incurred due to disruption.
- (iii) **Direct Wages and Salaries** is a variable cost but, in the given situation, the layoff payment was made and hence is treated as fixed cost.

Abnormal expenses calculation:

Particulars	Amount (₹ In lakhs)
Salaries	18.54
Repairs-computers	87.00
Indirect Wages	11.16

Depreciation & fixed exp	20.79
Total abnormal expenses	137.49

1.7 Carrying amount of Long-term investments

As per para 18 of AS 13, long-term investments are usually of individual importance to the investing enterprise. The carrying amount of long-term investments is therefore determined on an individual investment basis.

As per the facts given in the question, since the net worth of the Indian subsidiary have been fully eroded, the decline in the value of its shares should be considered as other than temporary.

Hence, its carrying amount should be determined on individual basis and reduced to recognise the decline irrespective of other long term investment giving fairly well results.

The contention of the Chief Accounts Officer is therefore **not tenable**.

1.8 Correctness of the declaration furnished by director

According to section 164(2)(a) of the Companies Act, 2013, no person who is or has been a director of a company which has not filed financial statements or annual returns for any continuous period of **three financial years** shall be eligible to be appointed in other company for a period of five years from the date on which the said company fails to do so.

In the instant case, F Ltd. and R Ltd. in which Mr. Ramanathan is a director did not file their financial statements for the year ended 31.03.2018. The financial statements have not been filed for only one year.

Hence, no disqualification under section 164(2)(a) occurs on Mr. Ramanathan. Consequently, declaration submitted by Mr. Ramanathan stating that no disqualification specified in section 164 of the Companies Act, 2013 is attracted in his case **is in order** for his appointment as an additional director of Digital Software Ltd.

1.9 Non-compliance of laws and Regulations & Reporting requirements:

Contributions to ESI

As per SA 250 "Consideration of Laws and Regulations in an Audit of Financial Statement", it is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements.

The auditor is responsible for obtaining reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error. In conducting an audit of financial statements, the auditor takes into account the applicable legal and regulatory framework. If the auditor concludes that the non-compliance has a material effect on the financial statements and has not been adequately

reflected in the financial statements, the auditor shall express a qualified or adverse opinion on the financial statements. Further, the auditor is required to report under clause (vii)(a) of Para 3 of CARO, 2016 whether the company is regular in depositing undisputed statutory dues including provident fund, employees' state insurance, income-tax, sales-tax, Goods and Services Tax (with effect from July 1, 2017), service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues to the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as on the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated.

In the instant case, contention of Chief Accounts Officer is not correct, disclosure of non-payment is necessary in accordance with clause (vii)(a) of Para 3 of CARO, 2016. Therefore, the auditor is required to disclose the fact of non-payment of rupees 6.50 lakhs in his report

CASE STUDY 2

You are a partner of a Chartered Accountants' firm with competencies in Audit and Assurance, Domestic and International Taxation, Business Advisory Services, Mergers and Acquisitions, FEMA, Capital Markets, Banking and Finance. You are also known for your sharp acumen on Indian Accounting and Auditing Standards and mandate best reporting practices to a variety of large, reputed, listed companies including multi-national companies in the country.

You always believe that it is your legitimate right to advise your clients to comply with the rule of law, promote transparency in financial and business transactions, make your clients much more tax compliant vis-a-vis intelligent tax planning rather than tax dodging and tax evasion.

You are always interested in providing suggestions and solutions rather than just discussing problems. You are very often specially chosen and consulted by a variety of large business houses as you possess excellent communication and presentation skills with a sound clarity of thought on the technical aspects of statute or with whatever you advice. You are also a Director on the Board, Chairman and/or Member of Committees of the Board of many listed and unlisted entities.

New Gen Chemicals Limited (NGCL) is one such entity, the flagship Company of Bharat Group having multiple businesses, subsidiaries and associate companies wherein your audit partner provides audit and auxiliary services, taxation and advisory services from time to time on various business related projects, expansion strategies, funding aspects, tax implications etc. The main business of the Company is manufacture of various chemicals used in Textiles, Engineering and other manufacturing industries. The Company is in the business for the last three decades and has carved itself a reputation in the domestic and international markets for its quality production and timely deliveries. The Company has been doing exceptionally good business over the years and has registered a consistent growth year-on-year in terms of turnover and profits.

In view of your excellent technical and presentation skills, you have been much sought after and relied upon by the management of NGCL to provide expert opinions and advices to the management.

During the first week of May 2019, you have been invited with your team for a very confidential meeting with the Chairman, Managing Director and top management executives to discuss issues like appointment of a financial expert to turnaround one of the loss making Associate Company, adoption of Ind AS for preparation of financial statements, disclosures to be made in the financial statements pursuant to Schedule III of the Companies Ad, 2013 and other matters.

On the appointed day, Mr. Gopal, Director Finance, formally welcomed you and your team and after pleasantries, Mr. Gopal discussed the following matters and submitted various facts and figures in support of the discussion.

SUMMARY OF DISCUSSION 1

The Company wants to hire the services of Mr. Ravi, a seasoned financial expert to turn around one of its loss making Associate Company. It is expected that after his appointment, the profits of that associate Company will increase by 10% over and above the targeted profit.

Financial Information of the said subsidiary as on 31.03.2019:

Capital and Reserves	Amount in ₹
<i>Equity share capital of ₹ 10 each of which ₹ 8 has been called up</i>	<i>8,00,000</i>
<i>Calls-in-Arrears</i>	<i>1,00,000</i>
<i>General Reserve</i>	<i>7,50,000</i>
<i>50,000, 9% Debentures of ₹100 each</i>	<i>50,00,000</i>
<i>Profit/(Loss) for the Year</i>	<i>(2,50,000)</i>
<i>Industry average profitability rate</i>	<i>12.50%</i>

SUMMARY OF DISCUSSION 2

The following disclosures were extracted from the draft Ind AS financial statements of NGCL which it will adopt in FY 2019-20 :

- (i) In the Balance Sheet, the sub-head inventories contained an item "goods in transit" in which a consolidated amount aggregating the cost of raw materials in transit and loose tools billed to company but delivery not made had been specified;*
- (ii) Provision for doubtful debts of Trade receivables was grouped in, "Provisions" under current liabilities";*
- (iii) In Statement of Profit and Loss, prior period income was shown under "Other Income";*
- (iv) Sale proceeds of scrap incidental to manufacture were included in "Other Income";*

- (v) *Payment towards a one-time voluntary retirement scheme introduced during the year was included in "Employee Benefit Expense".*

SUMMARY OF DISCUSSION 3

The Income Tax Assessing Officer, in the current financial year 2019-20 observed, during the assessment proceedings, a need to re-open the accounts of the Indian subsidiary for the financial year 2014-15 and therefore filed an application before the National Company Law Tribunal (NCLT) to issue an order to the subsidiary for re-opening its accounts and recasting the financial statements for the financial year 2014-15.

SUMMARY OF DISCUSSION 4

Other matters concerning year end finalization :

- (i) *The Company sold goods for ₹ 90 lakhs to XYZ Ltd. during the financial year ended 31.03.2019. The Managing Director of the Company owns 100% of XYZ Ltd. The sales were made to XYZ Ltd. at normal selling prices followed by the Company. The Chief Accountant of the Company is of the opinion these sales do not require a different treatment from the other sales made by the Company and hence no disclosure of related party transactions is necessary as per the Accounting Standard -18 (AS -18);*
- (ii) *The Company has purchased debentures of ₹ 15 lakhs which are redeemable within 6 months;*
- (iii) *The Company sold its building for ₹ 65 lakhs to A Ltd. and has also given the possession of the same. The book value of the building is ₹ 30 Lakhs. As on 31.03.2019, the documentation and legal formalities are pending;*
- (iv) *The Company had an existing freehold factory property. During the financial year 2018-19, it knocked down and re-developed the property. During the redevelopment period, the Company moved its production facilities to a new temporary site and incurred ₹ 23 Lakhs towards rent, installation of machinery costs, removal of machinery and transportation costs from the old location to the new location;*
- (v) *The Government of Tamil Nadu, in order to encourage industrial promotion, offered subsidy of ₹ 50 Lakhs in the nature of promoters' contribution to all new industries set up in the specified industrial areas. The Company had recently set up its new factory in the specified industrial area and received the subsidy.*

After receipt of the above information submitted by Mr. Gopal you are expected to analyse and present a report to the management.

Part-A

Provide the correct option to the following questions :

- 2.1 *In the light of the information given in the summary of discussion .4(i), the opinion of the Chief Accountant is*

- (A) Wrong as AS-18 disclosures are applicable;
- (B) Correct as the sales was made at normal selling price;
- (C) Correct as AS-18 does not apply;
- (D) Correct if disclosure is made in the report of Board of Directors.
- 2.2 For the purchase of debentures as given in the summary of discussion 4(ii), while preparing the cash flow statement as per AS-3 for the half year ended 30.09.2019, the same will be shown under:
- (A) Cash Outflow in Operating Activities;
- (B) Cash Outflow in Financing Activities;
- (C) Cash Outflow in Investment Activities;
- (D) Cash and Cash Equivalents.
- 2.3 In the light of the information given in the summary of discussion 4(iii), for the financial year ended 31-03-2019:
- (A) The Company should make mention of sale in Directors' Report;
- (B) The Company should recognize the profit off 35 Lakhs in its Reserves;
- (C) The Company should not record the sale;
- (D) The Company should record the sale and recognize profit off 35 lakhs in its statement of profit and loss.
- 2.4 In the light of the information given in the summary of discussion 4(iv), such costs can be
- (A) Capitalised to the cost of new building;
- (B) Accumulated under the head "Property redevelopment expenditure" and amortised over a maximum period of 5 years;
- (C) Charged to Profit and Loss Account as and when incurred;
- (D) Charged to Profit. and Loss Account in the year the redeveloped property is put to use.
- 2.5 In the light of information given in the summary of discussion 4(v), the subsidy, as per AS 12 on 'Accounting for Government Grants', will be
- (A) Credited to capital reserve;
- (B) Credited as 'Other Income' in the Statement of profit and loss;
- (C) Credited to general reserve;
- (D) Can be either credited to Capital Reserve or credited to 'Other Income' in the statement of profit and loss.

(2 x 5 = 10 Marks)

Part-B

- 2.6 What is the maximum salary that could be offered to Mr. Ravi to turn around the loss making Associate Company? **(5 Marks)**
- 2.7 Give your comments on the disclosures (as, extracted) made by the Company in its draft financial statements under Ind AS. **(5 Marks)**
- 2.8 In the light of the information given in summary of discussion 3 above, examine the validity of the application filed by the Income Tax Assessing Officer before the NCLT. **(5 Marks)**

ANSWER TO CASE STUDY 2**PART – A**

- 2.1 (A)
2.2 (C)
2.3 (D)
2.4 (C)
2.5 (A)

PART – B**2.6 Calculation of Capital base and expected profits**

Particulars	₹
Equity Share Capital paid up (8,00,000 shares of ₹ 8 each)	64,00,000
Less: Calls in arrears	<u>(1,00,000)</u>
	63,00,000
General Reserve	7,50,000
Loss for the year	(2,50,000)
9% Debentures	<u>50,00,000</u>
Capital base	<u>1,18,00,000</u>
Target Profit 12.5% of capital base	14,75,000

Expected profits to be achieved by taking the services of Mr. Ravi is ₹ 16,22,500 (i.e. 14,75,000 + 10% of 14,75,000).

Therefore, the maximum salary that can be paid to Mr. Raman will be ₹ 16,22,500 p.a.

Note: The above solution is given on the basis that 10% expected profit is over the target profit of 12.5%. Alternatively, it can be interpreted that 10% profit is in addition to 12.5% target profit. In such a situation, 22.5% profit on capital base will be the expected profit

to be achieved due to hiring of Mr. Ravi would be ₹ 26,55,000 (ie ₹ 1,18,00,000 x 22.5%).

2.7 Comments on disclosures (as extracted) made by the company from the draft financial statements under Ind AS:

- (i) As per Division II of Schedule III (for Ind AS based Financial Statements), a separate sub-head 'goods in transit' under inventories should not be created. Goods in transit related to raw material should be included under the sub-head 'raw material' and billed but not delivered loose tools should be included under the head 'loose tools' separately.

This would be as follows:

Notes to Accounts for Inventories

- (i) Raw Material ₹
- (It includes raw materials in transit Rs))
- (ii) Loose Tools ₹
- (It includes loose tools ₹ billed to company but delivery not made.)
- (ii) The term doubtful debts is an adjustment to the carrying amount of assets, hence no provision is created separately for it. As per Division II of Schedule III (for Ind AS based Financial Statements), provision for doubtful debts should be deducted from gross amount of trade receivables after disclosing all the categories of trade receivables rather than including it under provisions under current liabilities.

Notes to Accounts on Trade Receivables

Trade receivables (net)	₹ XXXX
Break up	
Secured, considered good (gross)	xxx
Unsecured, considered good (gross)	xxx
Trade receivable which have significant increase in credit risk (gross)	xxx
Trade receivable - credit impaired (gross)	<u>xxx</u>
	xxx
Less: Provision for bad and doubtful debts)	<u>xxx</u>
Net trade receivables	<u>xxx</u>

- (iii) Under Ind AS, there is no concept of 'Prior period items'. In case any error related to prior period is detected during the current year, then an entity shall correct such material prior period errors retrospectively in the first set of financial statements approved for issue after their discovery by:
- (a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or
 - (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

Since in the question it is not mentioned that prior period income pertains to which accounting year, it is **assumed** that it relates to previous year. Therefore, comparative amounts shall be restated. Thus, showing prior period income under current year's 'other income' is **not in accordance with Ind AS 8**.

- (iv) As per Guidance Note on Division II of Schedule III, sale of manufacturing scrap arising from operations for a manufacturing company should be treated as 'other operating revenue' since the same arises on account of the company's main operating activity. Therefore, presenting it under 'other Income' is **not a correct treatment**.
- (v) Employee benefits include termination benefits. Payment made during the year towards one-time voluntary retirement scheme is in the nature of termination benefits. Hence, it should be shown by an entity under employee benefit expenses only. Thus, the treatment done by the company is correct.

2.8 Reopening the books of account

According to **Section 130 of the Companies Act, 2013**, a company shall not re-open its books of account and not recast its financial statements, unless an application in this regard is made by the Central Government, the Income-tax authorities, the Securities and Exchange Board, any other statutory regulatory body or authority or any person concerned and an order is made by a Court of competent jurisdiction or the Tribunal to the effect that—

- (i) the relevant earlier accounts were prepared in a fraudulent manner; or
- (ii) the affairs of the company were mismanaged during the relevant period, casting a doubt on the reliability of financial statements.

It also provides that the accounts so revised or re-cast as above shall be final.

However, no order shall be made by the Court or the Tribunal in respect of re-opening of books of account relating to a period **earlier than eight financial years immediately preceding the current financial year**.

In the instant case, the application has filed by the Income-tax Assessing Officer before the NCLT in the current year 2019-20 to issue an order to the Indian subsidiary for re-opening its accounts and recasting the financial statements for the financial year 2014-15.

The application filed is related for a period earlier than eight financial years immediately preceding the current financial year i.e. 2019-20.

The application filed by Income Tax Assessing Office is valid.

CASE STUDY 3

You are 'advising companies in mergers and acquisitions. One of your clients, T Limited reached out to you with their interest in acquiring companies for their inorganic growth. They have provided you with an analysis of their initial target list along with some business insights obtained through various channels. You are required to consider the details below and answer the questions.

Paper Board Private Limited

The promoters of this company are Zak & Jill who holds about 90% in the company. The remaining 10% is held by a group of minority shareholders of which 9% is held by Johnson in his individual capacity. Whilst the promoters of the company are willing to offload their shares completely at a fair price, Johnson, being a significant minority shareholder, may be creating problems and he may also demand higher price to capitalise on the opportunity.

Johnson is also in the board of the Company and has issues with the Board Chairman on various matters. He has also written to the Registrar of Companies (RoC) that the matters discussed by him in the board meetings are filtered by the Chairman and the minutes do not reflect the facts and the key discussion matters appropriately. Zak is the Chairman of the Board and he believes that his decision is final with respect to board minutes and even the RoC has no role to play.

Further, the promoters believe that any offloading can happen only based on fair terms and after a comprehensive company analysis by an independent party using the well-established statistical techniques.

Innovative Papers Limited

Innovative Papers is the market leader in introducing innovation in the paper industry. The advanced 30 printing capable new generation machineries are imported by the Company which has helped the company in cutting its cost considerably and improving its profitability. Post introduction of Goods and Service Tax (OST), the Company has resorted to certain practices which were challenged by the Department. Several OST refunds received by the Company from the Goods and Service Tax department were alleged to be failing the principle of unjust enrichment under the Act. The exposure arising out of the same needs careful evaluation.

Further, the company is also having several issues with respect to supply and reversals/returns and the process of invoicing/raising of credit and debit notes requires complete overhaul. It has paid OST on several supplies without considering the subsequent reversals resulting in over payment of taxes since it was not clear on the provisions. Further, the time limits for claiming refunds of excess tax paid/unutilised Input credit also requires evaluation since this could have a significant impact on the net worth of the company;

Digital Papers

Digital Papers is a partnership firm where George and Jolly are the current partners. Earlier Michael was also a partner, who retired on 31.03.2018. The firm primarily focuses on exports and has got good recoveries over the past 2 years.

Majority of the exports of the firm were routed through a third party under the deemed exports category which was challenged by the GST authorities recently. The firm has also been slapped with a tax notice on their supplies made in financial year 2017-18 which if confirmed would virtually result in wiping out all the net worth and the partners may have to pay from their personal assets in view of their joint and several liability.

George and Jolly believe that if there is a requirement to pay the tax, then Michael would also be required to pay the same as per the applicable provisions, though Michael challenges this position. In view of the tax uncertainty, the firm is willing to consider a total buy out by any large company .

Part-A

Answer the following questions :

- 3.1 Presume that T Limited proposes to pursue amalgamation of Paper Board Pvt. Ltd. and pursuant to the same, agrees to pay higher price (higher than the price decided under the scheme) to Johnson based on his negotiation, the extra amount/compensation received by Johnson shall be
- (A) Fully payable to him in his individual capacity;
 - (B) Full payable to the remaining minority shareholders;
 - (C) Allocated to all minority shareholders on pro rata basis;
 - (D) Allocated to all majority shareholders on pro rata basis.
- 3.2 Zak has an absolute discretion to exclude the matters raised by Johnson in the board minutes, if it
- (A) is relevant or material to the proceedings;
 - (B) is detrimental to the interests of the Chairman;
 - (C) is or could reasonably be regarded as defamatory of any person;

- (D) is a dissent in a majority decision.
- 3.3 The OST liability of Innovative Papers Ltd. as a supplier will reduce when the
- (A) Credit note is issued by the supplier;
 (B) Credit note is issued by the customer;
 (C) Debit note is issued by the supplier; (
 (D) Debit note is issued by the customer.
- 3.4 Michael, the retired partner in Digital Papers is liable to pay GST, interest and penalty of the firm due :
- (A) Till the date of the retirement notwithstanding any intimation to Commissioner;
 (B) Till the date of the intimation provided to the commissioner;
 (C) Indefinitely notwithstanding the retirement/intimation;
 (D) Not at all liable post retirement.
- 3.5 The time limit for making an application for claiming refund of OST taxes paid by Innovative Papers Ltd. is
- (A) 3 years from the relevant date;
 (B) 2 years from the relevant date;
 (C) None since there is no time limit;
 (D) None since such refund can never be claimed. **(2 x 5 = 10 Marks)**

Part-B

Answer the following :

- 3.6 How will you carry out the company analysis of Paper Board Private G Limited using the statistical techniques ? **(8 Marks)**
- 3.7 Under what circumstances Innovative papers limited is legally- entitled to the OST refunds and can also retain such amounts without having the requirement to pass it on to anybody else ? **(7 Marks)**

ANSWER TO CASE STUDY 3

PART – A

- 3.1 (C)
 3.2 (C)
 3.3 (A)
 3.4. (A) and (B)

Option (A) will be correct if the question is answered in the context of the specific demand notice issued on Digital Papers (in accordance with the facts given in the case study) as the tax demand pertains to the period when Michael was partner in Digital Papers. The retiring partner is invariably liable to pay the tax dues of the firm till the date of his registration; his liability, however, extends beyond his date of resignation if he submits the intimation of his resignation to the Commissioner after 30 days from the date of his resignation.

Option (B) will be correct if the question is answered generally on the basis of the provisions of section 90 and it is assumed that no intimation has been given by the Michael of his retirement to the Commissioner, as the case study does not contain any information regarding the same.

3.5 (B)

PART – B

3.6 Statistical techniques to be used

Company-wide analysis of Paper Board Private Limited can be performed through use of various statistical techniques including:

Correlation & Regression Analysis: Simple regression is used when inter relationship covers two variables. For more than two variables, multiple regression analysis is followed wherein, the inter relationship between variables belonging to economy, industry and company are found out.

The main advantage in such analysis is the determination of the forecasted values along with testing the reliability of the estimates.

Trend Analysis: Trend analysis evaluation can be used to judge the company's financial information over a period of time. Periods may be measured in months, quarters, or years, depending on the circumstances. The objective is to calculate and analyze the amount change and percent change from one period to the next.

Such trend analysis can also be used to predict the company's future sales, future profits, etc., based on the past trends of the said figures, where there have been no abnormal swings.

Decision Tree Analysis: Information relating to the probability of occurrence of the forecasted value is considered useful. A range of values of the variable with probabilities of occurrence of each value is taken up. The limitations are reduced through decision tree analysis and use of simulation techniques.

Additionally, the entity could consider fundamental analysis involving examination of the economic and financial aspects of the Company with the aim of estimating future earnings

and dividend prospects/ group analysis which involves evaluation of financial health and promise vs performance of the group company for their analysis.

3.7 Dealing with the refund under GST

The refundable amount under GST shall, instead of being credited to the Consumer Welfare Fund, be paid to Innovative Papers Limited, and the company can retain the same without having to pass it on to anyone else, if such amount is relatable to —

- (a) refund of tax paid on export of goods or services or both or on inputs or input services used in making such exports;
- (b) refund of unutilized ITC in case of zero rated supplies made without payment of tax or accumulated ITC on account of inverted duty structure;
- (c) refund of tax paid on a supply which is not provided, either wholly or partially, and for which invoice has not been issued, or where a refund voucher has been issued;
- (d) refund of tax in pursuance of section 77 of the CGST Act, 2017, i.e. tax paid on a transaction treated to be an intra-State supply, but which is subsequently held to be an inter-State supply or vice-versa.;
- (e) the tax and interest, if any, or any other amount paid by Innovative Papers Limited, if it had not passed on the incidence of such tax and interest to any other person; or
- (f) the tax or interest borne by such other class of applicants as the Government may, on the recommendations of the Council, by notification, specify [Section 54(8) of the CGST Act, 2017].

CASE STUDY 4

A retired professor is running a free coaching centre for professional exams and you are assisting him for the same. The service is well recognised by the student community. As part of preparation for the examinations, the professor has organised a doubt removal session for 2 days where the students can raise any question from any subject and the answers will be provided.

Giving below the list of questions raised by 3 students Shah, Kumar and Patel.

Shah

Shah had a doubt regarding the security cover available for settling the workmen's dues under the applicable statute. If the available securities are already charged to the secured creditors who have given loans to the company in excess of the value of the available securities, how the workmen's due claims would be settled? He is not able to understand the concept of security for workmen dues under such scenario and is not clear regarding the type of dues that would be considered as workmen's dues for this purpose.

Shah also raised the issue that unless the auditors complete the audit of the financial statements, technically the board will not have the required comfort to approve the financial statements. However, the board has to approve the financials before auditors can sign it formally. He was wondering how it would be possible to address both these requirements.

He raised his next query on the matter relating to Joint Auditors. When there are 3 joint auditors appointed to audit the company, and if there is difference of opinion amongst the joint auditors, what would be the way forward for reporting by the joint holders? Shah is confused as regards the requirement of the Companies Act, 2013 and the requirements of the auditing standards issued by the ICAI. He believes that any difference of opinion amongst the joint auditors needs to be decided based on majority decision similar to that of the judiciary.

Kumar

Kumar's question was relating to the extent of examination required by the statutory auditor of a Company for CARO reporting purposes as regards cost records. Since the statutory auditor is only a chartered accountant, he was not sure of how such a review of cost records is possible? He believes that for CARO purposes, the chartered accountant either by himself or through a specialist should conduct a detailed review of cost records to ensure that the records as prescribed are made and maintained.

He was also not clear on the Companies Act provisions relating to the court's jurisdiction to interfere with the internal management of the company when they are acting within their powers. He believes that there are no restrictions for the court and it can interfere at any time suo moto or based on a reference notwithstanding the internal management's actions.

Patel

Patel raised a query relating to the CSR provisions under the Companies Act, 2013 and its applicability to a company which is formed with charitable objects. He believes that the CSR provisions are equally applicable to such companies, however he was not sure of the same.

Patel raised his second question relating to accounting of Certified Emission Reductions (CERs). He wants to know the point of accounting of CERs when the emission reduction activities have taken place awaiting CE $\text{\text{₹}}$

You are required to assist the professor by drafting answers to the questions (as summarised below) of the above students.

Part-A

Provide the correct option to the following questions.

- 4.1 With respect to the question raised by Shah, if the value of the security of a secured creditor of a Company is ₹ 60 Lakhs (who has funded the company to the extent of ₹ 100

Lakhs which remains as outstanding) and the workmen's dues is ₹ 50 Lakhs, the workmen's portion of the security will be

- (A) Nil;
 - (B) ₹ 50 Lakhs;
 - (C) ₹ 20 Lakhs;
 - (D) ₹ 60 Lakhs.
- 4.2 As regards the issue raised by Shah regarding the approval of the financial statements, if the auditors completed the audit and obtained all the required audit evidence to support the audit opinion on the financial statements on 10.04.2019 and the Board approved the financial statements on 15.04.2019, the date of the signoff by the auditors would be :
- (A) On or after 10.04.2019;
 - (B) On or after 15.04.2019;
 - (C) Before 10.04.2019;
 - (D) Before 15.04.2019.
- 4.3 For a company which is formed with charitable objects, CSR provisions under the Companies Act, 2013 are :
- (A) Not Applicable;
 - (B) Applicable.
 - (C) Applicable when it makes profits in excess of ₹ 1 crore;
 - (D) Not Applicable with prior approval of the Registrar of Companies.
- 4.4 Kumar's view as regards the statutory auditor's review of cost records for CARO reporting is :
- (A) Correct since it is required under the Companies Act;
 - (B) Not correct since the requirement is to conduct only a general and broad review;
 - (C) Based on the facts and circumstances;
 - (D) Based on mandate of the shareholders.
- 4.5 When emission reduction has taken place pending issue of CERs :
- (A) CERs receivable is to be accrued in the books;
 - (B) CERs receivable should not be accrued in the books;
 - (C) CERs receivable to be treated as contingent asset and accrued in the books;
 - (D) CERs receivable to be treated as constructive asset and accrued in the books.

(2 x 5 = 10 Marks)

Part-B

- 4.6 *In your view what are the responsibilities of the Joint Auditors appointed under the Companies Act, 2013 with respect to division of work, reliance on the work carried out by other joint auditors, treatment of difference of opinion amongst the joint auditors. Also, explain if there is any rationale for the confusion of Shah regarding the responsibility of Joint Auditors between the Companies Act, 2013 and the auditing standards issued by ICAI ?* **(9 Marks)**
- 4.7 *What is your assessment of Kumar's view as regards the ability of the courts under the Companies Act, 2013 to interfere with the internal management of companies acting within their powers.* **(6 Marks)**

ANSWER TO CASE STUDY 4**PART – A**

- 4.1 (C)
4.2 (B)
4.3 (B)
4.4 (B)
4.5 (C)

PART – B**4.6 Responsibilities of the Joint Auditors**

SA 299 on, "Joint Audit of Financial Statements" deals with the professional responsibilities, which the auditors undertake in accepting such appointments as joint auditors. In respect of the work divided amongst the joint auditors, each joint auditor is responsible only for the work allocated to him, whether or not he has made a separate report on the work performed by him. On the other hand the joint auditors are jointly and severally responsible in respect of the audit conducted by them as under:

- (i) in respect of the audit work which is not divided among the joint auditors and is carried out by all joint auditors;
- (ii) in respect of decisions taken by all the joint auditors under audit planning in respect of common audit areas concerning the nature, timing and extent of the audit procedures to be performed by each of the joint auditors;
- (iii) in respect of matters which are brought to the notice of the joint auditors by any one of them and on which there is an agreement among the joint auditors;
- (iv) for examining that the financial statements of the entity comply with the requirements of the relevant statute;

- (v) for ensuring presentation and disclosure of the financial statements as required by the applicable financial reporting framework;
- (vi) for ensuring that the audit report complies with the requirements of the relevant statutes, the applicable Standards on Auditing and the other relevant pronouncements issued by ICAI.
- (vi) it is the separate and specific responsibility of each joint auditor to study and evaluate the prevailing system of internal control relating to the work allocated to him, the extent of enquiries to be made in the course of his audit;
- (vii) the responsibility of obtaining and evaluating information and explanation from the management is generally a joint responsibility of all the auditors;
- (viii) each joint auditor is entitled to assure that the other joint auditors have carried out their part of work in accordance with the generally accepted audit procedures and therefore it would not be necessary for joint auditor to review the work performed by other joint auditors.

Where, in the course of the audit, a joint auditor comes across matters which are relevant to the areas of responsibility of other joint auditors and which deserve their attention, or which require disclosure or require discussion with, or application of judgment by other joint auditors, the said joint auditor shall communicate the same to all the other joint auditors in writing prior to the completion of the audit.

Difference of opinion among Joint Auditors

Normally, the joint auditors are required to issue common audit report, however, where the joint auditors are in disagreement with regard to the opinion or any matters to be covered by the audit report, they shall express their opinion in a separate audit report.

A joint auditor is not bound by the views of the majority of the joint auditors regarding the opinion or matters to be covered in the audit report and shall express opinion formed by the said joint auditor in separate audit report in case of disagreement. In such circumstances, the audit report(s) issued by the joint auditor(s) shall make a reference to the separate audit report(s) issued by the other joint auditor(s). Further, separate audit report shall also make reference to the audit report issued by other joint auditors. Such reference shall be made under the heading "Other Matter Paragraph" as per Revised SA 706, "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report".

Duty to comply with Auditing Standards

As per sub-section (9) of section 143 of the Companies Act, 2013, every auditor shall comply with the auditing standards. Therefore, so far as the concept of "joint audit" is concerned, Companies Act, 2013 and Auditing Standards stand on same footing.

4.7 Interference of Courts in internal management of companies

Kumar is of the view that there are no restrictions for the Court to interfere in the internal management of a company under the provisions of the Companies Act, 2013. He believes that a Court can interfere any time *suo motu*, or on a reference, notwithstanding internal management's actions.

I do not agree of Kumar in its entirety. His view is only partially correct, as explained hereinbelow.

Corporate law works on the principle of democracy and it becomes more vulnerable because it is reckoned with the number of shares and not with the number of individuals involved. This is known as the famous '**Rule of Majority**' or which is also called the '**Foss v. Harbottle**' Rule, which is a landmark judgment in the history of company law.

It states that the ones who hold majority of shares "rule" the company (Foss v. Harbottle (1843) 2 Hare 461). The judgment held that if the majority shareholders have made a decision to take or not to take a certain action, it shall be respected. Also, the courts are not expected to ordinarily intervene to protect the minority interest affected by resolution.

However, the said rule has 4 exceptions, which are as follows –

- *Ultra-vires* or illegal acts;
- Transactions requiring special majorities;
- Personal Rights; and
- The "fraud on the minority" exception.

[**Note:** This issue is also covered in the Case Laws namely Birch v. Sullivan; Jhajharia Brothers' and Rajeev Saumitra vs Neetu Singh & Ors]

CASE STUDY 5

Jwala Mills Limited is a fast growing listed company focusing on bringing innovation in the chemical manufacturing industry. The company has grown by 4 times during past 3 years in terms of revenue and 2 times in terms of profitability. The management is interested in inorganic growth and hence started hunting for suitable targets for acquisition. Based on the inputs provided by various consultants/advisors, the following companies have been short listed for potential buyout possibilities along with a SWOT analysis. The management of Jwala has reached out to you with this list and has asked for your inputs on certain specific matters which could significantly influence their decision.

Clean and sweep Limited

The company was incorporated in 1967 by the erstwhile Johar Group and is currently managed by Panna & Panna. It has its own customers who are very loyal and continue their relationship with the company for several years. Clean and Sweep could not grow beyond those customers

and is finding it difficult to add new customers. Whilst the traditional customer Segment gives premium for their products, the few new customers added by the Company during the past 4 to 5 years did not fetch enough margins. The management of the company believes that since Customer Lifetime Value (CL V) of the company for all its customers is positive, the valuation should reflect the same.

Further, Clean and Sweep also deals with variety of securitisation instruments, derivative instruments and interest rate swaptions as part of their financial management. The company is able to make sizable income on account of treasury activities.

Swatch Limited

Swatch is a leading player in the industry and has received several awards for modernisation of the plant, Talent recognition etc. The board of the company has eminent directors with enough experience in the industry. It is also worth noting that the company has a profit sharing and bonus plan to its employees which is accounted as an appropriation of profit.

Further, Swatch typically purchases traded goods from Olympic Traders, a wholesaler and sells these goods to the third party without carrying any associated inventory risk as it purchases goods from the wholesaler only when it receives back to back orders from the end customer. However, it may bear the risk of those inventory items that have been returned by the customers.

The company was raided by the income tax department recently. and there were several allegations of unaccounted income/overstatement of expenditure etc. Some of the matters arising out of the income tax raid are

- (i) Payment of secret commission by the Company;
- (ii) Non-accounting of ₹ 30 crores received from the competitor for not pursuing the digital business for the next 5 years;
- (iii) Non-payment of interest on GST amounting to ₹ 50 Lakhs which was claimed as a deductible expenditure in FY 2018-19;
- (iv) An amount of ₹ 4 crores was paid to George, a non-resident based out Netherlands, without deducting any truces, towards commission for getting orders from certain customers based out of Netherlands;
- (v) Claiming the Bank Guarantees provided to the Pollution department as a deductible expenditure on an environmental matter pending before the Green Tribunal;
- (vi) Over paying the inflated supplier bills after due deduction of taxes and getting back part of the amount in cash from the suppliers for ensuring smooth conduct of business.

Whilst the business prospects are attractive, the implications of the income true raid are concerning to the management.

Guru Limited

Guru is having a decentralised set up and has 5 plants and 8 branches in multiple locations in the country. The Company is aggressively expanding its size and scale by acquiring several small entities/ operations. Now with the increased debt in the balance sheet, the management is willing to offload a share not exceeding 49% to interested third parties.

The management is also seriously exploring the options of outsourcing its administrative, finance, HR and IT activities to a third party service provider and focus more on the core activities.

Dead Wood Private Limited

Dead Wood was a flagship company 15 years back. However due to various issues associated with the management, the company was making continuous losses and it had shut down all its plants and remained inactive for the past 5 years without having any activity. Whilst the company remained dormant, several procedural compliances relating to Companies Act, 2013 including filing of financial statements; other returns etc. were also not complied with. Further, the company has not rotated its auditors post the amendments made to the Companies Act, 2013 even though its auditors, M/s. Black & White Associates were continuing since inception.

You are required to review the above matters carefully and answer the following questions:

Part-A

Provide the correct option to the following questions

- 5.1 CLV of Clean and Sweep denotes the :
- (A) Net present value of the projected cash flows from a lifetime of customer relationship;
 - (B) Fair value of the past cash flows generated based on a customer relationship;
 - (C) Net present value of the projected profits from the present customer relationship;
 - (D) Historical intangible value of the customer relationship.
- 5.2 Clean and Sweep is dealing with the interest rate Swaption which is
- (A) an option on an interest rate swap;
 - (B) an option on an swap;
 - (C) an option on a collar;
 - (D) an option on the interest in the property.
- 5.3 Black & White Associates, the auditors of Dead Wood Private Limited need not retire by rotation. The aforesaid statement is :
- (A) False;
 - (B) Depends on the decision of the Board;

- (C) Depends on the decision of the shareholders;
(D) True.
- 5.4 The cost of profit sharing and bonus plan for the employees of Swatch is
(A) In the nature of distribution of profit and hence an appropriation;
(B) In the nature of an expense;
(C) In the nature of contingent liability which may arise in future;
(D) In the nature of human resource asset.
- 5.5 Swatch should reflect _____ as its revenue in accordance with the applicable accounting standards :
(A) Proportionate amount of its billings to its customers derived based on risk assessment;
(B) Gross Billing to its customers;
(C) Net differential margin arising out of its billings to its customers;
(D) Zero. **(2 x 5 = 10 Marks)**

Part-B

- 5.6 Evaluate the matters arising out of the income tax raid of Swatch and its allowability under the Income Tax Act, 1961. **(6 Marks)**
- 5.7 What would be typical categorisation of various securitisation instruments handled by Clean and Sweep ? **(5 Marks)**
- 5.8 Provide your inputs in evaluating the outsourcing proposal of Guru duly considering its pros and cons. **(4 Marks)**

ANSWER TO CASE STUDY 5

PART – A

- 5.1 (A)
5.2 (A)
5.3 (D)
5.4 (B)
5.5 (B)

PART – B

5.6 Treatment and allowability of certain unaccounted income/overstated expenditure noticed in income-tax search

<p>(i) Secret commission payment not accounted</p> <p>This is an unaccounted expenditure and hence will be added to the income of the assessee under section 69C of the Income-tax Act, 1961.</p> <p>An unaccounted expenditure can never be claimed as deduction.</p> <p>In any case, even before section 69C is invoked by the Assessing Officer, such expenditure is hit by <i>Explanation</i> to section 37(1) owing to which payment of secret commission by Swatch Ltd., if it is established as a payment for any purpose which is an offence or which is prohibited by law, cannot be allowed as deduction.¹</p>
<p>(ii) Non-compete fees of ₹ 30 crores received, not accounted for, in the books</p> <p>As per section 28(va), any sum received under an agreement for not carrying out any activity in relation to any business / profession (i.e., non-compete fee) is chargeable to income-tax under the head “Profits and gains of business or profession”.</p> <p>The assessee had failed to record this receipt in the books. Non-compete fee received is taxable under the head “Profits and gains of business or profession” and hence, the unaccounted income unearthed in the raid/search will be brought to tax under the provisions of the Act.</p>
<p>(iii) Interest under GST law, not paid, claimed as expenditure</p> <p>The issue to be considered is whether the interest on GST will have to be treated as GST for attracting disallowance u/s 43B as the actual payment has not been made before the due date for filing the return of income.</p> <p>There are two views in this regard on the basis of decided court rulings on the above issue.</p> <p>On the basis of the Calcutta High Court ruling in <i>CIT vs. Padmavati Raje Cotton Mills Ltd. (1999) 155 CTR 540</i>², interest on sales tax cannot be treated as sales tax and hence, disallowance under section 43B is not attracted in respect of such interest.</p>

¹ It was so held in *Tarini Tarpauline Productions v. CIT (2002) 254 ITR 495 (Ori.)*.

² following the ratio of the decision of the High Court in *Hindustan Motors Case (1996) 132 CTR (Cal) 472: (1996) 218 ITR 450 (Cal)*

<p>However, the Rajasthan High Court in the case of <i>Mewars Motors case (2003) 260 ITR 218</i> held that such interest is also to be treated as sales tax, and hence, disallowance u/s 43B would be attracted.</p>
<p>(iv) Payment to Mr. George, a non-resident without deduction of TDS</p> <p>Commission income of Mr. George, a non-resident, who remains outside India, for getting orders from customers located outside India is not subject to tax in India, since the non-resident renders services from outside India. Hence, the provisions of section 195 are not attracted in respect of commission paid to Mr. George. Consequently, disallowance under section 40(a)(i) is not attracted in respect of payment of commission to such non-resident outside India since there is no obligation to deduct tax at source in the first place. Thus, the amount of ₹ 4 crores remitted to Mr. George outside India as commission is an allowable deduction in computing the business income.</p>
<p>(v) Bank Guarantee furnished to Pollution department</p> <p>The fee payable to the Pollution Control Department has been claimed as a deduction. Actual payment has not been made, but only bank guarantee appears to have been furnished to the Pollution Department. Disallowance under section 43B would be attracted since furnishing of bank guarantee cannot be equated to actual payment. Hence, deduction cannot be claimed merely on furnishing of bank guarantee.</p>
<p>(vi) Overstatement of expenditure</p> <p>As per section 37, any expenditure laid out or expended wholly and exclusively for the purpose of the business or profession would be allowed as deduction. However, Swatch Ltd has inflated the bills and claimed the inflated payment as expenditure. Inflated amount is not expended for the purpose of business or profession, but received back in cash and hence, the same is disallowed while computing business income.</p>

5.7 Securitized instruments handled by Clean and Sweep

This can be divided into three categories based on different maturity characteristics which are as under:

(1) Pass Through Certificates (PTCs)

Originator (seller of the assets) transfers the entire cash in form of interest or principal repayment from the assets sold. Thus, these securities represent direct claim of the investors on all the assets that has been securitized through SPV.

Since all the cash flows are transferred the investors carry proportional beneficial interest in the asset held in the trust by SPV.

Since it is a direct route, any prepayment of principal is also proportionately distributed among the securities holders. Further, due to these characteristics on completion of securitization by the final payment of assets, all the securities are terminated simultaneously.

Skewness of cash flows occurs in early stage if principals are repaid before the scheduled time.

(2) Pay Through Security (PTS)

Since, in PTCs all cash flows are passed to the performance of the securitized assets. To overcome this limitation and limitation to single mature there is another structure i.e. PTS.

In contrast to PTC in PTS, SPV debt securities backed by the assets and hence it can restructure different tranches from varying maturities of receivables.

In other words, this structure permits desynchronization of servicing of securities issued from cash flow generating from the asset. Further, this structure also permits the SPV to reinvest surplus funds for short term as per their requirement.

Since, in Pass Through, all cash flow immediately in PTS in case of early retirement of receivables plus cash can be used for short term yield. This structure also provides the freedom to issue several debt tranches with varying maturities.

(3) Stripped Securities

Stripped Securities are created by dividing the cash flows associated with underlying securities into two or more new securities. Those two securities are as follows:

- (i) Interest Only (IO) Securities
- (ii) Principle Only (PO) Securities

As each investor receives a combination of principal and interest, it can be stripped into two portion of Interest and Principle.

Accordingly, the holder of IO securities receives only interest while PO security holder receives only principal. Being highly volatile in nature these securities are less preferred by investors.

In case yield to maturity in market rises, PO price tends to fall as borrower prefers to postpone the payment on cheaper loans. Whereas if interest rate in market falls, the borrower tends to repay the loans as they prefer to borrow fresh at lower rate of interest.

Value of securities increases when interest rate goes up in the market as more interest is calculated on borrowings.

However, when interest rate due to prepayments of principals, IO's tends to fall.

5.8 Evaluation of the outsourcing proposal

Guru Limited is exploring the options of outsourcing its administrative, finance, HR, and IT activities to a third party service provider to enable him to focus on the core activities.

Outsourcing is often an integral part of downsizing or reengineering and is considered to reduce costs or improve efficiency by shifting tasks, operations, jobs, or process to another party for a span of time. The outsourcing proposal of Guru Limited can be evaluated giving due consideration to the below pros and cons of outsourcing:

Advantages of Outsourcing

- Outsourcing helps in cost savings. The lower cost of operation and labour, and reduction in overhead costs makes it attractive to outsource.
- It frees an organization from investments in technology, infrastructure and people that make up the bulk of a back-end process capital expenditure.
- It gives businesses flexibility in staffing, manpower management, helps in cost savings.

Disadvantages of Outsourcing

- One of the biggest disadvantages is the risk of losing sensitive data and the loss of confidentiality.
- Control of operations and deliverables of activities outsourced.
- Inexperienced worker or improper process can lead to quality problems.

PAPER – 6F: MULTI-DISCIPLINARY CASE STUDY

The question paper comprises three case study questions. The candidates are required to answer any two case study questions out of three.

All your workings should form part of your answer.

CASE STUDY -1 :**Background:**

You are a recently appointed audit partner in a large independent firm of Chartered Accountants ("the Firm") based out of Chennai which has a variety of clients engaged in various growth sectors of the economy. You are delighted that you are now a partner and cannot wait to sign off your first set of accounts. Your firm was recently appointed as the Statutory Auditors of a large, family owned, listed Company, M/s. Anju Teyarn Limited (ATL) (the Company) at the Annual General Meeting of the Company held on 29th September, 2018 to audit the accounts of the Company for the FY 2018-19. The Audit firm's Managing Partner, Mr. Kumar has allocated the client to you to conduct the audit. The Managing Partner is reasonably close to the family which owns the Company and you believe that this is at least part of the reason why the Company decided to appoint your firm. Mr. Kumar made a short presentation of the Company as under:

Company Information :

The Company was originally incorporated as Anjana Textiles (CBT) Private Limited on 1st April, 2007 under the provisions of the erstwhile Companies Act, 1956 having their Registered Office at Chennai, South India. The Company was subsequently converted into a Public Limited Company on 1st April, 2009 and the Certificate for commencement of business was also obtained. The name of the Company was subsequently changed to Anju Teyarn Limited on 1st April, 2010. ATL commenced commercial operations in the year 2011. The Company's shares were listed at National Stock Exchange of India Limited (NSE) in April, 2014.

ATL is a part of the Chennai based Kamatchi Amman Group, which is involved in manufacturing, trading and distribution activities. The group has business interests in sugar, textiles, food processing, transportation, distillery, automobile distribution, healthcare, etc. with a turnover of over ₹16,000 million and net worth of about ₹ 8,000 million. All the manufacturing facilities are located in South India. As on 31st March, 2019, ATL has two factories housed around 2.85 lakh square feet in Tamil Nadu. The spinning division in Dindigul, Tamil Nadu has an installed capacity of 40,000 spindles, producing around 22 tonnes of cotton yarn per day. The weaving division located in Coimbatore, Tamil Nadu, has an installation of 40 Sulzer projectile machines. The export sales constituted 24% of total revenue as on 31st March, 2019. Furthermore, in May 2018 the Company was awarded a Certificate of Recognition as an Export House by the Joint Director General of Foreign Trade.

As on date, ATL has evolved to be a significant player in cotton yarn spinning in South India, commanding a premium in the market for their products having a strong domestic presence in Tirupur, Kanpur and Kolkota markets and exported their products to several countries including Israel, Mauritius, Egypt, Taiwan and South Korea. ATL's strategy is to expand their existing capacity in spinning and weaving, as well as enter other areas in the textile chain including processing and garmenting/home textiles. Their vision is to achieve excellence in all sectors of the textile industry, from fibre to finished product, constantly striving to be at the forefront of the industry and to generate highest possible value to all stakeholders.

The Vice President (Finance and Accounts) of the Company, Mr. Narayanan made available to you the summary of financial highlights (audited) for the financial years 2015-16 to 2017-18 and also presented the summary of unaudited financial highlights for the financial year 2018-19 and informed you that the summary of financials as at 31st March, 2019 was prepared subject to audit of certain items that need clarifications and resolutions from the Statutory Auditors.

Summary of Statement of Profit and Loss :

(₹ In Crores)

Particulars	Year Ended 31.03.2019 (Unaudited)	Year Ended 31.03.2018 (Audited)	Year Ended 31.03.2017 (Audited)	Year Ended 31.03.2016 (Audited)
Net Sales	900	800	732	597
Income from Windmill	40	30	25	20
Other Income	15	14	12	10
Increase/(Decrease) in Stock	23	17	11	9
Total	978	861	780	636
<i>Expenditure :</i>				
Raw Material Consumed	720	640	585	478
Employee Cost	27	24	22	18
Power and Fuel	72	65	60	48
Other Manufacturing Cost	36	32	30	24
Administrative Expenses	14	13	11	9
Selling and Distribution Expenses	22	20	18	15
Interest	14	13	12	11
Depreciation	30	27	25	23
Total	935	834	763	626

Net Profit before Extra-Ordinary Items and Tax	43	27	17	10
Current Tax (Provision and Payment)	12	8	5	3
Deferred Tax	5	2	(1)	1
Net Profit After Tax	26	17	13	6

Share Capital and Net Worth:**(₹ In Crores)**

Particulars	Year Ended 31.03.2019 (Unaudited)	Year Ended 31.03.2018 (Audited)	Year Ended 31.03.2017 (Audited)	Year Ended 31.03.2016 (Audited)
Equity Share Capital	125	125	125	125
Reserves and Surplus	335	328	324	320
Net Worth	460	453	449	445

You have taken charge of the assignment and requested Ms. Pratibha, the Senior Audit Manager to support you on this assignment. Initially, you go through all the firm's new client procedures which include writing to the previous auditors and also obtaining sets of audited accounts for the previous 3 years from the Company.

When you receive the written reply from the previous auditors, you note that they have nothing to report other than any matters addressed in their audit report. On a review of the Company's financial statements for the previous year, you note that the Company's audit report was qualified on the basis of non-compliance with an Accounting Standard. The audit report highlights that the Company owns a property and on cost grounds, decided not to have a valuation performed. The audit opinion adds that the auditor is unable to quantify the impact of this non-compliance with the accounting standard. You wish that you had access to the working papers of the predecessor auditors but you are informed that it is not possible.

You are considering the impact of this issue when Mr. Kumar, the Managing Partner, comes into your office. He provides you again with an oral briefing on ATL and then asks you whether you have any queries. You inform Mr. Kumar what you have found. Mr. Kumar replies: I do not see any problems; if the client does not believe that it is worth paying for this information then who are we to tell them otherwise: it is a family business after all. If we have to, we can adopt the same approach as the previous auditors and qualify the audit report on the same grounds."

That is when you inform him that you have doubts as to whether the audit qualification issued was appropriate in the circumstances. The previous auditors issued an except for – disagreement with accounting treatment – due to non-compliance with an accounting standard" and you believe that a "limitation of scope" opinion may have been more appropriate. You are not sure but you surmise that this may be because of the requirement that if a client places a

limitation of scope on the work of the auditors which will require the auditor to issue a disclaimer of opinion, in advance of the auditors accepting that appointment, then unless the restriction is removed, the auditor should not continue in office for that particular client. Mr. Kumar replies that you should go ahead and reassess the position once the audit fieldwork has been completed by your team.

Since you are not bound to compromise anything either on the audit process nor your Independence and at the same time keeping in mind the relationship of Mr. Kumar, you have decided to balance the situation with an appropriate presentation and pointing out the legal position to avoid/rectify any lapse or short comings, to the satisfaction of both the management of the Company and your Managing Partner.

Accordingly, you have made a detailed Audit program and asked your Audit engagement team to look meticulously into every material aspect and conduct the audit for the financial year 2018-19 from the propriety angle.

The engagement team led by Ms. Pratibha has reported the following matters to you based on their field audit. You think that the observations noted, if not dealt with properly, would impact the true and fair view of the financial statements and accordingly you have instructed your audit team to analyse and briefly provide the basis for assessment.

- (a) The Company had created a separate Trust called "Anju Texyarn Limited Employees Gratuity Fund Trust". Both the Company and the Trust are under the same Management. You observed that during the previous year, some part of the expenditure was not applied towards the objects of the Trust and the previous Auditor had informed the matter to the Board of Trustees through a separate report but did not qualify the Audit Report of the Trust;*
- (b) For the financial year ended 31st March, 2018, it was observed that the previous auditors signed their audit report on 4th May, 2018. The Annual General Meeting was held on 29th September, 2018. On 6th May, 2018 the Company received a communication from the Central Government that an amount of ₹ 150 crore kept pending on account of export incentives pertaining to financial year 2017-18 had been approved and the amount would be paid to the Company before the end of May 2018. This amount was initially not recognized in the audited financial statements in view of the same not being released before the close of the financial year and due to uncertainty of receipt. Now, having received the amount, the Board of Directors wished to include this amount in the financial statements of the Company for the financial year ended on 31st March, 2018 and accordingly, on 8th May, 2018, the Board amended the accounts, approved the same and requested the Auditors consider this event and issue a fresh Audit Report on the financial statements for the year ended on 31st March, 2018. Accordingly, the previous Auditors issued a fresh Audit report;*

- (c) Provision for payment of gratuity was not made during the last three years for employees who have not completed the stipulated period of service. In this regard, Mr. Narayanan informed that in view of the attrition rate among employees, it was thought prudent to quantify the gratuity liability and disclose the non-provision in the notes on accounts and recognize the same in the year of payment at which point only the liability arises;
- (d) The Company received a grant of ₹2 crores from the Central Government for the purchase of a special Machinery during financial year 2014-15. The cost of Machinery was ₹ 20 crores and had a useful life of 9 years. During the financial year 2018-19, the grant has become refundable due to non- fulfillment of certain conditions attached to it. The entire grant was deducted from the cost of Machinery in the year of acquisition.
- (e) On a perusal of the secretarial records including the minutes of the Board Meetings and Audit Committee Meetings, the audit team observed that:

(i)	The Company's Board consists of 10 directors including a non- executive director as its Chairman;
(ii)	The internal audit reports were received by the Audit Committee on a quarterly basis. Quarter 3 internal audit report commented on certain irregularities as regards electronic on line auction of scrap. The Agenda of the Audit Committee did not deliberate or take note of the issue;
(iii)	There were four Independent Directors on the Board. One of them resigned on 25th May, 2018. A new Independent Director was appointed on 1 st September, 2018;
(iv)	There were five Audit Committee meetings held during the year as follows : 1 st April, 2018, 1 st June, 2018, 1 st September, 2018, 3 rd January, 2019 and 25 th March, 2019.

- (f) The Company availed a lease from N & S Ltd. The conditions of the lease terms are as under:

(i)	Lease period is 3 years, in the beginning of the year 2016, for an equipment costing ₹10,00,000 and has an expected useful life of 5 years;
(ii)	The Fair market value is also ₹10,00,000;
(iii)	The property reverts back to the lessor on termination of the lease;
(iv)	The unguaranteed residual value is estimated at ₹1,00,000 at the end of the year 2018;
(v)	3 equal annual payments are made at the end of each year. At an INR = 10%, the present value of ₹1 due at the end of 3rd year at 10% rate of interest is ₹0.7513. The present value of annuity of ₹1 due at the end of 3 rd year at 10% IRR is ₹2.4868

- (g) *Joe Weider Incorporation, a non-resident Company has an IT enabled business process outsourcing unit in India (BPO) and it provides certain outsourcing services to ATL being a resident Indian entity;*
- (h) *The Company has a track record of maintaining consistent dividend payment of a minimum of 14%. In the financial year 2017-18, the Board, in order to conserve the funds for future operations, decided not to declare dividend for FY 2017-18 and as a consequence, it was not possible for the Company to maintain the payment of consistent dividend as above. The Management felt that for the financial year 2018-19, the depreciation of the year to the extent of 75% alone be charged to the Statement of Profit and Loss and the remaining 25% be kept in a separate account code in the Balance Sheet - 'Debit Balances Adjustable against Revenue account'. The Management was of the view that it would be unfair practice of accounting if the depreciation for assets is charged before the expiry of the life of assets and the amount parked in asset code as above would anyway be adjusted to Revenue before the close of next financial year;*
- (i) *The Company sold some equipments through its dealers. One of the conditions at the time of sale is, payment of consideration in 14 days and in the event of delay, interest chargeable @ 15 per annum. The Company has not realized interest from the dealers in the past. However, for the year ended 31st March, 2019, it wants to recognize interest due on the balances due from dealers. The amount is ascertained at ₹9 lakhs;*
- (j) *The Company purchased goods at the cost of ₹ 40 Lakhs in October, 2018. Till March, 2019, 75% of the stocks were sold. The Company wants to disclose closing stock at ₹ 10 Lakhs as at 31st March, 2019. The expected sale value is ₹ 11 Lakhs and a commission at 10% on sale is payable to the agent.*
- (k) *The Company could not recover ₹ 10 lakhs from a debtor. The Company is aware that the debtor is in great financial difficulty. The accounts of the Company were finalized for the year ended 31st March, 2019 by making a provision @ 20 of the amount due from the said debtor. The debtor became bankrupt in April, 2019 and nothing is recoverable from him;*
- (l) *The Company undertook a construction contract for ₹ 50 crores in April, 2018. The cost of construction was initially estimated at ₹ 35 crores. The contract is to be completed in 3 years. While executing the contract, the Company estimated the cost of completion of the contract at ₹ 53 crores;*
- (m) *The Property, Plant and Equipment of the Company included ₹ 75 lakhs of earth moving machines of outdated technology that has been retired from actual use and has been kept for disposal as scrap after its knock down. This machine appeared at residual value and had been last inspected 8 years back;*
- (n) *As a part of the business, the Company supplies water drawn from its land by pumping out the water and through a water course constructed by it to the nearby villages whereby the water is allowed to be used by the villagers for drinking purposes. The cost of construction of water course was ₹ 3 Crores and the Company had disclosed this amount as CSR expenses in the draft Statement of Profit and Loss as at 31st March, 2019;*

- (o) Goods worth ₹ 15 Lakhs were destroyed due to fire in September 2017. A claim was lodged with the Insurance Company. But no entry was passed in the books for insurance claim in the financial year 2017-18. In March, 2019, the claim was passed and the Company received a payment of ₹ 13.50 Lakhs;
- (p) The Company created a provision for bad and doubtful debts @ 2.5% on debtors while preparing the draft financial statements for the financial year 2018-19. Subsequently on a review of the credit period allowed and the financial capacity of the customer, the Company decided to increase the provision to 8% on debtors as on 31st March, 2019;
- (q) The Company made an annual budget of ₹ 3.50 crores for extensive special initial advertisement campaign for marketing a new product and estimated that the Company would have a turnover of ₹ 45 crores from the new product. The Company had debited to its Statement of Profit and Loss, the total expenditure of ₹ 3.50 crores incurred on such advertisement campaign for the new product;
- (r) As at 31st March, 2019, an Inter-Corporate deposit of ₹ 200 Lakhs given to ABC Ltd. has become overdue. The Company has disclosed this fact in the notes to accounts stating that ₹ 200 Lakhs is overdue from ABC Ltd and the said Company is in the process of liquidation and the management is taking steps to appoint a liquidator.

Now, you are under a precarious situation whereby you have to deal and address the open accounting matters as enumerated above and revert to the firm's Managing Partner and going forward to deliberate with the Chairman of the Audit Committee and the top Management of the Company including their Key Managerial Personnel. Based on the above, answer the following questions:

Answer the following questions:

- 1.1. As per Ind AS 18*, income by way of interest from dealers is :
- (A) Not eligible for recognition;
- (B) Eligible for recognition;
- (C) Interest element does not form part of the sales;
- (D) None of the above.
- 1.2. The value of closing stock as per Ind AS 2 as on 31st March, 2019 should be:
- (A) ₹ 10 Lakhs;
- (B) ₹ 9 Lakhs
- (C) ₹ 9.90 Lakhs;
- (D) ₹ 9.50 lakhs.

* Read 'Ind AS 18' as 'Ind AS 115'.

- 1.3. *On the debtor becoming bankrupt, the Company should:*
- (A) *Provide the entire sum of ₹ 10 lakhs as non-recoverable as at 31st March, 2019;*
 - (B) *Provide the entire sum of ₹ 10 lakhs as non-recoverable as at 31st March, 2020;*
 - (C) *Provide ₹ 8 lakhs as non-recoverable as at 31st March, 2019;*
 - (D) *Provide ₹ 8 lakhs as non-recoverable as at 31st March, 2020.*
- 1.4. *In respect of the construction contract, the Company :*
- (A) *Should provide for the expected loss in the books of accounts for the year ended 31st March, 2019;*
 - (B) *Should provide for the expected loss in the books of accounts over a period of three years being the tenure of the contract;*
 - (C) *Should not recognize as an expense the expected loss;*
 - (D) *None of the above.*
- 1.5. *In the light of the information provided in para (m) above, the Auditor:*
- (A) *Need not disclose in his Audit Report as per CARO, 2016 as the machines have become of outdated technology and fully retired from active use;*
 - (B) *Need to disclose in his Audit Report as per CARO, 2016 even if the machines have become of outdated technology and fully retired from active use;*
 - (C) *Need not disclose in his Audit Report as per CARO, 2016 but a disclosure of such fact needs to be done in the Notes on Accounts;*
 - (D) *Does not come under the purview of CARO, 2016.*
- 1.6. *The cost of construction of water course was ₹ 3 crores and the Company had disclosed this amount as CSR expenses in the draft Statement of Profit and Loss as at 31st March, 2019. This accounting treatment is:*
- (A) *Not correct as this expense is incurred in the normal course of business and therefore cannot be claimed as CSR activity;*
 - (B) *Correct as water is supplied to the villagers for drinking purposes. Hence, it amounts to a CSR activity;*
 - (C) *The expenses incurred on water course is a capital expenditure and therefore needs to be capitalized and disclosed in the Balance Sheet and further it will not be a CSR activity;*
 - (D) *The expenses on water course has to be amortized* over the useful life of the asset and cannot be claimed as CSR activity.*

* PS: Read 'amortized' as 'depreciated'.

- 1.7 The treatment of receipt of insurance claim in the financial statements for the year ended 31st March 2019, as per Ind AS 8 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies":
- (A) Should be accounted and disclosed separately as a prior period item;
 - (B) Should be accounted and disclosed as a current period item due to its receipt in the current accounting year;
 - (C) Should not be accounted and disclosed but be qualified by the Auditor;
 - (D) Should not be accounted but disclosed in the notes on accounts as a receipt pertaining to an earlier period.
- 1.8 How is revision in the estimate of provision for bad and doubtful debts considered as per Ind AS 8 ?
- (A) As a prior period item;
 - (B) As an extraordinary item;
 - (C) As change of estimate;
 - (D) None of the above.
- 1.9 The Company has debited to its statement of profit and loss, the total expenditure of ₹ 3.50 crore incurred on extensive special advertisement campaign for the new product. Pursuant to Ind AS 38 "Intangible Assets":
- (A) Accounting treatment is correct as no intangible asset is created that can be recognized;
 - (B) Accounting treatment is incorrect as an intangible asset is acquired or created that can be recognized as it forms part of the cost of an intangible asset;
 - (C) Expenditure on advertising and promotional activities are not covered under Ind AS 38;
 - (D) It is enough if the advertisement expenses are disclosed in the notes on accounts.
- 1.10 In respect of overdue inter-corporate deposits:
- (A) Since the Company is in the process of liquidation, provision for the loss is required to be made in the accounts and the auditor should qualify in his audit report;
 - (B) No provision for the loss is to be made in the accounts. But, the auditor should qualify in his audit report;
 - (C) No provision for the loss or compliances of any accounting standard is required since adequate disclosures have been made in the notes on accounts;
 - (D) The over-due inter-corporate deposit is safe and realizable in full as the Management is taking steps to appoint a liquidator. **(2 x 10 = 20 Marks)**

PART - B

- 1.11 In respect of the expenses not applied towards the objects of the Trust referred in a para (a), examine whether the action of the previous Auditor by informing the Board of Trustees through a separate report and not qualifying in the Audit Report of the Trust is in order ? **(4 Marks)**
- 1.12 In the light of the information provided in para (b) above, analyze the issues involved and give your views as to whether or not the Auditors could accede to the request of the Board of Directors for issuing a revised Audit Report ? **(4 Marks)**
- 1.13 State with reasons, the accounting treatment to be followed in the financial year 2018-19 in respect of refund of government grant due to non-fulfillment of certain conditions attached to it as discussed in para (d) above and pursuant to Ind AS 20. **(4 Marks)**
- 1.14 In the light of the certificate of compliance of conditions of Corporate Governance to be issued to a listed entity, give your comments/responses to the situations given in para (e) above. **(4 Marks)**
- 1.15 In the light of the information given in para (f) above, state whether the lease constitute a finance lease and also calculate unearned finance income in terms of Ind AS 17. **(4 Marks)**
- 1.16. Discuss the direct tax implications in the hands of Joe Weider Incorporation due to presence of BPO in India. **(4 Marks)**
- 1.17 In the light of the information given in para (h) above, analyze the issues involved and state how the Auditor should decide on this matter. **(4 Marks)**

ANSWER TO CASE STUDY1**PART – A**

- 1.1 (A)
1.2 (C)
1.3 (A)
1.4 (A)
1.5 (B)
1.6 (D)
1.7 (A)
1.8 (C)
1.9 (A)
1.10 (A)

PART – B

1.11 Issuance of Separate Report or Qualified Opinion: As per SA 705, "Modifications to the Opinion in the Independent Auditor's Report", the auditor shall express a qualified opinion when:

- (i) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or
- (ii) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

In the instant case, the Company had created a separate trust called, Anju Taxym Limited Employees Gratuity Fund Trust, it has been noticed that some part of the expenditure was not applied towards the objects of the Trust, therefore, the previous auditor informed the matter to the Board of Trustee vide a separate report instead of qualifying the audit report of the Trust.

In the given situation, some part of the expenditure was not applied towards the objects of the Trust. Assuming that default amount is individually or in aggregate is not material or material but not pervasive, therefore, action of the previous auditor by informing the Board of Trustees through separate report and not qualifying in the audit report of the Trust is in order.

Alternatively, candidates may be given due credit in case their answer is based on assumption that amount of such expenditure is material but not pervasive, Therefore, the action of the auditor is not correct by issuing separate report to Board of Trustee, he should qualify the Audit Report of the Trust.

Alternative Solution on the basis of the Chartered Accountant Act, 1949

Disclosure of Material Facts: A Chartered Accountant in practice is deemed to be guilty of professional misconduct under Clause (5) of Part I of the Second Schedule if he "fails to disclose a material fact known to him which is not disclosed in a financial statement but disclosure of which is necessary to make the financial statement not misleading". In this case, the Chartered Accountant was aware of the contraventions and irregularities committed by the trust as these were referred to in the separate report given by the Chartered Accountant to the Board of trustees of the company. However, he had issued the audit report without any qualification. On similar facts it was held by the Supreme Court in Kishorilal Dutta vs. P. K. Mukherjee that it was the duty of the Chartered Accountant to have disclosed the irregularities and contravention to the beneficiaries of the fund in the statement of accounts signed by him. Accordingly, in the present case also it has to be held that the Chartered Accountant is guilty of professional misconduct if the amount of irregularities is proved material.

1.12 Facts Which Become Known to the Auditor After the Date of the Auditor's Report but Before the Date the Financial Statements are Issued: As per SA 560, "Subsequent Events", the auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report. However, when, after the date of the auditor's report but before the date the financial statements are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall -

- (i) Discuss the matter with management and, where appropriate, those charged with governance.
- (ii) Determine whether the financial statements need amendment and, if so,
- (iii) Inquire how management intends to address the matter in the financial statements.

If management amends the financial statements, the auditor shall carry out the audit procedures necessary in the circumstances on the amendment. Further, the auditor shall extend the audit procedures and provide a new auditor's report on the amended financial statements. However, the new auditor's report shall not be dated earlier than the date of approval of the amended financial statements.

In the instant case, the Company received an amount of rupees 150 crore on account of export incentives pertaining to financial year 2017-18 in the month of May 2018 i.e. after finalisation of financial statements and signing of audit report. Board of Directors amended the accounts, approved the same and requested the auditor to consider this event and issue a fresh audit report on the financial statements for the year ended on 31.03.2018.

After applying the conditions given in SA 560, Auditor can issue new audit report subject to date of audit report which should not be earlier than the date of approval of the amended financial statements.

1.13 Ind AS are mandatory from 1st April, 2016 (for 2016-17) for entities having net worth of ₹ 500 crore or more. Also the companies who are part of the group to which Ind AS is mandatory have to implement Ind AS in preparation of their financial statements. Accordingly, though net worth of ATL on 31st March, 2016 was only ₹ 445 crore still it had to follow Ind AS in preparation of their financial statements.

On transition date i.e. 1st April, 2015, the company must have remeasured its assets as per Ind AS. At that time, Ind AS 20 did not give an option to deduct the amount of grant from the cost of the asset (but under AS 12, one can deduct the grant from the cost of the asset).

Ind AS 101 provides certain mandatory exceptions and voluntary exemptions from retrospective application of some aspects/requirements of Ind AS. However, in the absence of any mandatory exception applicable in this case, the company would have recognised the asset-related government grants outstanding on the transition date as deferred income in accordance with the requirements of Ind AS 20 and restated the carrying amount of the machinery at the date of transition to Ind AS.

Accordingly, on 1st April, 2015, the asset would be remeasured in the books, for the purpose of Ind AS compliance, at ₹ 17.78 (ie {20- 20/9}) and deferred grant income would be ₹1.78 (2/9 x 8) that is recognised in profit or loss on a systematic basis over the useful life of the asset. On 1st April, 2018, the value of deferred grant income would be ₹ 1.11 (2/9 x 5).

As per para 32 of Ind AS 20, repayment of a grant related to income shall be applied first against any unamortised deferred credit recognised in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or when no deferred credit exists, the repayment shall be recognised immediately in profit or loss.

Accordingly, the entry for refund of government grant will be		₹	₹
Deferred grant income	Dr.	1.11 crore	
Profit and Loss A/c	Dr.	0.9 crore	
To Bank			2 crore

A government grant that becomes repayable shall be accounted for as a change in accounting estimate as per Ind AS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors'.

1.14 Compliance of conditions of Corporate Governance in case of Listed Company: As

per Listing Obligation and Disclosure Requirements Regulations 2015, depending upon the facts and circumstances, some situations may require an adverse or qualified statement or a disclosure without necessarily making it a subject matter of qualification in the Auditors' Certificate, in respect of compliance of requirements of corporate governance for example:

- (i) The Audit Committee shall meet at least four times in a year and not more than one hundred and twenty days shall lapse between two meetings. The number of days between the meetings held on 1.9.2018 and 3.01.2019 is more than 120 days. Hence it is a non-compliance and would require qualification in certificate of corporate governance
- (ii) Since the Chairman is the non-executive director, there should be 1/3rd of directors (rounded to next integer) to be independent. In this case, 4 directors need to be independent. Due to resignation by one of independent director, only 3 directors remain independent, this vacancy will again require qualification in certificate on corporate governance. As any vacancy during shortfall of independent directorship should be filled within next 3 months or before the start of next meeting, whichever is later. In the instant case, since the independent director was appointed after lapse of 3 months (i.e. on 1.9.2018) and after next meeting 1/6/2018, there is default which would require qualification in certificate on corporate governance.
- (iii) The Audit Committee shall mandatorily review the Internal audit reports relating to internal control weaknesses as per Part C (B) of Schedule II and the auditor should

ascertain from the minutes book of the Audit Committee and other sources like agenda papers, etc. whether the Audit Committee has reviewed the above-mentioned information. In the given situation, the agenda of Audit Committee did not deliberate or take note of serious irregularity mention in Quarter 3 Internal Audit Report which is again not in compliance of conditions of Corporate Governance and warrant audit qualification in certificate on corporate governance.

1.15 First of all, it has to be determined that whether the lease is a finance or operating lease. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. Paras 10 and 11 of Ind AS 17 discuss certain situations to determine a lease as finance lease namely -

- (a) the lease transfers ownership of the asset to the lessee by the end of the lease term;
- (b) the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- (c) the lease term is for the major part of the economic life of the asset even if title is not transferred;
- (d) at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- (e) the leased assets are of such a specialised nature that only the lessee can use them without major modifications.

To evaluate the above criteria, let's calculate the present value of minimum lease payment:

(i) Calculation of Annual Lease Payment

	₹
Cost of the equipment	10,00,000
Less: PV of unguaranteed residual value after 3rd year @ 10% (₹ 1,00,000 x 0.7513)	<u>(75,130)</u>
Fair value to be recovered from 3 years Annual Lease Payment	<u>9,24,870</u>
Annuity for 3 years @ 10%	2.4868
Annual Lease Payment (₹ 9,24,870 / 2.4868)	3,71,912

Present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset.

Further, the useful life of the asset is 5 years and the lease term is 3 years which implies that the lease term is for the major part of the economic life of the asset.

Hence the lease can be termed as finance lease.

Calculation of unearned finance income:

Unearned finance income = Gross investment in the lease – Net investment in the lease.

Where,

Gross investment = Minimum lease payments receivable by the lessor under a finance lease + Unguaranteed residual value accruing to the lessor (i.e. the gross investment in the lease discounted at the interest rate implicit in the lease)

$$\begin{aligned}\text{Unearned finance income} &= ₹ [(3,71,912 \times 3) + 1,00,000] - ₹ 10,00,000 \\ &= ₹ 12,15,736 - ₹ 10,00,000 \\ &= ₹ 2,15,736\end{aligned}$$

- 1.16** The non-resident entity or the foreign company will be liable to tax in India only if the IT enabled BPO unit in India constitutes its Permanent Establishment.

In the present case, since Joe Weider Incorporation has an IT enabled Business Process Outsourcing unit in India (BPO) which provides certain outsourcing services to ATL, being a resident Indian entity, such BPO would be considered as Permanent Establishment of Joe Weider Incorporation, as it carries on business in India through the BPO Unit.

In such a case, the profits of Joe Weider Incorporation, attributable to the business activities carried out in India by the Permanent Establishment would become taxable in India.

Profits are to be attributed to the Permanent Establishment as if it were a distinct and separate enterprise engaged in the same or similar activities under the same or similar conditions and dealing wholly independently with the enterprise of which it is a Permanent Establishment.

In determining the profits of a Permanent Establishment, there shall be allowed as deduction, expenses which are incurred for the purposes of the Permanent Establishment including executive and general administrative expenses so incurred, whether in the State in which the Permanent Establishment is situated or elsewhere.

- 1.17 Provision of Depreciation :**Section 123(1) of the Companies Act, 2013 provides that dividend cannot be declared or paid by a company for any financial year except out of profits of the company for that year arrived at after providing for depreciation in accordance with the provisions of Section 123(2), or out of the profits of the company for any previous financial year or years arrived at after providing for depreciation in the manner aforementioned and remaining undistributed, or out of both. Further, it is the duty of auditor to check whether the depreciation was provided according to provision of AS 10 / IND AS 16/Schedule II to the Act.

In the instant case, the Company has track record of maintaining consistent dividend payment over a minimum of 14%. In the financial year 2017-18, the Board in order to conserve the funds for future operations decided not to declare dividend for FY 2017-18 and as a consequence, it was not possible for the Company to maintain the payment of

consistent dividend. In addition to this management has also taken decision to charge 75% of the depreciation in the statement of Profit and Loss whereas 25% of the depreciation amount kept in a separate account code in the Balance Sheet – 'Debit Balances Adjustable against Revenue Account' for the financial year 2018-19.

Contention of management that it would be in fair practice of accounting where the depreciation of asset is charged before the expiry of the life of assets and the amount parked in asset code would unfailingly be adjusted to revenue before the close of next financial year is not tenable.

The practice of the company in not charging the depreciation and accumulating 25% of it in a debit balance for being written off in the next year is not an acceptable accounting treatment. If dividend is declared in such situation, it would mean payment out of capital.

Therefore, the auditor of the company should ensure the compliance of provisions of section 123 and Schedule II. In case the management does not comply with the provisions and does not charge the 100% depreciation the auditor of the company shall suggest the management for the same and if management refuses, the auditor should qualify his report accordingly.

CASE STUDY -2 :

Background:

You are an extrovert Chartered Accountant possessing excellent inter-personal and communication skills, hands-on rich industrial experience of nearly 25 years in all areas Corporate Finance, Direct Taxation, Legal, Cost and Management Accounting and Corporate Secretarial functions of large, listed, profit making companies and have carved a niche in the professional arena for your knowledge and presentation skills.

Recently, you have become a professional director of X Ltd., (hereinafter referred to as "the Company") a pharmaceutical company, listed with BSE and NSE. Besides being a director on the Board, the founder Chairman of the Company have specially assigned you to oversee the corporate accounting and finance functions of the Company and advise for raising short term and long term working capital from Banks, Financial Institutions, equity from private placement, rights issue, analyze capital budgeting, variance analysis etc.

You were more than happy to take over the charge as you believed in yourself and based on a successful track record of achievements in the past, you viewed this assignment as another challenge to deal with and come out successfully and also do value addition to the Company.

Upon taking over the mantle, you devoted considerable time in going through the corporate presentations, strategic strengths of the Company, risk factors (internal and external), industry analysis, manufacturing processes, peer analysis, stock performances, government approvals and licenses, litigations (by and against the Company), income tax assessments and appeals in force, audited financial results of the Company for the past few years, organization structure,

management culture, corporate governance and the Board processes, etc., After spending considerable time on making an in-depth analysis, you observed and noted the following:

- (a) The Company's core strength lies in developing and manufacturing differentiated pharmaceutical products in-house, which it commercializes through its marketing infrastructure spread across geographies and relationships with multi-national pharma companies. Benchmarked to international standards, X Ltd.' s facilities are approved by international regulatory agencies such as US FDA, UK MHRA, Japan's MHLW, TGA Australia, WHO, and the MCC South Africa;
- (b) Until before the past three financial years, the Company was performing well and the trading update statements were met with much approval by market analysts and as a consequence the Company's share price rose accordingly;
- (c) Unfortunately, in the recent years, the Company suffered from cash flow issues caused by rapid growth, undercapitalization, and lack of financial management expertise and control processes;
- (d) The Company's accumulated losses coupled with liquidity issues is gradually reducing the reserves and surpluses and could be a threat to the Company's future viability if not corrected suitably;
- (e) The Company also needed financial restructuring and a solid, experienced financial advisor if the Company was to succeed;
- (f) The Company needed to raise considerable equity capital to fund the continuation of their product development and their sales and marketing efforts;
- (g) Previously, the Company had raised limited capital from local Angel investors, but now needed to attract sophisticated institutional investors.

Management:

You observe that the top management consisted of mostly aged and experienced personalities but for their knowledge on information technology and computer skills.

Mr. 'A', the Director (Operations) was recruited by the Managing Director (MD) two years ago and by all accounts is a big favorite with the analysts. The two of them had previously worked together at a smaller listed Company. However, Mr. 'A' appears to be the MD's man and the board is actually run by Mr. 'A'. The roles of Mr. A and MD, although held by separate individuals, are effectively held by the same individual.

The terms of appointment of Mr. 'A' provided that in the absence of adequacy of profits, or if the Company had no profits in a particular financial year, he will be paid remuneration as per Schedule V of the Companies Act, 2013. The Company suffered heavy losses during the financial year ended 31st March, 2019. The Company was not able to pay any remuneration, but Mr. A was paid ₹ 50 lakhs as was paid to other directors. The effective capital of the Company is ₹ 250 crores.

You have heard rumours that the CFO of the Company "resigned" because he was one of the few individuals to have challenged the Director (Operations). However, the official line is that he was a trouble maker and did not fit into the balance of the board and other management executives.

After the departure of the CFO, you were informed that the Company's accounting functions were not up to the required level as many accounting entries made were either inaccurate nor did they comply with mandatory Ind AS. You are understandably concerned that the accounting records would not pass the rigorous due diligence if conducted by any new institutional investors.

Furthermore, you were informed that there is a lack of debate at board meetings, which in your eyes appear to be more of a rubber-stamping exercise rather than a forum to have some serious strategic discussions. You also have concerns that the board papers are only sent out 2 days before the meeting, which in your opinion is not sufficient time to allow any member of the Board and the Audit Committee to thoroughly review them.

At the next meeting of the board you are very surprised to find out that the Company is in discussions to purchase a major competitor based in the US. In the board papers, this was not even briefly mentioned and it only said as though X Ltd. was merely looking at a number of possible acquisition targets based primarily in the Asia region. You are surprised - both by the location of the target company - but even more by what it is likely to cost. The Director (Operations) proceeds to give a powerful presentation on the pros and cons of the proposed deal. His talk consists of an overview of the target company, the likely cost of acquisition and strongly highlights the benefits of "doing the deal".

The risks attached to the deal were significantly downplayed. The price mentioned was in the region of Singapore Dollars (SGD) 250 million, which is a very significant sum for X Ltd. and which confirms your earlier fears. As X Ltd. has not performed very well in recent years, in order to finance this type of deal, considerable debt will be required and the Company's level of gearing will be significantly increased.

Subsequently, you took up the matter with the Audit Committee, the MD, Director (Operations) and the Independent Directors and sought their immediate intervention for a correction and consolidation. After a brief discussions on your inputs, the MD of the Company had assigned you with the following challenges :

The Challenge:

- (a) *Oversee the accounting functions, with special reference to accounting treatment in line with generally accepted accounting principles and compliance of all applicable mandatory accounting standards;*

- (b) Assist the MD by making sure that the existing financial statements are reliable and understandable and stands the test of due diligence in connection with raising funds;
- (c) Clean up the company's finances and help find bridge capital;
- (d) Establish new banking relationships and secure a loan;
- (e) Devise a plan to help the Company set goals for predicted future growth and cash flow requirements;
- (f) Ensure compliances with all the applicable provisions of the Companies Act, 2013, SEBI guidelines / SEBI (LODR) Regulations, 2015 and stock exchange formalities.

Keeping in view of the above responsibilities, you commence your work initially with a detailed perusal of the various accounting entries made in the books of accounts of the Company commencing from 1st April, 2018 onwards. Based on the above and further information provided in Part-A and Part-B, answer the questions 2.1 to 2.15.

During the course of your interaction with the Company Secretary of the Company you have come across / been apprised of the following situations :

You are requested to read carefully and provide the correct option to the following questions :

- 2.1. Mr. Q, a Director of the Company proceeding on a long foreign tour, appointed Mr. Y as an alternate director to act for him during his absence. The articles of the Company provide for appointment of alternate directors. Mr. Q claims that he has a right to appoint an alternate director. The contention of Mr. Q is :
- (A) Correct. As the Articles of the Company provide for appointment of an alternate Director;
 - (B) Incorrect. As the authority to appoint alternate director has been vested in the board of directors only and that too subject to empowerment by the Articles;
 - (C) Incorrect. As the authority to appoint alternate director has been vested in the board of directors only and with approval of shareholders by passing a special resolution;
 - (D) Incorrect. As the authority to appoint alternate director has been vested only with the approval of shareholders by passing a special resolution.
- 2.2 Annual general meeting of the Company has been scheduled in compliance the requirements of the Companies Act, 2013. In this connection, there are some directors who are rotational and out of which some have been appointed long back, some have been appointed on the same day. Which of the directors shall be retiring by rotation at the ensuing Annual General Meeting:
- (A) One third of those directors who have been longest in the office who constitute one half of the total number of directors and who are liable for rotation at every AGM;
 - (B) One half of those directors who constitute two thirds of the total number of directors and who are liable for rotation at every AGM;

- (C) One third of those directors who constitute two thirds of the total number of directors and who are liable for rotation at every AGM;
- (D) One half of those directors who have been longest in the office who constitute one half of the total number of directors and who are liable for rotation at every AGM.
- 2.3 Mr. Kishore is a Director of the Company and also of PQ Ltd. PQ Ltd. did not file financial statements for the years ended 31st March, 2017 and 2018 and did not pay interest on loans taken from a public financial institution from 1st April, 2018 onwards. But it has promptly repaid matured deposits taken from public on due dates. In the light of relevant provisions of the Companies Act, 2013, Mr. Kishore is :
- (A) Disqualified to continue as a Director in the Company;
- (B) Disqualified to continue as a Director in PQ Ltd;
- (C) Disqualified to continue as a Director in the Company and PQ Ltd;
- (D) Not Disqualified and hence he can continue as a Director of the Company and PQ Ltd.
- 2.4 The Company had incurred loss in business up to the first quarter of financial year 2018-19. The Company has declared dividend at the rate of 12%, 15% and 18% respectively in the immediate preceding three years.
- In spite of the loss, the Board of Directors of the company have decided to declare interim dividend @ 15% for the current financial year. With reference to the provisions of the Companies Act, 2013 on declaration of interim dividend, the decision of the Company is:*
- (A) Correct, subject to approval of shareholders;
- (B) Incorrect, as the dividend-can be only average of last 3 years;
- (C) Correct, subject to approval of Central Government;
- (D) Incorrect, as the dividend can be only lowest of last 3 years.
- 2.5 On your interaction with the finance department, you have come across / been appraised of the following situations.
- The Company was working on different contracts which are likely to be completed within 3 years period. It recognizes revenue from these contracts on percentage of completion method for financial statements during 2015-2016, 2016-2017 and 2017-2018 for ₹11,00,000, ₹16,00,000 and ₹21,00,000 respectively. However, for Income-tax purpose, it has adopted the completed contract method under which it has recognized revenue of ₹7,00,000, ₹18,00,000 and ₹23,00,000 for the years 2015-2016, 2016-2017 and 2017-2018 respectively. Income-tax rate is 35%.*
- Accordingly, the amount of deferred tax asset/liability for the years 2015-2016, 2016-2017 and 2017-2018 as per the provisions of Ind AS 12 would be:*
- (A) ₹1,40,000; ₹70,000; ₹Nil;

- (B) ₹ Nil; ₹ 70,000; ₹ 1,40,000;
 (C) ₹ 70,000; ₹ 1,40,000; ₹ Nil;
 (D) ₹ 1,40,000; ₹ Nil; ₹ 70,000.
- 2.6 The Company had borrowed a sum of US \$ 10,00,000 at the beginning of financial year 2018-19 for one of its residential project at 4%. The interest is payable at the end of the financial year. At the time of availment, exchange rate was ₹ 56 per US \$ and the rate as on 31st March, 2019 was ₹ 62 per US \$. If the Company borrowed the loan in India in Indian Rupee equivalent, the pricing of loan would have been 10.50%. In such circumstances, the borrowing cost and exchange difference for the year ending 31st March, 2019 as per applicable Accounting Standards would be:
- (A) Borrowing Costs - ₹ 60.00 lakhs; Exchange Difference - ₹ 30 lakhs;
 (B) Borrowing Costs - ₹ 58.00 lakhs; Exchange Difference - ₹ 27 lakhs;
 (C) Borrowing Costs - ₹ 58.80 lakhs; Exchange Difference - ₹ 26 lakhs;
 (D) Borrowing Costs - ₹ 59.70 lakhs; Exchange Difference - ₹ 24 lakhs.
- 2.7 While preparing the draft final accounts for the year ended 31st March, 2019, the Company made provision for bad debts @ 5% of its total debtors. In the last week of February, 2019 a debtor for ₹ 20 lakhs had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. In April, 2019 the debtor became bankrupt. The Company provided for the full loss of ₹ 20 lakhs minus 5% provision already made arising out of insolvency of the debtor in the final accounts for the year ended 31st March, 2019. The correct accounting treatment is :
- (A) Provide as per the company's judgement;
 (B) Provide for entire ₹ 20 lakh;
 (C) Only 5% of ₹ 20 Lakh is to be provided;
 (D) None of the above
- 2.8 Goods were sold amounting to ₹ 50 lakh to an associate company during the 1st quarter ended on 30th June, 2018. After that, related party relationship ceased to exist. However, goods were supplied as was supplied to any other ordinary customer. What is the disclosure as per the applicable accounting standards ?
- (A) Disclosure is for transactions for the whole year;
 (B) Disclosure is only for the transactions upto the first quarter ended 30th June, 2018;
 (C) Does not come within the ambit of disclosure;
 (D) Only the transactions for the remaining three quarters need to be disclosed.
- 2.9 The Company purchased machinery on 1st April, 2014 for ₹ 35 lakh. Written down value of the machinery as on 31st March, 2019 is ₹ 18.27 lakh. The recoverable amount of the

machinery is ₹ 12.45 lakh. Under the circumstances, the impairment loss as per the applicable accounting standard would be :

- (A) ₹ 16.73 Lakhs;
- (B) ₹ 22.55 Lakhs;
- (C) ₹ 5.82 Lakhs;
- (D) ₹ 4.28 Lakhs.

2.10 The Company purchased goods at the cost of ₹ 20 lakhs in October, 2018. Till the end of the financial year, 75% of the stocks were sold. The Company wants to disclose closing stock at ₹ 5 lakhs. The expected sale value is ₹ 5.5 lakhs and a commission at 10% on sale is payable to the agent. The correct value of closing stock would be :

- (A) ₹ 4.95 Lakhs;
- (B) ₹ 4.85 Lakhs;
- (C) ₹ 4.75 Lakhs;
- (D) ₹ 4.50 Lakhs.

(2 x 10 = 20 Marks)

PART-B

2.11 The Company had earlier purchased a small bottle manufacturing plant meant for storing medicines for ₹ 24 lakhs on 1st April, 2016. The useful life of the plant was 8 years. On 30th September, 2018, the Company temporarily stopped using the manufacturing plant because the demand for such bottles by the Company had declined. However, the plant was maintained in a workable condition and it would be used in future when demand picks up. The accountant of the Company decided to treat the plant as held for sale until the demand picks up and accordingly measures the plant at lower of carrying amount and fair value less cost to sell. The accountant has also stopped charging depreciation for rest of the period considering the plant as held for sale. The fair value less cost to sell on 30th September, 2018 and 31st March, 2019 was ₹ 13.5 lakh and ₹ 12 lakh respectively.

The Accountant has made the following workings :

Carrying amount on initial classification as held for sale.

	(₹)	(₹)
Purchase price of Plant	24,00,000	
Less: Accumulated Depreciation		
[(₹ 24,00,000/8) x 2.5 years]	<u>(7,50,000)</u>	<u>16,50,000</u>
Fair value less cost to sell as on 31 st March, 2018		12,00,000
The value lower of the above two		12,00,000

Balance Sheet extracts as on 31st March, 2019

Particulars	(₹)
Assets	
Current Assets	
Assets classified as held for sale	12,00,000

Analyze whether the above accounting treatment is in compliance with the applicable Ind AS. If not, advise the correct treatment showing necessary workings. **(8 Marks)**

- 2.12 The Company on 1st April, 2015 had issued 50,000, 7% convertible debentures of face value of ₹ 100 per debenture at par. The debentures were redeemable at a premium of 10% on 31st March, 2020 or these may be converted into ordinary shares at the option of the holder. The interest rate for equivalent debentures without conversion rights would be 10%.

The date of transition to Ind AS is 1st April, 2018.

Suggest how the Company should account for this compound financial instrument on the date of transition. Also discuss Ind AS on 'Financial Instrument' presentation in the above context. The present value of Re 1 receivable at the end of each year based on discount rates of 7% and 10% can be taken as :

End of Year	1	2	3	4	5
7%	0.94	0.87	0.82	0.76	0.71
10%	0.91	0.83	0.75	0.68	0.62

(6 Marks)

- 2.13 The Company had two trademarks - 'X' and 'Y'. One month before, the Company had come to know through its marketing managers that these two trademarks have allegedly been infringed by other competitors engaged in the same field. After enquiry and investigation, the legal department of the company informed that it had a weak case on trade mark 'X' and strong case in regard to trade mark 'Y'. The Company incurred additional legal expenses to stop infringement on both trademarks. Both trademarks have a remaining legal life of 10 years. The Accountant of the Company was not knowing as to how to account these legal costs incurred relating to two trademarks.

In respect of the two trademarks, what is the correct accounting treatment in respect of the additional legal expenses incurred ? **(4 Marks)**

- 2.14. You observe that the Company has been making estimates in the carrying amount of an asset or a liability. On perusal of the estimates made by the Company you feel that the estimates made by the Company need a revision based on certain new information as a result of which a change in the accounting estimate is required.

Explain revision in estimates including recognition in financial statements as enshrined in Ind AS 8. **(6 Marks)**

- 2.15. *Based on the information provided in first para on page 18 (of printed copy of Question Paper. "The terms of appointment of Mr. 'A' ----- effective capital of the Company is ₹250 crores.") and referring to the provisions of the Companies Act, 2013 as contained in Schedule V, examine the validity of payment of remuneration to Mr. A – Director (Operations).* **(6 Marks)**

ANSWER TO CASE STUDY 2

PART – A

- 2.1 (B)
- 2.2 (C)
- 2.3 (D)
- 2.4 (A)
- 2.5 (A)
- 2.6 (C)
- 2.7 (B)
- 2.8 (B)
- 2.9 (C)
- 2.10 (A)

PART – B

- 2.11 As per Ind AS 105 'Non-current Assets Held for Sale and Discontinued Operations', an entity shall classify a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

For asset to be classified as held for sale, it must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable. In such a situation, an asset cannot be classified as a non-current asset held for sale, if the entity intends to sell it in a distant future.

For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset, and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Further Ind AS 105 also states that an entity shall not classify as held for sale a non-current asset that is to be abandoned. This is because its carrying amount will be recovered principally through continuing use.

An entity shall not account for a non-current asset that has been temporarily taken out of use as if it had been abandoned.

In addition to Ind AS 105, Ind AS 16 states that depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

The Accountant of the company has treated the plant as held for sale and measured it at the fair value less cost to sell. Also, the depreciation has not been charged thereon since the date of classification as held for sale which is not correct and not in accordance with Ind AS 105 and Ind AS 16.

Accordingly, the manufacturing plant should neither be treated as abandoned asset nor as held for sale because its carrying amount will be principally recovered through continuous use. The company shall not stop charging depreciation or treat the plant as held for sale because its carrying amount will be recovered principally through continuing use to the end of their economic life.

The working of the same for presenting in the balance sheet will be as follows:

Calculation of carrying amount as on 31 st March, 2019	₹
Purchase Price of Plant	24,00,000
Less: Accumulated depreciation (24,00,000/ 8 years) x 3 years	(9,00,000)
Carrying amount before impairment	15,00,000
Less: Impairment loss (Refer Working Note)	(3,00,000)
Revised carrying amount after impairment	12,00,000

Balance Sheet extracts as on 31st March 2019

Assets	₹
Non-Current Assets	
Property, Plant and Equipment	12,00,000

Working Note:

Fair value less cost to sell of the Plant = ₹ 12,00,000

Value in Use (not given) or = Nil (since plant has temporarily not been used for manufacturing due to decline in demand)

Recoverable amount = higher of above i.e. ₹ 12,00,000

Impairment loss = Carrying amount – Recoverable amount

Impairment loss = ₹ 15,00,000 - ₹ 12,00,000 = ₹ 3,00,000.

- 2.12** Since the liability is outstanding on the date of Ind AS transition, the company is required to split the convertible debentures into debt and equity portion on the date of transition. Accordingly, first the liability component will be measured discounting the contractually determined stream of future cash flows (interest and principal) to present value by using the discount rate of 10% p.a. (being the market interest rate for similar debentures with no conversion option).

Calculation of Equity & Liability component on initial recognition

	(₹)
Present Interest payments for 5 years on debentures by applying annuity factor $[(50,000 \times 7\% \times 100) \times 3.79]$	13,26,500
PV of principal repayment (including premium) $(50,000 \times 110 \times 0.62)$	<u>34,10,000</u>
Total liability component	47,36,500
Total equity component (Balancing figure)	<u>2,63,500</u>
Total proceeds from issue of Debentures	<u>50,00,000</u>

Thus, on the date of transition ie 1st April, 2018, the amount of ₹ 50,00,000 being the amount of debentures will split as under:

Debt	₹ 47,36,500
Equity	₹ 2,63,500

- 2.13** As per para 20 of Ind AS 38 'Intangible Assets', most subsequent expenditures are likely to maintain the expected future economic benefits embodied in an existing intangible asset rather than meet the definition of an intangible asset and the recognition criteria. Hence, such subsequent expenditure on an intangible asset after its purchase or its completion should be recognized as an expense.

The legal costs incurred for both the trademarks do not enable them to generate future economic benefits in excess of its originally assessed standard of performance. They only ensure to maintain them if the case is decided in favour of the company. Therefore, such legal costs must be recognised as an expense.

- 2.14** As per para 34 to 40 of Ind AS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', an estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error.

When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.

Recognition in the financial statements

The effect of a change in an accounting estimate, shall be recognised prospectively by including it in profit or loss in:

- (a) the period of the change, if the change affects that period only; or
- (b) the period of the change and future periods, if the change affects both.

To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, it shall be recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

The effect of the change relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods is recognised as income or expense in those future periods.

Disclosure

An entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect. If the amount of the effect in future periods is not disclosed because estimating it is impracticable, an entity shall disclose that fact.

2.15 As per Section II of PART II to Schedule V, where in any financial year during the currency of tenure of a managerial person, a company has no profits or its profits are inadequate, it may, pay remuneration to the managerial person not exceeding, ₹ 120 lakhs plus 0.01% of the effective capital in excess of ₹ 250 crores, if the effective capital of the company is ₹ 250 crores and above.

In the given situation, the company has effective capital of ₹ 250 crores. The company has suffered heavy losses and paid Mr. A (Director- Operations) remuneration of ₹ 50 lakhs.

In the light of the provisions of the Act and facts of the case study, the remuneration payable to Mr. A is in consonance with the provisions of the Companies Act, 2013.

[Note: The question has asked about payment of remuneration to 'Mr. X – Director (Operations)'. This seems to be clerical error. Thus, Mr. X should be read as Mr. A.]

CASE STUDY -3:

Background :

You are a respected Chartered Accountant recognized for your sharp intellectual acumen on Direct Taxation, Capital Markets, FEMA, Corporate and Allied Laws with special reference to compliance related matters. Your expertise on the technical aspects of various laws in force in India had given you a deep recognition in such a way that you are approached for advice and solutions not only by domestic companies spread across India but also by foreign companies who want to set up businesses in India, who are more often than not wary about complex

regulatory set up in India. You are ably supported by your other qualified six partners and a large team of assistants in all your advisory matters.

The Company:

You have been recently approached by M/s. MG Software and Exports Limited, a listed entity, incorporated on May 24, 2001. The Company offers various services, such as consulting services, business services, technology services and outsourcing services. The Company's consulting services include enterprise applications, digital transformation, in sights and analytics, and change and learning. Its business services include Data Analytics, Digital and Oracle. Its technology services include application management; cloud, infrastructure and security; engineering services; enterprise mobility; Internet of Things (IoT) and testing. Its outsourcing services include application outsourcing, business process outsourcing, customer service, finance and accounting, human resources, and sourcing and procurement.

The Company's segments are Financial Services and Insurance (FSI), Manufacturing and Hi-tech (MFC & Hi-TECH), Energy & utilities, Communication and Services (ECS), Retail, Consumer packaged goods and Logistics (RCL), and Life Sciences and Healthcare (LSH). The Company operates in India, North America, Europe and Rest of the World.

Founder Chairman and New Managing Director:

The Company's founder Chairman and Managing Director, Mr. Madhav Ganapathy (MG) has retired from his position and has inducted in his place his young son Mr. Daivignay, aged 24 years, a research scholar from Harvard University as the new Managing Director (MD) after due approval of the Board as well as the shareholders at the annual general meeting of the company held on 29th September, 2018.

Attributes of Mr. Daivignay

Mr. Daivignay, being a born extrovert, immediately after taking his mantle as the new MD, decided first to get fully acquainted with the regulatory set up of India as he believed that though India is gearing up for simplifying the laws and aiming at ease of doing business, the penalties for non-compliances have been made more severe and therefore an utmost care is warranted in ensuring due compliances of various laws and regulations, He also wanted to understand the regulatory environment including the litigation settlement process especially the time taken for disposal of cases by the judiciary.

He further believed that as the complexities of businesses increase, the amount of time spent by professionals in cracking up the law codes increases. However, tax and regulatory systems of even the most developed countries cannot keep pace with the developments across each industry as businesses emerge day-by-day. These also bring out the requirements for new compliances and the challenges of meeting them every single day-more detailed Income Tax Return forms including disclosures on tax residency certificates and details of foreign assets,

and higher penalties for non disclosures require businesses to gear up for efficient tax compliance.

With this back drop, he consulted his father to suggest a professional who could run through in a simplified and sharp manner the current state of affairs of the company in terms of business, profits and growth strategy, an insight into the laws and regulations that are applicable to the company, licenses and regulatory permissions, compliance standards which may potentially have an impact on the business of the company.

MG immediately suggested your name as the right person to answer all of Mr. Daivignay's apprehensions. Subsequently, you were approached for a meeting at 11.00 AM at the Board Room situated on the ninth floor of the Corporate Office on 24th May, 2019. You were provided in advance a week before the meeting, the audited financials of the Company for the last five years, corporate presentations in a CD, copies of the income tax assessment orders, appeals preferred by the Company before CIT(Appeals) and ITAT, summary of financial highlights with ratio analysis etc., On the appointed day, you were present along with three of you partners.

The Meeting:

On 24th May, 2019 MG, Mr. Daivignay and a team of professionals of the company were excited and waiting to greet you and your team. You and your partners turned up for the meeting exactly at 11.00 AM. The Board Room was fully equipped with all high end audio and video infra-structure with a seating capacity of 20 members. After initial pleasantries including appreciation for your punctuality, the meeting commenced. MG expressed his first intention to you to make a presentation on an overview of the Income Tax Act, 1961 and with special reference to those provisions affecting the Company and followed by the difference between tax planning, tax management and tax evasion.

Aspects under the Income-tax Act, 1961:

Accordingly, you made a presentation on the following :

An overview of Income Tax Act, 1961, concept of previous year, assessment year, tax rate structure, exemptions, deductions, clubbing provisions set-off and carry forward of losses, rebates and reliefs, computation of total income and tax liability, TDS/TCS, assessment procedures refund and recovery and levy of penalties.

You also made presentations on those provisions that were directly applicable to the Company and summarized the differences between tax planning and tax evasion and indicated that they look alike but have greater repercussions if not handled properly given the complexity of the tax laws. You also touched upon tax management in a nutshell. Thereafter, Mr. Daivignay and his Managers had brain storming sessions on various matters concerning Income tax Act, 1961 that had direct application to the company whereupon you and your learned team members clarified all their doubts to their best satisfaction.

Summary of Financial information of the Company's subsidiary :

The management team also placed for your perusal certain financial information in respect of one of the Company's subsidiaries as at 31st March, 2019 as under:

(1) Net Profit as per Statement of Profit and Loss ₹ 36,50,000

(2) Items debited/credited to statement of profit and loss :

Bad debt written off in previous year 2017-18 ₹ 2,50,000 of which ₹ 1,80,000 was recovered in July, 2018;

CSR expenditure by way of putting traffic signal outside the factory ₹ 2 lakhs;

Donation to a registered political party ₹ 70,000. Of this, paid by cash ₹ 30,000 and by cheque ₹ 40,000;

Amount received as 30% share in an AOP ₹ 1,20,000. The AOP is engaged in the business of plastic mould manufacture;

Long term capital gain on sale of unlisted shares (without indexation) ₹ 50,000. (Note: With indexation, the long-term capital gain is ₹ 30,000);

Dividend from domestic companies received during the year ₹ 11,00,000;

₹ 20 lakhs was paid to a founder director by way of goodwill, who resigned from the company on 30th April 2018. No tax was deducted at source on the said payment;

Depreciation debited ₹ 13,50,000;

Deferred tax liability debited to profit and loss account ₹ 3 lakhs;

Royalty ₹ 10 lakh received in respect of patent developed and registered in India by the assessee.

Clarifications for Foreign Exchange Transactions:

After a short break, the meeting commenced further and at this point of time, the focus was on the Foreign Exchange Management Act, 1999. Mr. Daivignay initially wanted to know from you the need of such an Act. To this question, you answered that due to significant developments in the economic scenario such as substantial increase in our foreign exchange reserves, growth in foreign trade, rationalization of tariffs, current account convertibility, liberalization of investments abroad, increased external commercial borrowings by Indian corporates and participation of foreign Institutional investors in our stock markets necessitated the need for an enforcement of the legislation to regulate foreign trade and investments. In order to facilitate world trade and easy and regulated inflow and outflow of foreign exchange, the Foreign Exchange Management Act, 1999 (FEMA) was enacted.

You further explained that whilst the provisions of FEMA have been simplified substantially from the 'Control based approach' to Management based approach" a thorough analysis of various foreign currency transactions would be absolutely essential for ensuring zero-non compliance.

Thereafter, Mr. Daivignay enquired with you the FEMA regulations as applicable to their Indian operations and sought your clarifications on the following :

- (1) Meaning of Capital and Current Account Transactions;
- (2) Transactions for which drawal of foreign exchange is prohibited;
- (3) Transactions, which require prior approval of the Government of India for drawal of foreign exchange;
- (4) Transactions, which require RBI's prior approval for drawal of foreign exchange;
- (5) What are permissible and prohibited transactions?

You briefed with appropriate inputs with clarity to the above enquiries made by Mr. Daivignay.

Costing Implications:

Later, Mr. Abhinandan, Manager (Finance) had certain apprehensions on Costing related matters and brought to your information the following details in respect of a new division of the company which produces and sells a single product.

- (a) Presently, the division is having its quality control system in a small way at an annual external and internal failure costs of ₹ 4,40,000 and ₹ 8,50,000 respectively;
- (b) The company is unable to supply quality products to the satisfaction of the customer;
- (c) To retain the market share and face competition, the division wants to have an alternate quality control system;
- (d) It is expected that the implementation of the system annually will lead to a preventive cost of ₹ 5,60,000 and an appraisal cost of ₹ 70,000;
- (e) The external and internal failure costs will reduce by ₹ 1,00,000 and ₹ 4,10,000 respectively in the new system;
- (f) All other activities and costs will remain unchanged.

Settlement Mechanism under Insolvency and Bankruptcy Code, 2016 :

Thereafter, Mr. Daivignay raised the legal remedies available in India for recovering amounts rightfully due to the Company, in case of default of the borrower with reference to the provisions of Insolvency and Bankruptcy Code, 2016 as he believed that it would come handy for enforcing timely actions by the defaulting customers, where required. He also wanted to understand how the settlement of dues would be prioritized as compared to various secured creditors at the time of insolvency.

Company Law Implications:

Mr. Daivignay, also wanted your briefings on:

- *Independent Directors and Women Director on the Board and their roles and responsibilities for compliances with laws and regulations;*
- *Compliance requirements relating to Related Party Transactions;*
- *The roles and functions of Audit Committee;*
- *Compliance audit vis-a-vis setting up of a compliance Committee;*
- *The need for legislation of the role of Whistle Blowers;*
- *Disclosure requirements under SEBI(LODR) Regulations, 2015.*

You amplified at a high level to the above issues and to the extent relevant to the current operations of the company. After hearing you, Mr. Daivignay was wondering whether the Company Secretary, Internal Auditor and the Statutory Auditor would give him comfort on the compliance requirements and the roles and responsibilities of the statutory auditors on this matter under the auditing standards prevailing in India as referred to under the Companies Act, 2013.

Expectations from You:

You are requested to answer to the following questions based on your understanding of the requirements of MG, Mr. Daivignay and his Company's team. You can make your relevant assumptions as may be required to explain your answer so as to provide a more meaningful understanding and a relevant feedback. Needless to emphasize, your responses would go a long way to enable the new and young MD, Mr. Daivignay in steering the Company with utmost care ensuring zero non-compliances and therefore, your best advice is expected.

Answer all the Questions :

3.1 *Amendments by the Finance Act are made applicable from:*

- (A) *First day of next financial year;*
- (B) *First day of same financial year;*
- (C) *Last day of same Accounting year;*
- (D) *None of the above*

3.2 *The time limit for completion of assessment under section-143/144 of the Income-tax Act, 1961 shall from 1st April, 2019 onwards be :*

- (A) *21 months from the end of the relevant assessment year in which income was first assessable;*

- (B) 12 months from the end of the relevant assessment year which income was first assessable;
- (C) 18 months from the end of the month in which the return was so furnished;
- (D) 36 months from the end of the relevant assessment year which income was first assessable.
- 3.3 Which of the following transactions is not permissible as Capital Account Transaction under the FEMA, 1999 ?
- (A) Investment by person resident in India in Foreign securities;
- (B) Foreign Currency Loans raised in India and abroad by a person resident in India;
- (C) Export, Import and holding of currency/currency notes;
- (D) None of the above
- 3.4 A current account transaction as defined by FEMA, 1999 is a transaction other than a capital account transaction and without prejudice to the generality of the foregoing such transaction includes:
- (A) Payments due in connection with foreign trade, other current business, services short term as well as long term banking and credit facilities in the ordinary course of business;
- (B) Acquisition or transfer of immovable property in India, by a person outside India;
- (C) Remittances for living expenses of parents, spouse and children residing abroad;
- (D) All of the above
- 3.5 Under the provisions of the Insolvency and Bankruptcy Code as enshrined in Section 21 of the Code, analyze the correctness of the following statements :
- (1) A financial creditor or the authorized representative of the financial creditor, if it happens to be a related party of the corporate debtor shall not have any right of representation, participation or voting in a meeting of the committee of creditors;
- (2) A financial creditor regulated by a financial sector regulator, if it is a related party of the corporate debtor solely on account of conversion or substitution of debt into equity shares or instruments convertible into equity shares prior to the insolvency commencement date shall not have any right of representation, participation or voting in a meeting of the committee of directors;
- (A) Statement 1 is correct whereas, statement 2 is incorrect;
- (B) Statement 1 is incorrect whereas, statement 2 is correct;
- (C) Both the statements are correct.
- (D) Both the statements are incorrect.

- 3.6 *Where a corporate debtor has committed a default, a corporate applicant thereof may file an application for initiating corporate insolvency resolution process with the Adjudicating Authority. Choose the correct circumstance whereby the Adjudicating Authority may allow the withdrawal of application admitted under Sections 7 or 9 or 10.*
- (A) *On an application made by the applicant with the approval of 60% voting share of the Committee of Creditors;*
 - (B) *On an application made by the applicant with the approval of 75% voting share of the Committee of Creditors;*
 - (C) *On an application made by the applicant with the approval of 90% voting share of the Committee of Creditors;*
 - (D) *The Adjudicating Authority shall not allow the withdrawal of application after admission as the application can be withdrawn only before its admission.*
- 3.7 *As per Section-5(12) of the Insolvency and Bankruptcy Code, 2016, the term "Insolvency Commencement Date" means the date on which:*
- (A) *A financial creditor, corporate applicant or operational creditor as the case may be makes an application to the Adjudicating Authority for initiating corporate insolvency resolution process;*
 - (B) *Interim Resolution Professional accepts the Adjudicating Authority Order for initiating corporate insolvency resolution process;*
 - (C) *Adjudicating Authority admits the order for initiating corporate insolvency process;*
 - (D) *Adjudicating Authority appoints Interim Resolution Professional for initiating corporate insolvency resolution process.*
- 3.8 *The Board of Directors of the Company had recommended dividend of 20% on paid up equity share capital for the financial year ended 31st March, 2018 at their meeting held on 10th of May, 2018 when the accounts for the financial year 2017-18 were approved. The Board of Directors when they met on 9th July, 2018 for the review of 1st quarter accounts, had decided to rescind their decision to recommend dividend. The Notice of AGM to be held on 29th September 2018 was sent on 14th August 2018 without any recommendation of dividend. At the AGM, the shareholders asked the Management how they can rescind the declaration of dividend once recommended. In this regard:*
- (A) *It is not within the powers of the Board of Directors to rescind their decision to recommend dividend;*
 - (B) *It is within the powers of the Board of Directors to rescind their decision to recommend dividend;*
 - (C) *Members have powers to declare dividend in the AGM despite revocation of dividend by the Board of Directors;*
 - (D) *None of the above*

3.9. The Company is considering the proposal for appointment of following persons as Independent Directors :

Mr. A, Promoter of C Ltd., Holding Company of ABC Ltd;

Mr. B, Relative of Promoter of D Ltd. Subsidiary of ABC Ltd;

Mr. C, Company Secretary of Associate Company;

Mr. D, Shareholder of the Company holding 1% voting power of the Company;

Mr. E, whose relative is indebted to the Director of the Company for an amount of ₹ 15 Lakhs.

Mr. F, whose relative is indebted to the Director of the holding Company for an amount of ₹ 25 Lakhs;

Mr. G, whose relative is indebted to the Associate Company for an amount of ₹ 20 Lakhs.

Which of the persons mentioned above are disqualified to be appointed as Independent Director?

- (A) All except Mr. A, Mr. B and Mr. C;
- (B) All except Mr. E, Mr. F and Mr. G;
- (C) All except Mr. D, Mr. E and Mr. F and Mr. G;
- (D) All except Mr. D, Mr. E and Mr. F

3.10. As per Section-123 of the Companies Act, 2013, no Company shall declare dividend unless:

- (A) Carried over previous losses and depreciation not provided in previous year or years are set-off against accumulated profits of the Company;
- (B) Carried over previous losses and depreciation not provided in previous year or years whichever is less, are set-off against profit of the Company for the current year;
- (C) Carried over previous losses and depreciation not provided in previous year or years whichever is higher, are set-off against profit of the Company for the current year;
- (D) All of the above

(2 x 10 = 20 Marks)

PART-B

Answer all Questions:

3.11 Are there any exceptions to the rule that the income of the previous year shall be assessed in the subsequent assessment year? If yes, state the exceptions. **(7 Marks)**

3.12 What is the difference between exemptions under section 10 and deductions provided under Chapter -VIA under the Income-tax Act, 1961? **(3 Marks)**

- 3.13 *In respect of certain financial information given by the management team in respect of the Company's subsidiary as at 31st March, 2019 as above, compute the total income of the company for the Assessment year 2019-2020. (10 Marks)*
- 3.14 *Based on the costing related information provided by Mr. Abhinandan, Manager (Finance) as above, examine the new quality control proposal and recommend the acceptance or otherwise of the proposal both from financial and non-financial perspectives. (4 Marks)*
- 3.15 *Mr. Daivignay wants to know from you the legal position on certain matters relating to Corporate Social responsibility (CSR) under the provisions of the Companies Act, 2013. Accordingly, in the light of the Companies Act, 2013, advise suitably the following:*
- Under what circumstances, are the provisions with regard to CSR applicable to Foreign Companies?*
 - Whether an activity which a company is required to do as per its statutory obligations under any law, would be termed as CSR activity?*
 - Whether the provisions of Section 135 of the Companies Act, 2013 is required to be complied by the Company including its Holding or Subsidiary Company? (6 Marks)*

ANSWER TO CASE STUDY3**PART – A**

- 3.1 (D)
 3.2 (B)
 3.3 (D)
 3.4 (C)
 3.5 (A)
 3.6 (C)
 3.7 (C)
 3.8 (B)
 3.9 (C)
 3.10 (A)

PART – B

3.11 The income of an assessee for a previous year is charged to income-tax in the assessment year following the previous year.

However, there are few exceptions, in which this rule does not apply and the income is taxed in the previous year in which it is earned. The exceptions are as follows:

- (a) **Shipping business of non-resident [Section 172]**

Where a ship, belonging to or chartered by a non-resident, carries passengers, livestock, mail or goods shipped at a port in India, the ship is allowed to leave the port only when the tax has been paid or satisfactory arrangement has been made for payment thereof. 7.5% of the freight paid or payable to the owner or the charterer or to any person on his behalf, whether in India or outside India on account of such carriage is deemed to be his income which is charged to tax in the same year in which it is earned

(b) **Persons leaving India [Section 174]**

Where it appears to the Assessing Officer that any individual may leave India during the current assessment year or shortly after its expiry and he has no present intention of returning to India, the total income of such individual for the period from the expiry of the respective previous year up to the probable date of his departure from India is chargeable to tax in that assessment year.

(c) **AOP/ BOI/ Artificial Juridical Person formed for a particular event or purpose [Section 174A]**

If an AOP/ BOI etc. is formed or established for a particular event or purpose and the Assessing Officer apprehends that the AOP/ BOI is likely to be dissolved in the same year or in the next year, he can make assessment of the income up to the date of dissolution as income of the relevant assessment year.

(d) **Persons likely to transfer property to avoid tax [Section 175]**

During the current assessment year, if it appears to the Assessing Officer that a person is likely to charge, sell, transfer, dispose of or otherwise part with any of his assets to avoid payment of any liability under this Act, the total income of such person for the period from the expiry of the previous year to the date, when the Assessing Officer commences proceedings under this section is chargeable to tax in that assessment year.

(e) **Discontinued business [Section 176]**

Where any business or profession is discontinued in any assessment year, the income of the period from the expiry of the previous year up to the date of such discontinuance may, at the discretion of the Assessing Officer, be charged to tax in that assessment year.

3.12 Section 10 exempts certain incomes. Such incomes are excluded from the total income of an assessee. The incomes which are exempt under section 10 will not be included for computing total income.

On the other hand, Chapter VI-A contains deductions from gross total income. Incomes from which deductions are allowable under chapter VI-A will first be included in the gross total income (GTI) and then the deductions will be allowed from gross total income (GTI).

Further, if there is no gross total income, then no deductions under section VI-A will be permissible.

**3.13 Computation of total income of M/s MG Software and Exports Ltd.'s subsidiary
for the A.Y.2019-20**

	Particulars	Amount (₹)	
I	Profit and gains from business or profession		
	Net profit as per the statement of profit and loss		36,50,000
	Add: Expenditure debited to statement of profit & loss but not allowable as deduction or to be considered separately		
	- CSR Expenditure incurred	2,00,000	
	[CSR expenditure incurred by the company as per the Companies Act, 2013 is not deemed to be an expenditure incurred by the company for the purposes of business or profession. Hence, the same is not allowable as deduction. Since the same has been debited to statement of profit and loss, it has to be added back]		
	- Donation to registered political party	70,000	
	[Donation paid to a political party is not an allowable expenditure under section 37 since it is not laid out wholly or exclusively for the purposes of business or profession. Hence, the same has to be added back while computing business income]		
	- Amount paid towards goodwill to a director	20,00,000	
	[Goodwill is an intangible asset which is eligible for depreciation and the amount paid for acquisition of a capital asset is not allowable as deduction. Since the same has been debited to the statement of profit and loss, it has to be added back for computing business income]		
	- Depreciation as per books of account	13,50,000	
	- Deferred tax liability	3,00,000	
	[Deferred tax is an accounting concept and there is no provision in the Income-tax Act, 1961 permitting deduction in respect of the same. Therefore, provision for deferred tax is not an allowable deduction while computing business income. Since the same has been debited to the statement of profit and loss, it has to be added back for		39,20,000

computing business income]		
		75,70,000
Less: Items credited to statement of profit and loss, but not includible in business income		
- Bad debt recovered	-	
[The amount of bad debt written off earlier when recovered subsequently, such recovery is taxable under section 41(4). Since the same has been credited to the statement of profit and loss, no further adjustment is required for the same]		
- Share income in AOP	1,20,000	
[Since AOP has to pay tax at the maximum marginal rate or a higher rate, company's share in the total income of AOP will not be included in his total income and will be exempt. Since the same has been credited to the statement of profit and loss, the same has to be reduced while computing business income]		
- Long term capital gain on sale of unlisted shares	50,000	
[The taxability or otherwise of long term capital gain on sale of unlisted shares has to be considered while computing income under the head "Capital Gains". Since such capital gain has been credited to statement of profit and loss, the same has to be reduced to arrive at the business income.]		
- Dividend received from domestic companies	11,00,000	
[The taxability or otherwise of dividend received has to be considered while computing income under the head "Other Sources". Since such dividend has been credited to statement of profit and loss, the same has to be reduced to arrive at the business income.]		
- Royalty income in respect of patents developed and registered in India	-	
[Royalty income in respect of patents developed and registered in India is chargeable to tax under section 115BBF can be treated as business income or income from other sources, depending upon the facts of the case. In this case, it is assumed that the same is in the nature of business income. Since the amount of ₹10 lakh has		

	already been credited to statement of profit and loss, no further adjustment is necessary]		
	Note – In the alternative, the said income of ₹ 10,00,000 may be treated as “income from other sources” and accordingly, reduced the same to compute business income.		12,70,000
			63,00,000
	Less: Depreciation on Goodwill of ₹20 lakh@25%		5,00,000
	Profits and gains from business and profession		58,00,000
II	Capital Gains		
	Long term capital gains on sale of unlisted shares [Chargeable to tax@20% with indexation benefit]		30,000
III	Income from Other Sources		
	Dividend from domestic companies	11,00,000	
	Less: Dividend exempt under section 10(34)	11,00,000	-
	Gross Total Income		58,30,000
	Less: Deduction under Chapter VI-A		
	Under section 80GGC [Donation to registered political party, ₹40,000 would be allowed as deduction, since payment is made in a mode other than cash; Donation of ₹30,000, paid in cash, would not be allowable as deduction]		40,000
	Total Income		57,90,000

3.14 Implementation of new system will reduce costs of the non - conformance (internal and external failure) by ₹ 5,10,000 (-40%). However, this will also increase costs of conformance by ₹ 6,30,000. There is inverse relationship between the costs of the conformance and the costs of non-conformance. Company should try to avoid costs of non- conformance because both internal and external failure affect *customer's satisfaction and organisations profitability*. The company should focus on preventing the error such that it ensures that product is of good quality when it reaches the customer at the very first instance. This enhances the customer experience and therefore eliminating the scope for external failures like sales returns and warranty claims. Better quality can yield further sales. Therefore, an increase in spending on quality measures provides significant improvements to quality that could be vital in retaining market share and better competitive position.

Accordingly, from the financial perspective point of view the new proposal for quality control should not be accepted as it will lead to an additional cost of ₹ 1,20,000 (₹ 6,30,000 - ₹ 5,10,000). However, from non-financial perspective point of view as stated above the company should accept the new proposal.

- 3.15 (a)** According to Rule 3 of the Companies (Corporate Social Responsibility) Rules, 2014, every company including its holding or subsidiary, and a foreign company defined under clause (42) of section 2 of the Act having its branch office or project office in India, which fulfills the criteria specified in sub-section (1) of section 135 of the Act shall comply with the provisions of section 135 of the Act and these rules.

Provided that net worth, turnover or net profit of a foreign company of the Act shall be computed in accordance with balance sheet and Profit and loss account of such company prepared in accordance with the provisions of clause (a) of sub-section (1) of section 381 and section 198 of the Act.

- (b)** The MCA vide *General Circular No. 21/2014 dated 18th June, 2014* has provided that expenses incurred by companies for the fulfillment of any Act/ Statute of regulations (such as Labour Laws, Land Acquisition Act etc.) would not count as CSR expenditure under the Companies Act.

Hence, an activity which a company is required to do as per its statutory obligations under any law, would not be termed as CSR activity.

- (c)** According to Rule 3 of the Companies (Corporate Social Responsibility) Rules, 2014, every company including its holding or subsidiary, and a foreign company defined under clause (42) of section 2 of the Act having its branch office or project office in India, which fulfills the criteria specified in sub-section (1) of section 135 of the Act shall comply with the provisions of section 135 of the Act and these rules.

According to section 135(1) of the Companies Act, 2013, every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during the immediately preceding financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director. The criterion needs to be fulfilled by individual company. Therefore, if the holding company or the subsidiary company themselves fulfils the criteria specified in section 135, all the provisions mentioned therein becomes applicable to such company. Merely being a holding or subsidiary company of a company which fulfils the criteria under section 135(1) does not make the company liable to comply with section 135, unless the company itself fulfils the criteria.

MULTIDISCIPLINARY CASE STUDY – 6F

The solutions to case studies have been worked out on the basis of certain assumptions/views derived from the facts given in the question or language used in the question. It may be possible to work out different solutions based on the assumption made or view taken. In general, case study based questions may have more than one correct answer. The fact that case study based questions may have multiple correct answers should be kept in mind while evaluating the answers. Further, there should be no negative marking for wrong answers in MCQ based questions.

Question I**Background**

You are the Chief Financial Officer (CFO) of Tom & Tinken Limited, an Infrastructure Company specializing in various fields such as buildings, dams, bridges, airports, power plants etc. You have taken over this role after having a successful tenure of about 15 years in Wisdom Constructions Limited, who is the direct competitor to Tom & Tinken Limited. Timing of your entry in Tom & Tinken Limited is very crucial especially since the previous CFO, Mrs. Ramamani, has resigned due to personal reasons in the middle of the year-end financial audit process and the Company has recently appointed M/s. Jags & Raghav Associates, Chartered Accountants, as the auditors of the Tom & Tinken Ltd. for a period of 5 years in view of the audit rotation requirements stipulated under the Companies Act, 2013.

The management has very high expectations from you regarding the role you need to play in contributing to Tom & Tinken Ltd. given the timing as well as the multiple challenges impacting the organization with respect to financial reporting. The following key priorities for you have been spelt out by the management;

- *Transform the Finance Team*
- *Ensure smooth completion of the audit*
- *Maximize the shareholder's value*
- *Ensure Zero non-compliance with Regulatory requirements*

To better understand your role and the team, you have started your journey by interacting with various personnel in the company and collected certain valuable inputs.

Company Profile

Tom & Tinken Limited is a listed company which has a tremendous track record of showing consistent business growth and is one of the key companies closely monitored by the Analysts and other shareholders. It has 3 subsidiaries in America, Asia and also in Africa and one joint venture in Dubai. It also has an insignificant trading activity relating to certain construction machinery spares which is primarily exported to European market.

The company is professionally managed and various financial institutional investors are holding about 40% of the overall equity share capital of the company. The company has a vibrant leadership team lead by Mr. Prasanna Pai, who is the Chief Executive Officer (CEO), an MBA from Indiana Institute of Management. He is very action oriented and is consciously pushing all his team leads to deliver the best. The company's business is primarily dependent on the infrastructure projects of the government and government agencies since the share of the private sector entities has come down drastically over a period of time. Being a market leader, Tom & Tinken is able to withstand the pressure from the competition even though the margins are becoming thin.

Profile of the Finance Team

Mr. Vamsy Krishna is the Financial Controller who will be directly reporting to you and he has about 10 years of experience. He is a veteran in the company and has an indepth understanding of various business activities of the Company and the operating environment. He is a Cost & Management Accountant and also a Bachelor of Commerce from the Tagore University. He is supported by 2 Finance Managers, namely, Ms. Supraja and Ms. Sukanya who are Commerce Graduates specializing in Statutory Finance and Business Finance respectively. There are also 4 other Accountants and 6 executives supporting the Finance managers in their respective areas.

Key Financial Highlights

Vamsy has informed you that a draft financial summary for the FY 2017-18 was prepared subject to certain pending items and the same was presented to the management and also to auditors. Key financial highlights as per such management accounts subject to certain open items are as under:

Particulars	FY 2017-18 Draft Unaudited/ Provisional ₹ in crores	FY 2016-17 Audited ₹ in crores
Revenue From Operations	72,430	68,776
Other Income	344	213
Total Income	72,774	68,989
Operating Expenses+	61,288	52,348
Administration & selling Expenses	4,333	1,455
Finance Cost	2,322	1,888
Depreciation*	2,876	2,487
Total Expenditure	70,819	58,178
Profit Before Tax	1,955	10,811

* Also includes amortization of Expenses of ₹ 22 crores.

+ Excludes GST paid and claimed as refund on certain eligible items amounting to ₹ 1254 crores.

Open Accounting Matters requiring resolution

Supraja and Sukanya, the Finance Managers summarized the following items which are open and are pending to be dealt with in the financial statements for your consideration. They already finished having a discussion with Vamsy and their views, were available, are also provided for your reference.

- (a) An amount of ₹ 2.45 crores towards Accrual of certain liabilities relating to Refurbishment of certain spares meant for a specialized crane is yet to be made. The spares for refurbishment were sent in March 2018. Completion of the refurbishment/receipt of spares by the Company is expected only in March 2019.
- (b) An amount of ₹ 4.35 crores relating to certain export benefits relating to export of construction machinery to Europe is yet to be accounted pending submission of export benefit documents with the concerned authority though the entitlement is more or less established.
- (c) Certain employees are taken on a contract basis from a manpower service provider and the leave/gratuity liabilities calculated in accordance with the accounting standards relating to such employees are not accrued for in the financials of the company though contractually all the payments statutorily required to be made to such contract employees are to be borne by the company under the contractual terms entered into with the manpower service provider. The amount involved as at 31 March, 2018 is ₹ 2.44 crores.
- (d) The stock option cost was not accounted under the Indian GAAP in prior years and the amount of fair value, if required, pending to be dealt with for FY 2017-18 is ₹ 1.46 crores.
- (e) The amount of expected credit loss for doubtful receivables pending to be accounted as at 31 March, 2018 is ₹ 1.20 crores and the company intend to account it proportionately on a Straight line basis over the calendar year 2018 to spread the impact of the same. Further, no Expected Credit Loss (ECL) provision is considered for the Retention Receivables under the contractual terms, which, if determined, would be ₹ 0.75 crores as at 31 March, 2018.
- (f) An amount of ₹ 0.50 crores committed to the political party as at 31 March, 2018 by the CEO, is pending to be accounted in view of the approvals required under the Companies Act, 2013.
- (g) Certain foreign exchange payables are accounted using the forward rate instead of the closing spot rate as at 31 March, 2018. The impact of change required, if any, on recalculation under the spot rate basis would be ₹ 0.23 crores of exchange loss.
- (h) An amount of ₹ 3.49 crores is adjusted against the Retained earnings directly as at 1 April, 2017 in view of the significant estimation difference relating to loss provision made for certain construction contracts pertaining to prior periods based on actual crystallizations in line with the accounting standard requirements.

- (i) An amount of Provision for losses relating to an ongoing Dam construction project at Goa amounting to ₹ 12 crores is considered for budget purposes in FY 2018-19 though the same is not included in the financial statements as at 31 March, 2018.
- (j) Dividend Proposed for the FY 2017-18 is included as part of Finance Cost amounting to ₹ 1.2 crores.

Open Audit Issues requiring Resolution

Mr. Sai Ram, Partner from M/s. Jags & Raghav Associates met with you and briefed the following outstanding matters/issues from the audit point of view:

- (a) There is an issue with respect to using BOTS for the purpose of audits especially in the area of control testing. The Finance team of the Company has objected to the usage of such BOTS in the audit process and has not provided access to the data that is required for usage of BOTS for audit purposes.
- (b) The original underlying documents/ vouchers are not available and only the scanned copies of the documents were made available for audit purposes. The audit team has requested for a visit to the scanning center at Manali which is yet to be organized. Vamsy strongly believes that such a visit/verification of the originals is unwanted and is beyond the scope of statutory audit required under the Companies Act.
- (c) The company has an internal Shared service center at Bengaluru and all the financial and accounting records for the entire Tom & Tinken Group across Asia, America, Africa and Gulf are maintained centrally and the processes followed are homogeneous in nature from a financial reporting angle. For the purpose of audit of the consolidated and stand alone financial statements of the group/ individual companies, the accounts team expects the auditors to follow a shared service approach of testing the homogeneous processes and controls and applying the conclusions to all the individual entities rather than testing it multiple times. The audit team has not accepted this view and the matter is pending resolution.
- (d) With respect to intercompany transactions between the Company and its international subsidiaries, the Arm's Length Pricing (ALP) principle of Transaction Net Margin Method (TNMM) is adopted from the Income Tax view point. The audit team has challenged this method and is insisting on a separate ALP for the purpose of reporting under the Companies Act since the requirement of evaluating the ALP for Companies Act is different from the Income Tax Act.
- (e) The Audit team wants to send out the confirmation for a key vendor, namely, Glory and Gavy Limited who has a credit balance of ₹104.12 crores as at 31 March, 2018. However, Vamsy strongly objected to the same and has not agreed to send the balance confirmation. The reason for not sending the confirmation is primarily on account of certain disputes with the party which may get revived on sending such audit confirmations.
- (f) In connection with 4 major contracts entered into during the year for which sizable margins are recognised, the audit team would like to use their engineering specialist for validating

the assumptions relating to costs incurred, cost to come and the expected margins/ losses, if any, since such estimates are critical and would have a substantial impact on the results of the company. Supraja has objected to the same since the same was never done in the past and such an exercise would only delay the audit/financial reporting and beyond the audit scope requirements.

- (g) The Audit team would like to review the audit work papers of the previous auditors and has requested the company to facilitate the same. However, Sukanya strongly believes that no such practice is in vogue in India and the opening balances/ previous year audited financials can be presumed to be correct and the company will not entertain any such requests from the current auditors.*
- (h) Similarly the audit team wanted to review the books of account of the Joint Venture in Dubai which is audited by another auditor based out of Dubai. However, the finance team of the company is unable to facilitate/ support any such review by the parent company auditors.*
- (i) The Audit Manager, Kodali Ashish Krishna has also put in a request to the Finance Team that the entire draft annual report of the Company may please be provided to them upfront before finalizing the same since they have to validate/verify the same. However, Vamsy feels that the audit is required only for the financial statements and is not intended for the annual report which has various elements such as Directors Report, Management Discussion and Analysis, Corporate Governance Report, Financial Highlights etc. which are beyond the purview of statutory auditors.*
- (j) The audit team requested for a reconciliation of the transactions as per books with the details as per the Goods and Service Tax Network (GSTN) data w.r.t input credit, expenses accounted, income accounted etc. and also between the TDS credits taken and the interest income accounted as per books with the Form 26AS of the Company and also the reconciliation of profit between the costing records maintained for cost audit purposes with that of the financial records. Sukanya strongly believes that the audit is required only based on the books maintained by the company and there is no need to extend such audit to third party/independent data maintained by the Regulators intended for different purposes.*
- (k) The Audit team has also highlighted various deficiencies, which are not material weaknesses, in the Procure to Pay process and has indicated its intention of qualifying the Internal Control over Financial Report to be issued on the financial statements as part of the audit report under the Companies Act.*
- (l) Sai Ram has also indicated that in the absence of all the details/support required for finalizing the audits, he cannot issue the audit report and will also consider withdrawing the Review Reports issued on the quarterly financial information earlier based on Limited Review.*

Key Items of discussion with the Company Secretary

Based on your discussion with Ms. Divya, Company Secretary, following matters requires your attention/action:

- (a) The Audit Committee (AC) of the company has recommended referring an item relating to the whistle blower referral on one of the directors of the Company to an independent investigating agency which was over ruled by the Board of Directors. The same was concluded by the Board as frivolous complaint based on its own independent assessment.
- (b) One of the Directors of the company has recorded his dissent for approving the quarterly unaudited financial results of the company last time though the majority approved the unaudited financial results.
- (c) A shareholder of the Company has sent a request to the company as well as to the auditor of the company seeking explanation on the provisions made for diminution in the value of investments which is pending disposal.
- (d) The financial analysis details as provided to the analysts by the CEO with respect to various segmentation of the business is completely different from that of the segment disclosures made in the financial statements/ results and there has been several questions raised on the same.
- (e) There is a request from a Foreign Institutional Investor (FII), who is a shareholder of the company to make the presentation made/ to be made by the statutory auditors to the AC/Board public.
- (f) Further, Divya is also having apprehensions regarding various accounting matters and, hence, is evaluating the feasibility of not signing the statutory financial statements in view of the legal issues that could come up at a later point of time.

Inputs from the CEO

Prasanna Pai, the CEO has requested you to consider the treatment of following items:

- (a) The amount of provision made for the diminution in the value of investments in the African Subsidiary amounting to ₹ 12.30 crores included as part of Administrative Expenses. He wants to explore the possibility of directly adjusting this against the reserves in the Balance Sheet considering that the same represents the write down of a capital investment.
- (b) Since the liquidity is a challenge for the company in the near future, the possibility of taking a short term borrowing from the bank for working capital purposes and using it for dividend distribution, if approved by the board/ shareholders.
- (c) Certain amounts in the range of ₹ 4.30 Crores were not recognised in the financial statements as revenue in view of the uncertainties associated with the recognition in line with the accounting principles followed by the Company. He wants to explore the possibility of disclosing it somewhere in the financial statements so as to reflect the realistic picture.

- (d) *The amount of unclaimed liabilities of ₹1.97 Crores relating to employees who have left the company and the depositors who have not claimed for the past 10 years currently disclosed as part of liabilities may be written back to the Profit & loss account since the same was no longer payable.*
- (e) *Providing Asset Retirement obligations on cash basis at actuals which has been accounted currently on estimation basis in line with the accounting policy followed by the Company.*
- (f) *The possibility of presenting the financial results under the previous Indian GAAP (pre Ind AS) along with the Ind AS numbers in the financial statements for bench marking purposes.*

You have to deal with the open accounting matters, address the audit concerns, deal with the issues raised by the Company secretary and also revert to the CEO of the Company on various matters raised by him. Please note that the financial statements of the company for the year under review are prepared using Ind AS for the first time.

PART- A

Answer the following questions:

2 Marks each)

- 1.1 *The amount to be accrued, if any, in connection with the refurbishment of spares as at 31 March 2018 referred to above is in the nature of:*
- Contingent Liability*
 - Constructive Obligation*
 - Construction Obligation*
 - Crystallized Liability*
- 1.2 *Expected Credit Loss Provisioning (ECL) is not required for Retention Receivables arising out of contractual terms.*
- Not Correct since it is a financial asset / contract asset*
 - Correct since it is a contract asset*
 - Depends on the facts and circumstances*
 - ECL is Not applicable for Infrastructure companies*
- 1.3 *Difference between estimate and the actual relating to the prior periods would be considered as a prior period adjustment under IND AS:*
- Yes, based on matching Principle*
 - No, actualisations of estimate difference are period adjustments in Profit & Loss Account*
 - Depends on the outcome of evaluation of differences by the Board*
 - Depends on the nature of the item requiring estimation*

- 1.4 *Board has the power to overrule the decisions of the Audit Committee (AC) under the Indian Companies Act, 2013:*
- A. No
 - B. Yes, after informing the Regulator
 - C. Yes, but disclosure need to be made with reasons therefor in the Board Report
 - D. Would vary based on the nature of the decisions of the AC and the profile of the AC Chair)
- 1.5 *Auditor of the Company is having an obligation to validate all the financial and non-financial information provided along with the audited financial statements as part of the Annual Report*
- A. Yes, as required under the Auditing Standards
 - B. No, it is only voluntary on the part of the auditors
 - C. Limited to financial information only
 - D. Yes, to the extent it related to the relevant Information not reported as part of the financial statements.
- 1.6 *Company Secretary is equally responsible for ensuring compliance with the accounting standards and other reporting requirements relating to the financial statements under the Indian Companies Act, 2013 similar to that of the CFO*
- A. Yes, it is demonstrated by his requirement to sign the financial statements where required
 - B. No
 - C. Yes, for listed Companies
 - D. Depends on the decision of the Board
- 1.7 *The Company and the Auditor is duty bound to provide the information required by the shareholders at any time.*
- A. No
 - B. Company is responsible but not the auditor as per the requirements of the Companies Act, 2013
 - C. Auditor is responsible but not the Company as per the requirements of the Companies Act, 2013
 - D. Yes, both are responsible under the Companies Act, 2013
- 1.8 *All deficiencies irrespective of its nature, as identified by the auditors relating to internal control over financial reporting, would need to be reported appropriately as part of their audit report to the shareholders under the Companies Act, 2013.*

- A. Yes, material weaknesses, significant deficiencies and other deficiencies need to be included as part of the audit report to the shareholders.
- B. Yes to the extent approved by the AC/Board.
- C. Nothing needs to be reported to the shareholders.
- D. Deficiencies which are material weaknesses need to be considered suitably for reporting to the shareholders.
- 1.9 Auditee can decide on the nature/ extent of the audit procedures required to be carried out by the statutory Auditors in connection with the audit if the financial statements under the Indian Companies Act, 2013
- A. No
- B. Yes, with the approval of the shareholders
- C. Yes, since the company appoints the statutory Auditor
- D. Depends on the facts and circumstances
- 1.10 Any additional information as determined by the management can be provided as part of the financial statements over and above the minimum disclosure requirements stipulated under the Indian Companies Act, 2013.
- A. Strictly No, since the disclosure requirements are mandated under the Indian Companies Act, 2013
- B. Yes always, as long as the minimum/stipulated disclosure requirements are complied with
- C. Can be discussed and decided based on the mutual consent of the auditor and the auditee
- D. Yes, provided the same is required for better understanding of the financial statements.

PART B

Answer the following:

- 1.11 What will be your response to the Statutory Auditors regarding various matters highlighted by them as part of the audit process? (12 Marks)
- 1.12 Based on your review of the aforesaid case, Analyse the various adjustments & also items which do not require any adjustments in your view, to the draft financial statements of the company. (6 Marks)
- 1.13 How will you deal with the issues raised by the company secretary from the financial reporting and compliance perspective? (6 Marks)
- 1.14 What will be your response to the CEO on his proposals regarding various matters and explain the basis for your conclusion. (6 Marks)

Answer to Question 1**PART – A**

- 1.1 (D)
- 1.2 (A)
- 1.3 (B)
- 1.4 (C)
- 1.5 (C)
- 1.6 (A)

Alternative- Option (B)

- 1.7 (A)
- 1.8 (D)
- 1.9 (A)
- 1.10 (D)

PART – B

- (1.11) (1)** An entity's system of internal control contains manual elements and often contains automated elements. The use of manual or automated elements in internal control also affects the manner in which transactions are initiated, recorded, processed, and reported. An entity's mix of manual and automated elements in internal control varies with the nature and complexity of the entity's use of information technology. Further as per SA 315 "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment", IT system also poses specific risks to an entity's Internal Control. They are reliance on systems or programs that are inaccurately processing data, processing inaccurate data or both. Thus, objection of Finance team of the company regarding usage of BOTS in the audit process is not correct. The auditor should be provided access to the data that is required for usage of BOTS for audit purpose.
- (2)** As per SA 500, "Audit Evidence", when designing and performing audit procedures, the auditor shall consider the relevance and reliability of the information to be used as audit evidence. Audit evidence provided by original documents is more reliable than audit evidence provided by photocopies or facsimiles, or documents that have been filmed, digitised or otherwise transformed into electronic form, the reliability of which may depend on the controls over their preparation and maintenance. Inspection of records and documents provides audit evidence of varying degrees of reliability, depending on their nature and source and, in the case of internal records and documents, on the effectiveness of the controls over their production. Inspection involves examining records or documents, whether internal or external, in paper form,

electronic form, or other media, or a physical examination of an asset. Thus, visit for verification of original is not beyond the scope of statutory audit required under the Companies Act.

- (3) In carrying out the audit of the standalone financial statements, the computation of materiality for the purpose of issuing an opinion on the standalone financial statements of each component would be done component-wise on a standalone basis. However, with regard to determination of materiality during the audit of consolidated financial statements (CFS), the auditor is required to compute the materiality for the group as a whole. This materiality should be used to assess the appropriateness of the consolidation adjustments (i.e. permanent consolidation adjustments and current period consolidation adjustments) that are made by the management in the preparation of CFS. The principal auditor also computes materiality for each component and communicates to the component auditor, if he believes is required for true and fair view on CFS. The parent auditor can also use the materiality computed on the group level to determine whether the component's financial statements are material to the group to determine whether they should scope in additional components, and consider using the work of other auditors as applicable. Thus, contention of management with respect to apply shared service approach of testing the homogeneous process and controls and applying the conclusion to all the individual entities rather than testing it multiple times is not tenable.

Alternative: Hold discussion with the auditors to highlight the structure of the shared service centre set up of the Company. Also highlight to them that the processes are so streamlined and structured that the shared service team ensures all processes are managed in a homogeneous manner and appropriate internal control exists which would provide the required comfort to the auditors for applying the SSC approach. Also inform the auditors that, they could do their own controls testing and understanding of the process before deciding on the same, duly considering the requirements of SA 500 on Audit Evidence and SA 315 on Identification and assessing risks of material misstatements through understanding of the entity and its environment. Reaffirm to the auditors that, whatever information is required for the auditors to conclude on the homogeneity and operating effectiveness of the controls at the shared service center, the same would be provided to them.

- (4) So far as the Arm's Length Pricing (ALP) principle of Transaction Net Margin Method (TNMM) is concerned which is adopted from Income Tax view point, it is an approved method under Income Tax Act, but there is no such separate ALP for the purpose of reporting under the Companies Act. Therefore, challenge of audit team contemplating separate ALP for the purpose of reporting under the Companies Act is not correct. However, acknowledge the fact that the arm's length determination under Companies Act, 2013 cannot be exclusively only on the basis of TNMM as considered for Income Tax Act. Rather, for Companies Act, the arm's length determination should be based on the related party transactions approval policy framed by the Audit

Committee/Board as per the Companies Act. Inform the auditors that the same would be aligned and a proper justification would be provided to them to substantiate the arm's length nature of the related party transactions.

- (5) SA 505 "External Confirmations", establishes standards on the auditor's use of external confirmation as a means of obtaining audit evidence. If the management refuses to allow the auditor to send a confirmation request, the auditor shall (i) inquire as to Management's reasons for the refusal, and seek audit evidence as to their validity and reasonableness, (ii) evaluate the implications of management's refusal on the auditor's assessment of the relevant risks of material misstatement, including the risk of fraud, and on the nature, timing and extent of other audit procedures, and (iii) perform alternative audit procedures designed to obtain relevant and reliable audit evidence. If the auditor concludes that management's refusal to allow the auditor to send a confirmation request is unreasonable or the auditor is unable to obtain relevant and reliable audit evidence from alternative audit procedures, the auditor shall communicate with those in charge of governance and also determine its implication for the audit and his opinion.
- (6) As per SA 620, "Using the Work of an Auditor's Expert", during the audit, the auditor may seek to obtain, in conjunction with the client or independently, audit evidence in the form of reports, opinions, valuations and statements of an expert. Expertise in a field other than accounting or auditing may include expertise in relation to specified matters. In the instant case, the auditee has entered into 4 major contracts for which sizeable margins are recognized, audit team can use their expert i.e. engineering expert for validating the assumption relating to cost incurred, cost to come and the expected margins/losses as such estimates are critical and would have a substantial impact on the result of the company. Therefore, objection of Supraja is not correct.
- (7) As per SA 510 "Initial Audit Engagements-Opening Balances, if the prior period's financial statements were audited by a predecessor auditor, the auditor may be able to obtain sufficient appropriate audit evidence regarding the opening balances by perusing the copies of the audited financial statements including the other relevant documents relating to the prior period financial statements such as supporting schedules to the audited financial statements. Ordinarily, the current auditor can place reliance on the closing balances contained in the financial statements for the preceding period, except when during the performance of audit procedures for the current period the possibility of misstatements in opening balances is indicated. Thus, requirement of reviewing the audit working papers of previous auditor is not correct.
- (8) As per SA 600, Using the work of Another Auditor, when the principal auditor uses the work of another auditor, the principal auditor should determine how the work of the other auditor will affect the audit. In certain situations, the statute governing the entity may confer a right on the principal auditor to visit a component and examine the books of account and other records of the said component, if he thinks it necessary to do so. Where another auditor has been appointed for the component,

the principal auditor would normally be entitled to rely upon the work of such auditor unless there are special circumstances to make it essential for him to visit the component and/or to examine the books of account and other records of the said component. Further, the principal auditor should perform procedures to obtain sufficient appropriate audit evidence, that the work of the other auditor is adequate for the principal auditor's purposes, in the context of the specific assignment. Thus, audit team can review the books of accounts of the joint venture in Dubai, in case finance team deny auditor may qualify the report accordingly.

Alternative: Inform the finance team that section 143 of the Companies Act, 2013 provides the auditors with the right to access the books of accounts and other information's of subsidiaries including joint ventures. Accordingly, if the auditor believes that the review of the JV records is relevant duly considering materiality, organize the same. In the absence of same auditor may qualify the report accordingly.

- (9) Request by the Audit manager that the entire draft annual report of the company be provided to them upfront before finalizing the same is not valid because in annual report auditor is required to provide the audited balance sheet along with audit report with respect to financial statements. It has nothing to do with draft annual report. The objective of the audit is to express an opinion on financial statements and other information relating to financial statements only. The auditor does not report on Director's Report, Management Discussion and Analysis, Corporate Governance Report, Financial Highlights etc.
- (10) The auditor is required to verify compliance with laws and regulation. Further he is also required to verify the same as per SA 500 Audit Evidence. For the same he is required to reconcile the transactions as per books with the details as per the Goods and Service Tax Network data w.r.t input credit, expenses accounted, income accounted and also between the TDS credits taken and the interest income accounted as per books with the Form 26AS of the Company. Further it is also required for reconciliation of profits between the costing records maintained for cost audit purposes with that of financial records. Thus contention of Sukanaya that the audit is required only based on the books maintained by the company and there is no need to extend such audit to third party/independent data maintained by the regulators/intended for different purposes is not correct.
- (11) The auditor's objective in an audit of internal financial controls over financial reporting is to express an opinion on the effectiveness of the company's internal financial controls over financial reporting. It is carried out along with an audit of the financial statements. Because a company's internal controls cannot be considered effective if one or more material weakness exists, to form a basis for expressing an opinion, the auditor must plan and perform the audit to obtain sufficient appropriate evidence to obtain reasonable assurance about whether material weakness exists as of the balance sheet date. A material weakness in internal financial controls may exist even when the financial statements are not materially misstated.

Further, the auditor must evaluate the severity of each control deficiency that comes to his or her attention to determine whether the deficiencies, individually or in combination, are significant deficiencies or material weaknesses as of the balance sheet date. In planning and performing the audit, however, the auditor is not required to search for deficiencies that, individually or in combination, are less severe than a significant deficiency.

- (12) Contention of auditor Sai Ram to withdraw the review reports issued on the quarterly financial information earlier based on limited review and not to report is not correct however, he may issue qualified or modified opinion in the absence of all the details/support required for finalising the audit. Therefore, the auditor could consider issuing the report after required modifications or qualifications.

(1.12) Analysis of all the Open Accounting Matters

- (a) Since spares are meant to be used for a specialised crane and is expected for completion in March, 2019, (assuming that the spares has an estimated useful life of more than one year), it will not be expensed. However, liability has to be accounted for as follows:

Capital work-in-progress (spares) A/c	Dr.	₹ 2.45 crore
	To Provision / Liability for spares (vendor) A/c	₹ 2.45 crore

Note: If it is assumed that the estimated useful life is less than a year, then the debit will be to inventory account.

- (b) As per para 7 of Ind AS 20, "Accounting for Government Grants and Disclosure of Government Assistance", Government grants, including non-monetary grants at fair value, shall be recognised when there is reasonable assurance that:
- the entity will comply with the conditions attaching to them; and
 - the grants will be received.

Here, as per the information given in the question, it is clear that the entitlement is more or less established though the submission of export benefit documents is pending. Looking over the substance of the transaction, it can be considered as there is a reasonable assurance for receiving the export benefit and also it can be measured reliably. Further, it is assumed that the entity will comply with the conditions attached to it. Hence, it shall be accounted (assuming that the benefit is received in cash), as follows:

Bank A/c	Dr.	₹ 4.35 crore
	To Government Grant	₹ 4.35 crore

Note: It is assumed that ₹ 4.35 crore is the fair value of the grant received.

- (c) Since, as per the information given in the question, contractually all the payments statutorily required to be made to contract employees are to be borne by the company under the contractual terms entered into with the manpower service provider, the company has to account for the leave/gratuity liabilities in the reporting period ending on 31st March, 2018 for ₹ 2.44 crore. Here the relation is not exactly of employer and employee as they are contractual employees, such expense would be under the head "Other expense" as follows:

Other Expense A/c	Dr.	₹ 2.44 crore
To Provision for expense (gratuity/leave liabilities)		₹ 2.44 crore

- (d) Since from the question it can be inferred that the ESOP was in existence on the transition date and no accounting for its outstanding expense was done in prior periods, it will be considered as error and retrospective effect will be given impacted through 'Retained Earnings'. Further, it is assumed that ₹ 1.46 crore is the amount to be expensed in the current year.

Profit and Loss A/c	Dr.	₹ 1.46 crore
To ESOP expense A/c		₹ 1.46 crore

Note: The above assumption is made since if ₹ 1.46 crore is the total value of the ESOP to be expensed then it should be spread over the vesting period which is not given in the question.

Further, non-accounting of stock option cost is an error and non-compliance of the guidance note, it shall be accounted for retrospectively by impacting "Retained Earnings". It is also subject to defer tax.

- (e) As per Ind AS 109, the amount of expected credit loss for doubtful receivables should be accounted for in the year ended on 31st March, 2018 for ₹ 1.20 crore. Also ECL provision shall be made on Retention Receivables also as they are financial asset of the company. So ECL provision on it of ₹ 0.75 crore shall also be made in the year ended on 31st March, 2018. Total provision to be made is of ₹ 1.95 crore.
- (f) Contribution to the political party needs to be accounted for only if an obligation has arisen as at the balance sheet date. A mere commitment would not warrant an accounting for such provision. Hence, it shall not be provided for in the books as on 31st March, 2018.
- (g) Foreign exchange payables are to be accounted on each reporting date on the basis of the spot rate only. Therefore, following correction entry shall be passed:

Forex loss A/c	Dr.	₹ 0.23 crore
To Foreign Exchange payables A/c		₹ 0.23 crore

- (h) Actualisations of estimate difference are period adjustments which shall be recognized in the Profit and Loss Account. Adjustment of the same in the Retained

Earnings directly as on 1st April, 2017 is not correct. A reversal entry should be passed as follows:

Profit and Loss A/c	Dr.	₹ 3.49 crore
To Retained Earnings		₹ 3.49 crore

Further, as per the accounting standard also the difference in estimate is not adjusted retrospectively.

- (i) As per para 22 of Ind AS 11*, when the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract shall be recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period. Also as per para 36 of the standard, when it is probable that total contract costs will exceed total contract revenue, the expected loss shall be recognised as an expense immediately. Accordingly, estimated future loss of ₹ 12 crore shall be provided for in the books as on 31st March, 2018.
- (j) As per Ind AS 10, Proposed dividend shall not be included in the finance cost in the financial year 2017-2018, because generally it is declared after the reporting period. In the given case, the date of declaration of proposed dividend has not been given. It is assumed to be after the reporting date. With respect to dividend, evidence for its declaration does not exist at the end of the reporting period. Hence ₹ 1.2 crores should be accounted in the year 2018-2019.
- (1.13)(a) According to section 177(6) of the Companies Act, 2013, the Audit Committee shall have authority to investigate into any matter in relation to the items specified in sub-section (4) or referred to it by the Board and for this purpose shall have power to obtain professional advice from external sources and have full access to information contained in the records of the company.

As per section 177(7), the auditors of a company and the key managerial personnel shall have a right to be heard in the meetings of the Audit Committee when it considers the auditor's report but shall not have the right to vote.

As per section 177(8), the Board's report under section 134(3) shall disclose the composition of an Audit Committee and where the Board had not accepted any recommendation of the Audit Committee, the same shall be disclosed in such report along with the reasons therefor.

Thus, the Audit committee can refer the investigation related director to outside agency. Further, since the Board has not accepted the recommendation of the Audit

* In November, 2018 Examination Ind AS 11 was applicable. Therefore, answer has been provided as per Ind AS 11 only.

Committee, the same shall be disclosed in Board's report under section 134(3) along with the reasons therefor.

- (b) As per section 134 auditor and company secretary is required to check the compliance with financial statements and secretarial standards however, section does not specify anything about the directors compliance. So, dissent of one of the director on the approval of unaudited financial statements will not affect the approval by majority.
- (c) As shareholders are the main stakeholders in a company, they have the right to inspect the accounts register and also the books of the firm and can ask questions about the same if they feel so.
- (d) If there is difference between the various segment disclosures as per the business and as per the financial statements, the CEO may be asked for the explanation. Further, the same could be discussed with the auditors to obtain their views on compliance with the accounting standards and necessary changes be made, as required in order to ensure such inconsistency is avoided.
- (e) As per section 134(3) of the Companies Act, 2013, there shall be attached to statements laid before a company in general meeting, a report by its Board of Directors, which shall include explanations or comments by the Board on every qualification, reservation or adverse remark or disclaimer made (i) by the auditor in his report; and (ii) by the company secretary in practice in his secretarial audit report. Further, the presentation made by the statutory auditors to those charged with governance is not for reporting to general public/shareholders and cannot be shared as it is.
- (f) According to section 134 (1) of the Companies Act, 2013, the financial statement, including consolidated financial statement, if any, shall be approved by the Board of Directors before they are signed on behalf of the Board at least by the chairperson of the company where he is authorised by the Board or by two directors out of which one shall be managing director and the Chief Executive Officer, if he is a director in the company, the Chief Financial Officer and the company secretary of the company, wherever they are appointed, or in the case of a One Person Company, only by one director, for submission to the auditor for his report thereon.

The Company Secretary has to see the compliance of the provisions of the Companies Act, 2013.

Also, discussions with Divya should be held to understand the concerns and ensure the same are addressed wherever those are relevant to ensure appropriateness of the financial reporting. Where it involves matters of interpretation, hold discussions to share the views and back them with professional opinion so that the decisions taken by the Company are well thought through and is in compliance with laws and regulations.

- (1.14)(a) As per Ind AS 109, diminution in the value of investment in subsidiary shall be routed through Profit and Loss and not adjusted against the reserves in the Balance sheet.
- (b) According to proviso to section 123 (1):
“Provided further that where, owing to inadequacy or absence of profits in any financial year, any company proposes to declare dividend out of the accumulated profits earned by it in previous years and transferred by the company to the free reserves, such declaration of dividend shall not be made except in accordance with such rules as may be prescribed in this behalf.
Provided also that no dividend shall be declared or paid by a company from its reserves other than free reserves.”
Hence, in the given case, the company cannot use the short- term borrowings from the bank for working capital purposes to pay the dividend.
- (c) In case revenue is not recognized due to uncertainty of its collection, the company can disclose the same by way of Notes to accounts and the accounting policy followed in compliance with the standard. Additional disclosures, if provide better understanding of the financial statements, can be given by way of notes to accounts.
- (d) The amount of deposit repayable has to be transferred to the deposit reserve account and the same cannot be used by the company for any other purpose excepts repayment of deposits.
- (e) As per the Companies Act, 2013, only accrual basis has to be followed for accounting of financial data. Hence providing Asset Retirement obligations on cash basis at actuals is not appropriate.
- (f) As per the information given in the question, the company is adopting Ind AS. Therefore, it has to present its financial results on the basis of Ind AS only along with the corresponding Ind AS numbers for bench marking. Also comparatives should also be given as per Ind AS only. It cannot provide the financial results as per AS alongwith the Ind AS numbers.

Question II

You are the leading Consultant, advising companies with respect to various compliance related matters impacting their operations in India. In particular, your primary focus is on Direct/Indirect Taxes, Economic Laws and Corporate Laws. Your clients are spread across the country and you have a large team of professionals working under you supporting your entire advisory practice.

Introduction

Ringling Bell Group based out of Singapore has a Liaison Office (LO) in Mumbai and currently has very limited operations in India. The Group specializes in the area of developing 3 D Printing capabilities and is fast growing in this segment globally. The Indian LO, at present, employs

about 40 people primarily to represent the parent in dealing with the customers in India. The group is well recognised for its governance standards and is very keen to implement its zero tolerance for Non-compliances policy.

The Chief Executive Officer of the Group, Mr. Jim, has visited India recently and has identified India as a core market for the group's global growth and is very keen to develop the Indian operations of the group significantly. Considering the complex regulatory set up in India, he wants to ensure that the growth plans does not result in regulatory non-compliances having an impact on the group's brand image. He has asked his Chief Compliance Officer, Mr. Thompson to visit India and give him a report on the applicability of various aspects including the current state of affairs, compliance standards, and regulatory hygiene assessment and also on the various laws and regulations which may potentially have an impact for Ringing Bell duly considering its business plans for India.

The financial controller who manages finance as well compliance for the Ringing Bell, India's LO operations, Mr. Ram Kumar has requested you, as an independent consultant, to assist Thompson in his mission, who is on a business visit to Mumbai.

You have accepted this offer and meeting Thompson and Ram Kumar in their Office at Navi Mumbai with your colleagues, Mr. Hari, Manager Taxation and Mr. Porus, Director, Economic & Corporate Laws.

Overview of Significant Laws impacting Ringing Bell. India

In the meeting, Ramkumar gave an overview of the Indian Companies Act, Income Tax Act, GST Act and other Economic Laws at a high level to the extent relevant for the current operations of the Indian LO and also presented the financial state of affairs of the Indian entity. Thompson explained the group's plans for focusing on the Indian market more vigorously and wanted to understand the overall regulatory reforms in the country.

You have highlighted to Thompson that India is embarked on a journey of simplifying the complex regulatory set up and is committed to Ease of Doing Business. In addition, you have also highlighted that whilst every effort is made to simplify the laws, the penalties for non-compliances have been made more severe and hence at most care has to be taken in ensuring due compliance with all the applicable laws and regulations.

Thompson was very keen to understand the regulatory environment including the litigation settlement process especially the time taken for disposal of cases by the judiciary. The various discussion points/questions raised/clarifications sought are summarised below for your consideration.

Questions on the Income Tax Related Aspects

Thompson expressed his intention to understand the Taxation aspects relating to Indian Entities. In particular, he was very keen on understanding the transfer pricing provisions relating to

transactions with the group companies. His specific clarifications on Transfer Pricing relate to the following:

- (1) Whether the transfer pricing policy followed by the group globally would be acceptable to Indian Income Tax authorities?
- (2) Is there a mechanism to get that understanding confirmed upfront to avoid legal battles at a later stage?
- (3) Is there a requirement to apply different yardsticks for evaluating the transfer pricing from different laws other than the Income Tax Act?

Thompson was also very keen to understand the implications of GAAR under the Income Tax Act. Hari, Manager Taxation has explained the provisions of GAAR under the Indian Income Tax Act, which needs to be duly considered in evaluating the relevant transactions from the tax angle.

Thompson was also interested in understanding the difference between tax planning and tax evasion given the complexity of the Indian income tax laws. Ram Kumar indicated that both look alike and he also raised some specific issues which may be clarified in this regard. The issues raised by Ram Kumar on this aspect are summarised below:

- (1) Setting up their Unit in a Special Economic Zone and claiming tax exemption and the implications of the same under the applicable provisions in the Income Tax Act.
- (2) Requesting the Supplier of the Group based out of Singapore to provide a loan to the Indian entity of the group from its shell/loss making subsidiary in India at a higher rate of interest for claiming tax deduction for interest and adjusting this at the group level as part of overall price negotiation by the parent
- (3) Declaring dividend based on the applicable provisions of the income tax rate only when it is favourable notwithstanding the availability of adequate profits in the financial year.
- (4) Providing rebates and discounts to channel partners who are customers of the Company instead of sales incentives and not withholding the taxes.

Thompson was also keen in understanding tax aspects relating to payment of royalty on patents developed and registered in India. He was curious to know the applicable tax rates on such payments.

Clarifications on Foreign Exchange Transactions

Thompson was inquiring about the Foreign Exchange Regulations as applicable for their proposed Indian operations and sought your clarifications on the following aspects:

- Carrying out large scale business activities using the existing LO model.

- Possibility of exporting from India to its various customers in Europe and requirements relating to receipt of money especially time limits, if any, and other compliance involved in connection with the non-realizations.
- Procedural aspects relating to funding the Indian entity through external commercial borrowings/advance from the parent against future supplies.
- Possibility of arranging for remittance of funds on exports made by the Indian entity to various customers by the parent directly for ensuring administrative convenience.

Ram Kumar explained that the proposed Indian operations would also require import of certain capital assets from its parent. He inquired about the accounting and tax implications of possible waiver of liabilities relating to payable to the group companies in Singapore arising out of supply of capital goods to the Indian entity as an indirect funding mechanism. He was also wondering whether such capital assets could be supplied to Indian entity at free of cost and what would be the accounting/tax requirements relating to the same?

Thompson was concerned about the definition of the term "Hawala" under Indian laws and the implications for the Key Managerial Personnel of the Company on such Hawala transactions, if any. He wanted to understand the same in detail and in particular the difference between Hawala and Round Tripping.

Thompson was also curious to understand the requirement relating to donating certain amounts from Singapore as part of their group Corporate Social Responsibility (CSR) commitment to the Indian entity which can be used for various charitable purposes/welfare measures in India. This would go a long way in building their brand in India.

Porus, explained that whilst the provisions of the foreign exchange regulations have been simplified substantially from the "Control based approach" to "Management based approach", a thorough evaluation of the various foreign currency transactions would be absolutely essential for ensuring zero non-compliance.

Issues on Recovery and Legal Protection Mechanism

Ramkumar raised the issues of legal remedies available in India for recovering amounts rightfully due to the Company, in case of default by the customer. He was curious to understand the provisions relating to the Insolvency and bankruptcy code, 2016 which would come in handy for enforcing timely actions by the defaulting customers, where required.

He also wanted to understand how the settlement of the dues would be prioritized as compared to various secured creditors of the defaulting company at the time of insolvency. Further he was keen to understand the deductibility of provisions made for bad and doubtful receivables under the Indian Income Tax Act.

Corporate Law Implications

Ram Kumar suggested that it would be better to incorporate a company for the purpose of business expansion. Thompson wanted to understand the need for such a new corporate set

up and if required, the statutory audit requirements, if any, relating to the existing LO and the new corporate set up.

Thompson wanted to find out if there is any mandatory requirement to appoint the independent Director for the subsidiary, which if incorporated, would be a closely held company of Ringing Bell, Singapore. He was also keen to find out the compliances relating to notices of the board meetings to be sent to directors, including the directors residing in foreign countries and the timelines indicated, if any, under the Companies Act, 2013.

Ram Kumar raised the issue that compliance requirements relating to Related Party transactions under the Companies Act would be very complicated. Thompson wanted to understand the same in detail and in particular, aspects relating to compliance reporting requirements, when the relationship is structured in such a way that it ceases to exist, of course, within the legal framework!

Thompson also wants your inputs on the following specific aspects under the Indian Companies Act, 2013:

- Need for setting up a compliance and governance committee Compliance audit
- Roles and Responsibilities of the Directors for Compliance with laws and Regulations
- Immunity available to Directors of the Company for Ignorance of laws/professional indemnity

He was wondering whether statutory auditors would give him comfort on the compliance requirements and what would be the role and the responsibility of the statutory auditors on this matter under the auditing standards prevailing in India as referred to under the Indian Companies Act.

Asks from You

You are requested to advise Ringing Bell based on your understanding of their requirements, issues, if any, and clarifications sought. Please make relevant assumptions as may be required to explain your answer so as to provide a holistic and relevant feedback. Your response would be very vital for the group's decision to expand the Indian operations and hence the group is expecting your best advice!

PART- A

Answer the following questions:

(2 Marks each)

- 2.1 In responding to Thompson, you have explained that under Hawala System
- A. Money exits the Hawala system in local currency and enters as foreign currency
 - B. Money enters the Hawala system in foreign currency and also in local currency
 - C. Money enters the Hawala system in local currency and leaves as foreign currency
 - D. Money exits the Hawala system in foreign currency and also in local currency

- 2.2 *In your role as an advisor to Ringing Bell, you will indicate to them that under the provisions of the Companies Act, 2013, a notice of the Board meeting must be served to:*
- A. *All the directors except to an interested Director.*
 - B. *All the directors except to a Director who has expressed his inability to attend a Board Meeting.*
 - C. *All the directors, except a person who has gone abroad (for less than 3 months).*
 - D. *All the Directors.*
- 2.3 *Write off of Foreign Exchange receivables arising out export sales of Ringing Bell is permissible*
- A. *No, it is not allowed*
 - B. *Yes, it can be done through credit notes by reversal of export sales subsequently*
 - C. *Only with the approval of the Authorized Dealer*
 - D. *Only in compliance with the FEMA/RBI Guidelines*
- 2.4 *Assume that one of the group companies of Ringing Bell, Singapore rendered certain services to its Indian entity for the first quarter ending 30 June 2019 and after that the related party relationship does not exist under the Companies Act, 2013 due to certain reorganisation at the group level. If such services were rendered to the Indian entity for the whole year like any other ordinary customer*
- A. *The transactions for the whole year must be disclosed as related party transaction.*
 - B. *The transactions for the first quarter ending 30 June, 2019 alone should be disclosed as related party transactions*
 - C. *Since the transactions were only for the first quarter and not for the whole year, no disclosure is required to be made*
 - D. *Only the transactions other than the 1st quarter ending 30 June, 2019 should be disclosed as related party transactions.*
- 2.5 *Ringing Bell can carry out export business activities with commercial arrangements in India directly through their LOs indefinitely without having any legal requirement to incorporate a domestic setup*
- A. *Yes, it is permissible under Ease of Doing Business Guidelines.*
 - B. *No, since the LOs are not permitted to be engaged in income generation activities.*
 - C. *Allowed with the approval of the RBI if the parent company is located in any of the SAARC countries.*
 - D. *Will be decided by the DGFT on a case to case basis after obtaining the clearance from the Income Tax Authorities and the Authorized Dealer.*

- 2.6 *Liabilities arising out supply of capital goods by the foreign parent company to Ringing Bell and written back subsequently based on the waiver letter from the parent;*
- A. *Can be taken to other income with the approval from the Authorized Dealer*
 - B. *No accounting is required; only intimation to the RBI is intended*
 - C. *To be netted against the cost of the capital asset and no RBI approvals are required for the same.*
 - D. *To be adjusted against opening Retained Earnings and approval from the RBI / AD and the appropriate authority in the foreign jurisdiction is required.*
- 2.7 *Amounts Receivable from the Foreign Party towards supply of goods or services by Ringing Bell and remaining as outstanding (in excess of the stipulated thresholds for suo moto writeoff) and considered as doubtful of recovery*
- A. *To be continued to be treated as good till such time the approval from the RBI/AD is obtained for write off*
 - B. *Can be written off in the accounts and claimed as an allowable expense for taxation purposes and the procedural aspects of approvals from the RBI/AD may be obtained later.*
 - C. *Provided for in the accounts towards doubtful receivables, disallowed for income tax computation purposes and the write off to be effected in compliance with the FEMA/RBI directions and income tax requirements.*
 - D. *Will remain in the books for ever and nothing needs to be done.*
- 2.8 *Under the Indian Insolvency and Bankruptcy code, 2016, Ringing Bell-India can initiate action against the defaulting companies in India for non-payment of its enforceable dues;*
- A. *For any amounts in excess of USD 100 in its capacity as financial creditor*
 - B. *For any amounts in excess of ₹100 in its capacity as corporate debtor*
 - C. *For any amounts in excess of ₹0.1 Million with the approval of NCLT*
 - D. *For any amounts in excess of ₹0.1 Million without the approval of NCLT*
- 2.9 *Arm's Length Principle (ALP) established under the various legal requirements in India would be the same;*
- A. *Yes, it cannot be different for different purposes*
 - B. *No, it can be different for different purposes as stipulated under the legal provisions:*
 - C. *Depends on the facts and circumstances and the nature and the type of the entity*
 - D. *The Central Government has the authority to establish the ALP which can either be the same or different under different laws.*

- 2.10 Compliance Audit of applicable laws and regulations is mandatory for all companies registered under the Indian Companies Act, 2013
- Yes, for All Companies registered under the Companies Act, 2013
 - No, it is applicable only for companies investigated by the SFIO under the Companies Act, 2013
 - It is part of the Internal Audit mandatorily stipulated under the Companies Act, 2013
 - Compliance Audit is not specifically mandated for all companies under the Indian Companies Act, 2013

PART- B

Answer the following:

- 2.11 What would be your advice to Ringing Bell in developing a framework for ensuring compliance with laws and regulations in India? (4 Marks)
- 2.12 You are requested to provide detailed response to the 3 specific clarifications sought by Thompson in connection with the Transfer Pricing aspects under the Indian regulatory requirements. (6 Marks)
- 2.13 Explain the difference between Tax Planning and Tax Evasion using the 4 specific issues raised by Ram kumar. (4 Marks)
- 2.14 What would be your response to Thompson regarding the specific requirements of the Indian Companies Act, 2013 relating to
- Need for setting up a compliance and governance committee
 - Compliance audit
 - Roles and Responsibilities of the Directors for Compliance with laws and Regulations
 - Immunity available to Directors of the Company for Ignorance of laws/ professional indemnity (8 Marks)
- 2.15 What is the role and the responsibility of the statutory auditors in connection with the laws and regulations under the applicable auditing standards in India / Indian Companies Act, 2013? (4 Marks)
- 2.16 What do you understand by the term Round Tripping under the Tax laws and explain the same with an example. (4 Marks)

Answer Question 2

PART – A

- (C)
- (D)
- (D)

- 2.4 (B)
- 2.5 (B)
- 2.6 (C)
- 2.7 (C)
- 2.8 (C)
- 2.9 (B)
- 2.10 (D)

PART – B

(2.11) In developing a compliance framework for laws and regulations in India, Ringing Bell could consider the following:

- Develop a compliance manual/checklist which captures all compliance requirements as applicable to Ringing Bell in India. This manual should be made specific to address applicable laws including specific aspects that would be relevant for the nature of entity finally chosen for carrying out the operations of Ringing Bell in accordance with the Regulatory framework.
- Develop a comprehensive compliance program which will align with the business objectives and strategy of the Group.
- Consider creating a compliance monitoring group or a committee which could be made responsible for monitoring and oversight.
- Make compliance monitoring and adherence the responsibility of everyone in the organization.
- A periodical statement of compliance from all key stakeholders confirming compliance with all applicable regulations under their responsibility.
- A program of compliance audit or an independent compliance assurance could be introduced on a periodic basis.
- Consider having a compliance tool/dashboard which provides instant visibility to Senior Management on the compliance status at the Company at any point in time.
- Having an effective Board oversight on the compliance status.

Alternative

As per the Master Circular on Establishment of Liaison / Branch / Project Offices in India by Foreign Entities

Permissible Activities for a Liaison Office:

A Liaison Office (also known as Representative Office) can undertake only liaison activities, i.e. it can act as a channel of communication between Head Office abroad and parties in India. It is not allowed to undertake any business activity in India and cannot earn any income in India. Expenses of such offices are to be met entirely through inward remittances of foreign exchange from the Head Office outside India. The role of such offices is, therefore, limited to collecting information about possible market opportunities and providing information about the company and its products to the prospective Indian customers. Permission to set up such offices is initially granted for a period of 3 years and this may be extended from time to time by an AD Category I bank.

A Liaison Office can undertake the following activities in India:

- i Representing in India the parent company / group companies.
- ii Promoting export / import from / to India.
- iii Promoting technical/financial collaborations between parent/group companies and companies in India.
- iv Acting as a communication channel between the parent company and Indian companies.

Reporting by Liaison Offices (LO)

1. All new entities setting up LO shall submit a report containing information, as per given format within five working days of the LO becoming functional to the Director General of Police (DGP) of the state concerned in which LO has established its office; if there is more than one office of such a foreign entity, in such cases to each of the DGP concerned of the state where it has established office in India;
2. Branch Offices / Liaison Offices have to file Annual Activity Certificates (AAC) from Chartered Accountants, at the end of March 31, along with the audited Balance Sheet on or before September 30 of that year.

(2.12)(i) Since the profits derived by enterprises carrying on business in India can be controlled by the multinational group, by manipulating the prices charged and paid in intra-group transactions, thereby, leading to erosion of tax revenues, the Indian Income Tax authorities would not accept the transfer pricing policy followed by the group globally in all cases.

Sections 92 to 92F had been included in Chapter X of the Income-tax Act, 1961, through the Finance Act, 2001, providing for a transfer pricing mechanism, which has to be followed by the Assessing Officer for determining the Arm's Length Price of the transactions entered among group companies.

Alternate Answer

Yes, the transfer pricing policies of group would be acceptable if policies are framed in compliance with Indian transfer pricing regulations.

- (ii) Yes; in order to gain certainty prior to entering into an international transaction with an Associated Enterprise, the taxpayers have an option of applying for an Advance Pricing Agreement (APA) and obtaining results before the transaction is actually undertaken. The same has the potential to reduce litigation for the taxpayer and provide certainty for a longer period of time.

An APA is an agreement between a tax payer / applicant and the CBDT, which determines the arm's length price of future intercompany transactions. It can also be used for existing intercompany transactions. The tax payer/ applicant mutually agree on the transfer pricing methodology to be applied and its application, in relation to the taxpayer's international transactions for certain future period of time.

Once an APA has been entered into with respect to an international transaction, the arm's length price with respect to that international transaction, for the period specified in the APA, will be determined only in accordance with the APA. The APA shall be binding on the person as well as the Income-tax authorities for the specified transaction and period as covered in the APA.

- (iii) Section 188 of the Companies Act, 2013 prohibits companies from entering into related party transactions except with the consent of the Board of Directors given by a resolution at the Board meeting and subject to prescribed conditions. However, this restriction would not apply if the transactions are entered into by the company in its ordinary course of business other than transactions which are not on an arm's length basis. For this purpose, arm's length transaction has been defined to mean a transaction between two related parties that is conducted as if they are unrelated, so that there is no conflict of interest.

Therefore, for the purpose of application of arm's length principle under the Companies Act, 2013, a related party is defined under section 2(76) of the said Act, whereas for the purpose of application of arm's length price under the Income-tax Act, 1961, an associated enterprise has been defined under section 92A of the said Act for an international transaction.

Likewise, under customs laws, separate rules are notified to value import and export transactions for the purpose of paying custom duties at arm's length. Essentially, the valuation under customs law is based on transaction value with addition of certain specified cost and services. In cases where transaction value cannot be adopted, like, related party transactions, the rules provide for valuation through identical or similar goods in that order. It may be noted that related party has been defined separately under the Customs Valuation Rules. Similarly, under GST laws also, in case of related persons, transaction value is not accepted and separate rules have

been provided for valuing the supply made between related persons. Here again, related persons have been defined in the GST Act.

Yes, since there are separate provisions under different laws for determination of ALP, the yardsticks prescribed under the Income-tax Act, 1961 will not apply to other laws. Each law contains its own definition of related party to whom arm's length determined as per the provisions said law would be applied.

- (2.13)(i) Setting up a unit in a special economic zone and taking advantage of a fiscal incentive offered to him by complying with the conditions imposed and economic consequences of the provisions in the legislation is permitted tax planning under the provisions of income-tax law.
- (ii) Loan from shell/ loss making Indian subsidiary of supplier based out of Singapore at a higher rate of interest is tax evasion. Indian entity would claim deduction of interest payable at a higher rate to shell/ loss making Indian subsidiary from the profit of business.
- The arrangement appears to be to avoid payment of tax on interest income by Singapore entity in case loan is directly provided by Singapore entity to Indian entity.
- (iii) Whether to pay dividend to a shareholder or not is a business choice of the company, which a company is entitled to exercise at any point of time. Accordingly, this would not tantamount to tax evasion.

Alternate answer

Retention of profits without dividend declaration by a closely held company outside India in a no tax or low tax jurisdiction is a method of tax avoidance/evasion. These companies are referred to as Controlled Foreign Corporations (CFCs), which resort to retention of profits rather than distribution of dividend, so that the shareholders are not subject to tax on such distributed income.

Note - Many countries have CFC Rules to bring such undistributed profits to tax in the hands of shareholders. However, at present, there are no CFC rules under the Income-tax Act, 1961. Since the question does not specify whether the company is a closely-held company or not, the alternate answer is given on the basis of the assumption that company is a closely held company situated in a no tax or low tax jurisdiction.

- (iv) Providing rebates and discounts to channel partners who are customers of the company is a business practice. Hence, it is not a tax evasion.

(2.14)

Sl. No.	Clarifications	Suggested Response
1.	Need for setting up a	There is no specific requirement to

	compliance and governance committee	mandatorily set up a compliance and governance committee for the companies registered under the Indian Companies Act, 2013.
2	Compliance audit	There is no specific requirement to carry out a compliance audit under the Companies Act, 2013. However, for the Directors to confirm existence of a proper system to ensure compliance with all laws, an effective monitoring mechanism has to be put in place by the Company, which could be in the nature of a periodical compliance audit or other similar exercise.
3	Roles and responsibilities of Directors for compliance with laws and regulations	<p>It is duty of the Directors to ensure the compliance with all laws. Accordingly, it is the responsibility of the Directors to ensure:</p> <ul style="list-style-type: none"> • Appropriate compliance monitoring mechanism is in place in the company • Such a system covers all relevant regulations • Appropriate oversight and review mechanisms exist to monitor the same • The business processes and policies are aligned with compliance requirements • The outcome from the system is monitored and measures and accountability is fixed • A periodical compliance audit is undertaken which confirms the existence of a robust system as well as compliance with all laws and regulations <p>Alternative</p> <p>According to section 166 of the Companies Act, 2013,</p> <p>(1) Subject to the provisions of this Act, a director of a company shall act in accordance with the articles of the company.</p> <p>(2) A director of a company shall act in good faith in order to promote the objects of</p>

		<p>the company for the benefit of its members as a whole, and in the best interests of the company, its employees, the shareholders, the community and for the protection of environment.</p> <p>(3) A director of a company shall exercise his duties with due and reasonable care, skill and diligence and shall exercise independent judgment.</p> <p>(4) A director of a company shall not involve in a situation in which he may have a direct or indirect interest that conflicts, or possibly may conflict, with the interest of the company.</p> <p>(5) A director of a company shall not achieve or attempt to achieve any undue gain or advantage either to himself or to his relatives, partners, or associates and if such director is found guilty of making any undue gain, he shall be liable to pay an amount equal to that gain to the company.</p> <p>(6) A director of a company shall not assign his office and any assignment so made shall be void.</p> <p>(7) If a director of the company contravenes the provisions of this section such director shall be punishable with fine which shall not be less than one lakh rupees but which may extend to five lakh rupees.</p>
4	Immunity available to directors of the Company for ignorance of laws/professional indemnity	Ignorance of law is not a valid defence for the Directors under the Companies Act, 2013. Accordingly, no immunity is available to directors under the Companies Act, 2013 for ignorance.

(2.15) Role and Responsibility of the Auditor : Requirements of SA 250 " Consideration of Laws and Regulations in an Audit of Financial Statements" are designed to assist the auditor in identifying material misstatement of the financial statements due to non-compliance with laws and regulations. However, the auditor is not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

1. The auditor is responsible for obtaining reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error as per SA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing, in conducting an audit of financial statements, the auditor takes into account the applicable legal and regulatory framework. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the SAs.
2. In the context of laws and regulations, the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for such reasons as the following:
 - There are many laws and regulations, relating principally to the operating aspects of an entity that typically do not affect the financial statements and are not captured by the entity's information systems relevant to financial reporting.
 - Non-compliance may involve conduct designed to conceal it, such as collusion, forgery, deliberate failure to record transactions, management override of controls or intentional misrepresentations being made to the auditor.
 - Whether an act constitutes non-compliance is ultimately a matter for legal determination by a court of law.

Ordinarily, the further removed non-compliance is from the events and transactions reflected in the financial statements, the less likely the auditor is to become aware of it or to recognise the non-compliance.

3. This SA distinguishes the auditor's responsibilities in relation to compliance with two different categories of laws and regulations as follows:
 - (a) The provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements such as tax and labour laws; and
 - (b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operating aspects of the business, to an entity's ability to continue its business, or to avoid material penalties (for example, compliance with the terms of an operating license, compliance with regulatory solvency requirements, or compliance with environmental regulations); non-compliance with such laws and regulations may therefore have a material effect on the financial statements .

In this SA, differing requirements are specified for each of the above categories of laws and regulations. For the category referred to in para (a), the auditor's responsibility is to obtain sufficient appropriate audit evidence about compliance

with the provisions of those laws and regulations. For the category referred to in paragraph (b), the auditor's responsibility is limited to undertaking specified audit procedures to help identify non-compliance with those laws and regulations that may have a material effect on the financial statements.

4. The auditor is required by this SA to remain alert to the possibility that other audit procedures applied for the purpose of forming an opinion on financial statements may bring instances of identified or suspected non-compliance to the auditor's attention. Maintaining professional skepticism throughout the audit, as required by SA 200, is important in this context, given the extent of laws and regulations that affect the entity.
5. As part of obtaining an understanding of the entity and its environment in accordance with SA 315, "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment", the auditor shall obtain a general understanding of:
 - (a) The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates; and
 - (b) How the entity is complying with that framework.
6. The auditor shall obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements.
7. The auditor shall perform the following audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements:
 - (a) Inquiring of management and, where appropriate, those charged with governance, as to whether the entity is in compliance with such laws and regulations; and
 - (b) Inspecting correspondence, if any, with the relevant licensing or regulatory authorities.
8. During the audit, the auditor shall remain alert to the possibility that other audit procedures applied may bring instances of non-compliance or suspected non-compliance with laws and regulations to the auditor's attention.
9. The auditor shall request management and, where appropriate, those charged with governance to provide written representations that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed to the auditor.

10. In the absence of identified or suspected non-compliance, the auditor is not required to perform audit procedures regarding the entity's compliance with laws and regulations,
 11. If the auditor suspects there may be non-compliance, the auditor shall discuss the matter with management and, where appropriate, those charged with governance. If management or, as appropriate, those charged with governance do not provide sufficient information that supports that the entity is in compliance with laws and regulations and, in the auditor's judgment, the effect of the suspected non-compliance may be material to the financial statements, the auditor shall consider the need to obtain legal advice.
 12. If sufficient information about suspected non-compliance cannot be obtained, the auditor shall evaluate the effect of the lack of sufficient appropriate audit evidence on the auditor's opinion.
 13. The auditor shall evaluate the implications of non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations, and take appropriate action.
 14. In accordance with specific statutory requirements, the auditor may be specifically required to report, as part of the audit of the financial statements, on whether the entity complies with certain provisions of laws or regulations. In these circumstances, Revised SA 700, "Forming an Opinion and Reporting on Financial Statements" or SA 800 "Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks", deal with how these audit responsibilities are addressed in the auditor's report. Furthermore, where there are specific statutory reporting requirements, it may be necessary for the audit plan to include appropriate tests for compliance with those provisions of the laws and regulations.
- (2.16) As per section 97(1), an arrangement *inter alia* shall be deemed to lack commercial substance if it involves or includes round trip financing. Section 97(2) provides that round trip financing includes any arrangement in which, through a series of transactions—
- (a) funds are transferred among the parties to the arrangement; and
 - (b) such transactions do not have any substantial commercial purpose other than obtaining the tax benefit,
- without having any regard to—
- (A) whether or not the funds involved in the round trip financing can be traced to any funds transferred to, or received by, any party in connection with the arrangement;
 - (B) the time, or sequence, in which the funds involved in the round trip financing are transferred or received; or

- (C) the means by, or manner in, or mode through, which funds involved in the round trip financing are transferred or received.

Example:

A Ltd. incorporates a S Inc. in a NTJ (Low Tax Jurisdiction) with equity of US \$100. S Inc. gives a loan of US \$ 100 to another Indian company (X Ltd.) at the rate of 10% p.a. X Ltd. claims deduction of interest payable to S Inc. from the profit of business. There is no other activity in S Ltd.

The arrangement appears to be to avoid payment of tax on interest income by A Ltd. in case loan is directly provided by A Ltd. to X Ltd. The arrangement involves round tripping of funds even though the funds emanating from A Ltd. are not traced back to A Ltd. in this case. Hence, the arrangement may be deemed to lack commercial substance.

Question III

You are the well-known Corporate Guru specializing in assisting companies in carrying out business valuations, due diligences and providing various transactional advisory services including the Risk assessment for corporates. Your clients are typically start-up companies which are looking for capital infusion/advice and support in building their core operational and governance model.

Ding Dong Ventures is a Private Equity (PE) fund which specializes in funding the startups in the area of E-commerce. They have reached out to you to help them in carrying out the Risk assessment, due diligence and also a business valuation of one of their targets, namely, Quick & Qual Sys Limited specializing in developing innovative last mile connectivity products to facilitate seamless delivery of retail products quickly and efficiently. Ms. Harini, the Managing Partner of Ding Dong Ventures introduced you to Mr. Ramaswamy, the promoter and the Managing Director of Quick & Qual Sys Limited and also to Mr. Sarvesh, the Chief Finance Officer of Quick & Qual Sys Limited. They have given you an overview of the Company and the business along with the various financial metrics for your perusal.

Company Overview

The company is promoted 5 years back by Ramaswamy in Pune. It commenced its commercial operations after a year of incorporation after augmenting the sizable capital and debt. It has grown in its size steadily. Currently it has 80 employees located primarily in Pune. Mr. Frederick is the Chief Operating Officer and Mr. Naveen is the Chief Strategy Officer of the Company who have joined hands with Ramaswamy in expanding the operations of the Company. Sarvesh, the Chief Financial Officer of the Company joined recently and has the experience of taking couple of startups for listing in the past.

Business Outlook

The strategic focus of the Company is to get listed in the Indian Stock market in the next 5 years of time. The management believes that with the rapid growth in the E-commerce space, the need for developing a viable solution for the last mile connectivity using the power of technology and the knowledge of the Indian customer would be absolutely critical. The company is also

embarked on a journey of using artificial intelligence for responding to the requests of the E-commerce players in bringing a holistic technology network platform. It is expected that in the next few years with the considerable liberalization in the foreign investment policy, several global players are expected to target the Indian market and hence, the market is going to grow exponentially. It is worth noting that the Company spends about 10% of the profits for innovation.

The company's continued business success depends on the support provided by 2 of its major customers namely Gamazon and Blip Kart though there are other innumerable small volume customers. The market share put together from these 2 customers is expected to be around 27% in the last year. Further, the company is also dependent on the continued support from its core employees, who are categorized as Platinum Players, numbering 10. Whilst every effort is made for rewarding these employees suitably with stock options and other monetary benefits, the chances of them leaving the company and joining the competition are very high.

Competition Landscape

There are several players who have entered this space due to the renewed interest evinced by the foreign players in the Indian E-commerce business. Whilst the craze is noticeable, there are only handful of viable competitors to Quick & Qual Sys, namely. Humble Honey Bee Solutions and Golmart Global Solutions who are also having a similar volume of operations and the business outlook. Humble Honey Bee Solution was valued at USD 12.50 Million recently for its second round of PE funding whereas Golmart is yet to raise funds from third parties and is solely managed by promoter funding at present.

Financial Overview

Sarvesh has presented a detailed strategic profitability analysis of the Company. During the presentation, several questions were raised on various aspects including the growth, profitability, sensitivity analysis of price trends, impact of forex fluctuations on the operations of the company, sustainability aspects etc.

An analysis of the operating income for 2017 and 2018 is given below:

(Amount in ₹)

Particulars	Amount as per P&L in 2017	Revenue and Cost Effect of Growth component in 2018	Cost and Revenue Effect of Price Recovery Component in 2018	Cost Effect of Productivity Component in 2018	Amount as per P&L in 2018
Revenue	4,60,08,571	21,00,000	43,00,000		5,24,08,571
Cost	2,85,00,000	6,00,000	25,60,000	(6,80,000)	3,09,80,000
Operating Income*	1,75,08,571	15,00,000	17,40,000	6,80,000	2,14,28,571

*Represents profit before tax

Company added 300 and 500 customers in 2017 and 2018 respectively by focusing more on the client base rather than on the value of the revenue generated from each and every customer. During 2018, the E-commerce market has registered a general growth of about 10% in terms of number of customers and all other changes are due to the company's differentiation cum marketing strategy and the productivity based efficiencies brought into operations due to innovations.

The customers of the company are primarily located in India. Whilst the company has several domestic borrowings, it has also borrowed through Forex Tech Fund channel, an amount of USD 5,00,000 where the rate of interest is pegged at 5% flat. The loan was taken when the USD was at 1 USD - ₹61 and the company expects that there will not be any wide variation when the loan is to be settled after a period of 4 years and, hence, has not taken any forward/swap for covering the forex fluctuations.

Business Case for Funding

Quick & Qual Sys has recently registered its name convincingly in the investor community through their endorsement by the E-Commerce World Association as Rising Star! In addition, it also has got favourable reviews from several Analysts in this space who are watching their marketing strategy and the customer penetration style closely. Several PEs including Ding Dong has evinced keen interest in building a relationship with Quick & Qual Sys.

Naveen presented an overview of the business case for funding by Ding Dong and provided various vital information based on his assessment. He indicated that for fueling the growth in the business, adequate capital infusion would be required given the ongoing technological disruptions.

He has indicated that for business valuation purposes, there is no point in using asset based valuation model which will not be suitable for such high potential E-commerce startups since the model has several drawbacks. He said that he would not entertain any valuation exercise based on such models. He suggested that any business valuation needs to be "Forward looking" duly considering the income generating potential of the entity on a sustainable basis.

He added that the average cost of debt for the company is about 11% and the tax rate can be presumed to be around 30%. The Company has an EBITDA of ₹26,453,571 for FY 2017-18 and the leverage beta based on E-commerce industry is 2.3 which is 0.86 less than the unlevered Beta. The average Equity-Debt ratio is about 70:30. The rate of return provided by highly liquid bonds is around 4%. The Enterprise value is pegged at a multiple of 3 on EBITDA. The E-commerce industry generally expects a market return of about 8% as per the recent research report published by Gartners. Free Cash flow for the next 3 years is expected to be flat at about ₹19,300,000. The value arrived based on Relative Valuation technique is around ₹53 Million.

You wanted the details of EBITDA and noted the following on perusal:

An amount of ₹5.5 Million has been taken as intangible asset which represents the management derived salary cost equivalent of time spent by the senior management in building innovative E-

commerce platforms. There is nothing specific which can be identified specifically as an intangible item.

An amount of ₹ 3 Million has been accrued towards unbilled revenue which remains unbilled for over 18 months and the same represents the additional amounts claimed by the company which is challenged by the customer.

An amount of ₹ 2 Million, including ₹ 0.45 Million of GST towards sales promotion expenses for which no input credit was availed/eligible, has been considered as deferred revenue expenditure where such promotion expenses incurred by the company is expected to yield benefits over the next 2 years excluding 2018.

An amount of ₹ 6 Million has been paid to Ramaswamy towards his salary cost for the services rendered by him to the Company even though the comparable startups would pay roughly 50% of the amounts paid by the Company.

The Chief Finance Officer, Sarvesh indicated that the Capital Asset Pricing Model (CAPM) could also be considered for evaluating the risks attached and the returns expected from the investors view point which will make the investment in the company very attractive.

Harini wanted to have an idea on the Economic Value Added (EVA) by the Company for which Sarvesh responded that the same could be derived based on the information already made available to Ding Dong and no further details are required to compute the same.

To a specific query raised by you on abnormal costs, if any, identified by the management, Sarvesh responded that he is not aware of any such things under the Cost Accounting Standards though he was unsure of the applicability of the same to the Company.

PE Expectations

Post your introduction meeting with Quick & Qual Sys, Harini of Ding Dong explained her expectations from you and gave the following additional inputs.

The company has a Company Secretary who also acts as a compliance officer. Being a promoter driven set up which has transformed in the last 2 years more rapidly, the company is putting in place a robust platform for strengthening the compliance controls. The promoter, Ramaswamy was banned by SEBI in the past in connection with the trading in shares by using the insider information for a period of 3 years in 2006. He has come out of this ban now and has repositioned himself as an Emerging Business Magnet with this Startup venture. Further, he is also a director in another Company unrelated to Quick & Qual Sys, namely, Wine and Wonder Limited which did not file the financial statements for the years ended 31 March 2016 and 2017 and did not pay interest on loans taken from a public financial institution from 1st April 2017. However, it has promptly repaid matured deposits taken from public on due dates.

The company currently uses Tally for its accounting and operational book keeping purposes. Cheques are signed by the Chief Financial Officer only as a single signatory. The company does not have any system of organizational hierarchy from the finance view point and is taking this up as a key priority for FY 2019.

Harini has indicated that they are very excited to pursue this investment opportunity and hence apart from the Risk assessment, Due Diligence and Business Valuation to be carried out by you, she wants to assess the Value at Risk (VAR) for the proposed investment of Ding Dong. She was also keen to understand the implications of using Gordons Model for assessing the value potential of similar E-Commerce companies in the startup space. She is also open to consider Leveraged Buyout options, if the same is found to be more attractive and needs your inputs on the same as well.

You are requested to critically evaluate the Business Case presented by Quick & Qual Sys and provide your inputs to help Ding Dong in making their investment decision. Please note that Ding Dong would present your findings and the responses provided by you for the various clarifications/questions directly to their investment committee based out of New York and hence you need to put in your best in meeting the stakeholders expectations!

Good luck.....!

PART-A

Answer the following questions:

- 3.1 As indicated by Harini of Ding Dong, the concept of VAR can be applied
- For Business valuations
 - For Goodwill valuations
 - For using as a tool for asset/liability management
 - For deriving Beta variable (2 Marks)
- 3.2 Adjusted EBITDA to be considered for business valuation of Quick & Qual Sys is ₹:
- 12,953,571
 - 15,953,571
 - 14,953,571
 - 26,453,571 (2 Marks)
- 3.3 Gordon Model of valuation can be applied to Quick & Qual Sys
- Yes, it is widely used by PEs since it is practical
 - No, it is Rarely used by PEs since it is theoretical
 - No, it is used only when the entities plough back the profits
 - No, it is used only when the entities declare dividends continuously (2 Marks)
- 3.4 The concept of Equity Value and the Enterprise Value for Quick & Qual Sys
- is different
 - is one and the same
 - depends on the purpose of valuation
 - Not applicable since it operates in E- commerce space (2 Marks)

- 3.5 The concept of EVA referred to by Harini
- A. is derived based on the expected value addition using the value at risk
 - B. Is derived based on surplus of returns over the capital charge
 - C. Is derived based on PBT and the Beta attached to the business
 - D. Is derived based on deficit of returns over the capital charge (2 Marks)
- 3.6 Leveraged Buyout Option based investment model proposed by Ding Dong envisages
- A. Long Term Business based investment through Equity
 - B. Clever Mix of Debt and Equity and leveraging on the debt to create value
 - C. Funding through Long Term Debt focused on high yields
 - D. Investing through creeping acquisitions of Equity based on Business growth (2 Marks)
- 3.7 Horizon Value typically considered in business valuations represents
- A. The value of the business derived based on Free Cash Flow
 - B. The value the investor will forecast for valuing the investment at the exit point
 - C. The value of the business derived using the perpetual growth model
 - D. The value the buyer is willing to pay at the end of the negotiation (2 Marks)
- 3.8 The Capital Assets Pricing Model for valuing Quick and Qual Sys is to be developed based on the principle of
- A. Valuing the investment returns based on indirect benefit of assuming risks
 - B. Valuing the investment returns based on the direct benefit of assuming risks
 - C. Valuing investment returns using the hybrid model of capital and assets deployed
 - D. Valuing investment returns using the sales pricing model and Beta. (2 Marks)
- 9 Strategic Profitability Analysis presented by Sarvesh for Quick & Qual Sys is carried out using the
- A. Standard Cost, Margin Analysis, Product Profitability
 - B. Marginal Cost Recovered, Fixed Costs, Product Mix
 - C. Strategic Objectives, Profit Component, Cost Component
 - D. Growth Component, Price Recovery Component and the Productivity Component. (2 Marks)
- 3.10 In view of the provisions of the Companies Act, 2013, duty considering the aspects relating to non-compliances associated with Wine & Wonder Limited, promoter Director of Quick & Qual Sys, Mr. Ramaswamy is;
- A. Disqualified to continue as a Director in. Quick & Qual Sys

- B. Disqualified to continue as a Director in Wine & Wonder.
- C. Disqualified to continue as a Director in Quick & Qual Sys as well as Wine & Wonder.
- D. Not Disqualified and hence he can continue as a Director of Quick & Qual Sys and Wine & Wonder. (2 Marks)

PART B**Answer the following:**

- 3.11 How would you rate Quick & Qual Sys based on the information provided and elucidate various positive and negative aspects that needs to be considered in the overall evaluation of the investment by Ding Dong? (5 Marks)
- 3.12 You are required to identify different types of Risk faced by Quick & Qual Sys and also assess the Risk critically to facilitate investment decision by Ding Dong. (7 Marks)
- 3.13 Prepare a Buildup statement of Operating Income of Quick & Qual Sys by taking 2017 as a base and arrive at 2018 operating income by deriving the extent of change in operating income from 2017 to 2018 due to the industry market size factor, productivity and product differentiation. (5 Marks)
- 3.14 Based on the Business Case details provided by Quick & Qual Sys, what would be the potential value that can be placed for the Company? (7 Marks)
- 3.15 What is the difference between Risk Assessment, Due Diligence and Valuation exercises which you need to carry out on behalf of Ding Dong in connection with their potential investment in Quick, & Qual Sys and how are they inter related? (6 Marks)

Answer to Question 3**PART – A**

- 3.1 (C)
- 3.2 (A)
- 3.3 (C) or (B)
- 3.4 (A)
- 3.5 (B)
- 3.6 (C) or (B)
- 3.7 (B)
- 3.8 (D) or (B)
- 3.9 (D)
- 3.10 (D)

PART – B

- (3.11) Quick & Qual Sys can be rated as a reasonably good company. The various positive and negative aspects that need to be considered in the overall evaluation of the investment by Ding Dong are discussed as below:

Positive Aspects:

- (i) Quick & Qual Sys is using artificial intelligence for responding to the requests of the major E-commerce players in bringing a holistic technology network platform.
- (ii) Continued support from so called “Platinum Players” – company’s 10 core employees.
- (iii) Company’s operating income increased from ₹ 1,75,08,571 in 2017 to ₹ 2,14,28,571 in 2018.
- (iv) Company’s differentiation cum marketing strategy and the productivity based efficiencies executed due to innovations practiced by the company.
- (v) Endorsement by E-Commerce World Association as Rising Star. In addition, it got favourable reviews from several analysts.

Negative Aspects:

- (i) An amount of ₹ 3 million has been accrued towards unbilled revenue which remains unbilled for over 18 months and the same represents the additional amounts claimed by the company which is challenged by the customer.
- (ii) An amount of ₹ 6 million has been paid to Ramaswamy (MD of the company), towards his salary cost which is quite high as compared to other startups that would pay about 50% of what has been paid by Quick & Qual Sys.
- (iii) Ramaswamy was banned by SEBI for 3 years in 2006 for providing insider information in connection with the trading in shares.
- (iv) The company does not have any system of organizational hierarchy from the finance view point.

Alternate**(3.11) Positive factors:**

- A Good business track record for the Company
- Leading companies as its customers
- Availability of High quality employees who know their business
- Focus on innovation and newer products
- Recognition in the investor community

Negative factors

- Heavy Competition
- Concentration with few customers
- Dependence on few high performing employees
- Absence of sound compliance and reporting platform
- Track record of the promoter

(3.12) The various types of risks faced by the company and their critical assessment have been explained in the following paragraphs:

- (i) **Strategic Risk** – Company's strategic risks have been managed well by using artificial intelligence for responding to the requests of the major E-commerce players for smooth technology network platform. Also, the company spends 10% of the profits for innovation which helped it to execute differentiation cum marketing strategy and develop productivity based efficiencies. Company is mainly dependent on the support provided by two of its major customers i.e. Gamazon and Blip Kart. Further, the company is also dependent upon the continued support from its so called "Platinum Players" – company's 10 core employees.

It is a challenge for the company to maintain good relations with its core customers and well as the core employees. However, in spite of rewarding these employees reasonably well, their chances of leaving the organization are reasonably high.

- (ii) **Competition Risk** – The Company has only handful of viable customers like Humble Honey bee Solutions and Golmart Global Solutions. So, it can be said that competition risk is manageable by the company.
- (iii) **Operational Risk** - Higher salary paid to the promoter of the company may dent the profitability of the company in future. Also, the company does not have any system of organizational hierarchy from the finance view point. However, it is taking this up as a key priority for FY 2019.
- (iv) **Foreign Exchange Risk** – The Company has not taken any forward/swap for covering the foreign exchange fluctuations which might take place when the loan amount of USD 5,00,000 has to be settled after a period of 4 years.
- (v) **Counter Party Risk** - An amount of ₹ 3 million has been accrued towards unbilled revenue which remains unbilled for over 18 months and the same represents the additional amounts claimed by the company which is challenged by the customer. Therefore, the counter party risk remains with the company.
- (vi) **Reputation/Governance Risk** – Ramaswamy (MD) of the company was banned by SEBI for insider trading. Ban is over now but it may still affect the reputation of Quick & Qual Sys. Further, he is also a director in an unrelated company which has not filed its financial statements for 2016 and 2017 and did not pay interest on loans taken from financial institutions from 1 April 2017. So, reputation risk of the company is at stake which has to be managed wisely.
- (vii) **Compliance Risk** – The Company has a Company Secretary who also acts as a compliance officer. Further, the Company is putting in place a robust platform for strengthening the compliance controls. Thus, it can be said that the company is managing its compliance risk well.

Alternate

(3.12)

The risks faced by Quick and Qual Sys are summarized below:

S.No	Particulars	Indicative Risks
1.	Strategic risk	Considering heavy competition from two of its closest competitors, the Company's strategic plan should be robust such that the Company's strategy does not become less effective and becomes outdated. Innovation should be a focus area and the Company should constantly review its innovation spends, outcomes with its key stakeholders including employees and see ways of retaining talent as well as knowhow within the Company.
2.	Compliance risks	Considering certain past action by SEBI on the promoter, this is a risk that will be closely watched by the investors. Company should also consider setting up a strong financial reporting/ compliance platform which can be used for effective and compliant financial reporting as the volume grows rather than dependence on tally. As the Company intends to get listed, compliance should be at the forefront of priorities.
3.	Operational risks	Dependence on core employees who could be tapped by competitors.
4.	Market Concentration risks	High concentration with two customers who contribute about 27% of the volume.
5.	Political risk	Whilst there are no specific political risks, the perception about the Country and its environment including the states in which the Company operates needs to be dealt with by the Company. Customers of the Company are currently located only in India. No geographical diversification in terms of customers.
6.	Financial risks: - Interest rate risk	The Company has borrowings where the interest rate could vary depending on market factors.
7.	Financial risks: - Currency risk	The Company has unhedged foreign currency exposures and the risk of variability in foreign currency rates.

(3.13) Reconciliation of Operating Income

Particulars	Amount (₹)
Operating Income in 2017	1,75,08,571
Add: Change Due to Industry Market Size Factor (W.N.-1)	2,25,000 (F)
Changes Due to Productivity (W.N.-2)	6,80,000 (F)
Changes Due to Product Differentiation (W.N.-3)	30,15,000 (F)
Operating Income in 2018	2,14,28,571

Workings

Total Increase in Customers 200 (500 – 300). Out of this increase in customer of 200 customers, 30 customers (10% of 300) is due to *growth in market size*, and the remaining 170 customers are due to an increase in *market share*.

W.N.1 Effect of the Industry Market Size Factor on operating income:

$$= \text{Revenue and Cost Effect of Growth Component in 2018} \\ \times \frac{\text{Increase in Sales Unit Due to Market Growth}}{\text{Total Growth in Sales Unit (from 2017 to 2018)}}$$

$$= ₹ 15,00,000 \times \frac{30 \text{ Customers}}{200 \text{ Customers}}$$

$$= ₹ 2,25,000 (F)$$

W.N.2. Effect of Productivity on operating income:

$$= \text{Cost Effect of Productivity Component in 2018}$$

$$= ₹ 6,80,000 (F)$$

W.N.3 Effect of Product Differentiation on operating income:

Particulars	Amount (₹)
Increase in the Selling Price (Revenue Effect of the Price Recovery Component)	43,00,000 (F)
Increase in Prices of Inputs (Cost Effect of the Price Recovery Component)	25,60,000 (A)
Growth in Market Share Due to Product Differentiation* $\left(₹15,00,000 \times \frac{170 \text{ Customers}}{200 \text{ Customers}} \right)$	12,75,000 (F)
Total	30,15,000 (F)

$$* \text{ Revenue and Cost Effect of Growth Component in 2018} \times \\ \frac{\text{Increase in Sales Unit Due to Product Differentiation}}{\text{Total Growth in Sales Unit (from 2017 to 2018)}}$$

(3.14) Cost of debt = $11 - (11 \times 0.30) = 7.7\%$

Industry Levered Beta = 2.3

So, Industry Unlevered Beta = $2.3 + 0.86 = 3.16$

And, Beta of the security = $3.16 \left[1 + \frac{30}{70} (1 - 0.30) \right]$

$$= 3.16 \left[1 + \frac{30}{70} \times 0.70 \right] = 3.16 \times 1.30 = 4.108$$

Or

Beta of the security can also be calculated as follows;

$$= \beta \times \frac{0.70}{0.30(1-0.30)+0.70}$$

Or $\beta = 4.108$

Cost of Equity (Ke) = $R_f + \beta (R_m - R_f)$

$$= 4\% + 4.108 (8\% - 4\%)$$

$$= 20.43\%$$

So, WACC = $0.30 \times 7.70\% + 0.70 \times 20.43\%$

$$= 2.31 + 14.30 = 16.61\%$$

Therefore, the potential value that can be placed for the company

$$= 19.30 \text{ million} \times \text{PVF} (16.61\%, 3)$$

$$= 19.30 \text{ million} \times 2.224 = 42.9232 \text{ million}$$

Alternate

(3.14)

Particulars	Year 1	Year 2	Year 3
Free Cash flows (Rs.)	19,300,000	19,300,000	19,300,000
Discount factor	0.877	0.77	0.676
PV Of cash flows (Rs.)	16,937,370	14,863,963	13,044,375
Value of the Entity (Rs.)			44,845,708

Workings:



Particulars	Details	Basis
Levered Beta	2.3	As provided
Unlevered Beta	3.16	$\text{beta}/1+(1-\text{tax rate } (30\%)) \times (\text{debt } (30)/\text{equity}(70))$
Adjusted EBITDA (Rs.)	12,953,571	(EBITDA as given less adjustments for amount treated as intangible asset of Rs. 5.5 Mio, unbilled revenue of Rs. 3 Mio, deferred revenue expenditure of Rs. 2 Mio and higher salary cost of Rs. 3 Mio)
Enterprise Value (Rs.)	38,860,713	Adjusted EBITDA * multiple of 3, as given
Cost of equity as per CAPM	16.63%	4% being expected return from liquid bonds + unlevered beta * (market expected return of 8% less 4% being the risk free return)
Weighted average cost of capital	13.95%	COE of 17% * (Equity of 70/100)+ Cost of debt of 11% adjusted for tax @70% * (Debt of 30/100)

(3.15)

Risk assessment – Business organisations face several kinds of Risks. Risk assessment exercise primarily analysis what could go wrong, how likely it is to happen, what could be the potential consequences and how tolerable the risk is. This is an important step in the overall progress and growth journey of an enterprise as well as an important aspect of any evaluation carried out by investors/stakeholders about a Company's true value. The various types of Risks could range from internal to external and also be categorized under strategic, compliance, operational, financial, political currency, interest rate risks etc.

Due diligence is an investigation or examination of a potential investment or product to confirm all facts, such as reviewing all financial records, plus anything else deemed material. It refers to the care a reasonable person should take before entering into an agreement or a financial transaction with another party. The due diligence could range from financial due diligence, legal due diligence, technical due diligence and would require specialized skills to carry out the same. Due diligences are generally viewed as deal breakers and satisfactory resolution of the issues raised as part of due diligence would be very crucial for making investments and also providing the required inputs for business valuations.

Valuation – as an enterprise grows, it adds more number of stakeholders in its progress. Whilst presentation of financial statements, quarterly results etc, provide the stakeholders with information, these becomes staple diet for them who sow the seeds in capital and in turn wait for the enterprise to multiply its progressive potencies. In a relative world, there is a persisting curiosity for the investors to know the real worth of the Company, which results in the concept of valuation. Need for valuation arises on account of the below:

- Information for its internal stakeholders
- Comparison with similar enterprises
- Future public listing of the enterprise
- Strategic planning, i.e finding out value drivers and/or for sources for correct deployment of funds
- Acquisition price etc.

In any valuation exercise, depending on the purpose of the valuation, an important factor is the risk that the entity faces which will need to be factored in the valuation. Accordingly, risk assessment is an important step/input in the entire valuation exercise. For the right identification of risks by a strategic investor, an exercise such as due diligence provides a solid platform that can be used as a source for narrowing down on the key risks that could be weighed appropriately in carrying out the valuation of an enterprise.

Alternate

(3.15) Due Diligence is a wide term and it includes both Risk Assessment as well as valuation. Due Diligence is a kind of audit or investigation of potential investment in any venture, acquisition, or any other transaction from all angles. Risk Assessment can be called a sub-part of Due Diligence which covers the assessment of risks. So, the decision to enter into an agreement can be analyzed properly.

The risk assessment is more of a Strategic Analysis on which various factors depend. So, far as valuation is concerned, it mainly depends upon various factors including the risk assessed as mentioned above. And, it is more viewed as a commercial evaluation of the target.

In the present case study, Risk assessment of Quick & Qual Sys has been considered taken into account Strategic Risk, Competition Risk, Operational Risk, Foreign Exchange Risk, Counter Party Risk, Reputation/Governance Risk and Compliance Risk.

Further, Due Diligence mechanism of the company seems to be good as it has been mentioned in the case study itself that company is putting in place a robust platform for strengthening the compliance controls.

Also, with regard to Valuation, the company has categorically stated that there is no point in using asset based valuation model which will not be suitable for such high potential E-commerce startups since the model has several drawbacks. Further, presently, the value has been based on Relative Valuation technique.

PAPER – 6F: MULTI-DISCIPLINARY CASE STUDY

The question paper comprises three case study questions. The candidates are required to answer any two case study questions out of three.

All your workings should form part of your answer.

Question No. I (Contains Part – A and Part – B)**Background**

You have recently joined as an Audit Partner in M/s. XYZ & Co., Chartered Accountants ("the Firm") based out of Mohali which has a variety of clients in the Technology, Software and Media segments. All their clients are based out of Mohali and Chandigarh. One of the key clients of the firm is Superstar Group which has several subsidiaries and your Firm does the audit and taxation work for all these entities. You have been assigned to support the Lead Client Service Partner for the Super Star Group, Mr. Madhav Mahajan, Partner, in the audit of Rising Star Limited. You have been provided with the below information to facilitate your audit.

Company Information

Rising Star Limited (the Company), which is a subsidiary of Super Star Limited, a Public Company (unlisted), was incorporated on 1st February, 2007 under the Indian Companies Act, 1956. It specializes in the business of developing graphical images for its various clients spread across the world. The shareholding pattern of the Company as at 31st March, 2017 are as under:

Particulars	No. of Shares (in lakhs)**	Total paid up Equity Share Capital (₹ In lakhs)
Super Star Limited	45.00	450.00
Mr. Thomas Edison (as a nominee of Super Star Limited)*	32.50	325.00
Mrs. Morgrate Edison (as a nominee of Super Star Limited)*	22.50	225.00
Total	100.00	1000.00

*The Company has complied with the requirements of the Companies Act, 1956/2013 with respect to taking note of/filing the beneficial interest of Super Star Limited in the Company with the Registrar of Companies.

**Face Value of ₹10 each.

Whilst the Company was doing well in the initial periods, due to global recession in this segment, the business performance has gone South recently.

The Finance Director of the Company, Mr. Mangesh has requested the Statutory Auditors. M/s. XYZ & Co; Chartered Accountants to take up the audit and issue the audit report before

the Board meeting scheduled in the month of June, 2017 based on which certain critical decisions impacting the future operations of the Company would be taken including a probable merger. The CEO of the Company, Mr. Stanley is in active discussion with the parent company and the Board of Directors. This information is proposed to be kept confidential as at this stage.

(A) Key financial data as per Management Information provided for Audit

The Company has also provided you with the management prepared financial statements for your audit. You have taken charge of this engagement and requested Ms. Manasa Maheshwari, the Audit Manager to support you on this engagement.

The key Financial highlights of the Company as at 31st March, 2017 as per the Management prepared financial statements are as under:

₹ in Lakhs

Particulars	As at 31 st March, 2017	Particulars	For the year ended 31 st March, 2017
Equity Share Capital	1,000	Revenue-Net	4,255
Capital Reserve (not arising on amalgamation)	250	Profit (Loss) After Tax	(124)
General Reserve	125	Operating cash flows	(452)
Profit & Loss Account	(238)	Investing cash flows	(230)
Long Term Borrowings from the Parent Company	20	Financing Cash flows	923
Net Current Assets	(14)	Extra-ordinary Income	220
Cash & cash equivalents as at 1/4/2016 (excluding restricted cash and bank balances)	32	Deferred Tax Income	10
Bank Borrowings	12	Tax paid on Sales Revenue	12
Off Balance sheet exposure in the form of contingent liabilities to the extent not paid and not provided for	122	Interest expenses	22

(B) Information reported by the Audit Engagement Team:

The Engagement Team lead by Ms. Manasa Maheshwari has reported the following matters to you based on their field audit :

- (1) No physical verification of the assets was carried out during the year ended

31st March, 2017 and the same was due only in the ensuing year ending 31st March, 2018 as per the management policy approved by the Board which was assessed to be acceptable from the audit point of view at the time of policy formulation.

- (2) There was no disclosure of outstanding Letter of Credits (LCs) opened for import of certain assets from USA under contingent liabilities in the financials prepared by the Company amounting to ₹ 55 Lakhs.
- (3) Gratuity liability was not provided for employees who have joined the Company during the past 3 years, the aggregate amount of which would be ₹ 12.50 Lakhs on the basis that they are yet to complete the stipulated minimum years of service.
- (4) Certain computers were received from the parent company free of cost, the value of which is ₹ 0.23 Lakhs and no accounting or disclosure of the same has been made in the notes on accounts.
- (5) The loan availed from Chevy Chase Bank remained outstanding to the extent of ₹ 12 Lakhs excluding the penal interest charged by the bank amounting to ₹ 0.23 Lakhs for default in repayment for 2 quarters, pending to be accounted by the Company. The Management has also informed that this is not an information to be disclosed in the financial statements and does not have any bearing on the reporting of Auditors either.
- (6) TDS receivable as per books is more than the cumulative balance as per Form 26AS by ₹ 14.50 Lakhs. No valid explanation was made available for the difference amount.
- (7) The Company has not provided for any tax expense in the books of accounts due to tax losses. The Company has recognized deferred tax asset on the unabsorbed Business losses based on management assessment.
- (8) The Company follows the method of providing depreciation as per Section 123 of the Companies Act, 2013 using the useful lives prescribed as per Schedule II of the Companies Act, 2013. It has provided depreciation on computers which are used during all the 3 shifts using the rates stipulated for continuous process plant since these assets are used for 24 hours (3 shifts).
- (9) The amount of restricted bank balances as at 1-4-2016 and 31-3-2017 was ₹ 120 lakhs and the Company does not believe the same as qualifying for disclosure under Cash and Cash Equivalents.

(C) Review of Board Minutes

Whilst the Audit team has identified various matters, they need your advice to conclude on the same. You have asked them to review the Board minutes and other secretarial / regulatory records based on which the following additional matters were brought to your attention:-

- (10) The long term borrowings from the parent has no agreed terms and neither the interest nor the principal has been repaid so far.
- (11) An amount of ₹ 1.22 Lakhs has been paid under protest against certain tax claims under

dispute where the Company believes it has a fair chance and hence not provided for in the financial statements nor was it disclosed as contingent liabilities. During the discussions, the Company has also mentioned that since they have not provided for the same, this would not be an item in the Companies (Auditor's Report) Order, 2016 (CARO, 2016) reporting by the Auditors as disputed dues.

- (12) The Company is in the process of selling its office along with the freehold land available at Chandigarh and is actively on the lookout for potential buyers. Whilst the same was purchased at ₹ 25 Lakhs in 2008, the current market value is ₹ 250 Lakhs,

This property is pending to be registered in the name of the Company, due to certain procedural issues associated with the Registration though the Company is having a valid possession and has paid its purchase cost in full. The Company has disclosed this amount under Fixed Assets though no disclosure of non-registration is made in the notes forming part of the accounts.

- (13) An amount of ₹ 3.25 Lakhs per month is paid to M/s. WE CARE Associates, a partnership firm, which is a 'related party' in accordance with the provisions of the Companies Act, 2013 for the marketing services rendered by them. Based on an independent assessment, the consideration paid is higher than the arm's length pricing by ₹ 0.25 Lakhs per month. Whilst the transaction was accounted in the financial statements based on the amounts paid, no separate disclosure has been made in the notes forming part of the accounts highlighting the same as a 'related party' transaction.

Ms. Manasa Maheshwari, your Audit Manager has reported that she had asked for certain information relating to another 'related party' transaction (quantum likely to be about ₹ 47 lakhs) and the CFO has refused to provide the same since the same is perceived to be confidential and cannot be shared with Auditors.

- (14) The Internal Auditor of the Company has identified a fraud in the recruitment of employees by the HR department wherein certain sums were alleged to have been taken as kick-back from the employees for taking them on board with the Company. After due investigation, the concerned HR Manager was sacked. The amount of such kickbacks is expected to be in the range of ₹ 12 Lakhs.
- (15) Right International Inc., has served a legal notice on the Company claiming ₹ 250 Lakhs for patent infringement and the Company has challenged the notice through its legal counsel. An 'independent legal opinion obtained on this matter suggests that the possibility of a cash outflow is more likely than not under the existing legal framework /available evidence as made available to the legal counsel.
- (16) The remuneration for the auditors has been fixed by the shareholders as a fixed sum and a percentage based on the profitability of the Company.
- (17) CEO of the Company, Mr. Stanley has put forward a proposal to pay dividends to the shareholders notwithstanding the current financial condition. He proposes to manage the cash flows by borrowing from the bank. He would also like to provide for the same in the

financial statements for the year ended 31st March, 2017 on approval by the Board.

- (18) *The Management has informed that it feels that the market conditions will improve and the Company would be totally profitable in the next 3 years' time and expects new orders/higher revenues in the coming years to fuel higher profitability. During discussions on this topic, Mr. Stanley informed that whilst there are no firm contracts/projects that are available on hand to demonstrate, Management is fully aware of their business environment and their assessment can be taken as sacrosanct.*

(D) Findings based on File Review

After a careful consideration of the matters reported by the engagement team, you have also reviewed the financial statements, audit working papers and noted the following additional matters for your conclusion and overall assessment;

- (19) *An amount of ₹ 0.25 Lakhs paid to M/s. Hemamalini Associates, Chartered Accountants (a network firm of XYZ & Co., Chartered Accountants, where Mr. Madhav Mahajan is also a partner) towards various tax representation services has not been disclosed anywhere in the financial statements separately.*
- (20) *Certain unclaimed dividends amounting to ₹ 38 Lakhs pertaining to the prior periods beyond 7 years have" been written back to the Statement of Profit & Loss under 'Other income'.*
- (21) *The Market to Market Loss of ₹ 13.74 Lakhs as at 31st March, 2017 on the outstanding forward contracts pertaining to highly probable transactions which have an original tenure of 3 years is proposed to be accounted by the Company as and when the settlement transaction is scheduled which is likely to happen in December 2018. The Company has not adopted hedge accounting consistently.*
- (22) *Extraordinary income arose from the gain on sale of freehold land at Kurukshetra.*
- (23) *The Finance Director of the Company was also enquiring about the applicability of Indian Accounting Standards (IND AS) for the Company. He said that considering the parameters mentioned for applicability of IND AS and the Company's turnover, profit after tax and net worth for the last financial years, it is not applicable for the entity for the financial year 2016-17 and, hence, existing Indian GAAP has been considered by the Company in the preparation of its financial statements. He has also asked you to confirm the same.*
- (24) *During your interactions with Mr. Mangesh, the Finance Director of the Company, he has indicated that he would expect a clean opinion on the financial statements and reference to matters which would have negative perception could be ignored considering the possibility of the merger under evaluation. He has also indicated that he does not expect any further adjustments to the financial statements since the same has been shared with the bankers already.*

Based on the above information, you have to provide your inputs on the below aspects to your Lead Client Service Partner to assist him in forming his opinion.

PART-A**Answer the following questions with reasons, In short and appropriate technical references:**

- (1) Whether Superstar Limited needs to consolidate the financial statements of Rising Star Limited under the Companies Act 2013?
- (A) No
(B) Yes, for 100%
(C) Yes, but only to the extent of 45%
(D) Consolidation requirement itself is not applicable under the Companies Act, 2013 being an unlisted entity. **(2 Marks)**
- (2) What is the Net Worth of the Company as per the Management prepared financial statements as at 31st March, 2017? (₹ in Lakhs)
- (A) 887
(B) 1137
(C) 1015
(D) 1125 **(2 Marks)**
- (3) What is the total amount of contingent liabilities of Rising Star Limited as at 31st March, 2017? (₹ in Lakhs)
- (A) 122
(B) 178.22
(C) 123.22
(D) 213.22 **(2 Marks)**
- (4) What is the amount of Cash and Cash Equivalent to be disclosed in the Cash Flow Statement as at 31st March, 2017? (₹ in Lakhs)
- (A) 241
(B) 723
(C) 149
(D) 273 **(2 Marks)**
- (5) The amount at which the Chandigarh property to be accounted in the books of account as at 31st March, 2017 is _____ (₹ in Lakhs)
- (A) 250
(B) 275
(C) 25

- (D) 225 **(2 Marks)**
- (6) Do you think that the "Deferred Tax Asset" recognition on the unabsorbed business losses is appropriate:-
- (A) Yes
- (B) No
- (C) Yes, since it is based on Management assessment and the same is as per the AS 22.
- (D) It depends/based on the decision to be taken by the CEO regarding the probable merger. **(2 Marks)**
- (7) Whether gain on sale of land at Kurukshetra accounted as an extra-ordinary income is acceptable under the Companies Act, 2013 reporting framework?
- (A) Yes, it is appropriate.
- (B) No, this may be accounted as an exceptional item.
- (C) No, this should be accounted as 'income from operations'.
- (D) It depends on the decision to be taken by the CEO regarding the probable merger. **(2 Marks)**
- (8) Certain information considered as confidential by the Management for sensitive purposes can be rightfully denied to the auditors.
- (A) Yes, for valid reasons as assessed by the Management.
- (B) No, it cannot be denied; else this would result in possible scope of making audit qualifications for the Auditors.
- (C) Can be denied after taking the consent from the Board.
- (D) Can be denied after informing the Regulators. **(2 Marks)**
- (9) In view of the discussions by the Finance Director with you, reference to unfavourable or qualified answers in the Companies (Auditor's Report) Order, 2016 (CARO, 2016) where applicable may be avoided.
- (A) Yes, based on the request from the client.
- (B) No, where required, due disclosure as required under the Companies Act, 2013 needs to be made.
- (C) Considering the merger possibility, such matters may be reported to the Board and can be avoided in CARO, 2016.
- (D) Entire reporting under CARO, 2016 may be dropped. **(2 Marks)**
- (10) Whether Auditors' remuneration as proposed by the shareholders is acceptable to you?
- (A) Yes

- (B) No
- (C) Permissible since the shareholders have approved the remuneration
- (D) Cannot decide based on available information. **(2 Marks)**

PART-B**Answer the following:**

- (1) Are there any matter(s) that need to be reported with unfavourable response under the Companies (Auditor's Report) Order, 2016-(CARO, 2016)? If so, explain the same with relevant rationale. **(8 Marks)**
- (2) Summarise the material misstatements, if any; on the management prepared financial statements which could impact the true and fair view of the financial statements. Please provide the basis for your assessment briefly. **(8 Marks)**
- (3) What are the disclosure deficiencies, if any, in the Management prepared financial statements that could impact the true and fair view of the financial statements? Please provide the basis for your assessment briefly. **(6 Marks)**
- (4) Provide a brief summary of items to be reported to those in-charge of governance, where applicable, based on your audit findings for Rising Star Limited, duly considering the Auditing Standards and the applicable provisions of the Companies Act, 2013. **(4 Marks)**
- (5) As an auditor of Rising Star Limited, state the matters to be reported under Rule 11 of the Companies (Audit and Auditors) Rules, 2014? What are those matters and how would you report them? **(4 Marks)**

Answer to Question 1 Part A (MCQs)

- (1) Option (B) : Yes for 100 %

Reasoning: As per para 10 of AS 21, the consolidated financial statements are prepared on the basis of financial statements of parent and all enterprises that are controlled by the parent.

Here Super Star Ltd. obtains economic benefits by acquiring shares in Rising Star Ltd. through its Nominees, control is assumed. Hence, it will consolidate the financial statements of Rising Star Ltd. for 100%.

- (2) Option (B) : ₹ 1137 lakhs

Reasoning: From the definition of Section 2(57), it may be noted that all reserves created out of the profits are included in calculation of 'net worth' even the debit balance of profit and loss account shall be considered in the calculation of net worth.

Accordingly, the net worth of the company shall be calculated as follows:

	₹ in lakhs
Paid up share capital	1000
Add: Capital reserve	250

Add: General reserve	125
Less: Debit balance of Profit and Loss Account	<u>(238)</u>
	<u>1137</u>

(3) Option (C) : ₹ 123.22 lakhs

Reasoning: Calculation of contingent liability:

	₹ in lakhs
Off Balance Sheet exposure in the form of contingent liabilities to the extent not paid and not provided for	122
Add: Dispute on tax claim	<u>1.22</u>
	<u>123.22</u>

Note: Letter of Credit opened for import is a liability for the company and not a contingent liability. This can be inferred from the definition given in para 10.2 of AS 29 which states that a liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.

(4) Option (D) : ₹ 273 lakhs

Reasoning: Cash flow statement ₹ in Lakhs

	Excluding Restricted cash and bank balances
Cash flow from operating activities	(452)
Cash flow from Investing Activities	(230)
Cash flow from Financing Activities	<u>923</u>
Net cash flows	241
Add: Opening cash and cash equivalents (30+ 120)	<u>32</u>
Closing cash and cash equivalents	<u>273</u>

Cash equivalents should be encashable within three months of its origination and the amount that could be encashed should be certain. Here, it is assumed that the period of restriction is more than three months. Cash and bank balances that are restricted for use do not satisfy the definitions of either cash or cash equivalents. Therefore, the treatment by the entity of not considering the cash and bank balance that are restricted for use as part of cash and cash equivalent while preparing cash flow statement is proper.

Further, para 45 states that an enterprise should disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the enterprise that are not available for use by it. According, the entity should disclose the

amount of cash and cash equivalent balances that are restricted for use. The company is required to disclose without including the same in cash flow statement.

- (5) Option (C) : ₹ 25 lakhs

Reasoning: As per para 73 of AS 10 Property, Plant and Equipment, Items of property, plant and equipment retired from active use and held for disposal should be stated at the lower of their carrying amount and net realisable value. Any write-down in this regard should be recognised immediately in the statement of profit and loss.

Since the company is in the process of selling its office alongwith the freehold land and is actively looking for the potential buyer, the company may consider the asset as retired from its active use and held for disposal. In such a situation, the asset shall be carried at lower of carrying value and net realisable value. Therefore, the company shall value its Chandigarh property at ₹ 25 lakhs only.

There is no purpose of revaluing the property which is in the process of sale.

- (6) Option (B) : No

Reasoning: Para 17 of AS 22 *inter alia* states that where deferred tax asset is recognised against unabsorbed depreciation or carry forward of losses under tax laws, it is recognised only to the extent that there is virtual certainty supported by convincing evidence that sufficient future taxable income will be available against which such deferred tax assets can be realised. Virtual certainty for all practical purposes has to be certain and has to be supported by convincing evidence and not just by forecast and perceptions. Considering that there is no such convincing evidence available in this case, deferred tax asset should not be recognised. Merger, is only at the proposal stage and cannot be the basis for recognition of deferred tax asset.

- (7) Option (B): No, this may be accounted as an exceptional item.

Reasoning: Para 12 of AS 5 states that when items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately. Here the gain on sale of land is more than 5% of net -revenue. Hence, based on size and non-recurring nature of the transaction, it is opined that is shall be presented as an exceptional item.

Further, as per para 75 of AS 10, the gain or loss arising from the derecognition of an item of property, plant and equipment should be included in the statement of profit and loss when the item is derecognised. Gains should not be classified as revenue, as defined in AS 9, Revenue Recognition.

- (8) Option (B): No, it cannot be denied; else this would result in possible scope of making audit qualification for the auditors.

Reasoning: As per SA 705 “Modifications to the Opinion in the Independent Auditor’s Report”, the auditor’s inability to obtain sufficient appropriate audit evidence (also referred

to as a limitation on the scope of the audit) may arise from limitations imposed by management. Further, law or regulation may require the auditor to communicate about planning and scoping matters in the auditor's report, or the auditor may consider it necessary to communicate about such matters in an Other Matter paragraph. In the rare circumstance where the auditor is unable to withdraw from an engagement even though the possible effect of an inability to obtain sufficient appropriate audit evidence due to a limitation on the scope of the audit imposed by management is pervasive, the auditor may consider it necessary to include an Other Matter paragraph in the auditor's report to explain why it is not possible for the auditor to withdraw from the engagement.

- (9) Option (B): No, where required, due disclosure as required under the Companies Act, 2013 needs to be made.

Reasoning: The Order requires that the auditor should make a statement on all such matters contained therein as are applicable to the company. The Order further provides that where an auditor is unable to express any opinion, he should indicate such fact. The auditor is also required to give reasons for any unfavourable or qualified answer. Further, where the auditor is unable to express an opinion on any such matter which is applicable to the company, he is also required to indicate in his report such fact together with the reasons as to why he is unable to express any opinion.

- (10) Option (B): No.

Reasoning: Clause (10) of Part I to First Schedule to the Chartered Accountants Act prohibits a Chartered Accountant in practice to charges or offers to charge, accepts or offers to accept in respect of any professional employment fees which are based on a percentage of profits or which are contingent upon the findings, or results of such employment, except as permitted under any regulations made under this Act. Thus, auditor's remuneration which is based on Percentage of Profit is not allowed.

Answer 1

1. Clause (i) (b) of the CARO, 2016 requires "whether the fixed assets have been physically Verified by the management at reasonable intervals; whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account."

The Order requires the auditor to report whether the management" has verified the fixed assets at reasonable intervals. What constitutes "reasonable intervals" depends upon the circumstances of each case. The factors to be taken into consideration in this regard include the number of assets, the nature of assets, the relative value of assets, difficulty in verification, situation and geographical spread of the location of the assets, etc. The management may decide about the periodicity of physical verification of fixed assets considering the above factors. **While an annual verification may be reasonable, it may be impracticable to carry out the same in some cases. Even in such cases, the verification programme should be such that all assets are verified at least once in**

every three years. Where verification of all assets is not made during the year, it will be necessary for the auditor to report that fact, but if he is satisfied regarding the frequency of verification he should also make a suitable comment to that effect.

In the present case, assets have been physically verified by the management only in the ensuing year ending on 31-03-2018. No physical verification was carried out during the year ended on 31-03-2017. The auditor is required to report as per clause (i) (b) of para 3 of CARO 2016 on physical verification of fixed assets by the management at reasonable interval and about material discrepancies were noticed, if any subject to verification of the same before the issuance date of audit report

2. As per clause (xiii) of para 3 of CARO 2016, the auditor is required to report “whether all transactions with the related parties are in compliance with sections 177 and 188 of Companies Act, 2013 where applicable and the details have been disclosed in the Financial Statements etc., as required by the applicable accounting standards;”

Therefore, the duty of the auditor, under this clause is to report whether related party disclosures as required by relevant Accounting Standards (AS 18, as may be applicable) are disclosed in the financial statements.

In the present case, the auditor is required to report as per clause xiii of para 3 of CARO 2016 receipt of computers at free of cost from Parent Company which is transactions with the related party of which details have not been disclosed in the financial statements as required by the applicable accounting standard 18.

3. Clause (viii) requires an auditor to report “whether the company has defaulted in repayment of loans or borrowing to a financial institution, bank, Government or dues to debenture holders? If yes, the period and the amount of default to be reported (in case of defaults to banks, financial institutions, and Government, lender wise details to be provided)”

Under this clause, the auditor is required to report whether the company has defaulted in repayment of loans or borrowings to a financial institution or bank or Government or dues to debenture holders. If the answer is in the affirmative, the auditor is also required to mention the period of default and the amount of default, lender wise. In the present case Rising Star Ltd. defaulted in repayment of loan to Chevy Chase Bank for 2 quarters and levied penalty interest amounting rupees 0.23 lakh. The auditor is required to report such default of repayment of loan taken from Chevy Chase bank in accordance with clause (viii) of para 3 of CARO 2016.

4. As per clause (xiii) of para 3 of CARO 2016, the auditor is required to report “whether all transactions with the related parties are in compliance with sections 177 and 188 of Companies Act, 2013 where applicable and the details have been disclosed in the Financial Statements etc., as required by the applicable accounting standards;”

In the present case, the auditor is required to report as per clause xiii of para 3 of CARO 2016 receipt of long term borrowing from Parent Company which is transactions with the related party.

5. (i) (c) whether the title deeds of immovable properties are held in the name of the company. If not, provide the details thereof.

In the present case, the Company has office along with freehold land in Chandigarh. Though company has paid its purchase cost in full however, this property is pending to be registered in the name of the company i.e. title deed is not in the name of Company since 2008. Therefore, the auditor is required to report the same in accordance with clause (i)(c) of para 3 of CARO 2016.

6. As per clause (xiii) of para 3 of CARO 2016, the auditor is required to report “whether all transactions with the related parties are in compliance with sections 177 and 188 of Companies Act, 2013 where applicable and the details have been disclosed in the Financial Statements etc., as required by the applicable accounting standards;”

Therefore, the duty of the auditor, under this clause is to report (i) Whether all transactions with the related parties are in compliance with section 177 and 188 of the Companies Act, 2013 (“Act”); (ii) Whether related party disclosures as required by relevant Accounting Standards (AS 18, as may be applicable) are disclosed in the financial statements.

In the present case, the auditor is required to report as per clause xiii of para 3 of CARO 2016, one of related party transaction amounting 3.25 lakhs per month i.e. in lieu of marketing services has been noticed of which amount ₹ 0.25 lakh per month is exceeding the arm’s length price has not been disclosed highlighting the same as related party transactions as per AS 18.

7. As per clause (xiii) of para 3 of CARO 2016, the auditor is required to report “*whether all transactions with the related parties are in compliance with sections 177 and 188 of Companies Act, 2013 where applicable and the details have been disclosed in the Financial Statements etc., as required by the applicable accounting standards;*”

In the present case, the auditor is required to report as per clause xiii of para 3 of CARO 2016 CFO of the company refused to provide the related party transaction of amounting rupees 47 lakh on the ground that same is perceived to be confidential and cannot be shared with auditors, is not in order.

8. Clause (x) requires. *whether any fraud by the company or any fraud on the Company by its officers or employees has been noticed or reported during the year; If yes, the nature and the amount involved is to be indicated.*

In the instant case, a fraud has been identified in recruitment of employees by the HR Department wherein certain sums were alleged to have been taken as kickback from the company of amounting rupees approx. 12 lakh. The auditor is required to report on the same as per clause x of para 3 of CARO 2016.

Answer 2.

Material misstatements on the management prepared financial statements which could impact the true and fair view of the financial statements are :

1. No physical verification of the assets was carried out during the year ended on 31-03-2017. There are some discrepancies which are noticed only on physical verification of assets. So, discrepancies could remain unnoticed in the financial statements for want of physical verification of assets.
2. Pending accounting of penal interest of ₹ 0.23 lakh on default repayment of loan for 2 quarters from Chevy Chase Bank may lead to material misstatement impacting the true and fair view of the financial statements.
3. Difference between TDS as per books and TDS as per 26 AS may lead to material misstatement as there is overstatement of revenue by rupees 14.50 lakh and there is no valid explanation available for the difference amount.
4. As per AS 22, deferred tax assets are recognised and carried forward only to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. Where deferred tax asset is recognised against unabsorbed depreciation or carry forward of losses under tax laws, it is recognised only to the extent that there is virtual certainty supported by convincing evidence that sufficient future taxable income will be available against which such deferred tax assets can be realised.

In the present case, though management has informed that market conditions will be improved and company would be totally profitable in the next 3 years' time but as per CEO of the company there is no firm contract/projects that are available on the hand to demonstrate. As per facts given in case, virtual certainty lacking in view of AS 22, therefore recognition of unabsorbed losses based on management assessment as deferred tax assets is not correct and will lead to material misstatement which could impact the true and fair view of the financial statements.

5. The company followed the method of providing depreciation as per section 123 of the Companies Act, 2013 using the useful lives prescribed as per Schedule II of the Companies Act, 2013 is correct, however, they have provided depreciation using the rates stipulated for continuous process plant is not correct. As per Schedule II Computers does not fall in continuous process plant category. Further, computers are included as NESD in Part 2 of Schedule II, which is category of assets in respect of which no extra shift depreciation is permitted. Therefore, though computers are used for 24 hours i.e. triple shift but no extra shift depreciation is permitted on the same. In the instant case, the Company has provided depreciation on computers which are used during all the 3 shifts using the rates stipulated for continuous process plant as per its accounting policy is incorrect and would be misleading resulting into material misstatement and hence impacting true and fair view.
6. As per AS 29 A provision is a liability which can be measured only by using a substantial degree of estimation. Further, a provision should be recognised when (a) an enterprise has a present obligation as a result of a past event;(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. In the instant case, Rising

Star Limited should made the provision for ₹ 250 lakh for legal notice served by Right International Inc. for patent infringement claiming because as per legal opinion possibility of cash outflow is more than not under the existing legal framework. Therefore, non-provision of rupees 250 lakh may lead to material misstatement and impact true and fair view of financial statements.

7. Pursuant to the provisions of Section 124(5) of the Companies Act, 2013, dividend which remains unpaid or unclaimed for a period of seven years from the date of its transfer to unpaid dividend account is required to be transferred by the Company to Investor Education and Protection Fund (IEPF), established by the Central Government under the provisions of Section 125 of the Companies Act, 2013. The details of unpaid dividend amount should also be disclosed in accordance with the provisions given in the Companies Act, 2013. Rising Star Limited should also transfer the 38 lakh rupees which is unclaimed dividend pertaining to period beyond 7 years and which should be transferred to IEPF. Write back of unclaimed dividend to Statement of Profit & Loss under other income is not correct in view of provisions of the Companies Act, 2013. Therefore, financial statements will lead material misstatement and not present true and fair view.
8. As per AS 11 exchange differences on such a contract should be recognised in the statement of profit and loss in the reporting period in which the exchange rates change. Any profit or loss arising on cancellation or renewal of such a forward exchange contract should be recognised as income or as expense for the period. Thus, non-accounting of mark to market loss of rupees 13.74 lakhs on the outstanding forward contracts pertaining to highly probable transactions during the year will overstate the revenue which will be leading the material misstatements and not present true and fair view.
9. As per AS 15 on "Employee Benefits", gratuity benefit is a defined benefit obligation as per which actuarial valuation using the projected unit credit method, which recognizes each period of service as giving rise to additional unit of employee benefit entitlement. Thus, even though employee has not completed 5 years of service, liability for gratuity is to be accrued as and when service is rendered by the employees.

Answer 3

1. *As per AS 18 If there have been transactions between related parties, during the existence of a related party relationship, the reporting enterprise should disclose the prescribed details.* Receipt of free of cost Computers and long term borrowing (on no agreed terms and repayment of interest and principal) from the Parent Company need separate disclosure in financial statements as per AS 18. **Therefore, no proper disclosure for transactions with related party would be a disclosure deficiency having impact on the true and fair position of the company.**
2. The amount of restricted bank balances as at 1.4.2016 and 31.3.2017 was rupees 120 lakhs and the company does not believe the same as qualifying for disclosure under Cash and Cash Equivalents is not correct as prescribed in para 45 of Accounting Standard 3 "Cash Flow Statement", an enterprise should disclose, together with a commentary by management, the

amount of significant cash and cash equivalent balances held by the enterprise that are not available for use by it. Therefore, disclosure of restricted bank balances should be done in accordance with AS 3.

3. AS 29 states that a liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits. Therefore, payment of rupees 1.22 lakhs under protest in lieu of certain disputed tax claim is required to be disclosed as Contingent Liability. Though Company believes that it has a fair chance and not provided for the same. Non-provision for disputed tax claim is not substitute of non-disclosure of such Current Liability. Therefore, non-disclosure of the same will be constituted as disclosure deficiency impacting true and fair view.
4. Though as per substance over form freehold land appearing in financial statements is correct however, non-registration of the same should be separately disclosed in notes to financial statements. Non-disclosure of the same in notes to accounts will be considered as disclosure deficiency that could impact the true and fair view of financial statements. Further, classification of above land should also be as Assets held for Sale in financial statements.
5. AS 5 states that when items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately. Here the gain on sale of land is more than 5% of net -revenue. Hence, based on size and non-recurring nature of the transaction, it is opined that is shall be presented as an exceptional item. Therefore, separate disclosure as exceptional item is required for gain on sale of freehold land at Kurukshetra in financial statements as per AS 5.
6. *As per AS 18 If there have been transactions between related parties, during the existence of a related party relationship, the reporting enterprise should disclose the same. Therefore, no proper disclosure for transactions with related party would be a disclosure deficiency having impact on the true and fair position of the company.* In the present case, one of related party transaction amounting 3.25 lakhs per month i.e. in lieu of marketing services has been noticed of which amount ₹ 0.25 lakh per month is exceeding the arm's length price has not been disclosed highlighting the same as related party transactions as per AS 18.
7. Default in repayment of borrowing is required to be disclosed in the financial statements of the Company.
8. The amount of 0.25 lakhs paid to a network firm of the statutory auditor needs to be disclosed by way of a footnote as remuneration paid to a network firm of the statutory auditor.

Answer 4

As per SA 260, "Communication with Those Charged with Governance", the auditor shall communicate with those charged with governance:

- (a) The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. When applicable, the auditor shall explain to those charged with governance why the auditor

considers a significant accounting practice, that is acceptable under the applicable financial reporting framework, not to be most appropriate to the particular circumstances of the entity;

- (b) Significant difficulties, if any, encountered during the audit;
- (c) Unless all of those charged with governance are involved in managing the entity:
 - i. Significant matters arising during the audit that were discussed, or subject to correspondence, with management; and
 - ii. Written representations the auditor is requesting;
- (d) Circumstances that affect the form and content of the auditor's report, if any; and
- (e) Any other significant matters arising during the audit that, in the auditor's professional judgment, are relevant to the oversight of the financial reporting process.

In the instant scenario, the auditor of Rising Star Limited is required to prepare a brief summary of following items to be reported to those in-charge of governance in accordance with SA 260 is as under:

1. The company followed the method of providing depreciation as per section 123 of the Companies Act, 2013 using the useful lives prescribed as per Schedule II of the Companies Act, 2013 is correct, however, they have provided depreciation using the rates stipulated for continuous process plant is not correct. As per Schedule II Computers does not fall in continuous process plant category. Further, computers are included as NESD in Part 2 of Schedule II, which is category of assets in respect of which no extra shift depreciation is permitted. Therefore, though computers are used for 24 hours i.e. triple shift but no extra shift depreciation is permitted on the same.
2. The amount of restricted bank balances as at 1.4.2016 and 31.3.2017 was rupees 120 lakhs and the company does not believe the same as qualifying for disclosure under Cash and Cash Equivalents is not correct as prescribed in para 45 of Accounting Standard 3 "Cash Flow Statement", an enterprise should disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the enterprise that are not available for use by it. Therefore, disclosure of restricted bank balances should be done in accordance with AS 3.
3. As per AS 18 If there have been transactions between related parties, during the existence of a related party relationship, the reporting enterprise should disclose the name of the transacting related party; a description of the relationship between the parties; a description of the nature of transactions; volume of the transactions either as an amount or as an appropriate proportion; any other elements of the related party transactions necessary for an understanding of the financial statements; the amounts or appropriate proportions of outstanding items pertaining to related parties at the balance sheet date and provisions for doubtful debts due from such parties at that date; and amounts written off or written back in the period in respect of debts due from or to related parties.

- (i) One of related party transaction amounting 3.25 lakhs per month i.e. in lieu of marketing services has been noticed of which amount ₹ 0.25 lakh per month is exceeding the arm's length price has not been disclosed highlighting the same as related party transactions as per AS 18.
 - (ii) CFO of the company refused to provide the related party transaction of amounting rupees 47 lakh on the ground that same is perceived to be confidential and cannot be shared with auditors, is not in order.
 - (iii) Receipt of free of cost Computers and long term borrowing (on no agreed terms and repayment of interest and principal) from the Parent Company need separate disclosure in financial statements as per AS 18.
4. Pursuant to the provisions of Section 124(5) of the Companies Act, 2013, dividend which remains unpaid or unclaimed for a period of seven years from the date of its transfer to unpaid dividend account is required to be transferred by the Company to Investor Education and Protection Fund (IEPF), established by the Central Government under the provisions of Section 125 of the Companies Act, 2013. The details of unpaid dividend amount should also be disclosed in accordance with the provisions given in the Companies Act, 2013. Rising Star Limited should also transfer the 38 lakh rupees which is unclaimed dividend pertaining to period beyond 7 years and which should be transferred to IEPF. Write back of unclaimed dividend to Statement of Profit & Loss under other income is not correct in view of provisions of the Companies Act, 2013.
 5. As per AS 11 exchange differences on such a contract should be recognised in the statement of profit and loss in the reporting period in which the exchange rates change. Any profit or loss arising on cancellation or renewal of such a forward exchange contract should be recognised as income or as expense for the period. Thus, accounting of mark to market loss of rupees 13.74 lakhs on the outstanding forward contracts pertaining to highly probable transactions to be done on December 2018 on the basis of date of settlement is not in order as per Accounting Standard 11.
 6. Para 12 of AS 5 states that when items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately. Here the gain on sale of land is more than 5% of net -revenue. **Hence, based on size and non-recurring nature of the transaction, it is opined that is shall be presented as an exceptional item.**

Further, as per para 75 of AS 10, the gain or loss arising from the derecognition of an item of property, plant and equipment should be included in the statement of profit and loss when the item is derecognised. Gains should not be classified as revenue, as defined in AS 9, Revenue Recognition.

Further, separate disclosure is required for gain on sale of freehold land at Kurukshetra in financial statements as per AS 5.

7. Though as per substance over form freehold land appearing in financial statements is correct however, non-registration of the same should be separately disclosed in notes to financial statements. Further such land should be classified as asset held for sale/disposal.
8. Denying for the related part details of ₹ 47 Lakhs is imposing limitation on scope of auditor in view of SA 705.
9. Overstatement of revenue by amounting rupees 14.50 lakhs due to difference in amount of TDS receivable as per books and the cumulative balance as per Form 26 AS.
10. As per AS 29 A provision is a liability which can be measured only by using a substantial degree of estimation and provision should be made when (a) an enterprise has a present obligation as a result of a past event;(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. In the instant case, Rising Star Limited should made the provision for ₹ 250 lakh for legal notice served by Right International Inc. for patent infringement claiming rupees because as per legal opinion possibility of cash outflow is more than not under the existing legal framework.
- 11 As per section 123 of the Companies Act, 2013, dividend cannot be declared or paid by a company for any financial year except (a)out of profits of the company for that year arrived at after providing for depreciation in accordance with the provisions of Section 123(2), or (b)out of the profits of the company for any previous financial year or years arrived at after providing for depreciation in the manner aforementioned and remaining undistributed, or (c)out of the balances of profit mentioned in (a) and (b) above; or (d) out of money provided by the Central Government or a State Government for the payment of dividend by the company pursuant to the guarantee given by that Government. Therefore, putting forward a proposal to pay dividend to the shareholders notwithstanding the current financial condition which is in loss by CEO of the Company and his proposal to manage the cash flows by borrowing from the bank is not correct in view of section 123 of the Companies Act, 2013.

Answer 5

As per section 143 (3) (j) the auditor's report shall also state such other matters as may be prescribed. Rule 11 of the Companies (Audit and Auditors) Rules, 2014. Rule 11 of CAAR prescribes the other matters to be included in auditor's report. The auditor's report shall also include their views and comments on the following matters, namely: -

- (a) whether the company has disclosed the impact, if any, of pending litigations on its financial position in its financial statement;
- (b) whether the company has made provision, as required under any law or accounting standards, for material foreseeable losses, if any, on long term contracts including derivative contracts;
- (c) whether there has been any delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the company.

“(d) whether the company had provided requisite disclosures in its financial statements as to holdings as well as dealings in Specified Bank Notes during the period from 8th November, 2016 to 30th December, 2016 and if so, whether these are in accordance with the books of accounts maintained by the company”.

In the instant case, the auditor of Rising Star Limited is required to report the following matters as per Rule 11 of CAAR 2014:

- (I) “whether the company has disclosed the impact, if any, of pending litigations on its financial position in its financial statement;”
- (i) Rising Star Limited should disclosed the impact of payment made under protest against certain tax claims amounting rupees 1.22 lakhs.
- (ii) Legal notice served by Right International Inc. for patent infringement claiming rupees 250 lakhs.
- (II) *“whether the company has made provision, as required under any law or accounting standards, for material foreseeable losses, if any, on long term contracts including derivative contracts;”*

As per AS 11 exchange differences on such a contract should be recognised in the statement of profit and loss in the reporting period in which the exchange rates change. Any profit or loss arising on cancellation or renewal of such a forward exchange contract should be recognised as income or as expense for the period. Thus, as per Rule 11 of CAAR 2014 the auditor is also required to report on mark to market loss of rupees 13.74 lakhs on the outstanding forward contracts pertaining to highly probable transactions.

- (III) “whether there has been any delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the company.”

Pursuant to the provisions of Section 124(5) of the Companies Act, 2013, dividend which remains unpaid or unclaimed for a period of seven years from the date of its transfer to unpaid dividend account is required to be transferred by the Company to Investor Education and Protection Fund (IEPF), established by the Central Government under the provisions of Section 125 of the Companies Act, 2013. The details of unpaid dividend amount should also be disclosed in accordance with the provisions given in the Companies Act, 2013. Rising Star Limited should also transfer the 38 lakh rupees which is unclaimed dividend pertaining to period beyond 7 years and which should be transferred to IEPF. Write back of unclaimed dividend to Statement of Profit & Loss under other income is not correct. The auditor is required to disclose this as per Rule 11 of CAAR 2014.

- (IV) “whether the company had provided requisite disclosures in its financial statements as to holdings as well as dealings in Specified Bank Notes during the period from 8th November, 2016 to 30th December, 2016 and if so, whether these are in accordance with the books of accounts maintained by the company”.

The auditor is also required to report as per Rule 11 of CAAR 2014 on disclosure in its financial statements with respect to holdings as well as dealing in specified bank notes during the prescribed period. The auditor is also required to ensure/ report on above specified bank notes that whether these are in accordance with the books of accounts maintained by the company.

Question No. II (Contains Part – A and Part – B)

Background

New Gen Toys and Clothing Limited, is a reputed company which is engaged in two businesses viz.

- (i) *Manufacture of Soft Toys.*
- (ii) *Fabrics and Cloth business through textile showrooms in various cities and towns.*

The manufacture of soft toys started with effect from 01-04-2016 and that of fabric and cloth business with effect from 01-04-2017.

Separate books of accounts as are legally required to be maintained are maintained for the aforesaid businesses. The books of accounts maintained do comply with all significant accounting policies, accounting on the basis of historical cost convention, compliances of Accounting Standards, alignment with generally accepted accounting principles, accrual system of accounting and on the basis of going concern. The books of accounts are also duly audited by a reputed firm of Chartered Accountants. The income tax assessments is also completed up to Assessment year 2016-17 and there are no income tax or any other statutory dues payable by the company.

The Company's founder and Managing Director has resigned from his position and has inducted in his place his young son, aged 24 years, a research scholar from Harvard University as the new Managing Director after due approval of the Board as well as the shareholders at the annual general meeting of the Company held on 29-09-2016.

The new Managing Director of the Company is desirous of knowing various facets of the provisions of the Income Tax Act, 1961 with special reference to the relevant Sections of the said Act for adopting certain tax planning measures and for other business decision making including, the essential conditions for claiming exemption for newly established units in Special Economic Zones. In this context, he has approached you in the capacity of a Chartered Accountant in practice and also being an expert in the field of direct taxation and has offered you a professional fee. The new Managing Director has provided you with the following information in relation to the soft toys manufacturing business as well as the fabrics and cloth business for the year ended March 31, 2018 and seeks your advice to the questions at the end.

SOFT TOYS MANUFACTURING BUSINESS:**Net Profit as per Statement of Profit and Loss – ₹ 36,50,000****Items debited/credited to Statement of Profit and Loss:**

- (i) Bad debts written off in previous year 2016-17 ₹ 2,50,000 of which ₹ 1,80,000 was recovered in July, 2017.
- (ii) CSR expenditure by way of putting traffic signal outside the factory ₹ 2 lakhs.
- (iii) Donation to registered political party ₹ 70,000. Of this, paid by cash ₹ 30,000 and by cheque ₹ 40,000.
- (iv) Amount received as 30% share in an AOP ₹ 1,20,000. The AOP is engaged in the business of plastic mould manufacture.
- (v) Long term capital gain on sale of unlisted shares (without indexation) ₹ 50,000.
(Note: With indexation, the long-term capital gain is ₹ 30,000)
- (vi) Dividend from domestic companies received during the year ₹ 11,00,000.
- (vii) ₹ 20 lakhs was paid to a founder director by way of goodwill, who resigned from the Company on 30-04-2017. No tax was deducted at source on the said payment.
- (viii) Depreciation debited ₹ 13,50,000.
- (ix) Deferred tax liability debited to profit and loss account ₹ 3 lakhs.
- (x) Royalty ₹ 10 lakhs received in respect of Patent developed and registered in India.

FABRICS AND CLOTH BUSINESS:**Net profit as per Statement of Profit and Loss – ₹ 26,50,000****Items debited/credited to Statement of Profit and Loss:**

- (i) Income tax debited ₹ 6,60,000.
- (ii) Online advertisement charges paid to a foreign company ₹ 2,00,000. No tax was deducted at source.
- (iii) Depreciation debited to statement of profit and loss ₹ 24,00,000 (includes ₹ 8 lakhs on account of revaluation of assets).
- (iv) Interest on term loan paid during the year ₹ 8,50,000. It includes ₹ 3,20,000 of the financial year 2012-13 which was disputed before the Court and the Court decreed the case in November, 2017.
- (v) Group Gratuity Scheme was approved by Commissioner of Income Tax during the year and ₹ 21 lakhs was paid to LIC of India by way of its contribution.
(Note: The payment to employees during the year from the scheme ₹ 3 lakhs)
- (vi) Provision made for decrease in value of showroom buildings due to wear and tear ₹ 7,00,000.

Additional Information:

- (i) During the year, for the Fabric and Cloth business division, the Company bought generators for ₹ 40 lakhs and for which it got ₹ 5 lakhs by way of subsidy from the Government. This was credited to capital reserve. The Company paid ₹ 3 lakhs by cash and balance ₹ 32 lakhs through net banking channel to the supplier. Though generators were acquired in August, 2017 they were put to use only from 01-12-2017.
- (ii) The Company has not considered interest due of ₹ 2,50,000 from customers of toys division for the delayed payment of bills by them.
- (iii) Eligible depreciation under Section 32 in respect of all tangible assets (except generators) is ₹ 87,50,000.
- (iv) The Company earned ₹ 2,20,000 by way of sale of carbon credit. This has been credited to capital reserve.
- (v) The Company has unabsorbed loss of ₹ 12,50,000 of the assessment year 2016-17 relating to Soft toys manufacturing business. The return was however filed before the 'due date' specified in Section 139(1).
- (vi) During the year, the Company paid ₹ 4 lakhs to a Director who gave guarantee for securing overdraft facility obtained by Soft toys manufacturing division. This amount is debited to general reserve of the Company.
- (vii) The Company employed 30 workers for 9 months during the year 2017-18 by paying salary of ₹ 15,000 per month. The number of employees as on 31-03-2018 has increased by the said recruitment as against the number of employees as on 31-03-2017.

PART-A

Choose the most appropriate alternative for the following and justify the same with reasons in brief:

- (1) The Company is eligible to claim depreciation in respect of goodwill at _____ %
- (A) 25
(B) 15
(C) 100
(D) NIL **(2 Marks)**
- (2) The Company is liable to pay equalization levy at ____% in respect of online advertising paid to non-resident.
- (A) 10
(B) 20
(C) 8
(D) 6 **(2 Marks)**

- (3) *The monetary limit for salary per month to new employee for the purpose of claiming deduction under section 80 JJAA under the appropriate provision of Chapter VI-A is*
- (A) *No limit*
 - (B) *₹ 25,000*
 - (C) *₹ 15,000*
 - (D) *₹ 10,000*
- (2 Marks)**
- (4) *The tax liability due to sale of carbon credit would be*
- (A) *₹ 67,980 (at 30.9%)*
 - (B) *₹ 45,320 (at 20.6%)*
 - (C) *₹ 22,660 (at 10.3%)*
 - (D) *NIL (exempt)*
- (2 Marks)**
- (5) *Amount paid to director for giving guarantee for the Company to secure overdraft facility is chargeable to tax in the hands of Director as*
- (A) *Deemed dividend*
 - (B) *Dividend*
 - (C) *Income from other sources*
 - (D) *Directors' fee*
- (2 Marks)**
- (6) *In the case of online advertisement charges paid to domestic company, the amount liable for disallowance for non-deduction of tax at source would be:*
- (A) *10% i.e. 20,000*
 - (B) *30% i.e. 60,000*
 - (C) *100% i.e. 20,000*
 - (D) *NIL*
- (2 Marks)**
- (7) *For a domestic company, the long-term capital gain on sale of unlisted shares is taxable at*
- (A) *10%*
 - (B) *15%*
 - (C) *20%*
 - (D) *Fully exempt.*
- (2 Marks)**
- (8) *Interest on term loan is deductible when it is*
- (A) *Paid on or before the 'due date' specified in Section 139(1)*
 - (B) *Paid before the 'end' of the previous year.*

- (C) *Paid within 15 days from the date it becomes due.*
- (D) *Due as per the agreement.* **(2 Marks)**
- (9) *When the assessee has speculation loss, it is eligible for carry forward and set off in the subsequent _____ assessment years.*
- (A) 4
- (B) 6
- (C) 8
- (D) *Infinite* **(2 Marks)**
- (10) *The income of the AOP in which the Company is a member is chargeable to tax at _____ (tax rate).*
- (A) *Individual rate*
- (B) *Maximum marginal rate*
- (C) 20%
- (D) *NIL* **(2 Marks)**

PART-B

- (a) *Compute the business income of soft toys manufacturing business for the Assessment Year 2018-19* **(7 Marks)**
- (b) *Compute the business income of fabrics and cloth business for the Assessment Year 2018-19* **(8 Marks)**
- (c) *Compute total income of the Assessee for the Assessment Year 2018-19.* **(5 Marks)**
- (d) *Compute the book profit tax under Section 115JB on the assumption that the consolidated figures of two divisions were given in Schedule III to Companies Act, 2013.* **(5 Marks)**
- (e) *What are the essential conditions for claiming exemption for newly established units in Special Economic Zones?* **(5 Marks)**

Answer to Question 2 Part A (MCQs)

- (1) **Option (A) 25 %**

Reasoning: Goodwill is classified as an intangible asset. Intangible assets are eligible for depreciation @ 25% as per section 32 read with Rule 5 of Income-tax Rules, 1962.

(2) **Option (D) 6%**

Reasoning: As per Chapter VIII of the Finance Act, 2016, when payment exceeding ₹1 lakh is made to a non-resident¹ for online advertisement, it is liable for deduction of equalization levy @6% by the resident-assessee.

(3) **Option (B) ₹25,000**

Reasoning: The total emoluments of an employee must not exceed ₹25,000 per month for the purpose of qualifying as an “additional employee” for claim of deduction under section 80JJAA

(4) **Option (C) ₹22,660 (at 10.3%)**

Reasoning: As per section 115BBG, income by way of transfer of carbon credit is chargeable to tax @10.3% (inclusive of education cess and secondary and higher education cess).

(5) **Option (C) Income from other sources**

Reasoning: Guarantee received by the director is includible in his total income and chargeable to tax under the head “Income from other sources”. Such payment made does not fall in the category of deemed dividend, dividend or director fee.

(6) **Option (B) 30% i.e., ₹60,000**

Reasoning: Non-deduction of tax at source on online advertisement charges paid to domestic company would attract disallowance @30% under section 40(a)(ia).

(7) **Option (C) 20%**

Reasoning: As per section 112, long term capital gains on sale of unlisted shares in the hands of domestic company is taxable @ 20%.

(8) **Option (A) Paid on or before the ‘due date’ specified in section 139(1).**

Reasoning: As per section 43B, interest on term loan is deductible when it is paid during the previous year or before the due date specified in section 139(1)

(9) **Option (A) 4**

As per section 73(4) the speculation loss is eligible for carry forward upto 4 assessment years for set-off against speculative business income.

(10) **Option (B) Maximum marginal rate**

As per section 167B, income of the AOP in which the company is a member is chargeable to tax at the maximum marginal rate.

¹ Assuming that the non-resident does not have a permanent establishment in India

PART-B**Answer (a)****Computation of business income of soft toys manufacturing business
for the A.Y.2018-19**

	Particulars	Amount (₹)	
	Net profit as per the statement of profit and loss		36,50,000
	Add: Expenditure debited to statement of profit & loss but not allowable as deduction or to be considered separately		
(ii)	CSR Expenditure incurred [As per <i>Explanation 2</i> to Section 37(1), CSR expenditure incurred by the company as per the Companies Act, 2013 is not deemed to be an expenditure incurred by the company for the purposes of business or profession. Hence, the same is not allowable as deduction. Since the same has been debited to statement of profit and loss, it has to be added back]	2,00,000	
(iii)	Donation to registered political party [Donation paid to a political party is not an allowable expenditure under section 37 since it is not laid out wholly or exclusively for the purposes of business or profession. Hence, the same has to be added back while computing business income]	70,000	
(vii)	Amount paid towards goodwill to a director [Goodwill is an intangible asset which is eligible for depreciation under section 32(1) and the amount paid for acquisition of a capital asset is not allowable as deduction. Since the same has been debited to the statement of profit and loss, it has to be added back for computing business income]	20,00,000	
(viii)	Depreciation as per books of account	13,50,000	
(ix)	Deferred tax liability [Deferred tax is an accounting concept and there is no provision in the Income-tax Act, 1961 permitting deduction in respect of the same. Therefore, provision for deferred tax is not an allowable deduction while computing business income. Since the same has been debited to the statement of profit and loss, it has to be added back for computing business income]	3,00,000	
			39,20,000
			75,70,000

<p>Add: Income taxable but not credited to statement of profit and loss</p>		
<p>Al(ii) Interest due from customers [Interest due from customers for delayed payment of bills by them is business income. Since the same has been credited to the statement of profit and loss, no further adjustment is required for the same]</p>		2,50,000
		78,20,000
<p>Less: Items credited to statement of profit and loss, but not includible in business income</p>		
<p>(i) Bad debt recovered [The amount of bad debt written off earlier when recovered subsequently, such recovery is taxable under section 41(4). Since the same has been credited to the statement of profit and loss, no further adjustment is required for the same]</p>		-
<p>(iv) Share income in AOP [Since AOP has to pay tax at the maximum marginal rate or a higher rate, company's share in the total income of AOP will not be included in his total income and will be exempt. Since the same has been credited to the statement of profit and loss, the same has to be reduced while computing business income]</p>	1,20,000	
<p>(v) Long term capital gain on sale of unlisted shares [The taxability or otherwise of long term capital gain on sale of unlisted shares has to be considered while computing income under the head "Capital Gains". Since such capital gain has been credited to statement of profit and loss, the same has to be reduced to arrive at the business income.]</p>	50,000	
<p>(vi) Dividend received from domestic companies [The taxability or otherwise of dividend received has to be considered while computing income under the head "Other Sources". Since such dividend has been credited to statement of profit and loss, the same has to be reduced to arrive at the business income.]</p>	11,00,000	
<p>(x) Royalty income in respect of patents developed and registered in India [Royalty income in respect of patents developed and registered in India is chargeable to tax under section 115BBF can be treated as business income or income from other sources, depending upon the facts of the case.]</p>		-

<p>In this case, it is assumed that the same is in the nature of business income. Since the amount of ₹10 lakh has already been credited to statement of profit and loss, no further adjustment is necessary]</p> <p>Note – In the alternative, the said income of ₹10 lakhs may be treated as “Income from other sources” and accordingly, reduced the same to compute business income.</p>		12,70,000
<p>Less: Expenditure allowable but not debited to statement of profit and loss</p> <p>Depreciation</p> <p>Depreciation allowable under the Income-tax Act, 1961 on tangible assets of ₹31,50,000 [i.e., ₹87,50,000 x 13,50,000/ 37,50,000] plus Depreciation on goodwill of ₹5,00,000 [i.e., ₹20,00,000 x 25%]</p> <p>Note – Depreciation allowable under section 32 is given in item (iii) of Additional information. The basis of bifurcation of depreciation between the two businesses is not given in the question. In this solution, the depreciation has been bifurcated between the two businesses of New Gen Toys and Clothing Ltd in the ratio of depreciation already debited as per books of account. It is possible to bifurcate the depreciation on any other reasonable basis.</p> <p>Guarantee fees paid to Director</p> <p>[Guarantee fee paid to director for securing overdraft facility obtained by the company is an allowable deduction since it is incurred wholly and exclusively for the business purpose.]</p>	36,50,000	65,50,000
<p>Profits and gains from business and profession</p>	4,00,000	40,50,000
		25,00,000

Answer (b)

**Computation of business income of fabric and cloth business
for the A.Y.2018-19**

Particulars	Amount (₹)
Net profit as per the statement of profit and loss	26,50,000
Add: Expenditure debited to statement of profit & loss but not allowable as deduction or to be considered separately	

(i) Income tax [Income tax paid is not allowable as deduction from business income as per section 40(a)(ii). Since the same has been debited to the statement of profit and loss, it has to be added back for computing business income]	6,60,000	
(ii) Online advertisement charges paid to foreign company [Non deduction of equalisation levy on payment of online advertisement charges to a non-resident, by a resident in India who carries on business or profession, would attract disallowance @100% of expenditure. Since the same has been debited to the statement of profit and loss, it has to be added back for computing business income] Note - It is assumed that the foreign company does not have a permanent establishment in India.	2,00,000	
(iii) Depreciation as per books of account	24,00,000	
(iv) Interest on term loan [As per section 43B, a deduction of any sum, being interest payable on any loan or borrowing from a public financial institution shall be allowed, if such interest has been actually paid. Since interest related to F.Y. 2012-13 is paid in P.Y. 2017-18, it is allowable as deduction in P.Y. 2017-18. Since the same has been debited to the statement of profit and loss, it has to be added back for computing business income]	-	
(v) Contribution to gratuity fund [Any contribution to approved gratuity fund is allowable as deduction. Since the contribution of ₹21 lakhs has been debited to the statement of profit and loss, no adjustment is required for the same. Since ₹ 3 lakhs payment to employees is out of the gratuity fund, it has already been allowed as deduction. No separate treatment is required.]	-	
(vi) Provision for decrease in value of showroom building [Provision for any asset is not an allowable deduction while computing business income. Since the same has been debited to the statement of profit and loss, it has to be added back for computing business income]	7,00,000	
		39,60,000

	66,10,000
Add: Subsidy received from Government for acquisition of generator	-
[Grant/Subsidy received from the Government, other than a grant which is taken into account for determination of actual cost of the asset, is included in the definition of income. In this case, since the grant is received for acquisition of generator, the same has to be adjusted in actual cost. Since the same has not been credited to the statement of profit and loss, no adjustment is required for the same]	
	66,10,000
Less: Depreciation	
Depreciation allowable under the Income-tax Act, 1961 on tangible assets of ₹ 56,00,000 [i.e., ₹ 87,50,000 x 24,00,000/ 37,50,000] plus Depreciation on generator of ₹ 2,40,000 [i.e., ₹ 32,00,000, being amount paid in cash for generator and the amount of grant, not includible in actual cost x 15% x 50%]	58,40,000
<i>Note – Depreciation allowable under section 32 is given in item (iii) of Additional information. The basis of bifurcation of depreciation between the two businesses is not given in the question. In this solution, the depreciation has been bifurcated between the two businesses of New Gen Toys and Clothing Ltd in the ratio of depreciation already debited as per books of account. It is possible to bifurcate the depreciation on any other reasonable basis.</i>	
Profits and gains from business and profession	7,70,000

Answer (c)

**Computation of total income of New Gen Toys and Clothing Ltd.
for the A.Y. 2018-19**

Particulars	Amount (₹)
I. Profit and gains from business and profession	
Profits and gains of soft toy business	25,00,000
Profits and gains of fabric and cloth business	<u>7,70,000</u>
	32,70,000

Less: Brought forward business loss	<u>12,50,000</u>	20,20,000
II. Capital gains		
Long term capital gain on sale of unlisted shares [Chargeable to tax@20% with indexation benefit]		30,000
III. Income from Other Sources		
Sale of carbon credit	2,20,000	
Dividend from domestic companies [Exempt u/s.10(34)]	—	<u>2,20,000</u>
Gross Total Income		22,70,000
Less: Deduction under Chapter VI-A		
Under section 80JJAA [(₹15,000 x 30 workers x 9 months) x 30%]	12,15,000	
Under section 80GGC [Donation to registered political party, ₹ 40,000 would be allowed as deduction, since payment is made in a mode other than cash; Donation of ₹ 30,000, paid in cash, would not be allowable as deduction]	<u>40,000</u>	<u>12,55,000</u>
Total Income		<u>10,15,000</u>

Answer (d)

Particulars	Amount (₹)	
Net profit as per statement of profit and loss (₹36,50,000 + ₹26,50,000)		63,00,000
Add: Net profit to be increased by the following amounts as per Explanation 1 to section 115JB:		
- Deferred tax liability debited to statement of profit and loss of toy business	3,00,000	
- Income tax debited to fabric and cloth business	6,60,000	
- Depreciation debited in soft toys manufacturing division	13,50,000	
- Depreciation in respect of fabric and cloth division	24,00,000	
- Provision for diminution in showroom buildings	<u>7,00,000</u>	<u>54,10,000</u>
		1,17,10,000

Less: Net profit to be decreased by the following amounts as per Explanation 1 to section 115JB:		
- Share income of AOP [Since exempt in the hands of company]	1,20,000	
- Dividend from domestic companies credited to profit and loss account – exempt u/s 10(34) hence excluded	11,00,000	
- Royalty ₹10 lakh received in respect of patent developed and registered in India by the assessee taxable at concessional rate @10% under section 115BBF	10,00,000	
- Depreciation in respect of soft toy division	13,50,000	
- Depreciation in respect of fabric and cloth division [₹24,00,000 – ₹8,00,000]	<u>16,00,000</u>	<u>51,70,000</u>
Book Profit under section 115JB		<u>65,40,000</u>
Tax on book profit:		₹
18.5% of ₹65,40,000		12,09,900
Add: Education Cess and SHEC@3%		<u>36,297</u>
Total tax on book profit		<u>12,46,197</u>
Tax on book profit (rounded off)		12,46,200

Answer (e)

Conditions for claiming exemption for newly established units in SEZ

Particulars
Section 10AA deals with deduction for units located in special economic zone.
Any unit which begins to manufacture or produce articles or things or provide any service during the period from 01.04.2006 to 31.03.2020 is eligible for claiming tax benefit.
It should not be formed by splitting up or reconstruction of a business already in existence.
It should not be formed by the transfer of machinery or plant previously used for any purpose to a new business. However, deduction under section 10AA will be available if total value of the machinery or plant transferred does not exceed 20% of the total value of machinery or plant used in the business.
For this purpose, any machinery or plant which was used outside India by any person other than the assessee shall not be regarded as machinery or plant previously used for any purpose if the following conditions are fulfilled:
(a) such machinery or plant was not at any time used in India;
(b) such machinery or plant is imported into India from any country outside India; and

- | |
|---|
| (c) no deduction on account of depreciation has been allowed in respect of such machinery or plant to any person earlier. |
|---|

Question No. III (Contains Part – A and Part – B)**Background**

You are a leading Mergers and Acquisition (M & A) Practitioner advising corporates on the implications of mergers and amalgamations covering various aspects inter alia on the legal, business, and corporate and tax related matters.

Your Client, Magma Automobiles Limited (the Company), has reached out to you for seeking your advice with respect to their proposal to consider some restructuring in the group in a more robust manner. They have requested you to join their internal brain storming session organized to discuss and decide on the way forward. This meeting will be attended by Yasin Malik, Managing Director, Anirudh, Chief Financial Officer, Aswini, President -Taxation and Mohan Rangarajan, Company Secretary. They have also requested their Financial Controller Subha to join the session. You have agreed to participate and provide your insights in the session

You will be provided with the brief background of the Company and matters raised by various participants for which your advice will be required. Please note that the Company will decide the way forward based on your advice and, hence, your valuable guidance would be extremely crucial for the ultimate decision making by the Board/Shareholders.

Corporate Information

Magma Automobiles Limited "Magnum" is a listed Company incorporated under the Companies Act, 1956. The shares of the Company are listed in the Bombay Stock Exchange. It specializes in the manufacture of luxury cars and has its plants located at Hyderabad and Mumbai. It also has its own captive power plant at Hyderabad. The shareholding pattern of the Company as at 31st March, 2015 is as under:

Particulars	No. of Shares	Amount in ₹ Lakhs	%
Public shareholding	270,000	270	27%
Promoters	610,000	610	61%
Institutional Investors.	120,000	120	12%
Total	1,000,000	1,000	100%

The Company has been doing extremely well and its Turnover and Profit After Tax for the past 3 years is given below:

Year	Turnover (Amount in ₹ Lakhs)	Profit after tax (Amount in ₹ lakhs)
FY 2015	47,021	2,915
FY 2014	50,406	3,578
FY 2013	51,918	3,062

The Company was promoted by Rahman Malik, father of Yasin Malik who has set up several ventures as a first generation entrepreneur. Whilst there are 15 such companies promoted by him in different segments which are operational, 'Magnum' is the flagship company of the Malik group (Maliks). 'Magnum' went public in the year 2005 and the shares were oversubscribed by 2.12 times at that time. The Company has been paying dividend to its shareholders consistently and is having a healthy price trend in the Bombay Stock Exchange during the past several years.

The Company has surplus cash and the cash accretion is generally invested in fixed deposits and mutual funds.

The Proposal

Yasin Malik has put forward a proposal to merge 'Magnum' with an unlisted entity 'Yamuna' Fitting Works Limited, ("Yamuna") through an approved restructuring route considering certain business reasons. He has requested the Chief Financial Officer to explain the financial and other details of 'Yamuna' to kick start the discussions further. He has also preferred to go for a capital reduction of 'Yamuna', if permissible under the law along with the Scheme.

Information Provided by Anirudh, CFO

'Yamuna' which is an entity promoted by the Maliks, is specializing in the manufacture of engineering products for vehicle manufacture. It was incorporated in 2010 and its plant is located at Pune. Due to various external conditions, 'Yamuna' is not doing well and has recorded huge losses accumulated year on year. Details of shareholding pattern of 'Yamuna' as at 31st March, 2015 is as under:

Particulars	No. of Shares	Amount in ₹ Lakhs	%
Promoters (same Shareholders as that of 'Magnum')	90,000	90	90%
Friend and Relatives	10,000	10	10%
Total	100,000	100	100%

The number of shares mentioned above have increased every year by 7,000 shares for the last 7 years continuously, but the proportion of shareholding has remained the same.

The key financial data of 'Yamuna' is as under:

(₹ in lakhs)

Particulars	As at 31 st March, 2015	As at 31 st March, 2014	As at 31 st March, 2013
Equity Share Capital	100	93	86
Capital Reserve	25	25	25
General Reserve	42	42	42
Profit & Loss Account	(287)	(211)	(163)

<i>Inter Corporate Deposit (ICD) from Magnum</i>	20000	20000	20000
<i>Net Current Assets</i>	(364)	(193)	(213)
<i>Bank Borrowings</i>	10000	10000	10000
<i>Revenue-Net</i>	1822	2453	2697
<i>(Loss)/Profit After Tax</i>	(76)	(48)	(32)
<i>Operating Cash Flows</i>	(2674)	(1167)	(1234)
<i>Investing Cash Flows</i>	76	34	11
<i>Financing Cash Flows</i>	2936	1534	1432
<i>Interest Expense</i>	75	82	77

Anirudh has highlighted the following significant matters relating to 'Yamuna'

- 'Magnum' has lent an amount of ₹ 20,000 Lakhs to 'Yamuna' as an inter-corporate deposit for meeting various working capital requirements in the year 2012 which is being rolled over every 6 months since 'Yamuna' is not in a position to repay the loan as per the agreed tenure. It is also not servicing any interest and the amount of interest payable as per the terms is not recognised in the books of 'Magnum' in view of the uncertainties attached to revenue recognition.
- In addition, 'Yamuna' has also taken loans from Zomi Bank for ₹ 10,000 lakhs and the same has been guaranteed by 'Magnum'. Due to default in repayment, the bank has classified the loan provided to 'Yamuna' as a Non-Performing Asset. It has also taken certain steps to recover the amount by filing a winding up petition. 'Yamuna' is in the process of discussing One Time Settlement with the Bank through some third party funding arrangement. The gains arising out of one time settlement amounting to ₹ 2,000 lakhs has already been taken to Revenue on accrual basis in anticipation of the settlement.
- 'Yamuna' is dependent on couple of customers namely Magic Works and Perfection Precision Works. Whilst the operating level margins are positive, at net profit level, these arrangements are not profitable due to its limited size/complication involved in execution.
- Lack of adequate core working capital and higher power cost are the main reasons for the loss in 'Yamuna'.
- Whilst the plant of 'Yamuna' requires renovation, the same can be utilized for carrying out certain activities of 'Magnum' with some additional investment of about Rs, 1,000 lakhs.
- The accumulated business loss of 'Yamuna' as per tax is ₹ 4,500 lakhs and the unabsorbed depreciation loss is ₹ 1,200 lakhs.

Further Background of the Proposal

Yasin Malik added that it is apparent that 'Yamuna' is going through tough times and all the efforts made by the promoters to revive the entity has become futile and time has come now to fix the problem with the help of 'Magnum'.

He added that a due valuation of both the entities may be carried out and based on the swap ratio as determined by the Valuers, shares can be allotted to the holders of 'Magnum' in 'Yamuna'. He also wanted to understand the process involved under the Companies Act, 2013 listing agreement, as well as SEBI (LODR) Regulations, 2015 as well as other applicable regulations that are significant.

Key Matters raised by Aswini, President, Taxation.

Aswini has suggested that since 'Magnum' is a tax paying entity, through the merger, the possibility of setting off the carry forward losses of 'Yamuna' including the speculative losses, needs to be explored.

He also added that considering the financial position of 'Magnum' and 'Yamuna', based on the valuation, the merger could trigger a goodwill in the hands of 'Yamuna' which can also be considered for tax deduction.

He was skeptical about the acceptance of the scheme by the tax authorities in view of the involvement of the Group Company/related party. He wanted to know if the same would be permissible under the Companies Act, 2013.

Inputs from Mohan Rangarajan, Company Secretary.

Mohan believes that this proposal is completely workable and infact the same needs to be mandatorily pursued through the fast track mechanism available under the regulatory framework. He further added that the ICD which remains as outstanding from 'Yamuna' will, also be eliminated on merger and hence the issue of repayment also does not arise. He wanted some inputs on the various procedural formalities involved in getting the regulatory consent for the scheme.

Mohan also indicated that the creditors meeting is not required if the eligible conditions are satisfied.

Matters raised by Subha, Financial Controller.

Subha raised the issue of accounting for interest on the ICD. Further, Subha also raised the issue of on going settlement with the bankers and the potential impact of the same on this proposal. In addition, Subha raised the issue of the date of giving effect to the proposal in the books of account based on the scheme if approved by the appropriate authority.

Other matters raised during the session

It was agreed that the merger proposal will be pursued based on the scheme to be approved by the Board/Shareholders/other stakeholders/appropriate authority under the Companies Act,

2013 and other applicable legislation duly taking the required professional advice wherever required.

PART-A

Based on the above information, please provide your suitable advice to your client to assist him in forming his opinion to the following questions in short and appropriate technical reference :

- (1) The proposal put forward by 'Magnum' would be best termed as
- (A) Asset Sale
 - (B) Amalgamation
 - (C) Slump Sale
 - (D) None of the above **(2 Marks)**
- (2) Capital Reduction of 'Yamuna' can be carried out along with the proposal of 'Magnum' to merge with 'Yamuna' if approved by all the stakeholders/appropriate authority.
- (A) No
 - (B) Yes
 - (C) Permissible only under certain circumstances with the approval of Competition Commission of India.
 - (D) Permissible only with the consent of all the minority shareholders. **(2 Marks)**
- (3) The Scheme, if approved, will be given effect to in the books of account on
- (A) The date of the Order of the Appropriate Authority
 - (B) Appointed Date
 - (C) Financial year end in which the Order is received.
 - (D) The date on which the Order of the Appropriate Authority is filed with the Registrar of Companies. **(2 Marks)**
- (4) On giving effect to the Scheme, Inter-company Loan provided by 'Magnum' to 'Yamuna'
- (A) Will remain in the books of 'Yamuna'
 - (B) Will be squared off
 - (C) Will remain as a memorandum Entry
 - (D) Will remain only in the books of 'Magnum' **(2 Marks)**
- (5) Whether the proposal of 'Magnum' for the merger needs to be mandatorily pursued under fast track option?
- (A) Yes
 - (B) Would vary on a case to case basis depending on the contents of the scheme.

- (C) Yes, if it involves capital reduction
(D) No **(2 Marks)**
- (6) Whether the speculative losses carried forward by 'Yamuna' is available for set off against the profits and gains of business of 'Yamuna' post-merger?
(A) Yes
(B) No
(C) Permissible if it is within the period of 8 years.
(D) If the Scheme provides for such set off, the same would be permissible. **(2 Marks)**
- (7) The accounting for the one time settlement benefit in the form of anticipated interest waiver by the Bank in the books of account of 'Yamuna' for the year ended 31st March, 2015 is appropriate.
(A) Yes, it is appropriate.
(B) No, this should be accounted as an exceptional item.
(C) No
(D) Permissible since the entity is going through the merger proposal. **(2 Marks)**
- (8) Meeting of the Creditors cannot be dispensed with under any circumstances under the Companies Act, 2013
(A) Yes
(B) No, it can be dispensed with under certain circumstances as stipulated under the Companies Act, 2013.
(C) Dispensation is possible, if the scheme is approved by the shareholders.
(D) Dispensation is not possible, if there is a loan taken from the Bank. **(2 Marks)**
- (9) Additional amount of capital expenditure expected to be spent on renovation of 'Yamuna' needs to be accounted in the books of account on
(A) The Effective Date of the Scheme.
(B) Date of filing the approved scheme with the Registrar of Companies.
(C) The day on which the expenditure is incurred.
(D) End of the financial year in which the order sanctioning the scheme was received. **(2 Marks)**
- (10) Any Merger Scheme which involves 'related parties' would not be approved under the Companies Act, 2013.
(A) Yes

- (B) Permissible if the stipulated requirements of the Act including obtaining the consent from all the intended stakeholders is complied with
- (C) Permissible only when the 'related parties' sell off their holding to third parties.
- (D) Permissible with the sole approval of the Audit Committee. **(2 Marks)**

PART-B**Answer the following:**

- (a) What are the risk factors to be considered in the matter of merger of 'Magnum' with 'Yamuna'? **(5 Marks)**
- (b) What are the ideal considerations for a reverse merger and state its relevance to 'Magnum'? **(5 Marks)**
- (c) If the Reverse Merger scheme is duly approved under the Companies Act, 2013 evaluate the impact of the same under the Income Tax Act, 1961 for 'Yamuna'. **(10 Marks)**
- (d) Who are the stakeholders impacted because of the Reverse Merger proposal to whom the required notices have to be sent/consent to be taken before the sanctioning of the Scheme? **(5 Marks)**
- (e) Are there any other options available Instead of Reverse Merger Option? If so, please explain the same with your rationale. **(5 Marks)**

Answer to Question 3 Part A (MCQs)

- (1) Option (D): None of the Above

Reasoning: The proposal would be in the nature of Reverse Merger. Reverse Merger refers to a merger where the smaller company gains control over a large one. In this case, Magnum (the transferor company) is a larger listed entity which is getting merged into Yamuna (the transferee company), the smaller unlisted loss making entity. Hence, this is a reverse merger.

- (2) Option (B): yes.

Reasoning: Explanation to section 230 of the Companies Act, 2013—For the removal of doubts, it is hereby declared that the provisions of section 66 shall not apply to the reduction of share capital effected in pursuance of the order of the Tribunal under this section.

Since reduction of share capital requires an application to Tribunal by company after passing Special Resolution and on confirmation by Tribunal, reduction of share capital gets effected. However, in the case of compromise under section 230 if that results into reduction of capital, compliance of section 66 is not required to be made separately in such cases.

- (3) Option (B): Appointed Date.

Reasoning: As per section 232, Sub-section (5) & (6), states that every company in relation to which the order is made shall cause a certified copy of the order to be filed with the Registrar for registration within thirty days of the receipt of certified copy of the order. The scheme under this section shall clearly indicate an appointed date from which it shall be effective and the scheme shall be deemed to be effective from such date and not at a date subsequent to the appointed date.

- (4) Option (B) : Will be squared off

Reasoning: Mutual transactions are eliminated and the intercompany balances are set-off during merger as per general practice followed in Accounting.

- (5) Option (D): No

Reasoning: As per section 233 of the Companies Act, 2013, a scheme of merger or amalgamation under Fast Track may be entered into between two or more small companies or between a holding company and its wholly-owned subsidiary company or such other class or classes of companies as given in Rule 25 of the Companies (Compromises, Arrangements and Amalgamations) Rules, 2016. So the proposal of Magnum for the merger need not be required to be pursued under fast track option.

- (6) Option (B) No

Reasoning: As per section 73(1), a loss in speculation business can be set off only against the profits and gains of any other speculation business and not against any other normal business income.

- (7) Option (C) : No

Reasoning : Yamuna Ltd. is in process of discussion for One-time Settlement. The deal has not been finalised. As per AS, prudence and conservatism concept did not allow to anticipate and recognise the revenue until and unless the same has been realised or accrued.

Para 37 of the Framework for the preparation and presentation of financial statements defines Prudence as "The preparers of financial statements have to contend with the uncertainties that inevitably surround many events and circumstances, such as the collectability of receivables, the probable useful life of plant and machinery, and the warranty claims that may occur. Such uncertainties are recognised by the disclosure of their nature and extent and by the exercise of prudence in the preparation of the financial statements".

- (8) Option (B): No, it can be dispensed with under certain circumstances as stipulated under the Companies Act, 2013

Reasoning: According to section 230(9) of the Companies Act, 2013, the Tribunal may dispense with calling of a meeting of creditor or class of creditors where such creditors or class of creditors, having at least ninety per cent value, agree and confirm, by way of

affidavit, to the scheme of compromise or arrangement. [Sub-section (9)]. So, the meeting of the creditors can be dispensed as per the requirement specified here in the section.

- (9) Option (C) : The day on which the expenditure is incurred.

Reasoning: Accounting is done when either the expense is incurred or accrued. Accordingly the best appropriate answer should be option c.

- (10) Option (D): Permissible with the sole approval of the Audit Committee

Reasoning: As per section 177(4) of the Companies Act, 2013, every Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall, inter alia, include, approval or any subsequent modification of transactions of the company with related parties.

Provided that the Audit Committee may make omnibus approval for related party transactions proposed to be entered into by the company.

Descriptive Answers: PART B

Answer (a)

The risk factors to be considered are discussed in the following paragraphs.

Magnum is an entity that is doing extremely well. By merging it with another entity that is not doing well, the combined results may not be beneficial to the shareholders of Magnum. Hence, the need for such a merger from a standalone point of view needs a critical evaluation from the view point of magnum.

Merging an entity with a related party could have its own bias of arm's length valuation/protecting the interest of the minority shareholders.

Magnum is an established name in the market. A reverse merger could result in loss of name and renaming of the entity post the reverse merger may be considered effectively. Considering the outstanding loans to lenders and creditors, there could be an objection to the proposal by these parties.

Such loans could be either settled upfront or appropriately restructured to ensure that the creditors/lenders get the required comfort that the merged entity's ability to generate adequate funds for repayment is higher than that Yamuna can operate on its own.

Considering the above, the Scheme of Merger would need to be drafted carefully from all the above aspects and ensure that the concerns of any of these parties don't remain unaddressed.

Alternative Answer

The risk factors to be considered in the matter of merger of 'Magnum' with 'Yamuna' are discussed as below:

- (i) A merger is a complicated process and a reverse merger can leave the shareholder with shares in an entity that is loss-making or debt burdened. As Yamuna already has huge debt and is loss making, this is a big risk which has to be seriously considered.

- (ii) A reverse merger may put more pressure on the company's accounting books, especially if the smaller firm is unlisted. In the present case, huge losses of Yamuna may make a serious dent in the profitability position of the company.
- (iii) The additional investment of ₹ 1000 lakhs for the renovation of the plant of Yamuna may not bring the desired results as anticipated by the merged company. The reason is that the company may not get any substantial return on the investment made. Also, the financing aspect has to be thought off i.e. whether to finance the investment by debt or equity. Too much debt will increase the default risk of the company and too much equity will deprive the company of tax benefits and higher earnings per share to a certain extent. So a balancing act is required in this respect.
- (iv) Then, there is credit risk as well as reputation risk if one time settlement with the bank doesn't fructify well. The merged entity may struggle to make the required payment which may further damage the reputation of the company.
- (v) Lastly, there is legal risk as lawsuits for various reasons are very common during the reverse merger. Also, the company may fumble to meet the various compliance requirements relating to merger which further increases its compliance risk. So, there may not be any increase in value for the shareholders as promised during the reverse merger process.

Answer (b)

In ordinary cases, the company taken over is the smaller company; in a 'reverse merger', a smaller company gains control of a larger one. Reverse Merger is also known as 'back door listing'. Thus, the ideal considerations for a reverse merger are explained as follows:

- **Easy access to capital market:** Magnum is a listed company and reverse merger is an easy route for Yamuna to get access to capital market.
- **Increase in visibility of the company in corporate world:** Again, Yamuna will get the required exposure of the corporate world by associating with a successful company like Magnum.
- **Cheaper and easier route to go for a public issue:** This kind of merger can be an alternative for Yamuna to go for public issue without incurring huge expenses and passing through cumbersome process.

Further, the relevance of merger to Magnum has been explained as below:

- Tax benefits on carry forward of losses of the acquired company - Magnum can **carry forward the losses and can thus, reduce its tax liability.**
- The reverse merger may create a positive impact on the competition in the market. Magnum may be **able to compete more efficiently after the merger.**

- It results in efficient use of available resources. Magnum can take advantage of the **specialization** which Yamuna got in manufacture of engineering products for vehicle manufacture.
- The reverse merger **adds value to the business** and enhances its future sustainability. After the merger, Magnum will be a bigger company having an additional expertise in manufacture of engineering products for vehicle manufacture.

Alternative Answer

Reverse merger typically is a case where a smaller company gains control over a larger one as against the ordinary mergers where the company taken over is a larger one. The key considerations for a reverse merger with the situation at Magnum are analyzed below:

Considerations for Reverse Merger	Relevance to Magnum
(1) Involves a smaller company gaining control over a larger one.	Magnum is a listed entity and a larger one whereas Yamuna is an unlisted entity that is smaller. Magnum is proposed to be merged with Yamuna thereby resulting in a reverse merger situation.
(2) A reverse merger typically has three tests to be fulfilled which are as below: The assets of the transferor company are greater than the transferee company. Equity capital to be issued by the transferee company pursuant to the acquisition exceeds the original issued capital. The change of control in the transferee company through the introduction of a minority holder or group of holders.	As can be noted, assets of Yamuna is much lesser compared to that of Magnum. Yes Yamuna's shareholders prior to the reverse merger were 90% promoter group and 10% friends and relatives. Pursuant to the reverse merger, all shareholders in Magnum are now shareholders in Yamuna having minority shareholders including public shareholders and institutional investors.
(3) Reverse merger provides the following benefits to the acquiring company: Easy access to capital market. Increase in visibility of the company in the corporate world.	Yamuna was an unlisted entity earlier under financial stress. The reverse merger results in easier access to capital market for Yamuna. Yamuna was an entity wasn't known in the market and this creates visibility. Yamuna has significant losses which can be utilized post-merger. Applicable in the case of Yamuna.

Tax benefit on carry forward losses to the acquired company. Cheaper and easier route to become a public company.	
--	--

Answer (c)**(1) Transfer of capital asset by Magnum Ltd. to Yamuna Ltd. at the time of merger**

“Amalgamation”, in relation to companies, under Income-tax Act, 1961 means the merger of one or more companies with another company or the merger of two or more companies to form one company (the company or companies which so merge being referred to as the amalgamating company or companies and the company with which they merge or which is formed as a result of the merger, as the amalgamated company) in such a manner that -

- (i) all the property of the amalgamating company or companies immediately before the amalgamation becomes the property of the amalgamated company by virtue of the amalgamation;
- (ii) all the liabilities of the amalgamating company or companies immediately before the amalgamation become the liabilities of the amalgamated company by virtue of the amalgamation;
- (iii) shareholders holding not less than three-fourth in value of the shares in the amalgamating company or companies (other than shares already held therein immediately before the amalgamation by, or by a nominee for, the amalgamated company or its subsidiary) become shareholders of the amalgamated company by virtue of the amalgamation, otherwise than as a result of the acquisition of the property of one company by another company pursuant to the purchase of such property by the other company or as a result of the distribution of such property to the other company after the winding up of the first mentioned company.

If Magnum Ltd. merges into Yamuna Ltd. by satisfying all the above conditions, any transfer of a capital asset by the Magnum Ltd., the amalgamating company to Yamuna Ltd., the amalgamated company, being an Indian company, would not be regarded as transfer as per section 47. From the information given in the question, the promoters holding 61% of shares of Magnum Ltd. would become shareholders of the amalgamated company. If out of the remaining shareholders of Magnum Ltd., shareholders holding at least 14% of shares opt to become shareholders of Yamuna Ltd., then, the third condition would be fulfilled. Assuming that conditions (i) and (ii) are also fulfilled in this case, the transfer of capital asset would not be subject to capital gains tax.

(2) Transfer of shares held by the shareholders of Magnum Ltd.:

Transfer of shares held by the shareholders in Magnum Ltd. in consideration of the allotment to them of any share in Yamuna Ltd., an Indian company, would not be regarded as transfer as per section 47, if the amalgamation fulfils all the above conditions.

(3) Carry forward and set-off of losses of Yamuna Ltd. post-merger:

As per section 72A, accumulated losses and unabsorbed depreciation of the amalgamating company would be deemed to be the loss or depreciation, as the case may be, of the amalgamated company for the previous year in which the amalgamation took place. However, in the present case, since, amalgamating company i.e., Magnum Ltd. is a profit making company, section 72A would not be relevant in this case.

As per section 79, in the case of a company in which the public are not substantially interested, no loss incurred in any year prior to the previous year shall be carried forward and set-off against the income of the previous year, unless on the last day of the previous year, the shares of the company carrying not less than 51% of the voting power were beneficially held by persons who beneficially held shares of the company carrying not less than 51% of the voting power on the last day of the year or years in which the loss was incurred.

In the present case, since Yamuna Ltd. is a company in which public are not substantially interested, it would not be allowed to set-off its brought forward losses, if on the last day of the previous year 2017-18, the shares of the company carrying not less than 51% of the voting power were not beneficially held by persons, who beneficially held shares of the company carrying not less than 51% of the voting power on the last day of the year or years in which the loss was incurred.

However, it would be allowed to set-off its brought forward losses, if on the last day of the previous year 2017-18, the shares of the company carrying not less than 51% of the voting power were beneficially held by persons, who beneficially held shares of the company carrying not less than 51% of the voting power on the last day of the year or years in which the loss was incurred.

This condition, however, does not apply in respect of set-off of unabsorbed depreciation.

(4) Treatment of Depreciation on reverse merger: Depreciation @25% of the value of goodwill would be allowed to Yamuna Ltd. considering it as intangible asset.

In case of amalgamation, the depreciation would be first computed as if the amalgamation has not taken place and thereafter, it has to be bifurcated between the amalgamating company, i.e., Magnum Ltd. and the amalgamated company i.e., Yamuna Ltd. in the ratio of the number of days for which the assets were used by them.

Answer (d)

As per the provisions given in section 230 (3), (4) & (5) of the Companies Act, 2013, where a meeting is proposed to be called in pursuance of an order of the Tribunal under section 230 (1), **a notice of such meeting shall be sent to the following:**

- all the creditors or class of creditors, and
- to all the members or class of members and
- the debenture-holders of the company,

individually at the address registered with the company accompanied with relevant documents as prescribed in section 230(4).

Provided that such notice and other documents shall also be placed on the website of the company, if any, and in case of a listed company, these documents shall be sent to the Securities and Exchange Board and stock exchange where the securities of the companies are listed, for placing on their website and shall also be published in newspapers in such manner as prescribed under Rule 8 of the Companies (Compromises, Arrangements and Amalgamations) Rules, 2016.

Provided further that where the notice for the meeting is also issued by way of an advertisement, it shall indicate the time within which copies of the compromise or arrangement shall be made available to the concerned persons free of charge from the registered office of the company.

The persons to whom the notice is sent as per the above provision, they are entitled to vote in the meeting to the adoption of the compromise or arrangement within one month from the date of receipt of such notice. Provided that any objection to the compromise or arrangement shall be made in compliance to the provision.

A notice shall also be sent to the-

- Central Government,
- the income-tax authorities,
- the Reserve Bank of India,
- the Securities and Exchange Board,
- the Registrar,
- the respective stock exchanges,
- the Official Liquidator,
- the Competition Commission of India under the Competition Act, 2002, if necessary, and
- such other sectoral regulators or authorities which are likely to be affected by the compromise or arrangement, and

shall require that representations, if any, to be made by them shall be made within a period of thirty days from the date of receipt of such notice, failing which, it shall be presumed that they have no representations to make on the proposals.

Answer (e)

As per section 230(7) of the Companies Act, 2013, the other options available instead of reverse merger option vide an order made by the Tribunal shall provide for all or any of the following matters, namely:—

- (a) where the compromise or arrangement provides for conversion of preference shares into equity shares, such preference shareholders shall be given an option to either obtain arrears of dividend in cash or accept equity shares equal to the value of the dividend payable;
- (b) the protection of any class of creditors;
- (c) if the compromise or arrangement results in the variation of the shareholders' rights, it shall be given effect to under the provisions of section 48;
- (d) if the compromise or arrangement is agreed to by the creditors under section 230(6), any proceedings pending before the Board for Industrial and Financial Reconstruction (BIFR) established under section 4 of the Sick Industrial Companies (Special Provisions) Act, 1985 shall abate;
- (e) such other matters including exit offer to dissenting shareholders, if any, as are in the opinion of the Tribunal necessary to effectively implement the terms of the compromise or arrangement.

Provided that no compromise or arrangement shall be sanctioned by the Tribunal unless a certificate by the company's auditor has been filed with the Tribunal to the effect that the accounting treatment, if any, proposed in the scheme of compromise or arrangement is in conformity with the accounting standards prescribed under section 133.

Yasin Malik has put forward a proposal to merge 'Magnum' with an unlisted entity 'Yamuna' Fitting Works Limited, ("Yamuna") through an approved restructuring route considering certain business reasons. He has requested the Chief Financial Officer to explain the financial and other details of 'Yamuna' to kick start the discussions further. He has also preferred to go for a capital reduction of 'Yamuna', if permissible under the law along with the Scheme.

Information Provided by Anirudh. CFO

'Yamuna' which is an entity promoted by the Maliks, is specializing in the manufacture of engineering products for vehicle manufacture. It was incorporated in 2010 and its plant is located at Pune. Due to various external conditions, 'Yamuna' is not doing well and has recorded huge losses accumulated year on year. Details of shareholding pattern of 'Yamuna' as at 31st March, 2015 is as under:

Particulars	No. of Shares	Amount in ₹ Lakhs	%
Promoters (same Shareholders as that of 'Magnum')	90,000	90	90%
Friend and Relatives	10,000	10	10%
Total	100,000	100	100%

MOCK TEST PAPER
FINAL COURSE: GROUP – II
PAPER – 6F: MULTIDISCIPLINARY CASE STUDY

Attempt any **four** out of **five** case study based questions.

Each Case Study carries 25 Marks.

CASE STUDY 1

1. Upal Ltd. is a public company (herein after referred as 'The Company'), listed in NSE & BSE, having paid up share capital of ₹600 crores, with 20,000 shareholders, incorporated since 2004, and the company got listed in 2012.

The company avails certain services from a sub-service organization, named Paryupasna HR & Accounting Services Pvt. Ltd., that are part of the Upal Ltd.'s information system relevant to financial reporting.

The company was required to pay penalty for a breach in the performance of a contract with Paryupasna HR & Accounting Services Pvt. Ltd. Upal Ltd. believed that the penalty was payable at a lower amount than the amount demanded by the other party. The company created provision for the penalty but also approached the arbitrator with a submission that the case may be dismissed with costs. The company prepared the financial statements for the year 2022-2023, which were approved in May 2023. The arbitrator, in April 2023, awarded the case in favour of Upal Ltd. As a result of the award of the arbitrator, the provision earlier made by the company was required to be reduced. The arbitrator also decided that cost of the case should be borne by the other party i.e. Paryupasna HR & Accounting Services Pvt. Ltd.

2. The company has a headcount of around 1,000 employees in the organisation in 2022-23. As per the company's policy, the employees are given 30 days of privilege leaves (PL), 10 days of sick leaves (SL) and 5 days of casual leaves. Out of the total PL and sick leaves, 10 PL leaves and 5 sick leaves can be carried forward to next year. On the basis of past trends, it has been noted that 300 employees will take 5 days of PL and 2 days of SL and 700 employees will avail 10 days of PL and 5 days of SL.

Also the company has been incurring profits since 2012. It has decided in F.Y. 2022-2023 to distribute profits to its employees @ 4% during the year. However, due to the employee turnover in the organisation, the expected pay-out of the Upal Ltd. is expected to be around 3.5%. The profits earned during 2022-2023 is ₹ 1,800 crores.

Upal Ltd. has a post-employment benefit plan also available which is in the nature of defined contribution plan where contribution to the fund amounts to ₹ 100 crores which will fall due within 12 months from the end of accounting period. The company has paid ₹ 20 crores to its employees in 2022-2023.

3. Upal Ltd., at present, is having 1000 small shareholders who are desirous of appointing Mr. Merumal as their Director on the Board of Directors. Mr. Merumal held 500 equity shares of ₹ 10 each in the said company. According to the provisions of the Companies Act, 2013, a listed company may have one Director elected by such small shareholders in such manner and on such terms and conditions as may be prescribed. Hence, Mr. Merumal was appointed as a small shareholders' Director by the company.
4. The company pays sitting fee of ₹ 25,000 each to its 10 directors per meeting. Further, there are two directors who are in the executive roles and are withdrawing ₹ 2,10,000 each per month as salary from the company and the applicable TDS amount, under section 192 of the Income-tax Act, 1961, is deducted from such salary.

A Board Meeting was held on 19th January, 2023, at the Registered Office at 4 P.M. The agenda of the Board Meeting was to increase the sitting fees of Directors and sale of one of the undertakings of the company. The Board of Directors of the company decided to raise the payment of sitting fees for each meeting of Board of Directors to a maximum of ₹ 40,000 by altering its Articles of Association. In view of the Board, from the last one year there had been an increase in the work responsibilities of all the directors including woman Director Ms. Reema Vakaria and other two independent Directors. Hence, it was necessary to increase the sitting fees.

The Articles of Association of Upal Ltd. contain a provision by which Directors are empowered to sell or otherwise deal with the property/undertaking of the company. The Board was of the view that the sale consideration received from selling the undertaking would be used to clear off the part of existing term loan availed from BKG Commercial Bank Limited. However, except Mr. Shyamal and Mr. Ramesh who objected to the selling of company's undertaking, all other directors were in favour of said sale.

5. The company imported certain cloud services from Apnacart.com for an amount of ₹ 52,00,000. There is an additional charge of 2% as equalisation levy on such services in India which is recovered from the offshore service supplier by the Government. Apnacart.com passes the taxes to its customers by charging them, as its internal policy.

Multiple Choice Questions (5 questions of 2 Marks each):

1. With reference to information given under Para 4, what shall be the taxability of the sitting fee payable to directors and salary payable to the executive directors?
 - (a) Sitting fees paid to the directors is liable to GST under reverse charge and the salary paid to executive directors shall not be liable to GST.
 - (b) Total amount payable to directors (sitting fees as well as salary) is exempt from GST.
 - (c) Total amount payable to directors (sitting fees as well as salary) is liable to GST under reverse charge in hands of Upal Ltd.
 - (d) Total amount payable to directors (sitting fees as well as salary) is liable to GST under forward charge in the hands of the directors as professional income.
2. With reference to information given under Para 5, the liability to pay GST for cloud services procured by Upal Ltd. from Apnacart.com shall be, assuming GST rate to be 18%?
 - (a) On Apnacart.com since the services are online information and database access or retrieval services and GST of ₹ 9,36,000 shall be paid by Apnacart.com.
 - (b) Nil. There will not be any GST liability on the transaction since Apnacart.com is located outside India and services are provided electronically.
 - (c) On Apnacart.com under forward charge and GST of ₹ 9,54,720 shall be paid by Apnacart.com.
 - (d) On Upal Ltd. under reverse charge and GST of ₹9,54,720 shall be paid by Upal Ltd.
3. With reference to information given under Para 4, in case, the company desires to increase sitting fees of independent Directors as well as woman Director from the existing ₹ 40,000 per meeting, whether it can do so?
 - (a) The proposal of giving sitting fees to independent Directors as well as woman Director in excess of ₹ 40,000 can be accepted but such fees cannot exceed the maximum limit of ₹ 50,000 per meeting for each such Director.

- (b) The proposal of giving sitting fees to independent Directors as well as woman Director in excess of ₹ 40,000 cannot be accepted because all the Directors are eligible for equal sitting fees per meeting and that too maximum upto ₹ 50,000.
- (c) The proposal of giving sitting fees to independent Directors as well as woman Director in excess of ₹ 40,000 can be accepted but such fees cannot exceed the maximum limit of ₹ 1,00,000 per meeting for each such Director.
- (d) Since women Directors unlike other independent Directors are not eligible for higher sitting fees per meeting, only independent Directors are eligible to be paid sitting fees in excess of ₹ 40,000 but maximum upto ₹50,000 per meeting.
4. With reference to information given under Para 4, choose the correct alternative from those stated below as to the procedure which is required to be followed by the company before selling the undertaking to some other interested party?
- (a) The Board of Directors of Upal Ltd. can sell the undertaking with the consent of 3/4th majority of the Directors present at the Board Meeting.
- (b) The Board of Directors of Upal Ltd. can sell the undertaking but the proposal needs to be approved by a special resolution passed at a General Meeting of the company.
- (c) The Board of Directors of Upal Ltd. can sell the undertaking but only with the unanimous consent of all the Directors of the company and thereafter, seeking the approval of the shareholders through passing an ordinary resolution at a General Meeting.
- (d) The Board of Directors of Upal Ltd. can sell the undertaking but only after seeking the approval of the shareholders through passing an ordinary resolution at a General Meeting and thereafter, obtaining the permission of the jurisdictional Registrar of Companies.
5. With reference to information given under Para 3, how many small shareholders are required to give notice to the company for appointment of their Director and also what is the minimum time period of giving such notice before the meeting where the issue of appointment of small shareholders' Director shall be considered?
- (a) Minimum 100 small shareholders of Upal Ltd. are required to give notice to the company for appointment of Merumal as their Director and such notice needs to be given minimum 14 days before the meeting where the issue of appointment of small shareholders' Director shall be considered.
- (b) Minimum 200 small shareholders of Upal Ltd. are required to give notice to the company for appointment of Merumal as their Director and such notice needs to be given minimum 15 days before the meeting where the issue of appointment of small shareholders' Director shall be considered.
- (c) Minimum 150 small shareholders of Upal Ltd. are required to give notice to the company for appointment of Merumal as their Director and such notice needs to be given minimum 21 days before the meeting where the issue of appointment of small shareholders' Director shall be considered.
- (d) Minimum 300 small shareholders of Upal Ltd. are required to give notice to the company for appointment of Merumal as their Director and such notice needs to be given minimum 30 days before the meeting where the issue of appointment of small shareholders' Director shall be considered.

DESCRIPTIVE QUESTIONS [Total 15 Marks]

1. With reference to information given under Para 1, whether Upal Ltd. is required to remeasure its provision and what would be the accounting treatment of the cost that will be recovered by Upal Ltd., which has already been charged to the Statement of Profit and Loss as an expense for the year 2022-2023? **(5 Marks)**

2. With reference to information given under Para 2, what would be the treatment of the short-term compensating absences, profit-sharing plan and the defined contribution plan in the books of Upal Ltd? What would be the treatment, if the contribution paid from defined contribution plan exceeds the contribution due? Further, what would be the accounting if the payment from defined contribution plan does not fall due within 12 months from the end of accounting period? **(5 Marks)**
3. With reference to information given under Para 1, as a user auditor i.e. as an auditor of Upal Ltd., what information would you obtain about controls at a sub-service organization, Paryupasna HR & Accounting Services Pvt. Ltd.? **(5 Marks)**

CASE STUDY 2

1. The Board of Directors of Chandriv Ltd., is contributing every year to a charitable organization, named, Krut Foundation, a sum of ₹1,50,000. During F.Y. 2022-23, the company suffered losses and the directors contemplated to contribute the said amount in spite of the losses.

Krut Foundation entrusted the said amount of ₹ 1,50,000 received from Chandriv Ltd. with its auditor, CA Matvar, proprietor of M/s MS and Co., a Chartered Accountant firm, to invest in specified securities. Mr. Matvar deposited the said amount in his father, Mr. Soham's saving bank account, in Apna Tree Bank, and no investment was made in the next five months.

2. Mr. Soham, father Mr. Matvar, is a resident Indian and is in retail business in Delhi. His turnover for F.Y.2021-22 was ₹ 9crores. He is having two bank accounts, one in SBL Bank and other in Apna Tree Bank, a saving account, as aforesaid. He only uses SBL account for conducting all the business transactions.

However, during F.Y. 2022-23, he used Apna Tree Bank account to pay purchase commission to one agent ₹ 25,000 on 13.6.2022 towards purchases made during the year and also made payments to Civil engineer of ₹ 5,00,000 on 23rd August, 2022 for construction of residential house for self use.

Mr. Soham regularly purchases goods from another resident, Mr. Nartan, a wholesaler in Delhi. The aggregate payments made by Mr. Soham to Mr. Nartan during the F.Y.2022-23 towards consideration for purchase of goods were ₹ 80 lakh (₹ 15 lakh on 8.5.2022, ₹ 30 lakh on 27.8.2022, ₹ 20 lakh on 18.10.2022 and ₹ 15 lakh on 11.2.2023). Mr. Nartan's turnover for F.Y.2021-22 was ₹ 12crores.

3. Mr. Nartan paid ₹ 5 lakhs on 5.9.2022 to M/s. James Durbin for a holiday package to Dubai for a week with his family, comprising of his wife and two children, being twins aged 23 years, in the last week of September. He also took an education loan of ₹ 15 lakhs on 1.2.2023 from State Bank of India, Madam Cama Road, Mumbai, for his son's two-year Master of Public Administration program in Eurpia University, UK and remitted the said amount through the same bank, which is an authorised dealer, under the Liberalised Remittance Scheme of RBI (LRS).

For his daughter's MBA in Aaron State University, UK, he remitted ₹ 12 lakhs on 15.2.2023, out of his personal savings, through Bank of India, Bandra branch, Mumbai which is also an authorised dealer, under LRS. Mr. Nartan also remitted ₹ 6 lakh on 29.3.2023, out of his personal savings, under LRS through Bank of India, Bandra branch, as gift to his sister residing in Germany, on the occasion of her 51st birthday.

4. CA Matvar was appointed as the Tax Auditor of Mr. Nartan's firm for the Assessment Year 2023-24. While carrying out the Tax Audit under section 44AB of the Income-tax Act, 1961. CA Matvar observed following:
 - (i) Interest of ₹60,000 paid to Vendor Mahesh who was registered under MSME Act, 2006.
 - (ii) Interest payment ₹ 12,000 was incurred in relation to earning exempt interest income from Tax Relief bonds.

- (iii) Sum of ₹ 1,10,000 was received from Mr. Deepak, for sale of one plant and machinery. But due to non-compliance of one of the conditions as specified in the contract with Mr. Deepak, Mr. Nartan forfeited ₹ 1,10,000 during AY 2023-24 as per forfeiture clause mentioned in the contract.

Multiple Choice Questions (5 questions of 2 Marks each):-

1. With reference to information given under Para 2, are provisions of TDS/TCS under the Income-tax Act, 1961 attracted in respect of purchase/sale transaction between Mr. Soham and Mr. Nartan? If so, what is the quantum of tax to be deducted/collected for the P.Y.2022-23?
 - (a) No; TDS/TCS provisions are not attracted for F.Y.2022-23, since the turnover of Mr. Soham in the immediately preceding financial year i.e., F.Y. 2021-22 does not exceed ₹ 10 crores.
 - (b) Yes, Mr. Soham has to deduct tax@0.1% of ₹ 30 lakhs (₹ 15 lakhs on 18.10.2022 and ₹ 15 lakhs on 11.2.2023)
 - (c) Yes, Mr. Nartan has to collect tax@0.1% of ₹ 30 lakhs (₹ 15 lakhs on 18.10.2022 and ₹ 15 lakhs on 11.2.2023)
 - (d) Yes, Mr. Nartan has to collect tax@0.1% of ₹ 80 lakhs
2. With reference to information given under Para 2, in case of failure to furnish PAN by the deductee/collectee as required based on the answer to Q.no.1 above, what would be the applicable rate of TDS/TCS?
 - (a) Not applicable, since there is no requirement to deduct or collect tax
 - (b) 20%
 - (c) 5%
 - (d) 1%
3. With reference to information given under Para 3, is M/s. James Durbin required to collect tax at source on receipt of ₹ 5 lakh from Mr. Nartan for holiday package to Dubai? If so, what is the amount of tax to be collected?
 - (a) Yes; ₹ 25,000
 - (b) Yes; ₹ 5,000
 - (c) Yes; ₹ 2,500
 - (d) No tax is required to be collected at source, since the receipt does not exceed ₹ 7 lakh
4. With reference to information given under Para 3, what is the amount of tax to be collected from Mr. Nartan in respect of the remittance of amounts overseas for his son's and daughter's education?
 - (a) TCS@0.5% of ₹ 8 lakhs and ₹ 5 lakhs are attracted in respect of remittance for son's and daughter's education, respectively.
 - (b) TCS@5% of ₹ 8 lakhs and ₹ 5 lakhs are attracted in respect of remittance for son's and daughter's education, respectively.
 - (c) TCS@0.5% of ₹ 8 lakhs and TCS@5% of ₹ 5 lakhs are attracted in respect of remittance for son's and daughter's education, respectively.
 - (d) TCS@5% of ₹ 8 lakhs is attracted in respect of remittance for son's education; No TCS is attracted in respect of remittance for daughter's education.

5. With reference to information given under Para 3, are TCS provisions attracted in respect of remittance of gift to sister? If so, what is the amount of tax to be collected from Mr. Nartan?
- (a) No, since the remittance is out of personal savings for a personal purpose
 - (b) No, since the amount remitted to his sister is less than ₹ 7 lakhs
 - (c) No, due to reasons stated in (a) and (b) above
 - (d) Yes, ₹ 30,000.

DESCRIPTIVE QUESTIONS [Total 15 Marks]

1. With reference to information given under Para 2, decide whether provisions relating to deduction of tax at source are attracted for the payments made to agent and civil engineer during the financial year 2022-23? **(4 Marks)**
2. With reference to information given under Para 1,
- (a) Whether Chandhriv Ltd. could have made such contribution to Krut Foundation? **(3 Marks)**
 - (b) Whether Mr. Matvar can be held guilty of professional misconduct? **(3 Marks)**
3. With reference to information given under Para 4, guide CA Matvar in reporting the said transactions under the relevant clauses in Form No. 3CD. **(5 Marks)**

CASE STUDY 3

Para 1

CDT Hospitality is a business trust, registered under SEBI (Real Estate Investment Trusts) Regulations, 2014, gives particulars of its income for the P.Y. 2022-23:

- (i) Interest income from Liyak Ltd. – ₹ 10 lakh;
- (ii) Dividend income from Liyak Ltd. – ₹6 lakh;
- (iii) Short-term capital gains on sale of listed shares (STT paid both at the time of purchase and sale) of Indian companies – ₹5 lakh;
- (iv) Short-term capital gains on sale of developmental properties – ₹ 8 lakh
- (v) Interest received from investments in unlisted debentures of real estate companies – ₹2 lakh;
- (vi) Rental income from directly owned real estate assets – ₹ 20 lakh

Liyak Ltd. is an Indian company in which the business trust holds 100% of the shareholding. Liyak Ltd. does not opt to pay tax under section 115BAA.

The business trust has distributed the entire ₹51 lakh to the unit holders in the P.Y. 2022-23 in the month of March, 2023. Mr. Raman is a resident holder holding 100 units and Mr. Suketu is a non-resident holder holding 500 units. The total number of units subscribed to by all unit holders is 5,000

Para 2

CDT Hospitality writes an option contract for sale of certain number of shares of Liyak Ltd. at a fixed price of ₹95 per share to Mahishi Ltd., a company in which one of the trustees of CDT Hospitality, Mr. Raman holds some equity stake. This option is exercisable anytime for a period of 90 days ('American option').

Para 3

In F.Y. 2022-23, after the entity's 31 March 2022 annual financial statements were approved for issue, a latent defect in the composition of a new product manufactured by the entity was discovered (that is, a defect that could not be discovered by reasonable or customary inspection).

As a result of the latent defect the entity incurred ₹90,000 in unanticipated costs for fulfilling its warranty obligation in respect of sales made before 31 March 2022. An additional ₹22,000 was incurred to rectify the latent defect in products sold during 2022-23 before the defect was detected and the production process rectified, ₹6,000 of which relates to items of inventory at 31 March 2022. The defective inventory was reported at cost ₹ 15,000 in the 2021-22 financial statements when its selling price less costs to complete and sell was estimated at ₹ 19,000.

The accounting estimates made in preparing the 31 March 2022 financial statements were appropriately made using all reliable information that the entity could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Para 4

For the FY 2022-23, M/s Digubatti & Associates were the statutory auditors of Mahishi Ltd.

During the course of audit, the audit team was unable to obtain sufficient appropriate audit evidence about a single element of the consolidated financial statements. That is, the auditor was also unable to obtain audit evidence about the financial information of a joint venture investment (in Mahim Ltd.) that represents over 80% of the entity's net assets which is carried at ₹ 85 crores in its consolidated balance sheet.

Multiple Choice Questions (5 questions of 2 Marks each):-

1. With reference to information given under Para 1, in respect of the component of interest income from Liyak Ltd. distributed by the business trust to unit-holders Raman and Suketu -
 - (a) No tax is deductible by the business trust, since such income is not taxable in the hands of unit holders
 - (b) Tax is deductible@5% on ₹ 20,000 distributed to Mr. Raman and @5.2% on ₹ 1 lakh distributed to Mr. Suketu
 - (c) Tax is deductible@10% on ₹ 20,000 distributed to Mr. Raman and @5.2% on ₹ 1 lakh distributed to Mr. Suketu
 - (d) Tax is deductible@10% on ₹ 20,000 distributed to Mr. Raman and 10.4% on ₹ 1 lakh distributed to Mr. Suketu
2. With reference to information given under Para 1, in respect of short-term capital gains of ₹5 lakh on sale of listed shares of Indian companies and ₹ 8 lakh on sale of developmental properties
 - (a) The business trust is liable to pay tax@15.6% and 31.2%, respectively
 - (b) The business trust is liable to pay tax@42.744%
 - (c) The business trust enjoys pass through status and hence, it need not pay any tax on such short-term capital gains; such income is subject to tax in the hands of unit-holders
 - (d) The business trust is liable to pay tax @15.6% and 42.744%, respectively.
3. With reference to information given under Para 1, the dividend component of income from Liyak Ltd., distributed to unit-holders Raman and Suketu -
 - (a) would be subject to distribution tax in the hands of Liyak Ltd., hence exempt in the hands of the business trust and the unit holders

- (b) is exempt in the hands of the business trust, since the trust enjoys pass through status in respect of such income; such income is taxable in the hands of the unitholders Raman and Suketu
 - (c) is taxable in the hands of the business trust; hence, exempt in the hands of the unitholders
 - (d) is exempt in the hands of the business trust and in the hands of the unit holders
4. With reference to information given under Para 1, if Liyak Ltd. exercises option under section 115BAA, then, the dividend component of income from Liyak Ltd., distributed to unitholders Raman and Suketu-
- (a) would be subject to distribution tax in the hands of Liyak Ltd., hence exempt in the hands of the business trust and the unit holders
 - (b) is exempt in the hands of the business trust, since the trust enjoys pass through status in respect of such income; such income is taxable in the hands of Raman and Suketu
 - (c) is taxable in the hands of the business trust; hence, exempt in the hands of the Raman and Suketu
 - (d) is exempt in the hands of the business trust and in the hands of the unit holders Raman and Suketu
5. With reference to information given under Para 1, interest received by the business trust from investments in unlisted debentures of real estate companies and distributed to unit holders would be –
- (a) subject to tax in the hands of the unit holders
 - (b) subject to tax in the hands of the business trust@31.2%
 - (c) subject to tax in the hands of the business trust @ 42.744%
 - (d) subject to tax in the hands of the business trust at the average rate of tax

DESCRIPTIVE QUESTIONS [Total 15 Marks]

1. With reference to information given under Para 2, evaluate this under the definition of financial instrument. **(5 Marks)**
2. With reference to information given under Para 3, analyse the situation in accordance with relevant Ind AS? **(5 Marks)**
3. With reference to information given under Para 4, what kind of opinion should the statutory auditors issue in such case? **(5 Marks)**

CASE STUDY 4

1. Xaviers Logistics Limited (XLL) is into warehousing and logistics business. It has two Container Freight Stations (CFS): one at Inland Container Depot (ICD) Dadri, Uttar Pradesh and other at ICD Tughlakabad, Delhi. XLL is also engaged in the business of freight forwarding and multimodal transportation. Intermittently, XLL also deals in trading of goods, primarily in export to countries outside India.

XLL started its operations on 30th June by setting up head/corporate office in Gurgaon, Haryana and two CFS at U.P. and Delhi. Services as well as invoicing to customers was done from Delhi and U.P. unit only. Top management was placed at the head office for the management of the company. Further, trading of goods was also carried out from the head office only.

The aggregate turnover of the XLL's Delhi unit crossed ₹ 20 lakh on 31st October. It applied for GST registration for Delhi on 25th November. Registration was granted on 7th December. GST component involved in stock of goods at Delhi as on 30th October was ₹ 45 lakh, on 25th November was ₹ 40 lakh and on 7th December was ₹ 20 lakh. Such stock was procured approximately 4 to 6 months before the respective dates.

- The primary business of XLL is container handling service of import/export containers. In July next year, a shipper placed a work order on XLL for handling of an export container from ICD Tughlakabad to Dubai UAE, through Nhava Sheva seaport in Mumbai. XLL was responsible for stuffing goods in containers at ICD, assisting in obtaining customs clearance, and transportation of goods from ICD to seaport.

XLL requested the customer to issue e-way bill for the movement of customs sealed containers from ICD to seaport as the value of goods in container exceeded ₹ 50,000. However, the customer denied issuing e-way bill stating that the responsibility to issue the same is on the person who arranges the transport of goods. Consequently, the management of XLL issued e-way bill with the assistance of a consultant.

- There is a green cess applicable on the goods handled through CFS for exports outside India. XLL as a policy deposits green cess with the Government in the name of the customer and recovers such cess on actual basis from the customer by charging it separately in the invoice.

Few customers of XLL are based in Nepal & Bhutan. It provides container handling services for their containers/ cargo which are in transit to Nepal or Bhutan. It receives consideration from Nepal/ Bhutan customers in INR (₹).

- XLL entered into a contract with a customer – SK Trends Ltd. for transportation of its goods from India to Sri Lanka through sea. The voyage is expected to take 18 days from Mumbai to Colombo.

XLL also provides containers for use by customers for multiple purposes. The containers are returnable at the end of the service contract period (3 years) between XLL and its customers.

In addition to the monthly charge, there is a security deposit that each customer makes with XLL for ₹ 20,000 per container and such deposit is refundable when the service contract terminates. Deposits do not carry any interest.

- On 1 January 2023, one of the group entities of XLL, UdakChem Ltd. (UCL) in a joint contract with XLL, entered into a one-year contract with a customer to deliver water treatment chemicals. The contract stipulates that the price per container will be adjusted retroactively once the customer reaches certain sales volume, defined, as follows:

Price per container	Cumulative sales volume
₹ 100	1 - 1,000,000 containers
₹ 90	1,000,001 - 3,000,000 containers
₹ 85	3,000,001 containers and above

Volume is determined based on sales during the calendar year. There are no minimum purchase requirements. UCL estimates that the total sales volume for the year will be 2 million containers, based on its experience with similar contracts and forecasted sales to the customer.

UCL sells 600,000 containers to the customer during the first quarter ended 31st March 2023 for a contract price of ₹ 100 per container.

- Son of one of the directors of XLL, Mr. Paresh who resided in India during the F.Y.2021-22 left India on 15th July, 2022 for Switzerland for pursuing higher studies in Logistics Management for 2 years, as in the view of the directors of the company, such an education of Mr. Paresh will be helpful to XLL in its business.

Multiple Choice Questions (5 questions of 2 Marks each):-

- With reference to information given under Para 1, which of the following statements is correct regarding eligibility of ITC on opening stock at the time of new registration?

- (a) XLL can avail credit of ₹45 lakh.
 - (b) XLL can avail credit of ₹ 40 lakh.
 - (c) XLL can avail credit of ₹ 20 lakh.
 - (d) XLL cannot avail credit on opening stock.
2. With reference to information given under Para 1, which of the following statements is correct regarding GST registration by XLL?
- (a) XLL was liable for registration of only Delhi unit.
 - (b) XLL was liable for registration of units at Delhi and UP.
 - (c) XLL was liable for registration of units at Delhi, UP and Haryana.
 - (d) XLL was liable for normal registration at Delhi and UP unit, and ISD registration at Haryana unit.
3. With reference to information given under Para 2, which of the following statements is correct regarding generation of e-way bill for movement from ICD Tughlakabad to Nhava Sheva seaport in Mumbai?
- (a) E-way bill was not required to be generated since goods were being transported from ICD to seaport.
 - (b) E-way bill was mandatorily required to be generated irrespective of the value of the goods being transported as such goods were being transported from ICD to seaport.
 - (c) E-way bill was required to be generated since the value of goods being transported exceeded ₹ 50,000.
 - (d) E-way bill was rightfully issued by Xaviers Logistics Limited being the transporter of goods.
4. With reference to information given under Para 3, which of the following statements is correct regarding value of container handling services provided by the company?
- (a) Value of the taxable container handling services should exclude transportation cost and green cess.
 - (b) Value of the taxable container handling services should exclude green cess but include transportation cost.
 - (c) Value of the taxable container handling services should exclude transportation cost but include green cess.
 - (d) Value of the taxable container handling services should include transportation cost and green cess.
5. With reference to information given under Para 3, which of the following statements is correct regarding invoicing to Nepal/ Bhutan customers?
- (a) GST is not chargeable on container handling services provided to Nepal/ Bhutan customers as the place of supply of such services is outside India.
 - (b) GST is not chargeable on container handling services provided to Nepal/ Bhutan customers as the same qualifies as export of service.
 - (c) GST is not payable on container handling services provided to Nepal/ Bhutan customers as the supply of services associated with transit cargo to Nepal and Bhutan are exempt services.
 - (d) GST is chargeable on container handling services provided to Nepal/ Bhutan customers.

DESCRIPTIVE QUESTIONS [Total 15 Marks]

1. With reference to information given under Para 4,
 - (a) Whether XLL's performance obligation is met over period of time? **(3 Marks)**
 - (b) Analyse the fair value of leasing containers upon initial recognition in the books of customers. Market rate of interest for 3 year loan is 7% per annum? **(4 Marks)**
2. With reference to information given under Para 5, how should XLL determine the transaction price? **(4 Marks)**
3. With reference to information given under Para 6, what would be his residential status under the Foreign Exchange Management Act, 1999 during the Financial Years 2022-23 and 2023-24? **(4 Marks)**

CASE STUDY 5

Para 1

Mr. Tushnim, a property dealer, sold a building in the course of his business to his friend Mr. Swairam, who is a dealer in automobile spare parts, for ₹ 100 lakh on 1.1.2023, when the stamp duty value was ₹ 122 lakh. The agreement was, however, entered into on 1.9.2022 when the stamp duty value was ₹ 110 lakh. Mr. Tushnim had received a down payment of ₹ 15 lakh by NEFT from Mr. Swairam on the date of agreement. Mr. Tushnim has purchased the building for ₹ 50 lakh on 12.7.2021.

Para 2

Mr. Tushnim's brother, Mr. Rusht, a managing director in a company, sold a residential house to Mr. Vidhaay, a wholesale trader for ₹ 50 lakh on 1.2.2023, when the stamp duty value was ₹ 70 lakh. The agreement was, however, entered into on 1.8.2022 when the stamp duty value was ₹ 55 lakh. Mr. Rusht had received a down payment of ₹ 7 lakh by a crossed cheque from Mr. Vidhaay on the date of agreement. Mr. Rusht has purchased the building for ₹ 32 lakh on 17.8.2021.

Para 3

Mr. Rusht, is a managing director in Nishkantak Paths Limited, which is listed company. The company proposes to pay the following managerial remuneration:

- (i) Commission at the rate of five percent of the net profits to its Managing Director, Mr. Rusht.
- (ii) The directors other than the Managing Director are proposed to be paid monthly remuneration of ₹ 60,000 and also commission at the rate of one percent of net profits of the company subject to the condition that overall remuneration payable to ordinary directors including monthly remuneration payable to each of them shall not exceed two percent of the net profits of the company. The commission is to be distributed equally among all the directors.
- (iii) The company also proposes to pay suitable additional remuneration to Mr. Shigram, a director, for professional services rendered as mechanical engineer, whenever such services are utilized.

Para 4

Nishkantak Paths Limited has investments in various subsidiaries. In its annual financial statements for the year ending 31st March 2022 as well as 31st March 2023, Nishkantak Paths Ltd. classified Aviskrutya Ltd. a subsidiary as 'held-for-sale' and presented it as a discontinued operation. On 1 November 2021, the shareholders had authorized the management to sell all of its holding in Aviskrutya Ltd. within the year. In the

year to 31st March 2022, the management made a public announcement of its intention to sell the investment but did not actively try to sell the subsidiary as it was still operational within the Nishkantak Paths group.

Certain organizational changes were made by Nishkantak Paths Ltd. during the year to 31st March 2023, thereby resulting in additional activities being transferred to Aviskrutya Ltd. Additionally, during the year ending 31 March 2023, there had been draft agreements and some correspondence with investment bankers, which showed in principle only that Aviskrutya was still for sale.

Multiple Choice Questions (5 questions of 2 Marks each):-

1. With reference to information given under Para 1, what is the amount of income chargeable to tax in the hands of Mr. Tushnim in respect of the transaction of sale of building to Mr. Swairam and under which head is it taxable?
 - (a) ₹ 72 lakh is taxable as his business income
 - (b) ₹ 60 lakh is taxable as his business income
 - (c) ₹ 50 lakh is taxable as his business income
 - (d) ₹ 50 lakh is taxable as short-term capital gains
2. With reference to information given under Para 1, is any amount taxable in the hands of Mr. Swairam in respect of the above transaction? If so, what is the amount and under which head is it taxable?
 - (a) No amount is taxable in the hands of Mr. Swairam
 - (b) ₹ 22 lakh is taxable under the head "Income from Other Sources"
 - (c) ₹ 10 lakh is taxable under the head "Income from Other Sources"
 - (d) ₹ 10 lakh is taxable as his business income
3. With reference to information given under Para 2, what is the amount of income chargeable to tax in the hands of Mr. Rusht in respect of the transaction of sale of residential house to Mr. Vidhaay and under which head is it taxable?
 - (a) ₹ 18 lakh is taxable as short-term capital gains
 - (b) ₹ 23 lakh is taxable as short-term capital gains
 - (c) ₹ 38 lakh is taxable as short-term capital gains
 - (d) ₹ 18 lakh is taxable as his business income
4. With reference to information given under Para 2, is any amount taxable in the hands of Mr. Vidhaay in respect of the above transaction? If so, what is the amount and under which head is it taxable?
 - (a) No amount is taxable in the hands of Mr. Vidhaay
 - (b) ₹ 20 lakh is taxable under the head "Income from Other Sources"
 - (c) ₹ 5 lakh is taxable under the head "Income from Other Sources"
 - (d) ₹ 5 lakh is taxable as his business income
5. With reference to information given under Para 1 & 2, is tax deductible by Mr. Swairam and Mr. Vidhaay on making payment to the seller?
 - (a) Yes, tax is deductible at source by both Mr. Swairam and Mr. Vidhaay

- (b) No, tax is not deductible at source by either Mr. Swairam or Mr. Vidhaay
- (c) Tax is deductible at source by Mr. Swairam but not by Mr. Vidhaay
- (d) Tax is deductible at source by Mr. Vidhaay but not Mr. Swairam

DESCRIPTIVE QUESTIONS [Total 15 Marks]

1. With reference to information given under Para 3, you are required to examine with reference to the provisions of the Companies Act, 2013 the validity of the such proposals? **(9 Marks)**
2. With reference to information given under Para 4, discuss whether the classification of Aviskrutya Ltd. as held for sale and its presentation as a discontinued operation is appropriate, by referring to the principles of the relevant Ind AS and evaluate the treatment in the context of the Conceptual Framework for Financial Reporting? **(6 Marks)**

MOCK TEST PAPER
FINAL COURSE: GROUP – II
PAPER – 6F: MULTIDISCIPLINARY CASE STUDY
SUGGESTED ANSWERS / HINTS

CASE STUDY 1

Answers & Reasoning to MCQ:

1. (a) Sitting fee paid to director

As per reverse charge notification, tax on services supplied by a director of a company/ body corporate to the said company/ body corporate, located in the taxable territory, is payable under reverse charge. Hence, in the present case, the sitting fee amounting to ₹ 25,000, payable to the directors by Upal Ltd., is liable to GST under reverse charge and thus, recipient of service - Upal Ltd. – is liable to pay GST on the same.

Salary paid to director

As per Circular No.140/10/2020 GST dated 10.06.2021, the part of director's remuneration which is declared as salary in the books of a company and subjected to TDS under section 192 of the Income-tax Act, are not taxable being consideration for services by an employee to the employer in the course of or in relation to his employment in terms of Schedule III. Therefore, in the given case, the salary paid to executive directors shall not be liable to GST.

- 2. (d)** In case of importation of service, the recipient of imported service who is located in India (other than non-taxable online recipient of OIDAR service) is the person who has to pay IGST on the service under reverse charge [Section 5(3) of the IGST Act read with serial number (1) of Notification No. 10/2017 IGST (R) dated 28.06.2017].

Here, Upal Ltd. shall be liable to pay GST under reverse charge and GST of ₹ 9,54,720 (i.e. $52,00,000 + 1,04,000 \times 18\%$) shall be paid by Upal Ltd.

- 3. (c)** Rule 4 of the Companies (Appointment and Remuneration of Managerial personnel) Rules, 2014 as under:

- The sitting fees shall not exceed one lakh rupees per meeting of the Board or committee thereof. [As per Rule 4]
- The sitting fee payable to the Independent Directors and Women Directors shall not be less than that payable to other directors. [As per Proviso to Rule 4]

Accordingly, in the given case, the proposal of giving sitting fees to independent Directors as well as woman Director in excess of ₹ 40,000 can be accepted, as there are no legal restrictions in doing so, but such fees cannot exceed the maximum limit of ₹ 1,00,000 per meeting for each such Director.

- 4. (b)** Section 180(1) of the Companies Act, 2013, specifies the powers which the Board of Directors of a company shall exercise only with the consent of the company by a special resolution. Clause (a) of Section 180 (1) defines one such power as the power to sell, lease or otherwise dispose of the whole or substantially the whole of the undertaking of the company or where the company owns more than one undertaking of the whole or substantially the whole or any of such undertakings.

Therefore, the sale of the undertaking of a company can be made by the Board of Directors only with the consent of members of the company accorded by passing a special resolution.

Even if the power is given to the Board by the memorandum and articles of the company, the sale of the undertaking must be approved by the shareholders in general meeting by passing a special resolution.

5. (a) Rule 7 of the Companies (Appointment and Qualifications of Directors) Rules, 2014. These provisions are discussed below:

- (i) Strength of Small Shareholders required for appointment of their Director:

A listed company may, upon notice of not less than:

- (a) one thousand small shareholders; or
(b) 1/10th of the total number of such shareholders, whichever is lower, have a small shareholders' director elected by the small shareholders.

- (ii) Serving of notice by small shareholders:

The small shareholders intending to propose a person as a candidate for the post of small shareholders' director shall give a notice of their intention with the company **at least fourteen days** before the meeting under their signature specifying the name, address, shares held and folio number of the person whose name is being proposed for the post of director and of the small shareholders who are proposing such person for the office of director.

Here, Upal Ltd., at present, is having 1000 small shareholders and accordingly, 1/10th of such small shareholders i.e. 100 or 1000, whichever is lower, i.e. minimum 100 small shareholders of Upal Ltd. are required to give notice to the company for appointment of Merumal as their Director and such notice needs to be given minimum 14 days before the meeting where the issue of appointment of small shareholders' Director shall be considered.

Answers to Descriptive questions:

1. In the instant case, Upal Ltd. approached the arbitrator before the end of the reporting period, who decided the award after the end of the reporting period but before approval of the financial statements for issue. Accordingly, the conditions were existing at the end of the reporting date because Upal Ltd. had approached the arbitrator before the end of the reporting period whose outcome has been confirmed by the award of the arbitrator. Therefore, it is an adjusting event.

Accordingly, the measurement of the provision is required to be adjusted for the event occurring after the reporting period. As far as the recovery of the cost by Upal Ltd. from the other party is concerned, this right to recover was a contingent asset as at the end of the reporting period.

As per para 35 of Ind AS 37, contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs. If an inflow of economic benefits has become probable, an entity discloses the contingent asset.

On the basis of the above, a contingent asset should be recognised in the financial statements of the period in which the realisation of asset and the related income becomes virtually certain. In the instant case, the recovery of cost became certain when the arbitrator decided the award during F.Y. 2023-2024. Accordingly, the recovery of cost should be recognised in the financial year 2023-2024.

2. (i) Upal Ltd. will recognise a liability in its books to the extent of 5 days of PL for 300 employees and 10 days of PL for remaining 700 employees and 2 days of SL for 300 employees and 5 days of SL for remaining 700 employees in its books as an unused entitlement that has accumulated in 2022-2023

as short-term compensated absences.

- (ii) Upal Ltd. will recognize ₹ 63crores (1,800 x 3.5%) as a liability and expense in its books of account.
- (iii) When an employee has rendered service to an entity during a period, the entity shall recognise the contribution payable to a defined contribution plan in exchange for that service.

Under Ind AS 19, the amount of ₹ 80 crores will be recognised as a liability (accrued expense), after deducting any contribution already paid (100-20) and an expense in the statement of profit and loss.

- (iv) However, if the contribution already paid would have exceeded the contribution due for service before the end of the reporting period, an entity shall recognise that excess as an asset (prepaid expense).
- (v) Since the contributions are payable within 12 months from the end of the year in which the employees render the related service, they will not be discounted. However, where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the period in which the employees render the related service, they shall be discounted using the discount rate.

3. Controls at a Sub-Service Organization:

In accordance with SA 402 “Audit Considerations relating to an Entity Using a Service Organization”, a user entity may use a service organization that in turn uses a sub-service organization to provide some of the services provided to a user entity that are part of the user entity’s information system relevant to financial reporting. The sub-service organization may be a separate entity from the service organization or may be related to the service organization.

A user auditor may need to consider controls at the sub-service organization. In situations where one or more sub-service organizations are used, the interaction between the activities of the user entity and those of the service organization is expanded to include the interaction between the user entity, the service organization and the sub-service organizations. The degree of this interaction, as well as the nature and materiality of the transactions processed by the service organization and the sub-service organizations are the most important factors for the user auditor to consider in determining the significance of the service organization’s and sub-service organization’s controls to the user entity’s controls.

Further, the user auditor shall determine whether a sufficient understanding of the nature and significance of the services provided by the service organization and their effect on the user entity’s internal control relevant to the audit has been obtained to provide a basis for the identification and assessment of risks of material misstatement.

If the user auditor is unable to obtain a sufficient understanding from the user entity, the user auditor shall obtain that understanding by application of the following two methods of presenting description of internal controls i.e. (i) Type 1 report; or (ii) Type 2 report.

If a service organization uses a subservice organization, the service auditor’s report may either include or exclude the subservice organization’s relevant control objectives and related controls in the service organization’s description of its system and in the scope of the service auditor’s engagement. These two methods of reporting are known as the inclusive method and the carve-out method respectively.

In either method, the service organization includes in its description of controls a description of the functions and nature of the processing performed by the sub-service organization.

If the Type 1 or Type 2 report excludes the control at a subservice organization and the services provided by the subservice organization are relevant to the audit of the user entity’s financial statements, the user auditor is required to apply the requirements of the SA 402 in respect of the subservice organization.

The nature and extent of work to be performed by the user auditor regarding the services provided by a subservice organization depend on the nature and significance of those services to the user entity and relevance of those services to the audit.

CASE STUDY 2

Answers & Reasoning to MCQ:

1. (c) Since Mr. Soham's turnover for the F.Y.2021-22 was only ₹ 9crores, TDS provisions under section 194Q of the Income-tax Act, 1961 would not be attracted. However, TCS provisions under section 206C(1H) would be attracted in the hands of Mr. Nartan, since his turnover exceeds ₹ 10 crores in the F.Y.2021-22 and his receipts from Mr. Soham exceed ₹ 50 lakhs.

No, tax is to be collected u/s 206C(1H) on 8.5.2022 and 27.8.2022, since the aggregate receipts till that date i.e. ₹ 45 lakhs, has not exceeded the threshold of ₹ 50 lakhs. Tax of @ 0.1% on ₹ 30 lakhs (₹ 15 lakhs on 18.10.2022 and ₹ 15 lakhs on 11.2.2023), being the balance unexhausted threshold limit, has to be collected.

2. (d) If PAN is not furnished by Mr. Soham to Mr. Nartan, then, Mr. Nartan has to collect tax @1% instead of 0.1%

The provisions of section 206CC require tax collection at the higher of the following two rates, in case of failure by the person paying any sum or amount on which tax is collectible at source to furnish PAN to the person responsible for collecting tax at source –

- at twice the rate specified in the relevant provision of the Act; or

- at 5% [1%, in case tax is required to be collected at source u/s 206C(1H)]

3. (a) Section 206C(1G) of the Income-tax Act, 1961, provides for collection of tax, *inter alia*, by every person, being a seller of an overseas tour programme package, who receives any amount from the buyer who purchases the package at the rate of 5% of such amount

Here, M/s. James Durbin, being a seller of an overseas tour programme package, i.e. seller of holiday package to Dubai to Mr. Nartan, a resident, it is required to collect tax at source @ 5% on receipt of ₹ 5 lakh i.e. ₹ 25,000.

4. (c) Section 206C(1G) of the Income-tax Act, 1961, provides for collection of tax by every person,
- being an authorized dealer, who receives amount, under the Liberalised Remittance Scheme of the RBI, for overseas remittance from a buyer, being a person remitting such amount out of India;
 - being a seller of an overseas tour programme package, who receives any amount from the buyer who purchases the package at the rate of 5% of such amount

Rate of TCS in case of collection by an authorized dealer would be 5% of the amt or agg. of amts in excess of ₹ 7 lakh where the amount is remitted for a purpose other than purchase of overseas tour programme package; and the amount or aggregate of the amounts in excess of ₹ 7 lakhs is remitted by the buyer in a financial year.

Rate of TCS in case of collection by an authorized dealer would be 0.5% of the amt or agg. of amts in excess of ₹ 7 lakh where the amount being remitted out is a loan obtained from any financial institution as referred under section 80E, for the purpose of pursuing any education; and the amount or aggregate of the amounts in excess of ₹ 7 lakhs is remitted by the buyer in a financial year.

Here, the amount of tax to be collected from Mr. Nartan in respect of the remittance of amounts overseas for his son's and daughter's education would be TCS @ 0.5% of ₹ 8 lakhs (i.e. ₹ 15 lakhs – ₹ 7 lakhs) as loan is taken from financial institution – SBI and TCS @ 5% of ₹ 5 lakhs (i.e. ₹ 12 lakhs

– ₹ 7 lakhs) as amount is remitted out of personal savings and not through loan obtained from financial institution, are attracted in respect of remittance for son's and daughter's education, respectively.

5. (d) Section 206C(1G) of the Income-tax Act, 1961, provides for collection of tax by every person,
- being an authorized dealer, who receives amount, under the Liberalised Remittance Scheme of the RBI, for overseas remittance from a buyer, being a person remitting such amount out of India;
 - being a seller of an overseas tour programme package, who receives any amount from the buyer who purchases the package at the rate of 5% of such amount

Rate of TCS in case of collection by an authorized dealer would be 5% of the amt or agg. Of amts in excess of ₹ 7 lakh where the amount is remitted for a purpose other than purchase of overseas tour programme package; and the amount or aggregate of the amounts in excess of ₹ 7 lakhs is remitted by the buyer in a financial year.

In the given case, Mr. Nartan has already remitted ₹ 12 lakhs on 15.2.2023, out of his personal savings, through Bank of India for his daughter's education and accordingly, the limit of 7 lakhs is exhausted and so, the amount of tax to be collected from Mr. Nartan is ₹ 30,000 (i.e. 5% of ₹ 6 lakhs) on the amount remitted as gift to his sister.

Answers to Descriptive questions:

1. Since Mr. Soham's turnover from business was ₹9 crores in the immediately preceding financial year (i.e., F.Y.2021-22), he is liable to deduct tax at source under section 194H and 194C in the P.Y.2022-23.
- (i) Tax @5% has to be deducted under section 194H in respect of purchase commission of ₹ 25,000 to an agent for purchases made during the year, since the same exceeds the threshold limit of ₹ 15,000 for non-deduction of tax at source thereunder.
 - (ii) Tax has to be deducted under section 194C in case of payment to resident contractors. The rate of tax is 1% if the payee is an individual or HUF and 2% in case of payees, other than individuals and HUFs.

However, as per section 194C(4), no individual or Hindu undivided family shall be liable to deduct income tax on the sum credited or paid to the account of the contractor where such sum is credited or paid exclusively for personal purposes of such individual or any member of the Hindu undivided family. In such case, the provisions of section 194M attracted provided the aggregate payment to the contractor exceeds ₹ 50 lakhs.

In this case, since Mr. Soham, makes payment of ₹ 5 lakh to a civil engineer for construction of residential house for self use, he is not liable to deduct tax at source under section 194C and under section 194M from such sum.

2. (a) Under section 181 of the Companies Act, 2013, the Board of Directors of a company is authorized to contribute to bonafide charitable and other funds. However, in case the aggregate amount of such contribution in any financial year exceeds five per cent. of its average net profits for the three immediately preceding financial years, prior permission of the company in general meeting shall be required.

The section does not make it mandatory for the company to have a profit for making a charitable contribution in any financial year. As the amount of donation is restricted to the average of immediately previous 3 years' profits, it is possible for a company suffering a loss to make contribution provided it is made to a bonafide charitable fund and the average of the three immediately preceding financial years' profits (including current losses) is positive.

In the present case, even though the company has incurred a loss it can contribute to the charitable fund only if it is a bonafide charitable fund and the amount is up to 5% of the average of the immediately preceding three years' profits (including current losses). In case the contribution exceeds the limit, the prior approval of the members must be taken at a general meeting of the company.

- (b) If a Chartered Accountant in practice fails to keep moneys of his clients in a separate bank account or fails to use such moneys for purposes for which they are intended then his action would amount to professional misconduct under Clause (10) of Part I of Second Schedule to the Chartered Accountants Act, 1949. In the course of his engagement as a professional accountant, a member may be entrusted with moneys belonging to his client. If he should receive such funds, it would be his duty to deposit them in a separate banking account, and to utilise such funds only in accordance with the instructions of the client or for the purposes intended by the client.

Conclusion: In the given case by depositing the client's money by Mr. Matvar, in his father, Mr. Soham's saving bank account, he has committed a professional misconduct. Hence in the given case, Mr. Matvar can be held guilty of professional misconduct.

3. (i) As per Clause 22 of Form 3CD of the Income-tax Act, 1961, the tax auditor is required to state the amount of interest inadmissible under section 23 of the Micro, Small and Medium Enterprises Development Act, 2006. Section 23 of the MSME Act lays down that an interest payable or paid by the buyer, in accordance with the provisions of this Act, shall not be allowed as a deduction for the purposes of the computation of income under the Income-tax Act, 1961.

Accordingly, CA Matvar is required to report the payment of interest of ₹ 60,000 to Vendor Mahesh who was registered under MSME Act, 2006 under clause 22 of Form 3CD of the Income-tax Act, 1961.

- (ii) As per Clause 21(h) of Form 3CD of the Income-tax Act, 1961, the tax auditor is required to report about the amount of deduction inadmissible in terms of section 14A Income-tax Act, 1961, in respect of the expenditure incurred in relation to income which does not form part of the total income.

Therefore, CA Matvar, the auditor is required to scrutinize expense accounts particularly interest account to check whether there is included any expense which is relatable to exempt income. He is also required to note down the amount and mention against the clause.

Thus, in the given situation, CA Matvar is required to report the same as per clause 21(h) of Form 3CD of the Income-tax Act, 1961.

- (iii) As per Clause 29A of Form 3CD of the Income-tax Act, 1961 of the Income-tax Act, 1961, the auditor is required to report,

(a) whether any amount is to be included as income chargeable under the head 'income from other sources' as referred to in clause (ix) of sub section (2) of section 56 the Income-tax Act, 1961.

(b) If yes, to provide the nature of income and amount thereof.

The auditor is also required to obtain a certificate from the assessee regarding all such advances received towards transfer of capital assets which have forfeited during the year and examine whether any amount of such advances has been written back during the year and examine the basis of such write back to determine whether such write back was on account of an act of forfeiture. Further, the auditor is also required to verify the terms of contract to check the conditions to forfeit of such advance and such conditions have occurred, then should verify whether the amount has been actually forfeited.

Thus, same is required to be reported under clause 29A of Form 3CD of the Income-tax Act, 1961.

CASE STUDY 3

Answers & Reasoning to MCQ:

1. (c) Interest income of ₹10lakh from Liyak Ltd.:

The business trust has to deduct tax at source under section 194LBA - @ 10%, on interest component of income distributed to resident unit holders; and - @ 5%, on interest component of income distributed to non-corporate non-resident and foreign companies' unit holders.

Thus, tax is deductible @ 10% on ₹ 20,000 distributed to Mr. Raman, being a resident unit holder and @ 5.2% (i.e. 5% + HEC @ 4%) on ₹ 1 lakh distributed to Mr. Suketu, being a non-corporate non-resident

2. (d) Short-term capital gains of ₹5 lakh on sale of listed shares of Liyak Ltd.:

As per section 115UA(2), the business trust is liable to pay tax@15% under section 111A in respect of short-term capital gains on sale of listed shares of special purpose vehicle. There would, however, be no tax liability on the capital gain component of income distributed to unit holders, by virtue of the exemption contained in section 10(23FD).

Short-term capital gains of ₹ 8 lakh on sale of developmental properties:

It is taxable at maximum marginal rate of 42.744% in the hands of the business trust as per section 115UA(2). There would be no tax liability in the hands of the unit holders on the capital gain component of income distributed to them, by virtue of the exemption contained in section 10(23FD)

Thus, the business trust is liable to pay tax @15.6% (i.e. 15% + HEC @ 4%) and 42.744%, respectively.

3. (d) Dividend income of ₹ 6 lakh from Liyak Ltd.:

The dividend distributed by the SPV to the business trust is exempt by virtue of section 10(23FC).

Any distributed income referred to in section 115UA, which is in the nature of dividend income received or receivable from SPV, in a case where the SPV has exercised the option under section 115BAA, is taxable in the hands of unitholders by virtue of section 10(23FD).

However, since Liyak Ltd., being a SPV does not opt for section 115BAA, dividend component is exempt in the hands of the unitholders. Consequently, business trust is not required to deduct tax at source on the dividend component distributed to the unitholders.

Thus, the dividend component of income from Liyak Ltd., distributed to unit-holders Raman and Suketu is exempt in the hands of the business trust and in the hands of the unit holders.

4. (b) Any distributed income referred to in section 115UA, which is in the nature of dividend income received or receivable from SPV, in a case where the SPV has exercised the option under section 115BAA, is taxable in the hands of unitholders.

Thus, If Liyak Ltd. exercises option under section 115BAA, then, the dividend component of income from Liyak Ltd., distributed to unit holders Raman and Suketu-is exempt in the hands of the business trust, since the trust enjoys pass through status in respect of such income; such income is taxable in the hands of Raman and Suketu.

5. (c) Interest of ₹2 lakh received in respect of investment in unlisted debentures of real estate companies:

Such interest is taxable@42.744%, being the maximum marginal rate, in the hands of the business trust, as per section 115UA(2).

However, there would be no tax liability in the hands of the unit holders on the interest component of income distributed to them, by virtue of section 10(23FD).

Thus, interest received by the business trust from investments in unlisted debentures of real estate companies and distributed to unit holders would be subject to tax in the hands of the business trust @ 42.744%.

Answers to Descriptive questions:

1. CDT Hospitality has written an option, which if exercised by Mahishi Ltd. will result in CDT Hospitality selling equity shares of Liyak Ltd. for fixed price of ₹ 95 per share. Such option will be exercised by Mahishi Ltd. only if the market price of shares of Liyak Ltd. increases beyond ₹ 95, thereby resulting in contractual obligation over CDT Hospitality to settle the contract under potential unfavorable terms.

If the market price goes to ₹ 120 then option will be exercised by Mahishi Ltd. So, CDT Hospitality shall have to buy shares from the market at ₹ 120 per share and sell at ₹95, thereby resulting in a loss or exchange at unfavorable terms to CDT Hospitality. Hence, the written option will meet the definition of financial liability in the books of CDT Hospitality.

The additional question that arises here is the nature of this financial liability and whether it meets the definition of derivative. A derivative is a financial instrument that meets following conditions:

- (a) Its value changes in response to change in specified variable like interest rate, equity index, commodity price, etc. If the variable is non-financial, it is not specific to party to the contract
- (b) It requires no or little initial net investment
- (c) It is settled at a future date.

Evaluating the above instrument, CDT Hospitality has written an option whose value changes based on change in market price of equity share, it requires no initial net investment and is settled at a future date (anytime in 90 days). Hence, it meets definition of derivative financial liability in books of CDT Hospitality.

2. Ind AS 8 is applied in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of prior period errors.

A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset. This change in accounting estimate is an outcome of the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

Further, the effect of change in an accounting estimate, shall be recognised prospectively by including it in profit or loss in: (a) the period of the change, if the change affects that period only; or (b) the period of the change and future periods, if the change affects both.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- (a) was available when financial statements for those periods were approved for issue; and
- (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

On the basis of above provisions, the given situation would be dealt as follows:

The defect was neither known nor reasonably possible to detect at 31 March 2022 or before the financial statements were approved for issue, so understatement of the warranty provision by ₹90,000 and overstatement of inventory ₹ 2,000 (Note 1) in the 31 March 2022 financial statements are not prior period errors.

The effects of the latent defect that relate to the entity's financial position at 31 March 2022 are changes in accounting estimates.

In preparing its financial statements for 31 March 2022, the entity made the warranty provision and inventory valuation appropriately using all reliable information that the entity could reasonably be expected to have obtained and had taken into account the same in the preparation and presentation of those financial statements.

Consequently, the additional costs are expensed in calculating profit or loss for 2022-23.

Working Note:

Inventory is measured at the lower of cost (ie ₹ 15,000) and fair value less costs to complete and sell (ie ₹ 19,000 originally estimated minus ₹6,000 costs to rectify latent defect) = ₹ 13,000.

3. M/s Digubatti & Associates are unable to obtain sufficient appropriate audit evidence about the financial information of a joint venture investment that represents over 80% of the entity's net assets. The possible effects of this inability to obtain sufficient appropriate audit evidence are both material and pervasive to the consolidated financial statements.

Therefore, the statutory auditor should issue a disclaimer of opinion.

The relevant extract of the Disclaimer of Opinion Paragraph and Basis for Disclaimer of Opinion paragraph is as under:

Disclaimer of Opinion

We do not express an opinion on the accompanying financial statements of Mahishi Ltd. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

The Group's investment in its joint venture Mahim Ltd. is carried at ₹ 85 crores on the Group's consolidated balance sheet, which represents over 80% of the Group's net assets as at March 31, 2023. We were not allowed access to the management and the auditors of Mahim Ltd., including Mahim Ltd.'s auditors' audit documentation. As a result, we were unable to determine whether any adjustments were necessary in respect of the Group's proportional share of Mahim Ltd.'s assets that it controls jointly, its proportional share of Mahim Ltd.'s liabilities for which it is jointly responsible, its proportional share of XYZ's income and expenses for the year, (and the elements making up the consolidated statement of changes in equity) and the consolidated cash flow statement.

CASE STUDY 4

Answers & Reasoning to MCQ:

1. (a) Section 18(1)(a) of the CGST Act, provides that a person who has applied for registration within 30 days from the date on which he becomes liable to registration and has been granted such registration shall be entitled to take credit of input tax in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock on the day immediately preceding the date from which he becomes liable to pay tax under the provisions of this Act.

Here, the aggregate turnover of the XLL's Delhi unit crossed ₹ 20 lakh on 31st October and it applied for GST registration for Delhi on 25th November i.e. within 30 days from the date on which it becomes liable to registration.

GST component involved in stock of goods on the day immediately preceding the date from which he becomes liable to pay tax under the provisions of this Act at Delhi i.e. on 30th October was ₹ 45 lakh and accordingly, XLL can avail credit of ₹ 45 lakh on opening stock at the time of new registration.

2. (c) The threshold limit prescribed under section 22(1) of CGST Act for GST registration is ₹ 20 lakh in a FY, i.e. every supplier, whose aggregate turnover in a financial year exceeds ₹ 20 lakh, is liable to be registered under GST in the State/Union territory from where he makes the taxable supply of goods and/or services.

Here, XLL makes taxable supply from its units at Delhi, UP and Haryana and the aggregate turnover of the XLL's Delhi unit crossed ₹ 20 lakh on 31st October. Accordingly, XLL was liable for registration of units at Delhi, UP and Haryana.

3. (a) As per Rule 138(14)(h) of the CGST Rules, notwithstanding anything explained above, no e-way bill is required to be generated where the goods are being transported under customs bond **from an inland container depot** or a container freight station **to a customs port**, airport, air cargo complex and land customs station, or from one customs station or customs port to another customs station or customs port.

Accordingly, here, e-way bill was not required to be generated since goods were being transported from ICD (inland container depot) to seaport.

4. (b) As per Rule 33 of the CGST Rules, expense incurred by the supplier (XAVIERS Logistics Limited) as a pure agent of the recipient, it is not includible in the value of supply; if not incurred as pure agent, the same is includible in the value of supply.

XLL as a policy deposits green cess with the Government in the name of the customer and recovers such cess on actual basis from the customer by charging it separately in the invoice and accordingly it can be said that such expense is incurred as pure agent by XLL and thus, green cess is not includible in value of the taxable container handling services but the value of transportation cost is includible.

5. (c) As per Entry 9B of exemption notification, supply of services associated with transit cargo to Nepal and Bhutan (landlocked countries) are exempt from GST.

Hence, GST is not payable on container handling services provided to Nepal/ Bhutan customers as the supply of services associated with transit cargo to Nepal and Bhutan are exempt services.

Answers to Descriptive questions:

1. (a) XLL has a single performance to ship the goods from one port to another. The following factors are critical for assessing how services performed by XLL are consumed by the customer –
- As the voyage is performed, the service undertaken by XLL is progressing, such that no other entity will need to re-perform the service till so far as the voyage has been performed, if XLL was to deliver only part-way.
 - The customer is directly benefitting from the performance of the voyage as & when it progresses.

Therefore, such performance obligation is said to be met over a period of time.

- (b) In the above case, lessee (ie, customers leasing the containers) make interest free deposits, which are refundable at the end of 3 years. Now, this money if it was to lent to a third party would fetch interest @ 7% per annum.

Hence, discounting all future cash flows (i.e., ₹ 20,000)

Fair value on initial recognition = $20,000 / (1+0.07)^3 = 16,326$. Differential on day 1 = $20,000 - 16326 = 3,674$.

The differential on day 1 shall be treated as follows:

Scenario 1 – If fair valuation is determined using level 1 inputs or other observable inputs, difference on day 1 recognised in profit or loss.

Scenario 2 – If fair valuation is determined using other inputs, difference on day 1 shall be recognised in profit or loss unless it meets definition of an asset or liability.

However, in case of security deposits level 1 fair value is not available. Therefore, in the above case, the fair valuation is made based on unobservable inputs and hence applying scenario 2, difference can be recognised as an asset if it meets the definition. Now, since the lessee gets to use the containers in return for making an interest free deposit plus monthly charges, the lost interest representing day 1 difference between value of deposit and its fair value is like 'prepaid lease rent' and can be recognised as such. Prepaid rent (ROU Asset) shall be charged off to profit or loss in a straight lined manner as depreciation as per Ind AS 16.

2. The transaction price is ₹ 90 per container based on UCL's estimate of total sales volume for the year, since the estimated cumulative sales volume of 2 million containers would result in a price per container of ₹ 90. UCL concludes that based on a transaction price of ₹ 90 per container, it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty is resolved.

Revenue is therefore recognised at a selling price of ₹ 90 per container as each container is sold. UCL will recognise a liability for cash received in excess of the transaction price for the first 1 million containers sold at ₹ 100 per container (that is, ₹ 10 per container) until the cumulative sales volume is reached for the next pricing tier and the price is retroactively reduced.

For the quarter ended 31st March, 2023, UCL recognizes revenue of ₹ 54 million (600,000 containers x ₹ 90) and a liability of ₹ 6 million [600,000 containers x (₹ 100 - ₹ 90)].

UCL will update its estimate of the total sales volume at each reporting date until the uncertainty is resolved.

3. According to section 2(v) of the Foreign Exchange Management Act, 1999, 'Person resident in India' means a person residing in India for more than 182 days during the course of preceding financial year [Section 2(v)(i)]. However, it does not include a person who has gone out of India or who stays outside India for employment outside India or for any other purpose in such circumstances as would indicate his intention to stay outside India for an uncertain period. Generally, a student goes out of India for a certain period. In this case, Mr. Paresh who resided in India during the financial year 2021-22 left on 15.7.2022 for Switzerland for pursuing higher studies in Logistics Management for 2 years, he will be resident as he has gone to stay outside India for a 'certain period' RBI has however clarified in its AP circular no. 45 dated 8th December 2003, that students will be considered as non-residents. This is because usually students start working there to take care of their stay and cost of studies. Mr. Paresh will be treated as person resident in India for Financial Year 2022-23 as he resided in India in preceding FY 2021-22 but since he left India on 15th July, 2022 for pursuing higher studies in Logistics Management for 2 years, he will be treated as Person resident outside India for the financial year 2022-23.

However, during the Financial Year 2023-24, Mr. Paresh will not be considered as resident as he left India on 15th July 2022. He is determined to be person resident outside India from 16th July 2022 for the financial year 2023-24.

CASE STUDY 5

Answers & Reasoning to MCQ:

1. (c) In the hands of Tushnim, the provisions of section 43CA would be considered and not section 50C, since the building represents his stock-in-trade.

Under section 43CA of the Income Tax Act, 1961, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received by way of account payee cheque or draft or by use of ECS through a bank account or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay on or before the date of agreement.

In this case, since the down payment of ₹15 lakh is received on the date of agreement by NEFT from Mr. Swairam, the option can be exercised and accordingly, actual consideration would be the full value of consideration since the stamp duty value on the date of agreement does not exceed 110% of the consideration. ₹ 50 lakh is taxable as business income in the hands of Mr. Tushnim, (i.e. ₹ 100 lakh – ₹ 50 lakh)

2. (a) Since Mr. Swairam is a dealer in automobile spare parts, the building purchased would be a capital asset in his hands. The provisions of section 56(2)(x) would not be attracted in the hands of Mr. Swairam who has received immovable property, being a capital asset, since the difference between stamp duty value on the date of agreement and actual consideration does not exceeds ₹ 10 lakhs, being higher of ₹ 50,000 or 10% of consideration.

Stamp duty value on the date of agreement can be exercised since part of the consideration has been received by NEFT on the date of agreement.

3. (c) Mr. Rusht, is a managing director in a company and not a property dealer, the building would represent his capital asset and not stock-in-trade. In such a case, the provisions of section 50C would be attracted in the hands of Mr. Rusht, since building is transferred for a consideration less than the stamp duty value; and the stamp duty value exceeds 110% of consideration.

Thus, ₹38 lakh, being the difference between the stamp duty value on the date of registration (i.e., ₹70 lakh) and the purchase price (i.e., ₹ 32 lakh) would be chargeable as short-term capital gains.

It may be noted that under section 50C, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received by way of account payee cheque or draft or by use of ECS through a bank account or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay on or before the date of agreement.

In this case, since the down payment of ₹ 7 lakh has been received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised.

4. (b) The provisions of section 56(2)(x) would be attracted in the hands of Mr. Vidhaay who has received immovable property, being a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value exceeds ₹ 5,00,000, being the higher of ₹ 50,000 and 10% of consideration.

Therefore, ₹ 20 lakh, being the difference between the stamp duty value of the property on the date of registration (i.e., ₹ 70 lakh) and the actual consideration (i.e., ₹ 50 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Vidhaay, since the payment on the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay.

5. (a) Since either the sale consideration or stamp duty value of the property in the both the cases exceeds ₹ 50 lakh, tax is deductible at source by both Mr. Swairam and Mr. Vidhaay under section 194-IA.

Answers to Descriptive questions:

1. Nishkantak Paths Limited, a listed company, being managed by a Managing Director proposes to pay the following managerial remuneration:

- (i) Commission at the rate of 5% of the net profits to its Managing Director, Mr. Rusht:

Part (i) of the Second Proviso to Section 197(1), provides that except with the approval of the company in general meeting by a special resolution, the remuneration payable to any one managing director or whole time director or manager shall not exceed 5% of the net profits of the company and if there is more than one such director then remuneration shall not exceed 10% of the net profits to all such directors and manager taken together.

In the present case, since the Nishkantak Paths Limited is being managed by a Managing Director, the commission at the rate of 5% of the net profit to Mr. Rusht, the Managing Director is allowed and no approval of company in general meeting is required.

- (ii) The directors other than the Managing Director are proposed to be paid monthly remuneration of ₹ 60,000 and also commission at the rate of 1 % of net profits of the company subject to the condition that overall remuneration payable to ordinary directors including monthly remuneration payable to each of them shall not exceed 2 % of the net profits of the company:

Part (ii) of the Second Proviso to Section 197(1) provides that except with the approval of the company in general meeting by a special resolution, the remuneration payable to directors who are neither managing directors nor whole time directors shall not exceed-

- (A) 1% of the net profits of the company, if there is a managing or whole-time director or manager;
(B) 3% of the net profits in any other case.

In the present case, the maximum remuneration allowed to directors other than managing or whole-time director is 1% of the net profits of the company because the company is managed by a managing director. Hence, if the company wants to fix directors' remuneration at not more than 2% of the net profits of the company, the approval of the company in general meeting is required by passing a special resolution.

- (iii) The company also proposes to pay suitable additional remuneration to Mr. Shigram, a director, for professional services to be rendered by him as mechanical engineer, whenever such services are utilized by the company:

- (1) According to section 197(4), the remuneration payable to the directors of a company, including any managing or whole-time director or manager, shall be determined, in accordance with and subject to the provisions of this section, either;

- (i) by the articles of the company, or
(ii) by a resolution or,

- (iii) if the articles so require, by a special resolution, passed by the company in general meeting, and
- (2) the remuneration payable to a director determined aforesaid shall be inclusive of the remuneration payable to him for the services rendered by him in any other capacity.
- (3) Any remuneration for services rendered by any such director in other capacity shall not be so included if—
 - (i) the services rendered are of a professional nature; and
 - (ii) in the opinion of the Nomination and Remuneration Committee, if the company is covered under sub-section (1) of section 178, or the Board of Directors in other cases, the director possesses the requisite qualification for the practice of the profession.

Hence, in the present case, the additional remuneration payable to Mr. Shigram, a director, for professional services rendered by him as mechanical engineer will not be included in the maximum managerial remuneration. Accordingly, such additional remuneration shall be allowed but opinion of Nomination and Remuneration Committee needs to be obtained.

Also, the Nishkantak Paths Limited (a listed company) shall disclose in the Board's report, the ratio of the remuneration of each director to the median employee's remuneration and such other details as are prescribed under Rule 5 of the Companies (Appointment and Remuneration of Managerial personnel) Rules, 2014.

2. Aviskrutya Ltd. is a disposal group in accordance with Ind AS 105, Non-current Assets Held for Sale and Discontinued Operations. Disposal group can be defined as a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Para 6 of Ind AS 105 provides that a disposal group shall be classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Ind AS 105 is particularly strict as far as the application of held for sale criteria is concerned, and often the decision to sell an asset or a disposal group is made well before the criteria are met.

Thus, as per Ind AS 105, for the asset (or disposal group) to be classified as held for sale, it must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

For the sale to be highly probable:

- ♣ The appropriate level of management must be committed to a plan to sell the asset (or disposal group).
- ♣ An active programme to locate a buyer and complete the plan must have been initiated.
- ♣ The asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value.
- ♣ The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.
- ♣ It is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

In the given case, the draft agreements and correspondence with investment bankers are not specific enough to fit in the points above to prove that the criteria for held for sale was met at that date. Additional information would be needed to confirm that the subsidiary was available for immediate

sale, and that it was being actively marketed at an appropriate price so as to satisfy the criteria in the year to 31stMarch 2022.

Further, the organizational changes made by Nishkantak Paths Ltd. in the year 2022-23 are a good indicator that Aviskrutya Ltd. was not available for immediate sale in its present condition at the point of classification. The fact that additional activities have been given to Aviskrutya Ltd. indicate that the change wasn't insignificant. The shareholders had authorized for a year from 1 November 2021. There is no evidence that this authorization extended beyond 1stNovember 2022.

Conclusion:

Based on the information provided in the given case, it appears that Aviskrutya Ltd. should not be classified by Nishkantak Paths Ltd. as a subsidiary held for sale. Instead, the results of the subsidiary should be reported as a continuing operation in the financial statements for the year ending 31 March 2022 and 31 March 2023.

Evaluation of treatment in context of the Conceptual Framework

The Conceptual Framework states that the users need information to allow them to assess the amount, timing and uncertainty of the prospects for future net cash inflows. Highlighting the results of discontinued operations separately equips users with the information that is relevant to this assessment as the discontinued operation will not contribute to cash flows in the future.

If a company has made a firm decision to sell the subsidiary, it could be argued that the subsidiary should be classified as discontinued operation, even if the criteria to classify it as 'held for sale' as per Ind AS 105 have not been met, because this information would be more useful to users. However, Ind AS 105 criteria was developed with high degree of strictness on classification. Accordingly, this decision could be argued to be in conflict with the Conceptual Framework.

MOCK TEST PAPER
FINAL COURSE: GROUP – II
PAPER – 6F: MULTIDISCIPLINARY CASE STUDY

Attempt any four out of five case study based questions.

Each Case Study carries 25 Marks.

Time Allowed – 4 Hours

Maximum Marks – 100

CASE STUDY 1

Para 1

Waqt (P) Ltd. incorporated in the year 2008 initially as private company, got itself converted into public company (unlisted) in the year 2012, with increase in its operations. At present, the company has nine directors in its board engaged in the textile business with paid-up share capital of ₹ 180 crore having 3000 members and its turnover as per the previous year audited balance sheet was ₹ 198 crore. The company is registered under GST.

Para 2

The company filed intimation with the Central Government that the affairs of the company ought to be investigated and accordingly, the Central Government passed an order of investigation and appointed three persons as the inspectors to investigate into the affairs of Waqt Ltd. Before appointing such inspectors, the Central Government required Waqt Ltd. to provide security of such amount, as prescribed, for the payments and costs of the investigation.

During the pendency of such investigation, Waqt Ltd. wanted to terminate Mr. Raghu, an employee of the company, as he had disclosed certain information to the inspectors which the management were upset about. The company filed the application to tribunal for approval of such termination. However, as the company did not receive any reply from the tribunal within thirty days of filling the application, it considered it as a deemed approval and terminated Mr. Raghu.

Para 3

Waqt Ltd. owns 500 ordinary shares in Utpal Ltd., an unquoted public company. Utpal Ltd. has a total share capital of 20,000 shares with nominal value of ₹ 10. Utpal Ltd.'s after-tax maintainable profits are estimated at ₹ 14,00,000 per year. An appropriate price/earnings ratio determined from published industry data is 15, before lack of marketability adjustment.

Waqt Ltd.'s management estimates that the discount for the lack of marketability of Utpal Ltd.'s shares and restrictions on their transfer is 20%. The fair value of Utpal Ltd.'s net assets including those recognised in its balance sheet and those that are not recognised is ₹ 1,75,00,000. Waqt Ltd. values its holding in Utpal Ltd.'s shares based on earnings.

However, one of the directors of Waqt Ltd., Mr. Mahipal Sena, suggested estimating the fair value of the shares it owns in Utpal Ltd. using a net asset valuation technique, using which, if there can be a higher valuation of such investment in the books of Waqt Ltd.

Para 4

Waqt Ltd., filed its return of income for A.Y. 2022-23, on 25th November, 2022, on the basis of following particulars of income earned by it during the P.Y. 2021-22:

Particulars	₹ (in lakhs)
Income from business carried on in India	3500

Dividend received from Tim Inc. incorporated in Australia (gross) (Note 1)	400
Income from supplies made to YT Corp., a UK based company (Note 2)	1600
Rent Income from a house property situated in Ireland (gross) (Note 3)	500
Income from supplies made to Leon Co., a Japan based company (Note 4)	1900

Note 1: India has a Double Tax Avoidance Agreement with Australia for such dividend income which provides for taxation on Residence Rule basis @ 40%.

Note 2: Waqt Ltd. had determined the Arm's Length Price (ALP) for the transaction of such supplies in accordance with the Unilateral Advance Pricing Agreement (APA) entered into with the Board.

Waqt Ltd. had applied to Director General of Income-tax (International Taxation) for Advance Pricing Agreement during P.Y. 2021-22, along with the request for rollback before entering into such transaction for supplies with YT Corp., its associated enterprise.

However, due to application of rollback provisions, income for P.Y. 2019-20 was getting reduced to ₹ 6,300 lakhs from ₹ 6,600 lakhs originally declared in return. The income adjusted by Transfer Pricing Officer for that year in the return was ₹ 6,900 lakhs.

Note 3: India has no Double Tax Avoidance Agreement with Ireland for such rent income and such income was taxed in Ireland @ 20%. Also, a municipal tax of ₹ 25 lakhs was paid for which no deduction was allowed in Ireland.

Note 4: The supplies made by Waqt Ltd. to Leon Co. constituted 92% of its raw material requirements and the transactions were denominated in Indian rupees.

Part A – Multiple Choice Questions (2 Marks each)

- In respect of Para 2, what procedure Waqt Ltd. should have followed for filing such intimation regarding investigation with the Central Government and whether the Central Government was bound to pass such order?
 - Waqt Ltd. should have passed a special resolution for filing such intimation and the Central Government was bound to pass such order.
 - Waqt Ltd. should have passed a special resolution for filing such intimation and the Central Government was not bound to pass such order.
 - Waqt Ltd. should have passed an ordinary resolution for filing such intimation and the Central Government was bound to pass such order.
 - Waqt Ltd. should have obtained applications from 100 members or member(s) holding 10% of total voting power, whichever is lower, for filing such intimation and the Central Government was not bound to pass such order.
- In respect of Para 2, what amount of security would have been paid by Waqt Ltd. regarding the investigation going on by the inspectors?
 - ₹ 10,000
 - ₹ 25,000
 - ₹ 15,000
 - ₹ 20,000
- In terms of Para 3, what shall be the fair value of Waqt Ltd.'s investment in Utpal Ltd.'s shares, considering the method of Earnings- based valuation?
 - ₹ 4,37,500

- (b) ₹ 3,50,000
 (c) ₹ 4,20,000
 (d) ₹ 5,25,000
4. In continuation to MCQ no. 3, what would be the fair value of Waqt Ltd.'s investment in Utpal Ltd.'s shares as per the method suggested by Mr. Mahipal?
 (a) ₹ 4,37,500
 (b) ₹ 3,50,000
 (c) ₹ 4,20,000
 (d) ₹ 5,25,000
5. With reference to Para 4, the approval of which authority would have been taken by the board for entering into an Unilateral APA with Waqt Ltd. and what amount of additional fees would have been paid by Waqt Ltd. for the request of rollback?
 (a) Approval of Principal Chief Commissioner of Income Tax would have been taken and additional fees of ₹ 2 lakhs would have been paid by Waqt Ltd. for the request of rollback.
 (b) No approval of any authority is required and also no additional fees would have been paid by Waqt Ltd. for the request of rollback as such request was made along with application for Advance Pricing Agreement for which fees would have been paid.
 (c) Approval of Central Government as well as competent authority of UK would have been taken and additional fees of ₹ 5 lakhs would have been paid by Waqt Ltd. for the request of rollback.
 (d) Approval of Central Government would have been taken and additional fees of ₹ 5 lakhs would have been paid by Waqt Ltd. for the request of rollback.

Part B- Descriptive Questions

6. Referring Para 4, compute total income and tax liability of Waqt Ltd. for Assessment Year 2022-23, if it does not opt for section 115BAA or section 115BAB of the Income Tax Act, 1961 and its total income for P.Y. 2019-20 was ₹ 41 crores, assuming that the international transactions undertaken by it are at arm's length price. Ignore MAT provisions. **(8 Marks)**
7. With reference to Para 4, due to application of rollback provisions, income for P.Y. 2019-20 was getting reduced to ₹ 6,300 lakhs. In this case, how the rollback provisions would be applied? **(7 Marks)**

CASE STUDY 2

Para 1

Vratam Ltd. was required to pay penalty for a breach in the performance of a contract. The company is an unlisted public company, registered under GST, having seven directors on its Board.

The company believed that the penalty was payable at a lower amount than the amount demanded by the other party. Vratam Ltd. created provision for the penalty. The contract between Vratam Ltd. and the other party carried the term that all disputes shall be arbitrated in New Delhi, and accordingly, Vratam Ltd. also approached the arbitrator with a submission that the case may be dismissed with costs.

Vratam Ltd. prepared the financial statements for the F.Y. 2021-22, which were approved in July 2022. The arbitrator, on 20th June 2022, awarded the case in favour of Vratam Ltd., which was received by both the parties on 25th June, 2022. As a result of the award of the arbitrator, the provision earlier made by Vratam Ltd. was required to be reduced. The arbitrator also decided that cost of the case should be borne by the other party.

Para 2

Vratam Ltd. had acquired 5% equity shares of Kiyat Ltd. for ₹ 20 crore during the F.Y. 2020-21. The company for the purpose of preparing the financial statements for the F.Y. 2021-22, assessed the fair value at subsequent measurement of the investment made in Kiyat Ltd.

Based on the observable input, Vratam Ltd. identified a similar nature of transaction in which Rasam Ltd. acquired 20% equity shares in Kiyat Ltd. for ₹ 120 crore. The price of such transaction was determined on the basis of Comparable Companies Method (CCM) - Enterprise Value (EV) / EBITDA which was 8.

For the current year, the EBITDA of Kiyat Ltd. is ₹ 80 crore. At the time of acquisition, the valuation was determined after considering 5% of liquidity discount and 5% of non-controlling stake discount.

Para 3

Vratam Ltd. filed its Income Tax Return for F.Y. 2021-22 on 20th November, 2022, and the Assessing Officer (A.O.) served notice of scrutiny u/s 143(2) of the Income Tax Act, 1961 to Vratam Ltd. on 25th May, 2023 in response to which Vratam Ltd. furnished the necessary information within the stipulated time limit.

On the basis of such information, the A.O., after taking the approval of the Principal Commissioner of Income-tax, referred the computation of the arm's length price in relation to the international transactions made with Kruava Co., its associate enterprise, to the Transfer Pricing Officer (TPO).

The TPO served a notice to Vratam Ltd. requiring to produce evidence on which it relied in support of the computation of arm's length price made in relation to the international transactions with Kruava Co. and on the basis of that evidence and after considering the material gathered by him, the TPO passed order u/s 92CA of the said Act, determining the arm's length price.

The copy of order passed by TPO was forwarded to the Assessing Officer (A.O.) on 3rd October, 2024. The A.O. made the draft order of assessment which was forwarded to Vratam Ltd. on 12th November, 2024, as there was variation in its total income by ₹ 120 lakhs.

Vratam Ltd. filed its objections to the A.O. as well as to the Dispute Resolution Panel (DRP). The DRP issued its directions on the basis of draft order, objections of Vratam Ltd. and other evidence. The A.O., on receipt of such directions, passed the final order on 25th February, 2025, in pursuance of the directions of DRP, confirming the variation proposed in the draft order for the total income declared by Vratam Ltd. for A.Y. 2022-23 by making a transfer pricing adjustment of ₹ 120 lakhs. Such order was communicated to Vratam Ltd. on 28th February, 2025.

Para 4

Vratam Ltd. filed an appeal with ITAT on 1st March, 2025 along with application of stay of demand by paying the requisite amount of the demand payable as per the assessment order. The Tribunal passed an appellate order dated 25th September, 2025, reducing the amount of primary adjustment made by the Assessing Officer from ₹ 120 lakhs to ₹ 105 lakhs.

Vratam Ltd. was, however, not able to repatriate the excess money from Kruava Co. within the stipulated time limit and then, finally, it decided to pay additional income tax on the same on 1st February, 2026.

Part A- Multiple Choice Questions (2 Marks each)

1. With reference to Para 1, by what date, can the other party file an application for setting aside such arbitral award and if maximum extension is granted by court, then till what date, such application needs to be filed?
 - (a) 25th December, 2022 and 24th January, 2023, respectively
 - (b) 25th September, 2022 and 25th October, 2022, respectively.

- (c) 25th October, 2022 and 24th November, 2022, respectively.
- (d) 20th September, 2022 and 20th October, 2022, respectively.
2. Referring Para 1, when can such arbitral award be enforced by Vratam Ltd., if no application for setting aside the arbitral award has been filed by the other party, and how such award would be enforced?
- (a) Such award can be enforced after 20th September, 2022 and such award would be enforced in the same manner as if it were a decree of the court.
- (b) Such award can be enforced after 25th June, 2022 and such award would be enforced in the same manner as if it were a decree of the court.
- (c) Such award can be enforced after 25th July, 2022 and such award would be enforced in the manner otherwise than a decree of the court.
- (d) Such award can be enforced after 25th September, 2022 and such award would be enforced in the same manner as if it were a decree of the court.
3. Referring Para 3, by what date the A.O. should have completed the assessment u/s 143(3) of the Income Tax Act, 1961, if no draft order was required to be forwarded to Vratam Ltd. and by what date, the TPO should have passed his order, if there was neither stay nor any reference made u/s 90/90A of the said Act?
- (a) 31st March, 2024 and 31st January, 2024, respectively.
- (b) 31st December, 2024 and 1st November, 2024, respectively.
- (c) 31st March, 2025 and 30th January, 2025, respectively.
- (d) 30th September, 2025 and 1st August, 2025, respectively.
4. By what date, Vratam Ltd. should have filed its objections in respect of draft order of assessment and when the A.O. should have completed the assessment if the DRP would have issued its directions to the A.O. on the last stipulated date considering that Vratam Ltd. would have also filed its objections on the last date? Refer Para 3.
- (a) 31st December, 2024 and 31st October, 2025, respectively.
- (b) 12th December, 2024 and 30th September, 2025, respectively.
- (c) 30th November, 2024 and 30th September, 2025, respectively.
- (d) 12th December, 2024 and 31st October, 2025, respectively.
5. By what date, DRP should have issued its directions to the A.O., if Vratam Ltd. would have filed its objections on the last date and on whom, such directions of DRP are binding? Refer Para 3.
- (a) 31st August, 2025 and such directions of DRP are binding on the Assessing Officer.
- (b) 30th September, 2025 and such directions of DRP are binding on the Assessing Officer.
- (c) 31st August, 2025 and such directions of DRP are not binding on anyone.
- (d) 31st March, 2025 and such directions of DRP are binding on the Assessing Officer and the Assessee.

Part B- Descriptive Questions

6. What will be the fair value of Vratam Ltd.'s investment in Kiyat Ltd. as on the balance sheet date? Refer Para 2. (5 Marks)

7. With reference to Para 1,
- (i) Whether Vratam Ltd. is required to remeasure its provision and what would be the accounting treatment of the cost that will be recovered by Vratam Ltd., which has already been charged to the Statement of Profit and Loss as an expense for the year 2021-22? **(6 Marks)**
 - (ii) State the type of arbitration agreement made between Vratam Ltd. and the other party. What will happen if the agreement does not have any clause relating to arbitration? **(4 Marks)**

CASE STUDY 3

Para 1

Apsflon Ltd. is engaged in the business of furniture, and it is having the status of unlisted public company with ROC. Being registered under GST, the company is having seven directors on its board and paid-up share capital of ₹ 20 crore.

Para 2

During the F.Y. 2021-22, it decided to appoint Mr. Himanshu as its Managing Director, a whole-time KMP, for a period of 3 years with effect from 1st May, 2021.

Mr. Himanshu fulfils all the conditions as specified under Schedule V to the Companies Act, 2013. The terms of his appointment are as under:

- (i) Salary - ₹ 40,000 per month;
- (ii) Commission, as may be decided by the Board of Directors of the company by passing a board resolution for the same;
- (iii) Perquisites;
 - Free Housing,
 - Medical reimbursement upto ₹ 2,000 per month,
 - Leave Travel concession for the family,
 - Club membership fee,
 - Personal Accident Insurance of ₹ 5 lakh,
 - Gratuity, and Provident Fund as per Company's policy.

The Board of Directors of the company came to know about certain questionable transactions entered into by Mr. Himanshu and therefore, terminated his services as Managing Director from 1st March, 2022. The average per month remuneration of Mr. Himanshu was ₹ 50,000.

Mr. Himanshu termed his removal as illegal and claimed compensation from the company. Meanwhile the company paid a sum of ₹ 4 lakhs on adhoc basis to Mr. Himanshu pending settlement of his dues and the vacancy caused due to removal of Mr. Himanshu was filled up by the Board on 31st May, 2022.

Para 3

Fsell Inc., a non-resident entity, provided a platform for persons resident in India to sell their goods online to all the customers' worldwide, in consideration of a commission amount.

Supplies made by persons resident in India during December, 2021 Quarter through its platform were ₹ 230 crores for which it charged commission of ₹ 12 crores including commission of ₹ 8 lakhs paid by Apsflon Ltd. which was claimed by it in calculating the income amount.

The consideration for such supplies is received by Fsell Inc. and remitted to the suppliers, after deducting its commission, as per the contractual arrangement with them.

The amount of equalisation levy, as applicable, for the December' 2021 Quarter, was deposited to the credit of Government on 31st January, 2022.

Para 4

Apsflon Ltd. uses such e-commerce platform provided by Fsell Inc. to provide supplies within India only. During the month of December, 2021, it made following supplies:-

Sr. No.	Particulars
(i)	Supply of goods valued ₹ 35 lakhs out of which goods valued ₹ 3 lakhs were returned in the same month and 2 lakhs in the next month
(ii)	Supply of repairing services valued ₹ 4 lakhs
(iii)	Supply of carpentering services valued ₹ 2 lakhs

There are other suppliers also who provide only carpentering services similar to the one as provided by Apsflon Ltd., as aforesaid, through Fsell Inc., to customers within India. However, such suppliers are not registered under GST.

Para 5

At the time of filing GSTR-8 by Fsell Inc. for the month of December, 2021, its accountant discovered that there was a discrepancy in the GSTR-8 filed for the month of November, 2021 on 10th December, 2021, due to which there was a shortfall in the TCS credited by it to the Government by ₹ 5,00,000.

The GSTR-8 of Fsell Inc. for the month of December, 2021, was filed on 5th January, 2022 by rectifying the error made during the month of November, 2021 and paying the requisite amount of shortfall in tax along with the interest, as applicable on the same.

Part A- Multiple Choice Questions (2 Marks each)

- With reference to Para 2, by what date, the Board of Apsflon Ltd. was required to fill the vacancy caused due to removal of Mr. Himanshu and what would be your answer, in case, if Apsflon Ltd. was a government company?
 - By 1st July, 2022, such vacancy was required to be filled and in other case, by 1st September, 2022, such vacancy was required to be filled, respectively.
 - By 1st September, 2022, such vacancy was required to be filled and in other case, there was no requirement to fill such vacancy.
 - By 1st July, 2022, such vacancy was required to be filled and in other case, there was no requirement to fill such vacancy.
 - In both cases, such vacancy was required to be filled by 1st September, 2022.
- With reference to Para 4, what amount of tax to be collected at source by Fsell Inc. from Apsflon Ltd. for the month of December, 2021, under GST considering all the supplies being inter-state taxable supplies?
 - Nil
 - ₹ 34,000
 - ₹ 38,000
 - ₹ 36,000
- How Fsell Inc. would be registered under GST?
 - Two separate registrations would have been taken i.e. as a regular tax payer and as a person required to collect tax at source, respectively.

- (b) Only one registration would have been taken i.e. as a person required to collect tax at source.
 - (c) Only one registration would have been taken i.e. as a regular tax payer.
 - (d) Only one registration would have been taken for serving as both i.e. as a regular tax payer as well as a person required to collect tax at source, respectively.
4. With reference to Para 5, what amount of interest would have been required to be paid by Fsell Inc. for the discordancy noticed?
- (a) ₹ 6,411
 - (b) ₹ 15,000
 - (c) ₹ 3,945
 - (d) ₹ 8,559
5. With reference to Para 3, who was required to deposit the amount of equalisation levy with the Central Government for the December' 2021 Quarter and how much interest amount shall be payable for late deposit, if any?
- (a) Fsell Inc. was required to deposit the amount of equalisation levy and interest payable shall be ₹ 72,000.
 - (b) Service recipients were required to deduct and deposit the amount of equalisation levy and interest payable shall be ₹ 72,000.
 - (c) Fsell Inc. was required to deposit the amount of equalisation levy and interest payable shall be ₹ 24,000.
 - (d) Service recipients were required to deduct and deposit the amount of equalisation levy and interest payable shall be ₹ 24,000.

Part B- Descriptive Questions

6. Draft a board resolution for appointment of Mr. Himanshu in Apsflon Limited. (4 Marks)
7. Referring Para 2, discuss whether:
- (i) The company is bound to pay compensation to Mr. Himanshu and, if so, how much?
 - (ii) The company can recover the amount of 4 lakhs paid on the ground that Mr. Himanshu is not entitled to any compensation, because he is guided by corrupt practices. (6 Marks)
8. How much amount of equalisation levy needs to be deposited for December Quarter and also by what date it needs to be deposited, in case if:- (i) Fsell Inc. has PE in India (ii) Fsell Inc. does not have PE in India. (5 Marks)

CASE STUDY 4

Para 1

Asayam Ltd.'s registered office is situated in Uttar Pradesh and is registered under GST in the state of Uttar Pradesh, West Bengal and Maharashtra, respectively. It is mainly engaged in the business of automobiles and spare parts from its branches located in the aforesaid states for which it has obtained registration under GST.

With effect from 24th September 2021, Mr. Jayprakash Sharma was appointed as the nominee director by the board of Asayam Ltd., as a representative of VPL Bank, which made his nomination for such appointment. Also, it was proposed to remove Mr. Rajveer Sena, an independent director, who was currently holding such office for the 8th consecutive year.

The company is an unlisted public company having twelve directors in its board which includes two independent directors and a woman director. Also, there is a managing director, chief financial officer and whole-time company secretary appointed as key managerial personnel by the company.

Para 2

Few employees of Asayam Ltd. had taken life insurance policies from HMFL Pramerica Life Insurance Co. Ltd. for which the maturity proceeds were due to be received during F.Y. 2021-22, the details of which are as follows:

Name of Employee	Policy taken on	Annual Premium (₹)	Date on which amount due to be received	Amount to be received (₹ in lakhs)	Sum Assured (₹ in lakhs)
Mr. Shyam	01.04.2018	60,000	31.03.2022	3.5	3.2
Mr. Rahul	31.10.2011	38,000	31.03.2022	4.2	3.7
Mr. Kalpesh	01.06.2014	35,000	01.06.2021	3.7	3.6
Mr. Daman	01.02.2019	25,000	01.02.2022	0.90	0.85

Para 3

Asayam Ltd. enters into a ten-year lease contract of one of its office building floor located in Bamrauli area of Allahabad, with Havanti Ltd., engaged in the similar line of business. Under the lease:

Asayam Ltd. receives annual lease payments of ₹ 1,50,000, payable at the end of the year and expects the residual value of the said floor to be ₹ 5,00,000 at the end of the 10-year lease term.

Havanti Ltd. provides a residual value guarantee that protects Asayam Ltd. from the first ₹ 3,00,000 of loss for a sale at a price below the estimated residual value at the end of the lease term (i.e., ₹ 5,00,000)

The floor included in the office building has an estimated remaining economic life of 15 years, a carrying amount of ₹ 10,00,000 and a fair value of ₹ 11,10,000.

The lease neither transfers ownership of the underlying asset to Havanti Ltd. at the end of the lease term nor contain an option to purchase the underlying asset. The interest rate implicit in the lease is 10.078%.

Para 4

Havanti Ltd. also took on hire machinery from Asayam Ltd. with effect from 1st September, 2021, on hire charges of ₹ 18,000 per month, by entering into an agreement for the same.

The lease rent of building floor and hire charges of machinery for the financial year 2021-22, respectively, were credited by Havanti Ltd. to the account of Asayam Ltd. in its books of account on 31.3.2022.

Havanti Ltd. is able to claim higher deduction in respect of lease rentals paid to Asayam Ltd. rather than in case of depreciation, if it would have purchased the said building floor instead of taking the same on lease.

Part A- Multiple Choice Questions (2 Marks each)

- With reference to Para 3, at what amount, Asayam Ltd. shall present the building floor in the balance sheet given under lease at the end of year 1, in accordance with relevant IndAS?
 - ₹ 11,10,000
 - ₹ 10,71,866
 - ₹ 10,33,400
 - ₹ 9,23,400

2. With reference to Para 3, whether the property given under lease by Asayam Ltd. to Havanti Ltd. can be classified as an 'Investment property' as per IndAS 40 and whether Havanti Ltd. shall be considered to be deemed owner of the said property for the purpose of the provisions of the Income Tax Act, 1961?
- (a) The said property shall be classified as an 'Investment property' by Asayam Ltd. and Havanti Ltd. shall be considered to be deemed owner of the said property for the purpose of the provisions of the Income Tax Act, 1961.
 - (b) The said property shall be classified as an 'Investment property' by Asayam Ltd. and Havanti Ltd. shall not be considered to be deemed owner of the said property for the purpose of the provisions of the Income Tax Act, 1961.
 - (c) The said property cannot be classified as an 'Investment property' by Asayam Ltd. and Havanti Ltd. shall not be considered to be deemed owner of the said property for the purpose of the provisions of the Income Tax Act, 1961.
 - (d) The said property cannot be classified as an 'Investment property' by Asayam Ltd. and Havanti Ltd. shall be considered to be deemed owner of the said property for the purpose of the provisions of the Income Tax Act, 1961.
3. With reference to Para 4, what amount of tax shall be deducted by Havanti Ltd. in respect of transaction(s) with Asayam Ltd.?
- (a) ₹ 10,020
 - (b) ₹ 27,600
 - (c) ₹ 17,520
 - (d) No TDS is deductible
4. With reference to Para 3 & 4, whether grandfathering would be available to Asayam Ltd. in respect of the lease contract entered into with Havanti Ltd. and would the lease rent payment be disallowed as expense under General Anti-Avoidance Rules (GAAR) to Havanti Ltd., in terms of provisions of the Income Tax Act, 1961, respectively?
- (a) Grandfathering would be available to Asayam Ltd. and GAAR provisions would not apply in case of Havanti Ltd.
 - (b) Grandfathering would not be available to Asayam Ltd. and GAAR provisions would not apply in case of Havanti Ltd.
 - (c) Grandfathering would be available to Asayam Ltd. and the Revenue need not invoke GAAR in case of Havanti Ltd., though GAAR and SAAR can co-exist as per clarification given in the CBDT Circular.
 - (d) Grandfathering would not be available to Asayam Ltd. and GAAR provisions would apply in case of Havanti Ltd.
5. With reference to Para 1, whether Mr. Jayprakash can be considered as a director liable to retire by rotation and how Mr. Rajveer Sena can be removed by the company?
- (a) Mr. Jayprakash can be considered as a director liable to retire by rotation, only if he is designated so, and Mr. Rajveer can be removed by the company by passing of special resolution.
 - (b) Mr. Jayprakash cannot be considered as a director liable to retire by rotation and Mr. Rajveer can be removed by the company by passing of ordinary resolution.
 - (c) Mr. Jayprakash can be considered as a director liable to retire by rotation, only if he is designated so, and Mr. Rajveer cannot be removed by the company.

- (d) Mr. Jayprakash cannot be considered as a director liable to retire by rotation and Mr. Rajveer can be removed by the company by passing of special resolution.

Part B- Descriptive Questions

6. With reference to Para 3, how should the Asayam Ltd. account for the lease entered with Havanti Ltd. in its books of accounts? **(9 Marks)**
7. With reference to Para 2, examine the applicability of the provisions of TDS in cases of employees of Asayam Ltd. in respect of life insurance policies taken by them. **(6 Marks)**

CASE STUDY 5

Para 1

Pranidhan Ltd. is registered under GST in West Bengal and Uttar Pradesh and is engaged in the business of cloth garments, both in form of whole-sale and trading across India, by itself and through its related entities.

The company is having its registered office in Kolkata, and it is an unlisted public company, with paid-up share capital of ₹ 30 crore and 600 members as its equity shareholders.

Para 2

The business premises of Pranidhan Ltd. and the residence of its directors at Kolkata, were searched under section 132 of the Income Tax Act, 1961 by the DDI Kolkata. The search was concluded by executing last authorisation for search on 13th July, 2021, and following were also seized besides other papers and records:

- (i) Papers found in the drawer of an accountant relating to Deshavart Ltd., Jaipur, indicating details of various business transactions. However, Pranidhan Ltd. is not having any direct or indirect connection of any nature with these transactions and Deshavart Ltd. and its directors.
- (ii) Cash of ₹ 40 lakhs from the bedroom of Mr. Prasidh Dave, a director of Pranidhan Ltd., which was claimed by him to be of his brother residing in different city.
- (iii) Papers recording certain transactions of income and expenses having direct nexus with the business of the company for the period from 16.4.2020 to date of search. It was admitted by the director that the transactions recorded in such papers have not been incorporated in the books.

Since the search was concluded in the financial year 2021-22, and other conditions were also fulfilled, the Assessing Officer with the prior approval of the Principal Commissioner, issued notice under section 148 of the Income Tax Act, 1961 on Pranidhan Ltd. for preceding six Assessment Years prior to the Assessment Year relevant to the previous year 2021-22. Thus, he issued the notice from A.Y. 2016-17 to A.Y. 2021-22.

Para 3

During the F.Y. 2021-22, Mr. Prasidh, was required to travel to USA for a private visit to meet his relatives abroad for which he purchased tickets, including the return ticket, from Disha Travels, an air travel agent, for ₹ 2 lakhs in which the basic air fare component was 65%.

Further for the purpose of such journey to USA, Mr. Prasidh also purchased 16,000 US \$ at the rate of ₹ 74.50 per USD from Stambh Forex Private Limited, a money changer, registered under GST in West Bengal. RBI reference rate for USD for that day was not available.

On his return, Mr. Prasidh was left over with 2,000 US \$ originally purchased by him from India and he had also received a sum of 6,000 US \$ and ₹ 50,000 as gifts from his relatives residing in USA.

Mr. Prasidh sold 8,000 US \$ brought by him to India to Stambh Forex Private Limited at the rate of ₹ 74 per US \$. RBI reference rate for US \$ on that day was ₹ 74.60.

Mr. Jatin Saxena, another director of Pranidhan Ltd. had also remitted an amount in pounds equivalent to 2,55,000 US \$, in parts, for maintenance of his close relatives residing in UK through his two normal bank accounts in India. Such remittance was made by him without taking approval from any relevant authority.

Para 4

On 1st April 2021, the fair value of the assets of Pranidhan Ltd.'s defined benefit plan were valued at ₹ 21,20,000 and the present value of the defined obligation was ₹ 22,05,000.

On 31st March, 2022, the plan received contributions from Pranidhan Ltd. amounting to ₹ 5,05,000 and paid out benefits of ₹ 3,35,000. The current service cost for the financial year ending 31st March, 2022, is ₹ 5,20,000.

An interest rate of 5% is to be applied to the plan assets and obligations. The fair value of the plan's assets at 31st March, 2022 was ₹ 24,60,000, and the present value of the defined benefit obligation was ₹ 28,00,000.

Part A- Multiple Choice Questions (2 Marks each)

- With reference to Para 4, how much total amount should be recognised in the statement of profit and loss, by Pranidhan Ltd. with respect to plan assets and the defined benefit obligation?
 - ₹ 7,60,000
 - ₹ 5,24,250
 - ₹ 6,52,300
 - ₹ 5,20,000
- With reference to Para 4, how much total amount should be recognised in the other comprehensive income, by Pranidhan Ltd. with respect to plan assets and the defined benefit obligation?
 - ₹ 2,35,750
 - ₹ 1,21,300
 - ₹ 2,77,700
 - ₹ 2,40,000
- With reference to Para 3, what shall be the value of taxable supply as per relevant CGST Rules for Disha Travels in respect of tickets sold to Mr. Prasadh?
 - ₹ 20,000
 - ₹ 6,500
 - ₹ 13,000
 - ₹ 1,30,000
- With reference to Para 3, how much excess Indian currency can be said to have been brought by Mr. Prasadh into India from USA and whether any declaration needs to be given in case of the USD currency notes brought into India by Mr. Prasadh to the Custom Authorities? Answer in terms of Foreign Exchange Management Act (FEMA), 1999.
 - Mr. Prasadh has brought in excess ₹ 25,000 in India and in case of USD currency notes brought into India, he is not required to provide declaration to the Custom Authorities but to the Authorised Dealer.
 - Mr. Prasadh has brought such amount of Indian currency which is within the limits in India and in case of USD currency notes brought into India, he is not required to provide declaration to the Custom Authorities.

- (c) Mr. Prasidh has brought in excess ₹ 40,000 in India and in case of USD currency notes brought into India, he is not required to provide declaration to the Custom Authorities but to the Authorised Dealer.
- (d) Mr. Prasidh has brought in excess ₹ 25,000 in India and in case of USD currency notes brought into India, he needs to provide declaration to the Custom Authorities.
5. With reference to Para 3, what could be the maximum amount of penalty, if any, that could be levied upon Mr. Jatin in respect of foreign exchange remitted by him? Answer in terms of Liberalised Remittance Scheme.
- (a) ₹ 2,00,000
- (b) An amount in INR equivalent to \$ 15,000
- (c) An amount in INR equivalent to \$ 5,000
- (d) No penalty is leviable as the remittances were made for a permissible current account transaction.

Part B- Descriptive Questions

6. With reference to Para 3, determine the value of supply for Stambh Forex Private Limited at the time of USD sold as well as purchased to/from Mr. Prasidh, in terms of rule 32(2)(a) and rule 32(2)(b) of the CGST Rules? **(7 Marks)**
7. With reference to Para 2, answer the following in terms of Income Tax Act, 1961:
- (a) What action the DDI shall be taking in respect of the seized papers relating to Deshavart Ltd., Jaipur?
- (b) Whether the contention raised by Mr. Prasidh as to cash money found from his bedroom will be acceptable?
- (c) What presumption shall be drawn in respect of the papers which indicate transactions not recorded in the books? **(5 Marks)**
8. With reference to Para 2, discuss the correctness of the action taken by Assessing Officer in respect of notice issued to Pranidhan Ltd. **(3 Marks)**

MOCK TEST PAPER
FINAL COURSE: GROUP – II
PAPER – 6F: MULTIDISCIPLINARY CASE STUDY
SUGGESTED ANSWERS / HINTS

CASE STUDY 1**Part A**

1. (b) Waqt Ltd. should have passed a special resolution for filing such intimation and the Central Government was not bound to pass such order.

Reason: Section 210 of the Companies Act, 2013:

Investigation in the opinion of Central Government [Sub-section (1)]:

Where the Central Government is of the opinion, that it is necessary to investigate into the affairs of a company, it **may** order an investigation into the affairs of the company. Central Government may order to investigate, inter-alia, on intimation of a **special resolution** passed by a company that the affairs of the company ought to be investigated;

Thus, Waqt Ltd. should have passed a special resolution filing such intimation and the Central Government was not bound to pass such order of investigation.

2. (c) ₹ 15,000

Reason: According to the Companies (Inspection, investigation and inquiry) Rules, 2014:

The Central Government may before appointing an inspector under sub-section (3) of Section 210 of the Companies Act, 2013, require the applicant to give a security not exceeding 25,000 rupees for payment of the costs and expenses of investigation as per the criteria given in the said rule.

In case if turnover as per the previous year's balance sheet is more than ₹ 50 crore and up to ₹ 200 crore then the amount of security required is ₹ 15,000.

Waqt Ltd.'s turnover as per the previous year balance sheet was ₹ 198 crore and accordingly, the amount of security required to be paid was ₹ 15,000.

3. (c) ₹ 4,20,000

Reason: An earnings-based valuation of Waqt Ltd.'s holding of shares in Utpal Ltd. would be calculated as follows:

Particulars	Figures
Utpal Ltd.'s after-tax maintainable profits (A)	₹ 14,00,000
Price/Earnings ratio (B)	15
Adjusted discount factor (C) (1- 0.20)	0.80
Value of Utpal Ltd. (A) x (B) x (C)	₹ 1,68,00,000

Value of a share of Utpal Ltd. = ₹ 1,68,00,000 ÷ 20,000 shares = ₹ 840

The fair value of Waqt Ltd.'s investment in Utpal Ltd.'s shares is estimated at ₹ 4,20,000 (that is, 500 shares × ₹ 840 per share).

4. (a) ₹ 4,37,500

Reason: Share price = ₹ 1,75,00,000 ÷ 20,000 shares = ₹ 875 per share. The fair value of Waqt Ltd.'s investment in Utpal Ltd. shares is estimated to be ₹ 4,37,500 (500 shares × ₹ 875 per share).

5. (d) Approval of Central Government would have been taken and additional fees of ₹ 5 lakhs would have been paid by Waqt Ltd. for the request of rollback.

Reason: Section 92CC of the Income Tax Act, 1961, and Rule 10MA of the Income Tax Rules, 1962:

The Advance Pricing Agreement shall be entered into by the Board with the applicant after its approval by the **Central Government**.

Additional Fees for filling application for rollback provision: The applicant may furnish along with the application for Advance Pricing Agreement, the request for rollback provision in Form No. 3CEDA with proof of payment of an additional fee of ₹ 5 lakh.

Part B

6. Computation of Total Income of Waqt Ltd. for A.Y. 2022-23

Particulars	₹ (in lakhs)	₹ (in lakhs)
Income from House Property [House situated in Ireland]		
Gross Annual Value	500	
Less: Municipal Taxes	(25)	
Net Annual Value	475	
Less: Deduction under section 24 – 30% of NAV	(142.5)	332.5
Profits and Gains of Business or Profession		
Income from business carried on in India	3,500	
Income from supplies made to YT Corp., a UK based company	1,600	
Income from supplies made to Leon Co., a Japan based company	1,900	7,000
Income from Other Sources		
Dividend received from a Tim Inc. incorporated in Australia (Note)	400	400
Total Income		7,732.5

Computation of tax liability of Waqt Ltd. for A.Y. 2022-23

Particulars	₹ (in lakhs)
Tax on total income [25% of ₹ 7,732.5 lakhs]	1,933.125
Add: Surcharge @ 12%	231.975
Add: Health and Education cess @ 4% (on ₹ 2,165.1)	86.604
	2,251.704
Less: Deduction under section 91 (See Working Note below)	(66.5)
Tax Payable	2,185.204

Working Note: Calculation of Rebate under section 91 of the Income Tax Act, 1961

	₹ (in lakhs)
Average rate of tax in India [i.e., ₹ 2,251.704/ ₹ 7,732.5 x 100]	29.12%
Tax rate in Ireland	20%
Doubly taxed income pertaining to Ireland	
Rent Income from a house property	332.5
Deduction under section 91 on ₹ 332.5 lakhs @ 20% [being the lower of average Indian tax rate (29.12%) and foreign tax rate (20%)]	66.5

Note: It is assumed that the total turnover/gross receipts of the company during Previous Year 2019-2020 did not exceed ₹ 400 crores, so tax rate would be 25%

Note: As per Section 90(2) of the Income Tax Act, 1961, where the Central Government has entered into an agreement with the Government of any country outside India or specified territory outside India, as the case may be, under sub-section (1) for granting relief of tax, or as the case may be, avoidance of double taxation, then, in relation to the assessee to whom such agreement applies, the provisions of this Act shall apply to the extent they are more beneficial to that assessee.

Here, Dividend income was taxable at 40% as per DTAA but as per provisions of Income Tax Act, 1961, tax rate is lower, so accordingly rate as per DTAA is not applied in computing the tax liability.

7. Rule 10MA(3)(ii) of the Income Tax Rules, 1962 provides that rollback provision shall not be provided in respect of an international transaction for a rollback year if the application of rollback provision has the effect of reducing the total income or increasing the loss, as the case may be, of the applicant as declared in the return of income of the said year.

It is clarified that in case the terms of rollback provisions contain specific agreement between the Board and the applicant that the agreed determination of ALP or the agreed manner of determination of ALP is subject to the condition that the ALP would get modified to the extent that it does not result in reducing the total income or increasing the total loss, as the case may be, of the applicant as declared in the return of income of the said year, the rollback provisions could be applied.

For example, if the declared income is ₹ 100, the income as adjusted by the TPO is ₹ 120, and the application of the rollback provisions results in reducing the income to ₹ 90, then the rollback for that year would be determined in a manner that the declared income ₹ 100 would be treated as the final income for that year.

In the given case, the declared income is ₹ 6,600 lakhs, the income as adjusted by the TPO is ₹ 6,900 lakhs, and the application of the rollback provisions results in reducing the income to ₹ 6,300 lakhs, then as per the aforesaid legal provisions, rollback for P.Y. 2019-20 would be determined in a manner that the declared income i.e. ₹ 6,600 lakhs would be treated as the final income for that year.

CASE STUDY 2

Part A

1. (b) 25th September, 2022 and 25th October, 2022, respectively.

Reason: As given under Arbitration and Conciliation Act, 1996, timeline refers to by when a challenge against arbitral award can be raised. The law notes an initial time period of three months from when the award is received by party, with a maximum extension of thirty more days by the court.

Accordingly, the arbitral award was received on 25th June, 2022 by both the parties and so, by 25th September, 2022, the other party can file an application for setting aside the arbitral award

and if maximum extension is granted by the court, then such application needs to be filed till 25th October, 2022.

2. (d) Such award can be enforced after 25th September, 2022 and such award would be enforced in the same manner as if it were a decree of the court.

Reason: As given under Arbitration and Conciliation Act, 1996, where the time for making an application to set aside an award has expired, or when such application was made, but it was rejected, then the award can be enforced.

Enforcement of an arbitral award shall happen under the Code of Civil Procedure 1908 in the same manner as if it were a decree of the court.

Accordingly, the arbitral award was received on 25th June, 2022 by both the parties and so, by 25th September, 2022, the other party can file an application for setting aside the arbitral award as per section 34 and accordingly, such arbitral award be enforced by Vratam Ltd. after 25th September, 2022, if no application for setting aside the arbitral award has been filed by the other party, and such award would be enforced in the same manner as if it were a decree of the court.

3. (b) 31st December, 2024 and 1st November, 2024, respectively.

Reason: Section 153(4) and Section 92CA(3A) of the Income Tax Act, 1961, respectively:

Relevant A.Y. is 2022-23, as reference has been made to TPO, time limit will extend by 12 months, so time limit available will be 21 months from the end of relevant A.Y. i.e. 31st December, 2024.

At least 60 days prior to time of limitation u/s 153, TPO shall pass order, i.e. 60 days before 31st December, 2024 i.e. 1st November, 2024.

4. (b) 12th December, 2024 and 30th September, 2025, respectively.

Reason: Section 144C of the Income Tax Act, 1961:

The A.O. made the draft order of assessment which was forwarded to Vratam Ltd. on 12th November, 2024.

So, time period for filing objections by Vratam Ltd. would expire on 30 days from there, which will be 12th December, 2024.

DRP has to issue direction within nine months from the end of the month in which the draft order is forwarded to the eligible assessee.

Here, the A.O. made the draft order of assessment which was forwarded to Vratam Ltd. on 12th November, 2024 and nine months from the end of the month in which the draft order is forwarded to the eligible assessee would be 31st August, 2025

Further, upon receipt of such direction, the Assessing Officer has to complete the assessment in accordance with the same, within one month from the end of the month in which the direction is received. This is notwithstanding anything contained in section 153 or section 153B.

Here, the period of receipt of such direction expires on 31st August, 2025, so, one month from the end of August month would be 30th September, 2025.

5. (a) 31st August, 2025 and such directions of DRP are binding on the Assessing Officer.

Reason: Section 144C of the Income Tax Act, 1961:

DRP has to issue direction within nine months from the end of the month in which the draft order is forwarded to the eligible assessee.

Here, the A.O. made the draft order of assessment which was forwarded to Vratam Ltd. on 12th November, 2024 and nine months from the end of the month in which the draft order is forwarded to the eligible assessee would be 31st August, 2025.

Further, every direction issued by the Dispute Resolution Panel shall be binding on the Assessing Officer.

Part B

6. Determination of Enterprise Value of Kiyat Ltd.

Particulars	₹ in crore
EBITDA as on the measurement date	80
EV/EBITDA multiple as on the date of valuation	8
Enterprise value of Kiyat Ltd.	640

Determination of subsequent measurement of Kiyat Ltd.

Particulars	₹ in crore
Enterprise Value of Kiyat Ltd.	<u>640</u>
Vratam Ltd.'s share based on percentage of holding (5% of 640)	32
Less: Liquidity discount & Non-controlling stake discount (5%+5%=10%)	<u>(3.2)</u>
Fair value of Vratam Ltd.'s investment in Kiyat Ltd.	<u>28.8</u>

7. (i) In the instant case, Vratam Ltd. approached the arbitrator before the end of the reporting period, who decided the award after the end of the reporting period but before approval of the financial statements for issue. Accordingly, the conditions were existing at the end of the reporting date because Vratam Ltd. had approached the arbitrator before the end of the reporting period whose outcome has been confirmed by the award of the arbitrator. Therefore, it is an adjusting event as per Ind AS 10.

Accordingly, the measurement of the provision is required to be adjusted for the event occurring after the reporting period. As far as the recovery of the cost by Vratam Ltd. from the other party is concerned, this right to recover was a contingent asset as at the end of the reporting period.

As per para 35 of Ind AS 37, contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs. If an inflow of economic benefits has become probable, an entity discloses the contingent asset.

On the basis of the above, a contingent asset should be recognised in the financial statements of the period in which the realisation of asset and the related income becomes virtually certain. In the instant case, the recovery of cost became certain when the arbitrator decided the award during F.Y. 2022-23.

Accordingly, the recovery of cost should be recognised in the financial year 2022-2023.

(ii) There are two basic types of arbitration agreement. These are:

- (a) Arbitration clause - a clause contained within a principal contract. The parties undertake to submit disputes in relation to or in connection with the principal contract that may arise in future to arbitration.
- (b) Submission agreement - an agreement to refer disputes that already exist to arbitration. Such an agreement is entered into after the disputes have arisen.

In first case, the agreement already carries the term that all disputes shall be arbitrated in New Delhi at the time of entering into the contract. This would be an arbitration clause as it is contained in the principal contract.

In the second case, the Principal contract does not have any term relating to arbitration.

However, to resolve the dispute that has arisen, if parties later on enter into an agreement "That all disputes shall be submitted to arbitration. The parties hereby agree to abide by the decision of the arbitrator." Such an agreement that is made after the disputes have arisen would be called a submission agreement.

CASE STUDY 3

Part A

1. (b) By 1st September, 2022, such vacancy was required to be filled and in other case, there was no requirement to fill such vacancy.

Reason: Filling of Vacancy of Key Managerial Personnel (KMP)

Section 203(4) of the Companies Act, 2013: If the office of any whole-time KMP is vacated, the resulting vacancy shall be filled-up by the Board at a meeting of the Board **within a period of six months** from the date of such vacancy.

In case of Government companies, sub-section (4A) states that the provisions of sub-section (1), (2), (3) and (4) of this section shall not apply to a managing director or Chief Executive Officer or manager and in their absence, a wholetime director of the Government company.

The sub-section (4A) will be applicable on the Government company only if it has not committed a default in filing its financial statements under section 137 or annual returns under section 92 with the Registrar.

Thus, by 1st September, 2022, such vacancy was required to be filled i.e. 6 months from 1st March, 2022, and in other case, there was no requirement to fill such vacancy as provisions relating to casual vacancy of a managing director do not apply to a Government company if it is regular in filing its returns with the Registrar.

2. (d) ₹ 36,000

Reason: For the purpose of section 52 of the CGST Act, 2017, TCS is required to be collected, on the net value of taxable supplies (other than services notified under section 9(5) of CGST Act, 2017) made through E-commerce operator by other suppliers where the consideration is to be collected by the ECO, at the rate of 1%.

Carpentering service is a service notified under section 9(5) of CGST Act, 2017.

During the month of December, 2021, Apsflon Ltd. made following supplies using the platform provided by Fsell Inc.:-

- (i) Supply of goods valued ₹ 35 lakhs out of which goods valued ₹ 3 lakhs were returned in the same month and 2 lakhs in the next month
- (ii) Supply of repairing services valued ₹ 4 lakhs and;
- (iii) Supply of carpentering services valued ₹ 2 lakhs.

Accordingly, TCS @ 1% on net value of taxable supplies made by Apsflon Ltd. = 1% of (₹ 35 lakhs - ₹ 3 lakhs + ₹ 4 lakhs) = 1% of ₹ 36 lakhs = ₹ 36,000.

3. (a) Two separate registrations would have been taken i.e. as a regular tax payer and as a person required to collect tax at source, respectively.

Reason: As per Section 24 of the CGST Act, 2017, a person is liable for mandatory registration under GST, iner-alia, if:-

- (i) Every ECO (Electronic Commerce Operator) who is required to collect tax at source under section 52,
- (ii) persons who are required to pay tax under section 9(5).

Here, it is given, Apsflon Ltd. uses e-commerce platform of Fsell Inc. to provide carpentering service which is one of the services notified under section 9(5) of CGST Act, 2017 and for which Fsell Inc. shall be liable to pay GST as per 9(5) of CGST Act, 2017.

Accordingly, Fsell Inc. would be registered under GST by obtaining two separate registrations i.e. as a regular tax payer and as a person required to collect tax at source, respectively.

4. (a) ₹ 6,411

Reason: As per Section 52(6) of the CGST Act, 2017:-

If after submission of GSTR-8, the ECO discovers any discrepancy therein on his own - not being the result of any scrutiny, audit, inspection or enforcement proceedings - he should rectify such discrepancy in GSTR-8 to be filed for the month during which such discrepancy is noticed, subject to payment of interest under section 50..

Here, at the time of filing GSTR-8 by Fsell Inc. for the month of December, 2021, its accountant discovered that there was a discrepancy in the GSTR-8 filed for the month of November, 2021 on 10th December, 2021, due to which there was a shortfall in the TCS credited by it to the Government by ₹ 5,00,000.

The GSTR-8 of Fsell Inc. for the month of December, 2021, was filed on 5th January, 2022 by rectifying the error made during the month of November, 2021.

Accordingly, interest paid would be ₹ 5,00,000 * 26 days / 365 days (i.e. from 10th December to 5th January) * 18% = ₹ 6411.

5. (c) Fsell Inc. was required to deposit the amount of equalisation levy and interest payable shall be ₹ 24,000.

Reason: As per section 165A of the Finance Act, 2016:-

The amount of equalisation levy to be deposited by **Fsell Inc.** is ₹ 12 crores × 2% = ₹ 24,00,000. Such amount is to be deposited by 7th January, 2022, with the credit of the Central Government as per Section 166A of the Finance Act, 2016 which was deposited on 31st January, 2022.

Thus, interest payable shall be: ₹ 24 lakhs * 1% = ₹ 24,000

Part B

6. Resolution passed at the meeting of board of directors of Apsflon Limited held at its Registered Office situated at on(day), the___ (date) at A.M

“Resolved that consent of all the directors present at the meeting be and is hereby accorded to the appointment of Mr. Himanshu, who fulfils the conditions as specified in Schedule V of the Companies Act, 2013, as the Managing Director of the company for a period of 3 years effective from 1st May, 2021 subject to approval by a resolution of shareholders in a general meeting and that Mr. Himanshu may be paid remuneration as follows:

- (i) Salary of ₹ 40,000 per month
- (ii) Commission
- (iii) Perquisites: Free Housing, Medical reimbursement upto ₹2,000 per month, Leave Travel Concession for the family, Club membership fee, Personal Accident Insurance of ₹ 5 Lakhs, Gratuity, Provident Fund etc.

Resolved further that in the event of loss or inadequacy of profits, the salary payable to him shall be subject to the limits specified in Schedule V.

Resolved further that the Secretary of the company be and is hereby authorize to prepare and file with the Registrar of Companies necessary forms and returns in respect of the above appointment.”

Sd/

Board of Directors

Apsflon Limited

7. According to Section 202 of the Companies Act, 2013, compensation can be paid only to a Managing Director, Whole-time Director or Manager. The amount of compensation cannot exceed the remuneration which he would have earned if he would have been in the office for the unexpired term of his office or for 3 years whichever is shorter. No compensation shall be paid, if the director has been found guilty of fraud or breach of trust or gross negligence in the conduct of the affairs of the company.

In light of the above provisions of law, the company is not liable to pay any compensation to Mr. Himanshu, if he has been found guilty of fraud or breach of trust or gross negligence in the conduct of affairs of the company. But it is not proper on the part of the company to withhold the payment of compensation on the basis of mere allegations.

The compensation payable by the company to Mr. Himanshu would be ₹ 13 lakhs calculated at the rate of ₹ 50,000 per month for unexpired term of 26 months.

Regarding ad-hoc payment of 4 Lakhs, it will not be possible for the company to recover the amount from Mr. Himanshu in view of the decision in case of Bell vs. Lever Bros. (1932) AC 161 where it was observed that a director was not legally bound to disclose any breach of his fiduciary obligations so as to give the company an opportunity to dismiss him. In that case the Managing Director was initially removed by paying him compensation and later on it was discovered that he had been guilty of breaches of duty and corrupt practices and that he could have been removed without compensation.

8. As per Section 165A of the Finance Act, 2016, there shall be charged an equalisation levy at the rate of two per cent of the amount of consideration received or receivable by an e-commerce operator from e-commerce supply or services made or provided or facilitated by it—
- (i) to a person resident in India; or
 - (ii) to a non-resident in the specified circumstances as referred to in sub-section (3); or

- (iii) to a person who buys such goods or services or both using internet protocol address located in India.

The equalisation levy under sub-section (1) shall not be charged—

- (i) where the e-commerce operator making or providing or facilitating e-commerce supply or services has a permanent establishment in India and such e-commerce supply or services is effectively connected with such permanent establishment;
- (ii) where the equalisation levy is leviable under section 165; or
- (iii) sales, turnover or gross receipts, as the case may be, of the e-commerce operator from the e-commerce supply or services made or provided or facilitated as referred to in sub-section (1) is less than two crore rupees during the previous year.

- (i) Fsell Inc. has a PE in India

Equalisation levy would not be attracted assuming the supply of online advertisement services Fsell Inc. to Apsflon Ltd. is effectively connected with the P.E. of Fsell Inc. in India.

- (ii) Fsell Inc. does not have a PE in India

Fsell Inc. has provided services in form of an online platform for sale of goods to the persons resident in India for which the consideration charged in form of commission is ₹ 12 crores for December' 2021 Quarter i.e. the gross receipt of Fsell Inc. in the P.Y. 2021-22 exceeds ₹ 2 crores.

Accordingly, the amount of equalisation levy to be deposited by Fsell Inc. is ₹ 12 crores × 2% = ₹ 24,00,000. Such amount is to be deposited by 7th January, 2022, with the credit of the Central Government as per Section 166A of the Finance Act, 2016.

CASE STUDY 4

Part A

1. (b) ₹ 10,71,866

Reason: Lessor recognise assets held under a finance lease in the balance sheet and present them as a receivable at an amount equal to the net investment in the lease under Ind AS 116.

Here, Asayam Ltd. shall recognise the building floor held under a finance lease in the balance sheet because the sum of the present value of lease payments amounts to substantially all of the fair value of the underlying asset and present it as a receivable at an amount equal to the net investment in the lease under Ind AS 116 at the end of year 1 at ₹ 10,71,866, calculated as follows:

Year	Annual Rental Payment	Annual Interest Income	Net investment at the end of the year
Initial net investment	-	-	11,10,000
1	1,50,000	1,11,866 (11,10,000*10.078%)	10,71,866 (11,10,000-1,50,000+1,11,866)

2. (c) The said property cannot be classified as an 'Investment property' by Asayam Ltd. and Havanti Ltd. shall not be considered to be deemed owner of the said property for the purpose of the provisions of the Income Tax Act, 1961.

Reason: (i) As per Ind AS 40: The property leased to another entity under a **finance lease** is not an investment property and are therefore is outside the scope of this Standard.

Accordingly, the said property cannot be classified as an 'Investment property' by Asayam Ltd. as Ind AS 40 is not applicable when the lease has been classified as finance lease by Asayam Ltd. as the sum of the present value of lease payments amounts to substantially all of the fair value of the underlying asset.

(ii) As per Section 27(iiiB) of the Income Tax Act, 1961,

A person who acquires any rights in or with respect to any building or part thereof, by virtue of any transaction as is referred to in section 269UA(f) i.e. transfer **by way of lease for not less than 12 years**, shall be deemed to be the owner of that building or part thereof.

Here, Havanti Ltd. shall not be considered to be deemed owner of the said property as per provisions of the Income Tax Act, 1961, as the office floor has been leased for period of 10 years i.e. for less than 12 years.

3. (c) ₹ 17,520

Reason: As per section 194-I dealing with deduction of tax at source from payment of rent, the rate of TDS applicable is 2% for machinery hire charges and 10% for building lease rent. The scope of the section includes within its ambit, rent for machinery, plant and equipment. Tax is required to be deducted at source from payment of rent, by whatever name called, under any lease, sub-lease, tenancy or any other agreement or arrangement for the use of building and machinery, irrespective of whether such assets are owned or not by the payee.

The limit of ₹ 2,40,000 for tax deduction at source will apply to the aggregate rent of all the assets. Even if two separate agreements are entered into, one for lease of building and another for hiring of machinery, rent and hire charges under the two agreements have to be aggregated for the purpose of application of the threshold limit of ₹ 2,40,000.

In this case, since the payment for lease rent and hire charges credited to the account of Asayam Ltd., the payee, aggregates to ₹ 2,76,000 (₹ 1,50,000 + ₹ 1,26,000 (18,000 x 7)), tax is deductible at source under section 194-I. Tax is deductible @10% on ₹ 1,50,000 (lease rent of building) = ₹ 15,000 and @ 2% on ₹ 1,26,000 (hire charges of machinery) = ₹ 2,520 i.e. ₹ 17,520, in total.

4. (b) Grandfathering would not be available to Asayam Ltd. and GAAR provisions would not apply in case of Havanti Ltd.

Reason: (i) As per Clarifications on certain queries about implementation of General Anti-Avoidance Rules (GAAR) [Circular No.7 of 2017 dated 27-1-2017]:

Grandfathering is available in respect of income from transfer of investments made before 1st April, 2017. As per Accounting Standards, 'investments' are assets held by an enterprise for earning income by way of dividends, interest, rentals and for capital appreciation. Lease contracts and loan arrangements are, by themselves, not 'investments' and hence grandfathering is not available.

(ii) GAAR provisions would not apply in case of lease rental payments by Havanti Ltd. as it merely makes a selection out of the options available to it.

5. (d) Mr. Jayprakash cannot be considered as a director liable to retire by rotation and Mr. Rajveer can be removed by the company by passing of special resolution.

Reason: (i) Nominee director on the Board of a company cannot be considered as a director liable to retire by rotation.

Here, Mr. Jayprakash Sharma being appointed as the nominee director by the board of Asayam Ltd. cannot be considered as a director liable to retire by rotation.

(ii) Also, it was proposed to remove Mr. Rajveer Sena, an independent director, who was currently holding such office for the 8th consecutive year.

As per section 169 of the Companies Act, 2013,

An independent director re-appointed for second term under Section 149(10) shall be removed by the company only by passing a special resolution.

Here, it is given that Mr. Rajveer Sena, an independent director, was currently holding such office for the 8th consecutive year and accordingly, it can be understood that he was re-appointed for second term, so, he can be removed by the company only by passing a **special resolution**.

The Director to be removed shall be given a reasonable opportunity of being heard before his removal.

Part B

6. Asayam Ltd. shall classify the lease as a FINANCE LEASE because the sum of the present value of lease payments amounts to substantially all of the fair value of the underlying asset.

At lease commencement, Asayam Ltd. accounts for the finance lease, as follows:

Net investment in the lease	Dr.	₹ 11,10,000 (a)	
Cost of goods sold	Dr.	₹ 9,23,400 (b)	
To Revenue			₹ 10,33,400 (c)
To Property held for lease			₹ 10,00,000 (d)

To record the net investment in the finance lease and derecognise the underlying asset.

- (a) The net investment in the lease consists of:

- (1) the present value of 10 annual payments of ₹ 1,50,000 plus the guaranteed residual value of ₹ 3,00,000, both discounted at the interest rate implicit in the lease, which equals ₹ 10,33,400 (i.e., the lease payment) (Refer note 1) AND
- (2) the present value of unguaranteed residual asset of ₹ 2,00,000, which equals ₹ 76,600 (Refer note 2).

Note that the net investment in the lease is subject to the same considerations as other assets in classification as current or non-current assets in a classified balance sheet.

- (b) Cost of goods sold is the carrying amount of the building floor of ₹ 10,00,000 (less) the present value of the unguaranteed residual asset of ₹ 76,600.
- (c) Revenue equals the lease receivable.
- (d) The carrying amount of the underlying asset

At lease commencement, Lessor recognises selling profit of ₹ 1,10,000 which is calculated as = lease payment of ₹ 10,33,400 – [carrying amount of the asset (₹ 10,00,000) – net of any unguaranteed residual asset (₹ 76,600), which equals ₹ 9,23,400]

Year 1 Journal entry for a finance lease

Cash	Dr.	₹ 1,50,000 (e)	
To Net investment in the lease			₹ 38,134 (f)
To Interest income			₹ 1,11,866 (g)

- (e) Receipt of annual lease payments at the end of the year.

- (f) Reduction of the net investment in the lease for lease payments received of ₹ 1,50,000, net of interest income of ₹ 1,11,866
- (g) Interest income is the amount that produces a constant periodic discount rate on the remaining balance of the net investment in the lease. Please refer the computation below:

Year	Annual Rental Payment	Annual Interest Income (h)	Net investment at the end of the year
Initial net investment	-	-	11,10,000
1	1,50,000	1,11,866	10,71,866
2	1,50,000	1,08,023	10,29,888
3	1,50,000	1,03,792	9,83,681
4	1,50,000	99,135	9,32,816
5	1,50,000	94,009	8,76,825
6	1,50,000	88,366	8,15,192
7	1,50,000	82,155	7,47,347
8	1,50,000	75,318	6,72,664
9	1,50,000	67,791	5,90,455
10	1,50,000	59,545*	5,00,000(i)

* Figure has been rounded off for equalization

- (h) Interest income equals 10.078% of the net investment in the lease at the beginning of each year. For e.g., Year 1 annual interest income is calculated as ₹ 11,10,000 (initial net investment) x 10.078%.
- (i) The estimated residual value of the building floor at the end of the lease term.

Working Notes:

1 Calculation of net investment in lease:

Year	Lease Payment (A)	Present value factor @ 10.078% (B)	Present value of lease payments (A x B = C)
1	1,50,000	0.908	1,36,200
2	1,50,000	0.825	1,23,750
3	1,50,000	0.750	1,12,500
4	1,50,000	0.681	1,02,150
5	1,50,000	0.619	92,850
6	1,50,000	0.562	84,300
7	1,50,000	0.511	76,650
8	1,50,000	0.464	69,600
9	1,50,000	0.421	63,150
10	1,50,000	0.383	57,450
10	3,00,000	0.383	1,14,800*
			10,33,400

* Figure has been rounded off for equalization of journal entry

2 Calculation of present value of unguaranteed residual asset

Year	Lease Payment (A)	Present value factor @ 10.078% (B)	Present value of lease payments (A x B = C)
10	2,00,000	0.383	76,600

7. (i) Mr. Shyam:

Since the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, the maturity proceeds of ₹ 3.50 lakhs due on 31.3.2022 are not exempt under section 10(10D) in the hands of Mr. Shyam.

Therefore, tax is required to be deducted @ 5% under section 194DA on the amount of income comprised therein i.e., on ₹ 1,10,000 (₹ 3,50,000, being maturity proceeds - ₹ 2,40,000, being the aggregate amount of insurance premium paid).

(ii) Mr. Rahul:

Since the annual premium is less than 20% of sum assured in respect of a policy taken before 1.4.2012, the sum of ₹ 4.20 lakhs due to Mr. Rahul would be exempt under section 10(10D) in his hands.

Hence, no tax is required to be deducted at source under section 194DA on such sum payable to Mr. Rahul.

(iii) Mr. Kalpesh:

Since the annual premium is less than 10% of sum assured in respect of a policy taken after 1.4.2012, the sum of ₹ 3.70 lakhs due to Mr. Kalpesh would be exempt under section 10(10D) in his hands.

Hence, no tax is required to be deducted at source under section 194DA on such sum payable to Mr. Kalpesh.

(iv) Mr. Daman:

Even though the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, and consequently, the maturity proceeds of ₹ 90,000 due on 1.2.2022 would not be exempt under section 10(10D) in the hands of Mr. Daman, the tax deduction provisions under section 194DA are not attracted since the maturity proceeds are less than ₹ 1 lakh.

CASE STUDY 5

Part A

1. (b) (₹ 5,24,250)

Reason: Reconciliation of Plan assets and Defined benefit obligation

	Plan Assets	Defined benefit obligation
	₹	₹
Fair value/present value as at 1st April 2021	21,20,000	22,05,000
Interest @ 5%	1,06,000	1,10,250
Current service cost		5,20,000
Contributions received	5,05,000	-
Benefits paid	(3,35,000)	(3,35,000)

Return on gain (assets) (bal. fig.)	64,000	-
Actuarial Loss (bal. fig.)	-	2,99,750
Closing balance as at March 31, 2022	24,60,000	28,00,000

In the Statement of Profit and loss, the following will be recognised:

	₹
Current service cost	(5,20,000)
Net interest on net defined liability (₹1,10,250 – ₹1,06,000)	<u>(4,250)</u>
	<u>(5,24,250)</u>

2. (a) (₹ 2,35,750)

Reason: Reconciliation of Plan assets and Defined benefit obligation

	Plan Assets	Defined benefit obligation
	₹	₹
Fair value/present value as at 1st April 2021	21,20,000	22,05,000
Interest @ 5%	1,06,000	1,10,250
Current service cost		5,20,000
Contributions received	5,05,000	-
Benefits paid	(3,35,000)	(3,35,000)
Return on gain (assets) (bal. fig.)	64,000	-
Actuarial Loss (bal. fig.)	-	2,99,750
Closing balance as at March 31, 2022	24,60,000	28,00,000

Defined benefit re-measurements recognised in Other Comprehensive Income:

	₹
Loss on defined benefit obligation	(2,99,750)
Gain on plan assets	<u>64,000</u>
	<u>(2,35,750)</u>

3. (c) ₹ 13,000

Reason: As per rule 32(3) of CGST Rules, the value of the supply of services in relation to booking of tickets for travel by air provided by an air travel agent is 5% of the basic fare in case of domestic bookings, and 10% of the basic fare in case of international bookings.

Here, the value of taxable supply for Disha Travels in respect of tickets sold to Mr. Prasidh will be 10% of basic fare contained in international booking i.e. 10% of (65% of ₹ 2 lakhs) = ₹ 13,000.

4. (d) Mr. Prasidh has brought in excess ₹ 25,000 in India and in case of USD currency notes brought into India, he needs to provide declaration to the Custom Authorities.

Reason: As per General Guidelines for Imports under FEMA, 1999:

Import of Foreign Exchange into India: A person may–

(i) Send into India, without limit, foreign exchange in any form (other than currency notes, bank notes and travelers cheques);

- (ii) Bring into India from any place outside India, without limit, foreign exchange (other than unissued notes), subject to the condition that such person makes, on arrival in India, a declaration to the Custom Authorities at the Airport in the Currency Declaration Form (CDF) annexed to these Regulations;

Provided further that it shall not be necessary to make such declaration where the aggregate value of the foreign exchange in the form of currency notes, bank notes or travelers cheques brought in by such person at any one time does not exceed USD 10,000 (US Dollars ten thousand) or its equivalent and/or the aggregate value of foreign currency notes (cash portion) alone brought in by such person at any one time does not exceed USD 5,000 (US Dollars five thousand) or its equivalent.

Thus, in case of USD currency notes of \$ 6,000 brought into India, Mr. Prasadh needs to provide declaration to the Custom Authorities, as aforesaid.

Import of Indian Currency and Currency Notes

- (i) Any person resident in India who had gone out of India on a temporary visit, may bring into India at the time of his return from any place outside India (other than from Nepal and Bhutan), currency notes of Government of India and Reserve Bank of India notes up to an amount not exceeding ₹ 25,000 (Rupees twenty five thousand only).
- (ii) A person may bring into India from Nepal or Bhutan, currency notes of Government of India and Reserve Bank of India for any amount in denominations up to ₹ 100/-

Mr. Prasadh has brought in excess ₹ 25,000 in India as he was allowed to import only ₹ 25,000 but he brought ₹ 50,000 in India.

5. (b) An amount in INR equivalent to \$ 15,000

Reason: Under the Liberalised Remittance Scheme (LRS), all resident individuals, including minors, are allowed to freely remit up to USD 250,000 per financial year (April – March) for any permissible current or capital account transaction or a combination of both.

No approval is required where any remittance has to be made from an RFC account.

During the F.Y. 2021-22, Mr. Jatin had remitted an amount in pounds equivalent to 2,55,000 US \$, in parts, for maintenance of his close relatives (i.e. a permissible current account transaction) in UK through his normal bank account in India.

Thus, Mr. Jatin has drawn \$ 5,000 in excess of the prescribed limit of \$ 2,50,000 for which penalty leviable would be upto three times of the sum involved, as it is quantifiable and if it is a continuing offence, further penalty upto ₹ 5,000 per day after first day during which the contravention continues. As per Section 13 of the FEMA, 1999 i.e. maximum penalty that can be levied would be **an amount in INR equivalent to \$ 15,000 (\$ 5,000 × 3).**

Part B

6. Rule 32(2) of the CGST Rules prescribes the provisions for determining the value of supply of services in relation to the purchase or sale of foreign currency, including money changing.

Determination of value under rule 32(2)(a)

- (i) When the RBI reference rate for a currency is not available, the value shall be 1% of the gross amount of Indian Rupees provided or received by the person changing the money. Thus, value of supply is:

$$= 1\% \text{ of the gross amount of Indian Rupees received} = 1\% \text{ of } (74.50 \times 16,000) = ₹ 11,920/-$$

- (ii) Value of supply of services for a currency, when exchanged from, or to, Indian Rupees, shall be equal to the difference in the buying rate or the selling rate, as the case may be, and the Reserve Bank of India (RBI) reference rate for that currency at that time, multiplied by the total units of currency.

Thus, value of supply is:

$$= (\text{RBI reference for US \$} - \text{Buying rate of US \$}) \times \text{Total number of units of US \$ bought}$$

$$= (74.6 - 74) \times 8,000 = ₹ 4,800/-$$

Determination of value under rule 32(2)(b)

Rule 32(2)(b) of the CGST Rules provides that value in relation to the supply of foreign currency, including money changing shall be deemed to be –

Sr. No.	Currency exchanged	Value of supply
1	Upto ₹ 1,00,000	1% of the gross amount of currency exchanged OR ₹ 250 whichever is higher
2	Exceeding ₹ 1,00,000 and upto ₹ 10,00,000	₹ 1,000 + 0.50% of the (gross amount of currency exchanged - 1,00,000)
3	Exceeding ₹ 10,00,000	₹ 5,500 + 0.1% of the (gross amount of currency exchanged - 10,00,000) OR ₹ 60,000 whichever is lower

Thus, the value of supply in the given cases would be computed as under:

- (i) Gross amount of currency exchanged = ₹ 74.50 × 16,000 = ₹ 11,92,000. Since the gross amount of currency exchanged exceeds ₹ 10,00,000, value of supply is ₹ 5,500 + 0.1% of the (gross amount of currency exchanged - 10,00,000) = ₹ 5,692 OR ₹ 60,000 whichever is lower, i.e. ₹ 5,692/-

- (ii) Gross amount of currency exchanged = ₹ 74 × 8,000 = ₹ 5,92,000.

Since the gross amount of currency exchanged is more than ₹ 1,00,000 but less than ₹ 10,00,000, value of supply is ₹ 1,000 + 0.50% of the (gross amount of currency exchanged - 1,00,000), i.e. = ₹ 3,460/-

7. (a) The authorised officer being DDI, Kolkata is not having any jurisdiction over Deshavart Ltd., Jaipur, and therefore, as per section 132(9A) of the Income tax Act, 1961, the papers seized relating to this company shall be handed over by him to the Assessing Officer having jurisdiction over Deshavart Ltd., Jaipur, within a period of 60 days from the date on which the last of the authorisations for search was executed for taking further necessary action thereon.
- (b) The contention raised by Mr. Prasad will not be acceptable because as per the provisions of sub-section (4A)(i) of section 132 of the said Act, where any books of account, other documents, money, bullion, jewellery or other valuables are found in the possession or control of any person in the course of search, then, in respect thereof, it may be presumed that the same belongs to that person.
- (c) As per section 132(4A) of the Income Tax Act, 1961, the presumptions in respect of the papers, indicating transactions not recorded in the books but having direct nexus with the business of the company, are that the same belong to the company, contents of such papers are true and the handwriting in which the same are written is/are of the persons(s) whose premises have been searched.

8. As per section 148 of the Income Tax Act, 1961, the Assessing Officer shall be deemed to have information which suggests that the income chargeable to tax has escaped assessment in the case of the assessee where a search is initiated under section 132 or books of account, other documents or any assets are requisitioned under section 132A, on or after 01.04.2021, for the three assessment years immediately preceding the assessment year relevant to the previous year in which the search is initiated or books of account, other documents or any assets are requisitioned or survey is conducted in the case of the assessee or money, bullion, jewellery or other valuable article or thing or books of account or documents are seized or requisitioned in case of any other person. Further, no inquiry has to be conducted in such cases as per the provisions of section 148A before issue of notice under section 148. In this case, the three assessment years would be A.Y. 2019-20, A.Y. 2020-21 and A.Y. 2021-22.

Thus, in this case, the Assessing Officer can issue notice for A.Y. 2019-20, A.Y. 2020-21 and A.Y. 2021-22 and cannot issue notice for A.Y. 2016-17 to A.Y. 2018-19. Hence, the notice issued by the Assessing Officer for A.Y. 2019-20, A.Y. 2020-21 and A.Y. 2021-22 is only valid.

Test Series: April, 2022

MOCK TEST PAPER
FINAL COURSE: GROUP – II
PAPER – 6F: MULTIDISCIPLINARY CASE STUDY

*Attempt any **four** out of **five** case study based questions.*

Each Case Study carries 25 Marks.

Time Allowed – 4 Hours

Maximum Marks – 100

CASE STUDY 1

1. Prag Bhara Ltd. (PBL) is an unlisted company engaged in the business of crude oil extraction, with six directors in its board. It has a joint venture company, Vasudhara (P) Ltd. (VPL) in which it is having 50% share in its equity, with a co-venture company, Samya Ltd.

In 2021, when both the companies had first acquired the shares of VPL, they had entered into a joint venture agreement containing 45 clauses. Clause no. 24 provided that if any dispute arises between the parties, the same shall be mutually decided by the parties or shall be referred for arbitration if the parties so determine.

2. Both the companies had acquired shares worth ₹ 2.80 crores each of VPL and were further required to contribute a sum of ₹ 20 lakhs each by acquiring further shares of equivalent value of VPL as there was a 'cash call' from the operating member, Samya Ltd. for purchasing a machinery for VPL.

The financial data of both the companies as per the latest audited financial statements is as follows:

Particulars	Prag Bhara Ltd. (₹ in lakhs)	Samya Ltd. (₹ in lakhs)
Authorised Share Capital	1,500	500
Equity Share Capital (Face-value: ₹100 per share)	1,200	350
Less: Unpaid Calls	100	50
General Reserve	350	150
Profit & Loss A/c	80	40
Securities Premium	170	-
Dividend equalisation reserve	50	20
Debenture redemption reserve	100	-
Secured Debts (Note)	600	80
Unsecured Debts	400	20

Note: Includes a loan of ₹ 50 lakhs taken for 5 months on 25th March 2022, repayable on demand.

Both the companies contributed to the cash call on 5th April 2021, as aforesaid, and acquired further shares in VPL. On 18th April 2021, machinery worth ₹ 40 lakhs was purchased out of such money by the operating member, Samya Ltd., for VPL which was to be used in the oil production after its installation.

On 4th December 2021, PBL sold one of its machineries to VPL at its market value of ₹ 16,00,000. The asset's carrying value in the books of accounts of PBL was ₹ 20,00,000.

3. On 1st April 2021, PBL invested in the equity shares of Kwick Tiles Ltd. (KTL) at a cost of ₹ 64 lakhs by acquiring 25% share in the voting power of KTL. PBL concluded that KTL is an associate company of it. As of that date, the carrying value of the net assets of KTL was ₹ 2 crore and the fair value was ₹ 2.4 crore. At the end of the year, KTL earned a profit of ₹ 9 lakhs and other comprehensive income of ₹ 4 lakhs. In that year, KTL Ltd. also declared a dividend to the extent of ₹ 3 lakhs.
4. On 19th July 2021, there was a board meeting held of the directors of PBL in which there was a resolution passed for borrowing a sum ₹ 2 crore from a Jharkhand Co-op Ltd., a scheduled bank, for financing its capital expenditure on its new project. Also, the board passed a resolution to buy-back 1 lakh shares of the company @ ₹ 180 per share from a specified group of shareholders. Such shares were issued @ 150 per share to such shareholders by the company, four years back.
5. For the F.Y. 2021-22, M/s Tripathi & Associates were the statutory auditors of the Samya Ltd. During the course of audit, the audit team was unable to obtain sufficient appropriate audit evidence about a single element of the consolidated financial statements i.e. the auditor was unable to obtain audit evidence about the financial information of a joint venture investment (in VPL) carried at ₹ 3 crores on the Group's consolidated balance sheet that represented over 70% of the entity's net assets because the audit team was not allowed access to the management and the auditors of VPL, including VPL auditors' audit documentation.

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

1. With reference to Para 3, what shall be the closing balance of investment in KTL in the books of PBL at the end of the year?
 - (a) ₹ 63,25,000
 - (b) ₹ 66,50,000
 - (c) ₹ 67,25,000
 - (d) ₹ 68,00,000
2. With reference to Para 2, whether Samya Ltd. would have taken any approval for making further investment in VPL by acquisition of its equity shares?
 - (a) Board resolution with unanimous approval would have been passed and there was no requirement to pass special resolution in the GM of the company as the specified limit had not been exceeded.
 - (b) Board resolution with unanimous approval would have been passed and there was no requirement to pass special resolution in the GM of the company as the VPL is its joint venture company.
 - (c) Board resolution with unanimous approval would have been passed as well as a special resolution in the GM of the company would have been passed as the specified limit had been exceeded.
 - (d) Board resolution with approval of majority directors would have been passed and there was no requirement to pass special resolution in the GM of the company as the specified limit had not been exceeded.
3. With reference to Para 4, what maximum amount the board of PBL could have resolved to borrow without having to obtain approval of the company by special resolution?
 - (a) ₹ 9 crore
 - (b) ₹ 7.5 crore
 - (c) ₹ 8 crore
 - (d) ₹ 7 crore

4. What maximum shares the board of PBL could have resolved to buy-back without having to obtain approval of the company by special resolution? Refer para 4.
- 1,80,000 shares
 - 1,75,000 shares
 - 1,85,000 shares
 - 1,70,000 shares
5. With reference to Para 4, what shall be the amount of tax payable by PBL on the buy-back of its shares if the net taxable income for P.Y. 2021-22 is ₹ 1.5 crore?
- Not taxable in the hands of company but taxable in the hands of shareholders.
 - ₹ 6,67,680
 - ₹ 18,63,680
 - ₹ 6,98,880

Part B- Descriptive Questions

6. (i) Referring Para 3, calculate the goodwill / capital reserve on the date of acquisition of share in KTL and PBL's share in the profit and other comprehensive income for the year. **(2 Marks)**
- (ii) Pass necessary entries in the books PBL to account for the investment in associate, KTL. **(4 Marks)**
7. (i) Referring Para 2, determine how PBL should account for the sale transaction of machinery to VPL in its books. **(2 Marks)**
- (ii) Examine the applicability of GST in case of cash contribution made by the co-ventures in the JV and used it for purchasing the machinery? Also, discuss in which scenario, GST would have been applicable? **(2 Marks)**
8. (i) Referring Para 5, what kind of opinion should the statutory auditors issue in the case of Samya Ltd.? Please draft the same. **(3 Marks)**
- (ii) Referring Para 1, state whether the parties under the joint venture agreement will be able to refer the dispute, if any, to the arbitration considering the given scenario and the provisions of the Arbitration and Conciliation Act, 1996? **(2 Marks)**

CASE STUDY 2

Para 1

HappyHomes Limited, a listed Company, manufactures and sells various kinds of kitchen solutions to ideally suit the varying modern-day needs of homeowners. They provide customized solutions for modular kitchens which may be stainless steel, acrylic or any other finish required by the customers. Their range of modular kitchens is distributed in the supply chain via an integrated channel of suppliers and distributors to reach to the homeowners globally. Quality, elegance and reliability are the three elements that make their kitchen solutions stand out from the competitors worldwide.

During the current year, the Company decided to appoint Mr Happy as the Managing Director of HappyHomes Limited for a period of ten years. However, the Company Secretary, Mr. CS informed the Board of Directors that as per the provisions of the Companies Act, 2013, the Managing Director cannot be appointed for a period exceeding 5 years. So, it was decided that two separate Board approvals and two separate general meeting resolutions would be passed to appoint the Managing Director for a total period of 10 years. Mr. CS objected to this proposal as well and suggested that a gap should be maintained between the two approvals/resolutions to comply with the provisions of the Companies Act, 2013. Finally, after considering all the provisions of the Act, Mr Happy was appointed as Managing Director by the approval of the Board of Directors at a meeting

and approval by shareholders by a resolution at the next general meeting of the Company. Mr. Happy was entrusted with substantial powers of management of the affairs of the Company. The remuneration to be paid to the managerial persons was calculated based on Part II of Schedule V and was decided to be paid on the basis of specified percentage of the net profits.

HappyHomes Limited wanted to appoint Mr. Joy as the whole-time director of the Company but he was disqualified for appointment under section 196(3) of the Companies Act, 2013, which states that no company shall appoint or continue the employment of any person as managing director, whole-time director or manager who is below the age of 21 years or has attained the age of 70 years. Mr. Joy had attained the age of 70 years a few months back and so a meeting was held with the statutory auditors of HappyHomes Limited, JAY & Company to find a solution to this issue. The auditors informed the Company that where a person has attained the age of seventy years, he may still be appointed as whole-time director if a special resolution is passed in this respect. So, all the required procedures were followed to appoint Mr. Joy as the whole-time director of the Company. An explanatory statement was annexed to the notice for such motion which indicated the justification for appointing Mr. Joy as whole-time director. However, the special resolution could not be passed in the general meeting but the votes cast in favour of the motion exceeded the votes casted against the motion. JAY & Company was again consulted and as per their suggestion, an application was made by the Board to the Central Government that such appointment would be most beneficial to the company. The appointment was finally regularized by the approval of the Central Government.

Para 2

HappyHomes Limited had obtained GST registration in all the states in which the company has its head office and branches. ITC is availed on all inputs, input services and capital goods used for purposes of business after consulting with JAY & Company so that no ineligible ITC is claimed. ITC was also availed on inputs and capital goods sent for job work. During the month of December, the Company decided to participate in the Christmas carnival held on the eve of Christmas. A stall was booked and it was decided that free gifts would be distributed to all the visitors at the carnival.

A gift set consisting of a fork, spoon and knife made of steel would be presented to every visitor who left his name and number with the sales representative at the stall. The Company had initially decided to manufacture these sets in-house. However, an incremental analysis was conducted to assess the benefits of outsourcing the gift sets. While considering the decision to outsourcing, the management also considered qualitative aspects like quality of goods, reliability of suppliers, impact on the customers and suppliers etc. Finally, the decision taken was in favour of outsourcing the gift sets from a known and reliable supplier. The sets were received from the supplier in time and the Company claimed ITC on the GST paid on them.

The carnival was a huge success and the footfall was very high. Except for a few, all the sets were distributed. After the carnival was over, the sales representatives tried to tally the balance sets with the total sets brought at the carnival less the number of visitors in the register, and realised that there was a shortfall of a large number of sets. Apparently, the same were stolen by people who had already taken one set as a gift and wanted few more. The necessary entries for the theft and other expenses were passed in the books of account of HappyHomes Limited.

Para 3

The management of HappyHomes Limited held a meeting with JAY & Company, to discuss the best techniques for analysing its activities and obtaining more information on the business operations along with cost prediction and improved cost management. JAY & Company suggested the activity based CVP analysis which used multiple cost drivers to estimate the costs for the coming periods. The suggestion of JAY & Company was followed, and a better prediction of costs and a much more complete picture of break-even analysis was available to management as compared to the traditional CVP analysis that the Company was earlier following. The activity-based costing also helped the Company to improve cost management and decision-making.

Para 4

Happy Homes Limited provides the following information pertaining to GST paid on inward supplies during the month of April (current financial year):

S. No.	Items	GST paid in (₹)
(i)	Life Insurance premium paid by the company for the life insurance of factory employees as per the policy of the company. There is no legal obligation for such insurance for employees.	2,00,000
(ii)	Raw materials purchased for which invoice is missing but delivery challan is available	69,000
(iii)	Truck purchased for delivery of finished products	80,000
(iv)	Works contractor's service used for repair of factory building which is debited in the profit and loss account of company	40,000
(v)	Company purchased the capital goods for ₹ 5,00,000 and claimed depreciation of ₹ 56,000 (@ 10%) on the full amount of ₹ 5,60,000 under Income Tax Act, 1961	60,000

Other information:

- In the month of September of previous financial year, HappyHomes Ltd. availed ITC of ₹ 1,40,000 on purchase of raw material which was directly sent to job worker's premises under a challan on 25th September (previous financial year). The said raw material has not been received back from the job worker up to 30th April (current financial year).
- All the above inward supplies have been used in the manufacture of taxable goods.

Para 5

The following particulars (after giving effect to all the line items given therein) are extracted from the statement of profit and loss of HappyHomes Limited for the year ended 31st March 2022:

Sr. no.	Particulars	Amount (₹)
1	Gross Profit	80,00,000
2	Profit on sale of godown (Cost ₹ 10,00,000 and written down value ₹ 6,00,000)	6,00,000
3	Salaries & wages	3,00,000
4	Sundry Repairs to Fixed Assets	75,000
5	Subsidy from the government	4,00,000
6	Compensation for breach of contract	2,00,000
7	Depreciation	1,60,000
8	Loss on sale of long-term investments	4,00,000
9	Interest on unsecured loans	60,000
10	Interest on debentures issued by the company	90,000
11	Repair Expenses to fixed assets (Capital in nature)	5,00,000
12	Net Profit	18,00,000

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

1. In your opinion, is the contention of Mr. CS correct with reference to Para (1)?
 - (a) Yes, the Managing Director cannot be appointed for a term exceeding five years at a time but two separate approvals/resolutions can be passed one after the other to appoint him for ten years.
 - (b) Yes, the Managing Director cannot be appointed for a term exceeding five years at a time and no re-appointment can be made earlier than one year before the expiry of his term.
 - (c) Yes, the Managing Director cannot be appointed for a term exceeding five years at a time and no re-appointment can be made earlier than two years before the expiry of his term.
 - (d) Yes, the Managing Director can be appointed for a term exceeding five years at a time after taking the approval of the Central Government within ninety days of such appointment.
2. With reference to Para (1), which of the following statements is not correct for seeking approval from the Central Government for appointment of Mr. Joy?
 - (a) Application in Form No. MR-2 within a period of ninety days from the date of such appointment.
 - (b) Special Notice to Members.
 - (c) Publication of Notice.
 - (d) Attaching of Notice with the Application.
3. With reference to Para (2), what should be the treatment of ITC availed in the books of account on the sets brought at the carnival and not in stock at the end?
 - (a) ITC availed in books of account should be reversed for sets distributed as gifts as it was a voluntary act on the part of the Company, but since the theft of the sets was an involuntary act on the part of the Company, ITC can be availed.
 - (b) ITC availed in books of account is eligible for both sets distributed as gifts and sets stolen since both the acts have happened in the normal course of business.
 - (c) ITC availed in books of account should not be reversed for sets distributed as gifts, but for the sets stolen, ITC should be reversed since stolen sets will not lead to any future benefit, in the form of increase in sales, for the Company.
 - (d) ITC availed in books of account should be reversed for both sets distributed as gifts and sets stolen since no tax is paid on outward supply.
4. HappyHomes Limited decided to outsource the sets distributed in the Christmas carnival. When do you think a Company should not opt for outsourcing, in the context of Para (2)?
 - (a) If the return on the necessary investment to be made to manufacture, is not attractive enough.
 - (b) If adequate managerial manpower is not available to take charge of the extra work of manufacturing.
 - (c) If transport and other infrastructure facilities are not adequately available.
 - (d) If there is risk of technological obsolescence for the component such that it does not encourage capital investment in the component.
5. As referred under Para (3), HappyHomes Limited followed the activity-based costing method for analysis of its activities. Which of the following is not a classification of this method?
 - (a) Fixed and variable activities.
 - (b) Product sustaining activities.

- (c) Facilities level activities.
- (d) Batch-level activities.

Part B- Descriptive Questions

6. With reference to Para (4), compute the amount of net ITC available with HappyHomes Ltd. for the month of April with necessary explanations for the treatment of various items as per the provisions of the CGST Act. Subject to the information given, assume that all the other conditions necessary for availing ITC have been fulfilled. **(7 Marks)**
7. Considering the information given in Para (5), you are required to calculate the overall managerial remuneration payable under section 197 of the Companies Act, 2013 subject to the provisions under Schedule V to the said Act. **(8 Marks)**

CASE STUDY 3

1. Supatra Foundation is a public charitable trust registered under section 12AB of the Income Tax Act, 1961. The trust is engaged in various social activities such as uplifting of poor people, advancement of orphaned children, conducting public awareness programmes, educational programmes, public health camps, sports training camps, etc.

Mr. Sameer Devan who is a Chartered Accountant by profession, serves as an honorary leader of the said trust.

2. The founder and director of Jas Jagish Ltd., Mr. Rajat Bhatia, was quite moved while reading a newspaper article on the philanthropic activities being carried out by Supatra Foundation and decided that his company should give some donations to the said trust and accordingly Jas Jagish Ltd. donated a sum of ₹ 24 lakhs during the F.Y. 2021-22, with a specific direction that such donation shall form part of the corpus of the trust. The average net profits of the company during the preceding three financial years was ₹ 4 crore.

For F.Y. 2021-2022, Jas Jagish Ltd.'s profit before tax according to Ind-AS was ₹ 2 crore and taxable profit was ₹ 2.08 crore. The difference between these amounts arose due to reasons, as follows:

- (i) On 1st February, 2022, it acquired a machine for ₹ 2.4 crore. Depreciation was charged on the machine on a monthly basis for accounting purpose. Under the tax law, the machine was to be depreciated for 6 months. The machine's useful life was 10 years according to Ind-AS as well as for tax purposes.
 - (ii) In the F.Y. 2021-22, donation of ₹ 24 lakhs was given to Supatra Foundation out of which ₹ 16 lakhs was not deductible for tax purposes, as per the provisions of section 80G of the Income Tax Act, 1961.
3. Nishalya Ltd., an associate company of Jas Jagish Ltd., 53% of which shares are held by Trium Inc., a USA based company, made a donation of ₹ 5 lakhs to Supatra Foundation as a voluntary contribution, on the suggestion of Mr. Rajat.

One of the directors of the said company also proposed donating a sum of ₹ 2 lakhs, as a voluntary contribution to an electoral trust vide an account payee cheque during F.Y. 2021-22, but it was not approved by the board of the company.

4. For the previous year ending 31.3.2022, Supatra Foundation derived gross income of ₹ 1.5 crore, which consisted of the following:

Particulars	(₹ in lakhs)
Income from properties held by trust (net)	40
Voluntary contributions received	40

Voluntary contributions received with a specific direction that such donation shall form part of the corpus of the trust	70
--	----

The trust applied a sum of ₹ 95 lakhs towards charitable purposes during the financial year under consideration. Out of the total corpus donations of ₹ 70 lakhs received during the year, ₹ 40 lakhs were not invested in any of the modes specified under section 11(5) of the Income Tax Act, 1961.

5. There was a change in the accountant of Supatra Foundation during the month of March, 2022. The old accountant, Mr. Suraj, apart from maintaining the books of accounts of the trust had also been managing all the GST related work of the trust. He was applying the relevant accounting standards in accounting for all the activities of the trust whether commercial or non-commercial.

The new accountant, Mr. Dhiman was properly trained by Mr. Suraj, before he left his job. However, Mr. Dhiman had required assistance from Mr. Suraj in computing the GST liability of the trust for the month of March, 2021, in respect of transactions, as follows:

Particulars	(₹- exclusive of GST)
Amount received for renting of commercial property owned by the trust	80,000
Fees received for a badminton training camp organized for 2 weeks for children under 18 years	60,000
Educational programme organized for persons under the age of 65 years residing in a rural area	30,000
Consultancy services received for purpose of providing charitable activities from a firm based in Germany	45,000
Web-hosting services received from GoDaddy Inc., a USA based company. Such website was created for raising charitable funds by the trust.	20,000

The trustee of the said trust made a proposal to Mr. Harsh Vora, proprietor of Vora & Associates, for auditing the books of accounts of the said trust for the financial year 2021-22.

Mr. Harsh is also a partner in VKS & Co. whose another partner, Mr. Kushal Sena, is an employee of the said trust. Some certification work was also offered by the trust to him.

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

- Contribution by Jas Jagish Ltd., as referred under Para 2, is in excess of ₹ _____ for which it would require prior permission of the company.
 - ₹ 16 lakhs, due to which an ordinary resolution would have been required to be passed.
 - ₹ 4 lakhs, due to which an ordinary resolution would have been required to be passed.
 - ₹ 8 lakhs, due to which a special resolution would have been required to be passed.
 - ₹ 4 lakhs, due to which a special resolution would have been required to be passed.
- Would your answer in Q. no. 1 change if Jas Jagish Ltd. was a private limited company and whether any permission was required by Mr. Sameer for holding such position in the trust? (Refer Para 1 & 2)
 - No, the answer will remain the same and Mr. Sameer was not required to take any permission for holding such position in the trust.
 - Yes, as in such case, there would be no requirement to take any prior approval of the company for making such contribution and Mr. Sameer was not required to take any permission for holding such position in the trust.

- (c) Yes, as in such case, there would be no requirement to take any prior approval of the company for making such contribution without any limit and Mr. Sameer was required to take prior permission of the ICAI for holding such position in the trust.
- (d) No, the answer will remain the same and Mr. Sameer was required to take prior permission of the ICAI for holding such position in the trust.
3. With reference to Para 5, whether GoDaddy Inc. would be required to take GST registration?
- (a) Yes, provided GoDaddy Inc. also provide such services to non-registered persons in India.
- (b) Yes, provided GoDaddy Inc. would be compulsorily required to take GST registration irrespective of whether it provide such services to non-registered persons in India or not.
- (c) No, as in case of such services, the recipient is required to discharge the GST liability on reverse charge basis.
- (d) No, as such service providers are specifically exempted from taking GST registration.
4. Whether Mr. Harsh can accept the auditorship of Supatra Foundation as discussed under Para 5?
- (a) Yes, as there are no restrictions in accepting such auditorship in the given case.
- (b) Yes, by taking prior permission of the ICAI
- (c) No, as his partner is an employee of the said trust.
- (d) Yes, if his partner is a part-time employee in the said trust.
5. Whether the electoral trust could have accepted donation from Nishalya Ltd. had its board approved for the said donation? (Refer para 3)
- (a) Yes, as the said contribution was to be made vide an account payee cheque.
- (b) No, it was prohibited to accept such donation.
- (c) Yes, as it was to be received from a company registered in India and such contribution was to be made vide an account payee cheque.
- (d) No, prior approval of Electoral Commission of India is required in such case.

Part B- Descriptive Questions

6. Referring Para 2, prepare necessary entries in respect of Jas Jagish Ltd. as at 31st March 2022, taking current and deferred tax into account. The tax rate is 25%. Also prepare the tax reconciliation in absolute numbers as well as the tax rate reconciliation. **(5 Marks)**
7. (i) Referring Para 4, determine the taxable income of Supatra Foundation for the assessment year 2022-23.
- (ii) Referring Para 5, examine the applicability of accounting standards to Supatra Foundation, particularly in respect of its non-commercial activities? **(5 Marks)**
8. Referring Para 5, determine the GST payable in cash of Supatra Foundation for the month of March, 2021 if rate of GST is 18% assuming that the opening balance of ITC for relevant tax period is ₹ 30,000 and the time of supply of such transactions falls in March month. **(5 Marks)**

CASE STUDY 4

Kundan Gems Pvt. Ltd. is a Company incorporated under Companies Act, 1956 with the main object of manufacturing of Gems and Jewellery in the year 1985. It is the leading manufacturer of natural diamonds and one of the India's premier Diamantaire establishing benchmarks not just for sheer scale of operations, but also for product quality, precision and variety. The Company has a specialized manufacturing unit and uses advanced hi-tech manufacturing systems in the Diamond industry. It manufactures and exports both rounds and fancies in all shapes, colours, clarities and sizes. It was executing the business of exporting the

Jewellery to various countries like USA, Dubai, Canada and various African countries on regular basis up to March 2020.

However, with advent of Covid-19 pandemic, there was tremendous slump in export activity mainly in Gems and Jewellery sector, the sales of the Company were adversely affected. Looking to the lockdown challenges and projected decline in global trade, the Directors expected 20% decline in the exports. In case of the second wave of the pandemic, there would be further contractions in the exports of the Company. Exports of cut and polish diamonds, the main area of Kundan Gems Pvt. Ltd. with base in Gujarat had also reduced substantially.

Favourably, the Company could realize its exports proceeds effectively from earlier exports and hence it had surplus funds to be invested. There were in-depth discussions within the Board of Directors regarding the avenues for deployment of surplus funds as investments. Most of them were of the opinion that the investment in Fixed Deposits would give meagre returns on investments. So, they ruled out the same. All the Directors unanimously decided to invest the surplus funds in Property as they had done the same 5 years back and got handsome rewards in the form of rental income as well as appreciation of the market value of the property.

To gain better understanding of the accounting treatment of Investment properties, they approached CA Milin Shah, Partner in M N Shah & Co., Chartered Accountants.

Three decades of dynamic leadership, creativity, integrity and unparalleled sense of commitment is what makes M N Shah & Co., Chartered Accountants. They have accumulated unmatched experience and expertise in the entire range of Assurance, Taxation, IND AS Adoption & Advisory Services, Compliance and Business Advisory services. The Firm provides full spectrum of professional services led by 6 partners with multi-skilled team of Accountants, Company Secretaries, and Business Valuers etc.

CA Milin Shah is well experienced and has handled assignments with an international orientation, enabling their clients to adopt the best practices with respect to financial reporting.

Para 1:

Kundan Gems Pvt. Ltd. owns a Building A which is specifically used for the purpose of earning rentals. The Company has not been using the building A or any of its facilities for its own use for a long time. The company is also exploring the opportunities to sell the building if it gets the reasonable amount in consideration.

Following information is relevant for Building A for the year ending 31st March, 2022:

Building A was initially acquired at the cost of ₹ 15 crores and building life is estimated to be 20 years. Out of 20 years, 5 years have expired as on 01.04.2021. The company follows straight line method for depreciation.

During the year, the company has invested in another Building B with the purpose to hold it for capital appreciation.

The property was purchased on 1st April, 2021 at the cost of ₹ 4 crores. Expected life of the building is 40 years. As usual, the company follows straight line method of depreciation.

Further, during the year 2021-22, the company earned/incurred following direct operating expenditure relating to Building A and Building B:

Particulars	Amount (₹' lakhs)
Rental income from Building A	100
Rental income from Building B	50
Sales promotion expenses	10
Fees & Taxes	2.5
Ground rent	3
Repairs & Maintenance	3
Legal & Professional	2.50
Commission and brokerage	2.25

The company does not have any restrictions and contractual obligations against Property - A and B. For complying with the requirements of Ind AS, the management sought an independent report from the specialists so as to ascertain the fair value of buildings A and B. The independent valuer has valued the fair value of property as per the valuation model recommended by International Valuation Standards Committee. Fair value has been computed by the method by streamlining present value of future cash flows namely, discounted cash flow method.

The other key inputs for valuation are as follows:

The estimated rent per month per square feet for the period is expected to be in the range of ₹ 50 - ₹ 60. And it is further expected to grow at the rate of 10 percent per annum for each of 3 years. The weighted discount rate used is 12% to 13%.

The fair value of properties based on discounted cash flow method is measured at ₹ 15 crores. The treatment of fair value of properties is to be given in the financials as per the requirements of Indian Accounting Standards.

During the FY 2022-23, Kundan Gems Pvt. Ltd. has stopped letting out the building A and used it as its office premise. On 31st March, 2022, Management estimates the recoverable amount of the building as ₹ 10.00 Crores and its remaining useful life as 14 years and residual value is Nil.

Para 2:

Sensque Technologies Pvt. Ltd. is a leading manufacturer of Computer Hardware. Initially, it was established as a Partnership Firm but was converted into Private Limited Company in 2018. Mr. Jai Maitri and Mr. Kailash Maitri both jointly promoted the Company. The Company is a strong partner for creative solutions in the fields of connection technology, electronics, and automation on the path to a smart world. Their products are used wherever the flow of current or data is connected, distributed, and controlled.

The other unit of the Company provides automation software from configuration through to system operation, with their unique ability to offer end-to-end solutions that connect Sensors, Software, and Services. The Company too provides end to end mobility solutions and services including application development and connected application design.

The Company, Sensque Technologies Pvt. Ltd. is restructuring its Mobility Solutions business to bring together automotive software, electronic systems and sensors in one division. Consequently, the Company intends to sell their Software division.

Without further ado, the Directors of the Company advanced to CA Neil Shah, Partner in M N Shah & Co., Chartered Accountants. CA Neil Shah has a commendable track record as an Advisor in Accountancy and Taxation including matters of International Taxation. He has been a catalyst in expanding the portfolio of the firm's services from traditional Auditing and Taxation to multi-faceted consultancy. The Directors delineated CA Neil about their restructuring plans of their Software division.

Sensque Technologies Pvt. Ltd. has two units - one engaged in manufacture of computer hardware and the other involved in developing software. As a restructuring drive, the company has decided to sell its software unit as a going concern by way of slump sale for ₹ 770 lacs to a new company called S Limited, in which it holds 74% equity shares.

The Balance Sheet of Sensque Technologies Pvt. Ltd. as on 31st March 2022, being the date on which software unit has been transferred, is given hereunder –

Balance Sheet as on 31.3.2022

Liabilities	Amount (₹' lakhs)	Assets	Amount (₹' lakhs)
Paid up Share Capital	600	Fixed Assets:	
General Reserve	300	Hardware unit	340
Share Premium	100	Software unit	400

Revaluation Reserve	240	Debtors:	
Current Liabilities		Hardware unit	280
Hardware unit	80	Software unit	220
Software unit	180	Inventories:	
		Hardware unit	190
		Software unit	70
	1,500		1,500

Following additional information are furnished by the management:

The Software unit is in existence since May, 2016.

Fixed assets of Software unit include land which was purchased at ₹ 80 lacs in the year 2009 and revalued at ₹ 120 lacs as on March 31, 2022.

Fixed assets of Software unit mirrored at ₹ 280 lacs (₹ 400 lacs minus land value ₹ 120 lacs) is written down value of depreciable assets as per books of account. However, the written down value of these assets under section 43(6) of the Income-tax Act, 1961 is ₹ 180 lacs.

FMV of capital assets transferred by way of slump sale are ₹ 500 lacs.

Para 3:

CA Mahendra Shah, father of CA Neil Shah, is the senior most Partners in their Firm M N Shah & Co., Chartered Accountants. He is having 32 years of corporate experience focusing on Audit & Assurance, Internal Audit, Risk Governance, Management Audit Standard Operating Procedures, and Internal finance Controls etc. The list is perpetual. He has served in many reputed large Corporates too. One of his valuable clients is All-in-one Option Ltd.

The Company, All-in-one Option Ltd., is one of the fast-moving Consumer Goods Company. They have several brands spanning in distinct categories such as fabric solutions, life essentials, colour cosmetics, oral care and many more. It is an Unlisted Company. The Company's Accounts are being audited by M N Shah & Co, Chartered Accountants.

Para 3A:

Following the appointment of the Firm M N Shah & Co., Chartered Accountants as the Auditors of the Company All-in-one Option Ltd., CA Bhavesh Shah was being offered to join the Firm as Partner. Mr. Fenil, brother of CA Bhavesh Shah acquired 9,000 shares (Nominal value being ₹ 10 per share) of the Company at a premium of ₹ 20 per share. Mr. Fenil was a bullish man; he was very buoyant regarding share price of All-in-one Option Ltd. Hence, he did not sell the shares. But to everyone's surprise, the price of the share fell and the current realizable value of Mr. Fenil's shares came to ₹ 1,90,000. The existing Partners of the Firm are aware about Mr. Fenil's shareholding in All-in-One Option Ltd.

Para 3B:

FMCG Retail Environment is quite turbulent because of the fluctuating demand. With demand ups and downs, it is often a problem for suppliers not to be able to provide retailers with enough quantities of the ordered products. The business is in jeopardy despite the demand is quite stable. Availability of workers at factories and trucks for transportation remain key challenges to meet demand for essential items during the lockdown due to Coronavirus pandemic. The financial health of the Company is also imperilled by various strings like intense competitions, rapid shift in consumer tastes and preferences, unstable commodity prices, unpredictable monsoons etc. Another setback is the lack of price consistency at every customer touch point – meaning in all outlets or online stores. If there is no unified system to automatically update price changes, customers feel dissatisfied, and retailers lose sales. It needs to be assessed in consonance to its specific vulnerability

Para 3C:

FMCG's sector includes pharmaceuticals, consumer electronics, soft drinks etc. The Company, All-in-One Option Ltd. also has faced several hassles, apart from those mentioned above. It includes risks from their products getting obsolete due to technological developments. For example, Smartphone Cameras have made clicking pictures with Camera a mundane activity. VCR's have been supplanted by OTT streaming platforms. Inventory Management is also a major business risk in this sector. To track the inventories on regular basis is a moiling task and turn the business upside down for a savvy and demanding customer base.

Para 3D:

To mitigate these risks, the Board of Directors thought to appoint Internal Auditor in the Company. The paid-up share capital of the Company is ₹ 45 Crores during the previous year. Total turnover of the Company was to the tune of ₹ 195 Crores. The Company has availed Cash Credit Loan from X Bank which had maximum outstanding balance of ₹ 68.50 Crores during the year 2021-22. The Company had further availed Term Loan from Y Bank which had maximum outstanding balance of ₹ 55.50 Crores during the year 2021-22.

Para 3E:

Amid the Covid Pandemic, the Directors of the Company All-in-one Option Ltd. said that while a lot of their plants and warehouses for essential goods are now operational, albeit at scaled down levels, a shortage of manpower, and lack of raw material is still limiting their capacity to ramp up production. Consequently, the prices of raw materials have increased. Hence, the Internal Auditor of the Company undertook thorough examination of the Purchase Department. On analysis of the observations made during the audit, it was perceived that Purchases have been majorly made from the buyers who are related to the Directors of the Company. It was observed that prices paid to such parties are relatively higher than the Market Rate. This involves high risk and is a matter of consideration. The Internal Auditor recommended maintaining an approved vendor file for purchases to ensure that purchases are made from approved vendors only.

QUESTIONS**Part A- Multiple Choice Questions (2 Marks each)**

1. With reference to inclusion of CA Bhavesh, under Para 3A, as an Auditor Partner in the Firm M N Shah & Co., Chartered Accountants, what is your view-point regarding the same? Will M N Shah & Co., Chartered Accountants, induct him as a partner in the firm? The existing partners have clarified that they shall not forgo the Audit of their valuable client.
 - (a) No, the partners of M N Shah & Co. will not induct CA Bhavesh as a partner owing to the fact that they would lose the audit assignment of the Company All-in-one Option Ltd. as CA Bhavesh is disqualified by virtue of Mr. Fenil, his brother's shareholding in the Company All-in-one Option Ltd. He had purchased those shares at ₹ 2,70,000/- (9,000*30), which is greater than the exempted limit.
 - (b) Yes, the partners of M N Shah & Co., will accept CA Bhavesh as an Auditor Partner as they would continue to be qualified to undertake the Audit of All-in-one Option Ltd., because his brother holds the shares of the mentioned Company whose face value is less than the exempted limit.
 - (c) Yes, the partners of M N Shah & Co., will accept CA Bhavesh as an Auditor Partner in the Firm as he is not disqualified, on the ground that Mr. Fenil, his brother, holds the shares of the Company All-in-One Option Ltd., whose Realizable value is much less than his Purchase price.
 - (d) No, the partners of M N Shah & Co. will not induct CA Bhavesh as a partner owing to the fact that they would lose the audit assignment of the Company All-in-one Option Ltd. as his brother holds shares in the said Company, irrespective of the amount of Shares his brother holds in the Company.
2. In context of formerly mentioned Business Risks, which chunk of Risk Management from the following has been illustrated appropriately under Para 3C?
 - (a) Risk Monitoring

- (b) Risk Mitigation
 - (c) Risk Identification/ Risk Assessment
 - (d) Ineffective Internal Control system.
3. Various risk elements have been illustrated in Para 3B and Para 3C above. These risks can be higher or lower, from time to time. Which of the following major component of Audit Risk is highlighted therein?
- (a) Inherent Risk
 - (b) Detection Risk
 - (c) Control Risk
 - (d) Combination of Inherent & Detection Risk.
4. With reference to Para 3D, All-in-One Option Ltd. does not have Internal Audit system. The Board of Directors wants to appoint however they were iffy on the provisions of Companies Act 2013, whether it is mandated for their Company or not. Please guide them a suitable flight path.
- (a) Yes, the Company has the statutory requirement to appoint an Internal Auditor as it is a Public Limited Company.
 - (b) No, the Company does not require appointing Internal Auditor under statutory requirement clause as its Turnover is less than the exempted limit.
 - (c) Yes, the Company is mandatorily required to appoint Internal Auditor as Total Outstanding Loans from Banks during the previous year exceeds the exempted limit.
 - (d) No, the Company is not required to appoint Internal Auditor as Paid-up capital; Turnover as well as Outstanding Loans was below the prescribed limit during the preceding year.
5. The scope of Internal Auditing is very broad and involves continuous and critical appraisal of the functioning of an entity with a view to suggest improvements and thereto do the value addition. Para 3E illuminate's one of the areas where work of Internal Auditor has been accentuated. Which of the following describes it?
- (a) Review of custodianship & safeguarding of Assets.
 - (b) Review of Organizational Structure.
 - (c) Review of accomplishment of goals & objectives.
 - (d) Review of Internal Control System & Procedures.

Part B- Descriptive Questions

6. (a) With reference to Para 1, what would be the treatment of Building A and Building B in the Balance Sheet of Kundan Gems Pvt. Ltd. for FY 2021-22? Provide detailed disclosures and computations in line with relevant Indian Accounting Standards. Treat it as if you are preparing a separate note or schedule, of the given assets in the Balance Sheet. **(5 Marks)**
- (b) How should the company account for the above investment property as on 31st March, 2022? **(3 Marks)**
7. (a) With reference to Para 2, ascertain the tax liability, which would arise from slump sale to Sensque Technologies Pvt. Ltd., assuming it does not opt for Section 115BAA. **(5 Marks)**
- (b) What would be your advice as a tax-consultant to make the restructuring plan of the company more tax-savvy, without changing the amount of sale consideration? **(2 Marks)**

CASE STUDY 5

1. Kiramji Ltd. is an unlisted public company, incorporated since 2015, registered under GST in the union territory of Delhi, having seven directors in its board, including one woman director.

Board of Directors of Kiramji Ltd. by a resolution passed at its meeting, decided to borrow a specific loan of ₹ 3 crore from the company's bankers for the purpose of financing construction of its new building.

The following data is extracted from the audited balance sheet of Kiramji Ltd. as on 31.03.2021:

Particulars	(₹ in crore)
Authorised Capital (Equity Shares)	15
Paid – up Share Capital	7
General Reserves	3
Debenture Redemption Reserve	1
Provision for Taxation	0.5
Securities premium	1
Loan (Long Term)	9
Short Term Creditors	1.5

2. Kiramji Ltd. began construction of the new building at an estimated cost of ₹ 8 crore on 1st May, 2021 for which it obtained a specific loan of ₹ 3 crore at an interest rate of 9% per annum.

The company's other outstanding loans were:

Amount	Rate of Interest per annum
₹ 4 crore	12%
₹ 5 crore	10.2%

The expenditure incurred on the construction was:

Particulars	(₹ in lakhs)
May, 2021	200
September, 2021	180
November, 2021	350
February, 2022	130

The construction of building was completed by 28th February, 2022 and was put to use by that date. However, the company capitalized the interest cost related to such building for the month of March also.

3. One of the promoters of the company is Mr. Dishant Kiramji who is also a director and stakeholder in the company. The number of directorships held by Mr. Dishant in different type of companies, including Kiramji Ltd., is as follows:

Type of Company	Number of directorships
Listed Public Company	4
Unlisted Public Company	1
Private Limited Company	8*
Dormant Company	3
Company registered u/s. 8 of the Companies Act, 2013	2

* Two of such companies are associate companies of a listed public company and one such company is a subsidiary of an unlisted public company.

4. Mr. Dishant Kiramji had purchased a house property at Laxmibai Nagar in New Delhi on 01.04.2021 for the purpose of his residence. He had paid interest of ₹ 3,50,000 during the year on the loan sanctioned of ₹ 40,00,000 @ 10% on 01.04.2021 by State Bank of India for purchase of the said house property for ₹ 46 lakhs, the stamp duty of which was ₹ 44 lakhs. On the date of sanction of the said loan to Mr. Dishant, he did not own any residential house property.

Such loan was guaranteed by Kiramji Ltd at the time of sanctioning of loan itself i.e. 01.04.2021. There was also principal repayment towards such loan of ₹ 10,00,000 on 01.10.2021.

Further, the grandfather of Mr. Dishant Kiramji, Mr. Jayesh, had also purchased a house property at Chanakyapuri in New Delhi from his own funds. The municipal value of the property was ₹ 10,00,000, fair rent is ₹ 8,40,000 and standard rent is ₹ 9,60,000. The property was let-out for ₹ 1,00,000 p.m. from 01.04.2021 up to 31.12.2021. Thereafter, the tenant vacated the property. Rent for the months of November and December, 2021, could not be realised in spite of the owner's efforts. He paid municipal taxes @12% during the year.

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

- With reference to Para 3, Mr. Dishant can accept directorships in how many more private limited companies engaged in commercial business actively?
 - 5
 - 7
 - 2
 - 4
- With reference to Para 3, Mr. Dishant can accept directorships in how many more public companies?
 - In four more companies, out of which directorships allowed in case of listed companies will be limited to maximum three.
 - In five more companies, out of which directorships allowed in case of listed companies will be limited to maximum four.
 - In two more companies.
 - In four more companies.
- With reference to Para 4, what formalities were required to be followed by Kiramji Ltd. while providing guarantee for the loan given to Mr. Dishant?
 - Special resolution was required to be passed for the same only if Mr. Dishant was not a managing director or whole time director of the company and also particulars of such guarantee was to be entered in Form MBP-2 by 08.04.2021.
 - Special resolution was required to be passed for the same and also particulars of such guarantee was to be entered in Form MBP-1 by 08.04.2021.
 - Special resolution was required to be passed for the same and also particulars of such guarantee was to be entered in Form MBP-2 by 08.04.2021.
 - Special resolution was required to be passed for the same and also particulars of such guarantee was to be entered in Form MBP-2 by 01.05.2021.
- What shall be the total eligible deduction in respect of interest on housing loan for A.Y. 2022-23, under the provisions of the Income-tax Act, 1961 as discussed under Para 4?
 - ₹ 2,00,000

- (b) ₹ 3,50,000
(c) ₹ 1,50,000
(d) ₹ 30,000
5. What shall be the gross annual value of the house property let out by Mr. Jayesh for A.Y. 2022-23, under the provisions of the Income-tax Act, 1961, assuming all the conditions under Rule 4 are satisfied? Ignore, any alternate view for the same. (Refer Para 4)
- (a) ₹ 9,00,000
(b) ₹ 10,00,000
(c) ₹ 9,60,000
(d) ₹ 7,00,000

Part B- Descriptive Questions

6. (I) Following the provisions of Ind AS 23 'Borrowing Costs', calculate the amount of interest to be capitalized with respect to the new building and pass necessary journal entry for capitalizing the cost and borrowing cost in respect of the building as on 28th February, 2022, had the company properly capitalized the interest cost as per the principles of the relevant statute. (Refer Para 2)
- (5 Marks)**
- (II) By when, Kiramji Ltd. should have ceased capitalizing the interest costs related to the building and how such matter will be qualified in the audit report by the auditor of the company? Describe the manner of making such qualification in the audit report. (Refer Para 2)
- (3 Marks)**
7. Referring Para 4, compute the income from house property of Mr. Dishant and Mr. Jayesh for A.Y. 2022-23, assuming all the conditions under Rule 4 are satisfied. Ignore, any alternate view for the same.
- (7 Marks)**

MOCK TEST PAPER
FINAL COURSE: GROUP – II
PAPER – 6F: MULTIDISCIPLINARY CASE STUDY
SUGGESTED ANSWERS / HINTS

CASE STUDY 1**Part A**

1. (b) ₹ 66,50,000

Reason: Closing balance of investment in KTL at the end of the year -

	₹
Cost of acquisition of investment (including goodwill of ₹ 4 lakhs)	64,00,000
Add: Share in profit of KTL	2,25,000
Add: Share in OCI of KTL	1,00,000
Less: Share in dividend of KTL (₹ 3,00,000 x 25%)	(75,000)
Closing balance of investment	66,50,000

2. (a) Board resolution with unanimous approval would have been passed and there was no requirement to pass special resolution in the GM of the company as the specified limit had not been exceeded.

Reason: As per Section 186 of the Companies Act, 2013, a company is permitted to enter into transactions of giving loan or guarantee or providing security or acquiring of securities (*i.e.* shares, debentures, etc.), in the aggregate, upto 60% of its paid-up share capital (both equity and preference), free reserves and securities premium or 100% of its free reserves and securities premium, whichever is more. **Prior approval is required by a special resolution for exceeding limit.**

Any investment shall be made or loan or guarantee or security given by the company only after when the resolution sanctioning it is passed at a meeting of the Board **with the consent of all the directors present** at the meeting *i.e.* unanimous approval is required.

However, where a loan or guarantee is given or where a security has been provided by a company to its wholly owned subsidiary company or a joint venture company, or acquisition is made by a holding company, by way of subscription, purchase or otherwise of, the securities of its wholly owned subsidiary company, the requirement of passing a special resolution as required by Section 186 (3) shall not apply.

In the given instance, board resolution with unanimous approval would have been passed and there was no requirement to pass special resolution in the GM of Samya Ltd. as the specified limit had not been exceeded, as tabulated below:

Particulars	Samya Ltd. (₹ in lakhs)
Equity Share Capital	350
Less: Unpaid Calls	50
Add: General Reserve	150

Add: Profit & Loss A/c		40
Add: Dividend equalisation reserve		20
Total	(a)	510
60% of (a)	(b)	306
Total free reserves	(c)	210
Higher of (b) & (c)		306
Investment already made + proposed to be made (₹ 280 lakhs + ₹ 20 lakhs)		300

3. (c) ₹ 8 crore

Reason: According to the provisions of Section 180(1)(c) of the Companies Act, 2013, the borrowings should not exceed the aggregate of the paid-up share capital, free reserves and securities premium. While calculating the limit, the temporary loans obtained by the company from its bankers in the ordinary course of business will be excluded.

In the given instance, the aggregate of the paid-up share capital, free reserves and securities premium of PBL is tabulated below:

Particulars	Prag Bhara Ltd. (₹ in lakhs)
Equity Share Capital (Face-value: ₹100/ share)	1200
Less: Unpaid Calls	100
Add: General Reserve	350
Add: Profit & Loss A/c	80
Add: Securities Premium	170
Add: Dividend equalisation reserve	50
Total	<u>1750</u>
Loans already taken (₹ 600 lakhs + ₹ 400 lakhs - ₹ 50 lakhs, as it is a temporary loan)	<u>950</u>
Further borrowings that can be done without passing of special resolution	<u>800</u>

4. (b) 1,75,000 shares

Reason: According to Section 68(2), no company shall purchase its own shares or other specified securities, unless—

- the buy-back is authorised by its articles;
- a special resolution has been passed at a general meeting of the company authorising the buy-back:

However, nothing contained in this clause shall apply to a case where—

- the buy-back is, 10% or less of the total paid-up equity capital and free reserves of the company; and
- such buy-back has been authorised by the Board by means of a resolution passed at its meeting.

In the given instance, the aggregate of the paid-up share capital and free reserves of PBL is tabulated below:

Particulars	Prag Bhara Ltd. (₹ in lakhs)
Equity Share Capital (Face-value: ₹100/ share)	1200
Less: Unpaid Calls	100
Add: General Reserve	350
Add: Profit & Loss A/c	80
Add: Securities Premium	170
Add: Dividend equalisation reserve	50
Total (a)	1750
10% of (a)	175
Maximum shares that can be bought-back without approval by special resolution (₹ 175,00,000 / ₹ 100 per share)	1,75,000 shares

5. (d) ₹ 6,98,880

Reason: As per section 115-QA of the Income Tax Act, 1961, PBL shall pay tax @ 23.296% on the distributed income as follows:

Distributed Income = Buy back price – issue price (including premium) = 1,00,000 shares × (₹ 180 per share - ₹ 150 per share) = ₹ 30,00,000

Tax payable = ₹ 30,00,000 * 23.296% = ₹ 6,98,880

Part B

6. (i) (1) **Goodwill / capital reserve on the date of acquisition**

The cost of the investment is higher than the net fair value of the investee's identifiable assets and liabilities. Hence there is goodwill. Amount of goodwill is calculated as follows:-

	₹
Cost of acquisition of investment	64,00,000
PBL's share in fair value of net assets of KTL on the date of acquisition (₹ 2.4 crore * 25%)	(60,00,000)
Goodwill	4,00,000

Above goodwill will be recorded as part of carrying amount of the investment.

(2) **Share in profit and other comprehensive income of KTL**

	₹
Share in Profit of KTL (₹ 9 lakh x 25%)	2,25,000
Share in OCI of KTL (₹ 4 lakhs x 25%)	1,00,000

(ii) **Following entries would be passed in the books of PBL:**

Particulars	Debit (₹)	Credit (₹)
1) Initial entry to record investment done in associate		
Investment in KTL A/c	64,00,000	

To Bank A/c		64,00,000
2) Recording of share in the profit of the associate		
Investment in KTL A/c	2,25,000	
To Share in profit of investee (P&L)		2,25,000
[PBL share in profit would be ₹ 2,25,000 (₹ 9 lakh x 25%)]		
3) Recording of share in the other comprehensive income (OCI) of the associate		
Investment in KTL A/c	1,00,000	
To Share in OCI of investee (OCI)		1,00,000
[PBL share in OCI would be ₹ 1 lakh (₹ 4 lakhs x 25%)]		
4) Recording of dividend distributed by associate		
Dividend Receivable A/c	75,000	
To Investment in KTL A/c		75,000
[PBL share in dividend would be ₹ 75,000 (₹ 3 lakhs x 25%)]		

7. (i) PBL should record full loss of ₹ 4,00,000 (20,00,000 – 16,00,000) in its books as that would represent the impairment loss because the market value has actually declined. This loss would have been recorded even if PBL would have first impaired the asset and then sold to VPL at zero profit / loss.

Following entry should be passed in the books of PB:

Particulars	Debit (₹)	Credit (₹)
Bank A/c	16,00,000	
Loss on sale of asset A/c	4,00,000	
To Asset A/c		20,00,000

- (ii) (a) In the given instance, cash calls will not be subject to GST since the operating member is not carrying out an activity for another for consideration. Here, the money paid for purchase of machinery is merely in the nature of capital contribution and is therefore a transaction in money.
- (b) GST would have been applicable in the case if the operating member, Samya Ltd. had used its own machinery for oil production, then it would had been amount to providing of 'service' within the scope of 'supply' because here operating member would have been recovering the cost appropriated towards machinery & services from other JV member in the participating interest ratio. [Circular No. 35/9/2018 GST dated 05.03.2018].
8. (i) M/s Tripathi & Associates are unable to obtain sufficient appropriate audit evidence about the financial information of a joint venture investment that represents over 70% of the entity's net assets. The possible effects of this inability to obtain sufficient appropriate audit evidence are both material and pervasive to the consolidated financial statements.
- Therefore, the statutory auditor should issue a disclaimer of opinion.

The relevant extract of the Disclaimer of Opinion Paragraph and Basis for Disclaimer of Opinion paragraph is as under:

Disclaimer of Opinion

We do not express an opinion on the accompanying financial statements of Samya Ltd. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

The Group's investment in its joint venture Vasudhara (P) Ltd. is carried at ₹ 3 crores on the Group's consolidated balance sheet, which represents over 70% of the Group's net assets as at March 31, 2022. We were not allowed access to the management and the auditors of Vasudhara (P) Ltd., including Vasudhara (P) Ltd.'s auditors' audit documentation. As a result, we were unable to determine whether any adjustments were necessary in respect of the Group's proportional share of Vasudhara (P) Ltd.'s assets that it controls jointly, its proportional share of Vasudhara (P) Ltd.'s liabilities for which it is jointly responsible, its proportional share of Vasudhara (P) Ltd.'s income and expenses for the year, (and the elements making up the consolidated statement of changes in equity) and the consolidated cash flow statement.

- (ii) The provisions of the Arbitration and Conciliation Act, 1996 outlines the requirements of a valid arbitration agreement. One of such requirements is clarity of consent i.e. the intention to go to arbitration must be clear in other words there must be consensus ad idem. Utilization of vague words cannot be considered as adequate.

Further the Arbitration and Conciliation Act, 1996 envisages the possibility of an arbitration agreement coming into being through incorporation i.e. arbitration agreement through reference. In other words, parties to an agreement could agree to arbitrate by referring to another contract containing an arbitration agreement.

In the given scenario, it is an arbitration agreement through reference, but the terms and conditions of the said agreement are vague and not clear and therefore the said agreement is not a valid arbitration agreement as the italicized portion in the agreement clearly highlights the need for further agreement between the parties.

Accordingly in the given instance, the parties will not be able to refer the disputes, if any, to arbitration since the terms and conditions of arbitration agreement through reference are vague and not clear and thus the arbitration agreement is not valid in law.

CASE STUDY 2

Part A

1. (b) Yes, the Managing Director cannot be appointed for a term exceeding five years at a time and no re-appointment can be made earlier than one year before the expiry of his term.

Reason: Section 196 of the Companies Act, 2013 contains the provisions for appointment of Managing Director, Whole Time Director or Manager. According to the sub-section (2),

- a. No company shall appoint or re-appoint any person as its managing director, whole-time director or manager for a term exceeding five years at a time.
- b. It is further provided that no re-appointment shall be made earlier than one year before the expiry of his term.

2. (b) Special Notice to Members.

Reason: Section 201 of the Companies Act, 2013 contains provisions which need to be followed for seeking approval from the Central Government if an application is made under Section 196 for the appointment of a person as Managing Director who has attained the age of seventy years but in whose case the appointment could not be regularised by passing a special resolution though votes cast in favour of the motion exceeded the votes cast against the motion. Non-passing of special resolution as before also contravenes Schedule V. Accordingly, for regularizing the appointment the company would apply to the Central Government for approval based on the fact that majority of the shareholders are in favour of such appointment as they find this appointment to be most beneficial to the company. It may be noted that now no approval is required for managerial remuneration in any case.

The process for seeking approval as given in Section 201 and Rule 7 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 is stated as under:

- (i) **Making of Application for Approval:** Every application made to the Central Government under Section 196 shall be in Form No. MR-2 as prescribed by Rule 7 and shall be accompanied by the specified fee. Rule 7 also requires that every such application shall be made to the Central Government within a period of ninety days from the date of such appointment.
- (ii) **General Notice to Members:** Before any application is made by a company to the Central Government under section 196, a general notice to the members of the company shall be issued by or on behalf of the company, indicating the nature of the application proposed to be made.
- (iii) **Publication of Notice:** Such notice shall be published:
- at least once in a newspaper in the principal language of the district in which the registered office of the company is situated and circulating in that district; and
 - at least once in English in an English newspaper circulating in that district.
- (iv) **Attaching of Notice with the Application:** The copies of the notices, together with a certificate by the company as to the due publication thereof, shall be attached to the application.

3. (d) ITC availed in books of account should be reversed for both sets distributed as gifts and sets stolen since no tax is paid on outward supply.

Reason: Clause (h) of section 17(5) of CGST Act provides that ITC in respect of goods that are disposed of by way of gift or free samples is not available. Also, ITC is blocked on lost goods, stolen goods, destroyed goods and goods that are written off. This is because principally, ITC is available only for payment of tax on output supply. If no tax is payable on output supply, ITC on inputs/input services/capital goods relating to such output supply is not eligible. Hence, ITC on gifts and free samples is blocked as no tax is payable on its outward supply. In case of lost/destroyed/stolen written off goods also, ITC is not available as these goods cannot be said to have been used for making a taxable supply.

4. (c) If transport and other infrastructure facilities are not adequately available.

Reason: A firm generally decides to outsource:

- If it costs less rather than to manufacture it internally;
- If the return on the necessary investment to be made to manufacture is not attractive enough;
- If the company does not have the requisite skilled manpower to make;

- If the concern feels that manufacturing internally will mean additional labour problem;
- If adequate managerial manpower is not available to take charge of the extra work of manufacturing;
- If the component shows much seasonal demand resulting in a considerable risk of maintaining inventories;
- If transport and other infrastructure facilities are adequately available;
- If the process of making is confidential or patented;
- If there is risk of technological obsolescence for the component such that it does not encourage capital investment in the component.

5. (a) Fixed and variable activities.

Reason: Activity Based CVP Analysis- CVP analysis would indicate how many units need to be sold, such that the contribution can cover such fixed expenses (overheads) to arrive at the break- even point. This approach would be accurate as long as majority of the activities have costs as the volume driver. In such cases, the critical activity level for break-even can be clearly identified. However, there are certain activities that are not related to volume of production at all. They occur irrespective of volume of production. Such activities can be identified using the activity-based costing approach. Analysis of an organization's activities based on activity-based costing method can be broadly classified into:

- (i) Unit level (output) activities: Activities performed each time a product is manufactured. As explained above, this varies in direct proportion to the volume of production. The *cost driver* would be the production volume.
- (ii) Batch-level activities: Certain activities are done for "a batch of production" rather than for "a unit volume of output". Examples are set-up activities or processing purchase orders (material procurement). An example of setup in a manufacturing context is changing machine specifications to meet product specifications.
- (iii) Product sustaining activities: These are activities performed to support production or sale of a specific type of product. Examples of such activities would be designing a product, designing production processes, drawing process charts, maintaining product specifications, developing special testing routines or technical enhancements (engineering change orders) or advertising for a particular product.
- (iv) Facilities level activities: Activities performed for the general operations of business. They cannot be traced to any particular product. Examples include depreciation of factory building or the rent paid on it, insurance on the building, costs of training employees etc.

Part B

6. Computation of ITC available with HappyHomes Ltd. for the month of April:

Particulars	ITC (₹)
Life Insurance premium paid by the company on the life of factory employees [Note 1]	Nil
Raw materials purchased [Note 2]	Nil
Trucks purchased for delivery of output goods [Note 3]	80,000
Work contractor's service [Note 4]	40,000
Capital goods purchased in respect of which depreciation is claimed on the tax component [Note 5]	Nil
Goods sent to job worker's premises [Note 6]	-

Total ITC available	1,20,000
----------------------------	-----------------

Notes:

- (1) ITC on life insurance service is available only when it is obligatory for an employer to provide said services to its employees under any law for the time being in force. Since it is not obligatory for the employer in the instant case and thus, the ITC thereon is blocked [Second proviso to section 17(5)(b)].
- (2) ITC cannot be taken since invoice is missing and delivery challan is not a valid document to avail ITC [Section 16(2)(a)].
- (3) Section 17(5)(a) blocks ITC in respect of only those motor vehicles which are used for transportation of persons albeit with certain exceptions. Thus, ITC on motor vehicles used for transportation of goods is allowed.
- (4) ITC is blocked on works contract services when supplied for construction of an immovable property. However, "construction" includes only that repairs which are capitalized along with the said immovable property.

In this case, since repairs of building is debited to P & L Account, the same does not amount to 'construction' and hence ITC thereon is available [Section 17(5)(c)].

- (5) ITC is not available when depreciation has been claimed on the tax component of the cost of capital goods under the Income-tax Act [Section 16(3)].
- (6) The principal is entitled to take ITC of inputs sent for job work even if the said inputs are directly sent to job worker. However, where said inputs are not received back by the principal within a period of 1 year of the date of receipt of inputs by the job worker, it shall be deemed that such inputs had been supplied by the principal to the job worker on the day when the said inputs were received by the job worker [Sub-sections (2) and (3) of section 19].

Hence, the ITC taken by HappyHomes Ltd. in the month of September last year is valid and since one year period has yet not lapsed in April, there will be no tax liability on such inputs.

7. The managerial remuneration shall be computed in accordance with the provisions laid down in section 198 of the Companies Act 2013.

Particulars	Amount (₹)
Net profit	18,00,000
Less: Capital profits on sale of building (Note 1)	2,00,000
Salaries & Wages (Note 2)	-
Sundry repairs to fixed Assets (Note 2)	-
Subsidy from the government (Note 3)	-
Compensation from breach of contract (Note 2)	-
Depreciation (Note 2)	-
Interest on unsecured loans (Note 2)	-
Interest on debentures (Note 2)	-
Add: Repair expenses to fixed assets (Capital in Nature) (Note 5)	5,00,000
Loss on Sale of long-term Investments (Note 4)	4,00,000
Net profits as per section 198	25,00,000

Therefore, the overall maximum managerial remuneration shall be 11% of the Net profits computed in accordance with section 198 i.e. $11\% \times 25,00,000 = ₹ 2,75,000$.

Notes:

1. As per section 198(3), credit shall not be given for profits from the sale of any immovable property or fixed assets of a capital nature comprised in the undertaking or any of the undertakings of the company, unless the business of the company consists, whether wholly or partly, of buying and selling any such property or assets; provided that where the amount for which any fixed asset is sold exceeds the written-down value thereof, credit shall be given for so much of the excess as is not higher than the difference between the original cost of that fixed asset and its written-down value.

Accordingly, the calculation of capital profit is computed as under:

Profit = Selling Price – Written down value

6,00,000 = Selling Price – 6,00,000.

Therefore, Selling Price = 12,00,000.

Capital profit = 12,00,000 – 10,00,000 (original cost) = 2,00,000

2. According to section 198 (4), the following sums shall be deducted:
 - a. All the usual working charges – salaries and wages are considered as usual working charges.
 - b. Expenses on repairs, whether to immovable or to movable property, provided the repairs are not of a capital nature.
 - c. Any compensation or damages to be paid in virtue of any legal liability including a liability arising from a breach of contract.
 - d. Interest on debentures issued by the company.
 - e. Interest on unsecured loans and advances.
 - f. Depreciation to the extent specified in section 123.

Since all of the above charges are already deducted while arriving at net profit, no effect will be given.

3. According to section 198 (1), credit shall be given for bounties and subsidies received from any government, or any public authority constituted or authorised in this behalf, by any government, unless and except in so far as the Central Government otherwise directs.
4. According to section 198(5), Loss of a capital nature including loss on sale of the undertaking or any of the undertakings of the company or any part thereof shall not be deducted. In the given question, the said investments are long term investments and capital in nature and accordingly added back to net profit as it is already deducted while arriving at net profit.
5. According to section 198(4), expenses on repairs, whether to immovable or to movable property is deducted only for repairs which are not capital in nature. Accordingly, we have added back to the net profit.

CASE STUDY 3

Part A

1. (b) ₹ 4 lakhs, due to which an ordinary resolution would have been required to be passed.

Reason: Section 181 of the Companies Act, 2013, applicable to both public and **private companies**, empowers the Board of Directors to contribute to bona fide charitable and other funds up to a particular limit which if exceeded needs to be permitted by company **through passing an ordinary resolution.**

Limit on contribution by the Board of Directors: The Board is empowered to contribute any amount in any financial year if the aggregate amount of such contribution **does not exceed five per cent of the average net profits of the company for the three immediately preceding financial years.**

Where the above limit is exceeded: In case the aggregate contribution amount in any financial year is beyond the limit specified for the Board, prior permission of the company in general meeting shall be required for such contribution.

Here, the average net profits of Jas Jagish Ltd. during the preceding 3 financial years was ₹ 4 crore and it donated a sum of ₹ 24 lakhs i.e. it donated in excess ₹ 4 lakhs [(4 crore*5%) – 24 lakhs], due to which an ordinary resolution would have been required to be passed.

2. (a) No, the answer will remain the same and Mr. Sameer was not required to take any permission for holding such position in the trust.

Reason: Section 181 of the Companies Act, 2013, applicable to both public and private companies, so, the answer will remain the same as aforesaid

Permission granted generally: Members of the Institute in practice be generally permitted to engage in the certain categories of occupations, for which no specific permission from the Council would be necessary in individual cases.

One such category prescribed is honorary office leadership of charitable-educational or other non-commercial organisations. Accordingly, Mr. Sameer was not required to take any permission for holding such position in the trust.

3. (a) Yes, provided GoDaddy Inc. also provide such services to non-registered persons in India.

Reason: As per section 24(11) of the CGST Act, every person supplying online information and data base access or retrieval (OIDAR) services from a place outside India to a person in India, other than a registered person would be required to take GST registration in India.

GoDaddy Inc., a USA based, company provides web-hosting services in India i.e. online information and data base access or retrieval (OIDAR) services. It would be required to take GST registration only if it provides such services to non-registered persons in India as well.

4. (c) No, as his partner is an employee of the said trust.

Reason: The Council of the ICAI has decided not to permit a Chartered Accountant in employment to certify the financial statements of the concern in which he is employed, or of a concern under the same management as the concern in which he is employed, even though he holds certificate of practice and that such certification can be done by any Chartered Accountant in practice. This restriction would not however apply where the certification is permitted by any law. **The Council has also decided that a Chartered Accountant should not by himself or in his firm name:**

- a. accept the Auditorship of a college, if he is working as a part-time lecturer in the college.
- b. **accept the Auditorship of a Trust where his partner is either an employee or a trustee of the Trust.**

5. (b) No, it was prohibited to accept such donation.

Reason: The electoral trust shall not accept contributions from a foreign source as defined in section 2(j) of the Foreign Contribution (Regulation) Act, 2010.

Foreign Source [Section 2(1)(j)]

Foreign Source includes— a company within the meaning of the Companies Act, 1956 (presently, the Companies Act, 2013) and more than one-half of the nominal value of its share capital is held, by a Foreign company.

Here, 53% shares of Nishalya Ltd. are held by Trium Inc., a USA based company and so it is a foreign source and accordingly the electoral trust was prohibited from accepting donation from it.

Part B

6. **Current tax**= Taxable profit x Tax rate = ₹ 2.08 crore x 25% = ₹ 52 lakhs

Computation of Taxable Profit:

		₹ in lakhs	
Accounting profit		200	
Add: Donation not deductible		16	
Less: Excess Depreciation (12-4)		(8)	
Total Taxable profit		208	
		₹ in lakhs	₹ in lakhs
Profit & loss A/c	Dr.	52	
	To Current Tax		52

Deferred tax:

Machine's carrying amount according to Ind AS = ₹ 236 lakhs (₹ 240 lakhs – ₹ 4 lakhs)

Machine's carrying amount for taxation purpose = ₹ 228 lakhs (₹ 240 lakhs – ₹ 12 lakhs)

Deferred Tax Liability = ₹ 8 lakhs x 25%

		₹ in lakhs	
Profit & loss A/c	Dr.	2	
	To Deferred Tax Liability		2

Tax reconciliation in absolute numbers:

		₹ in lakhs
Profit before tax according to Ind AS		200
Applicable tax rate @ 25%		
Tax		50
Expenses not deductible for tax purposes (₹ 16 lakhs x 25%)		4
Tax expense (Current and deferred)		54

Tax rate reconciliation:

Applicable tax rate	25%
Expenses not deductible for tax purposes	2%
Average effective tax rate	27%

7. (i) **Computation of taxable income of public charitable trust**

Particulars	(₹ in lakhs)
(i) Income from properties held by trust (net)	40
(ii) Voluntary contributions received	40
(iii) Voluntary contributions received with a specific direction that such donation shall form part of the corpus of the trust (See note below)	40
	120
Less: 15% of income eligible for retention / accumulation without any conditions	(18)
	102
Less: Amount applied for the objects of the trust	95
Taxable Income	7

Note: As per section 11(1)(d), voluntary contributions made with a specific direction that they shall form part of the corpus of the trust is an exempted income. However, with effect from A.Y. 2022-23, in order to avail the exemption, such corpus donations should be invested or deposited by the trust in one or more of the forms or modes specified in section 11(5). Since the trust has not invested the corpus donation of ₹ 40 lakhs in the specified mode, the same will be taxable under section 11(1)(a).

(ii) **Applicability of Accounting Standards to Charitable and/or Religious Organisations –**

The Preface to the Statements of Accounting Standards states: “The Institute will issue Accounting Standards for use in the presentation of the general purpose financial statements issued to the public by such commercial, industrial or business enterprises as may be specified by the Institute from time to time and subject to the attest function of its members”.

The reference to commercial, industrial or business enterprises in the aforesaid paragraph is in the context of the nature of activities carried on by an enterprise rather than with reference to its objects. It is quite possible that an enterprise has charitable objects but it carries on, either wholly or in part, activities of a commercial, industrial or business nature in furtherance of its objects. The Board believes that Accounting Standards apply in respect of commercial, industrial or business activities of any enterprise, irrespective of whether it is profit oriented or is established for charitable or religious purposes. Accounting Standards will not, however, apply to those activities which are not of a commercial, industrial or business nature. (e.g. an activity of collecting donations and giving them to flood affected people).

It is also clarified that exclusion of an entity from the applicability of the Accounting Standards would be permissible only if no part of the activity of such entity was commercial, industrial or business in nature. For the removal of doubts, it is clarified that even if a very small proportion of the activities of an entity were considered to be commercial, industrial or business in nature, then it could not claim exemption from the application of Accounting Standards. The Accounting standards would apply to all its activities including those which were not commercial, industrial or business in nature.

8. Computation of net GST liability of Supatra Foundation for March, 2021

Particulars	Note	(₹)
Amount received for renting of commercial property owned by the trust	1	80,000
Fees received for a badminton training camp organized for 2 weeks for children under 18 years	2	Exempt
Educational programme organized for persons under the age of 65 years residing in a rural area	3	30,000
<u>Value of Taxable Supply</u>		1,10,000
GST payable @ 18% on forward charge basis		19,800
Less: ITC		(19,800)
Net GST payable		Nil
<u>Services to be taxed on reverse charge basis</u>		
Consultancy services received for purpose of providing charitable activities from a firm based in Germany	4	Exempt
Web-hosting services received from GoDaddy Inc., a USA based company	5	20,000
GST payable @ 18% on reverse charge basis i.e. GST payable in cash		3,600

Notes:

- Rent of commercial property owned by trust is liable to GST.
- As per Entry 80 of Notification No. 12/2017-CT (Rate), such services are exempt.
- Taxable, as not covered by Entry 66 of Notification No. 12/2017-CT (Rate), as educational programme organized for persons **over** the age of 65 years residing in a rural area is exempt.
- As per Entry 10 of Notification No. 9/2017-IT (Rate), such import of services is exempt.
- Web-hosting services amount to online information and database access or retrieval services as per section 2(17) of the IGST Act, 2017 and are taxable on reverse charge basis as Supatra Foundation is not a non-taxable online recipient.

Also, such services are not exempt as per Entry 10 of Notification No. 9/2017-IT (Rate).

CASE STUDY 4

Part A

- (b) Yes, the partners of M N Shah & Co., will accept CA Bhavesh as an Auditor Partner as they would continue to be qualified to undertake the Audit of all in Option Ltd., because his brother holds the shares of the mentioned Company whose face value is less than the exempted limit.

Reason: Under sub-section (3) of section 141 along with Rule 10 of the Companies (Audit and Auditor) Rules, 2014, the following person shall not be eligible for appointment as an auditor of a company-

a person who, or his relative or partner is holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company.

It may be noted that the relative may hold security or interest in the company of face value not exceeding rupees one lakh.

It may also be noted that the condition of rupees one lakh shall, wherever relevant, be also applicable in the case of a company not having share capital or other securities:

In the event of acquiring any security or interest by a relative, above the threshold prescribed, the corrective action to maintain the limits as specified above shall be taken by the auditor within 60 days of such acquisition or interest.

In the given case, face value of shares is only ₹ 90,000 which is less than ₹ 1,00,000.

2. (c) Risk Identification/ Risk Assessment

Reason: Risk assessment assesses the level of risk in the various business processes. Risk assessment focuses on the business environment, regulatory environment, organization structure, organizational and business environmental changes and specific concerns of management and the audit committee to determine the areas of greatest risk.

Risk identification is the process of identifying and assessing threats to an organization, its operations, and its workforce.

3. (a) Inherent Risk

Reason: The major components of audit risk are described in the Table below-

Nature	Description	Commentary
Inherent Risk	<p>Susceptibility of an assertion to a misstatement that could be material, individually or when aggregated with other Mis-statements, assuming that there are no related controls.</p> <p>Inherent risk is addressed at both the financial statement level and at the assertion level.</p> <p>For example, technological developments might make a particular product obsolete, thereby causing inventory to be more susceptible to overstatement.</p>	<p>These are the business and other risks that arise from the entity's objectives, nature of operations and industry, the regulatory environment in which it operates and its size and complexity.</p> <p>The risks of material misstatement will vary based on the nature of the account balance or class of transaction.</p> <p>Risks of particular concern to the auditor might include:</p> <ul style="list-style-type: none"> • Complex calculations which could be misstated; • High value inventory; • Accounting estimates that are subject to significant measurement uncertainty; • Lack of sufficient working capital to continue operations; • A declining or volatile industry with many business failures; and • Technological developments that might make a particular product obsolete.

4. (c) Yes, the Company is mandatorily required to appoint Internal Auditor as Total Outstanding Loans from Banks during the previous year exceeds the exempted limit.

Reason: As per section 138 of the Companies Act, 2013, following class of companies (prescribed in rule 13 of Companies (Accounts) Rules, 2014) shall be required to appoint an internal auditor which may be either an individual or a partnership firm or a body corporate, namely-

- (a) every listed company;
- (b) every unlisted public company having- paid up share capital of 50 crore rupees or more during the preceding financial year; or turnover of 200 crore rupees or more during the preceding financial year; or outstanding loans or borrowings from banks or public financial institutions exceeding 100 crore rupees or more at any point of time during the preceding financial year; or outstanding deposits of 25 crore rupees or more at any point of time during the preceding financial year; and
- (c) every private company having- turnover of 200 crore rupees or more during the preceding financial year; or outstanding loans or borrowings from banks or public financial institutions exceeding 100 crore rupees or more at any point of time during the preceding financial year.

5. (d) Review of Internal Control System & Procedures.

Reason: The scope of internal auditor's work should include a review of-

Internal Control System & Procedures
Custodianship & Safeguarding of Assets
Compliance with Policies, Plans, Procedures & Regulations
Relevance & Reliability of Information
Organisational Structure
Utilisation of Resources
Accomplishment of Goals & Objectives

Review of Internal Control System and Procedures - The review of internal control system and procedures involves assessing the design and operational efficiency and effectiveness of the internal control system to strengthen the overall internal control environment of the entity. The objective to review is to minimise the overall internal audit risk, i.e., the inherent risk, control risk and detection risk.

Review of three-way matching internal control involves matching of Purchase Orders, Goods Receipt Notes and Invoice to ensure all the ordered quantity of the intended goods have been received and invoiced accordingly. The failure of this internal control may involve over-invoicing, over-payment, non-receipt, or under-receipt of goods.

As far as possible, controls should be in-built in the operating functions, if they are to be cost-effective.

The establishment of a separate credit control department would not be justified if the objective of reducing credit risk and minimising debt recovery period could be met through controls in-built in the accounting and sales systems, especially in smaller and medium- sized concerns.

Internal Control System should be reviewed considering the limitations of internal controls, i.e., cost-benefit comparison, human errors, collusion, and abuse by process owners.

Collusion of payment authorizer and payment maker to overpay a related party; those charged with governance themselves overriding the internal controls with *malafide* intention, etc.

Part B

6. (a) Investment property is held to earn rentals or for capital appreciation or both. IND AS 40 shall be applied in the recognition, measurement and disclosure of investment property. An investment property shall be measured initially at its cost. After initial recognition, an entity shall

measure all of its investment properties in accordance with IND AS 16's requirements for cost model.

The measurement and disclosure of Investment property as per IND AS 40 in the Balance Sheet would be depicted as follows:

Particulars	Period ended 31st March, 2022 (₹ in crores)
Gross Amount:	
Opening balance (A)	15.00
Additions during the year (B)	4.00
Closing balance (C) = (A) + (B)	19.00
Depreciation:	
Opening balance (D)	3.75
Depreciation during the year (E) (0.75 + 0.10)	0.85
Closing balance (F) = (D) + (E)	4.60
Net balance (C) - (F)	14.40

The changes in the carrying value of investment properties for the year ended 31st March, 2022 are as follows:

Amount recognized in Profit and Loss with respect to Investment Properties:

Particulars	Period ending 31st March, 2022 (₹ in crores)
Rental income from investment properties (1.00 + 0.50)	1.50
Less: Direct operating expenses generating rental income (10+2.50+3+3+2.50+2.25)	(0.23)
Profit from investment properties before depreciation and indirect expenses	1.27
Less: Depreciation	(0.85)
Profit from earnings from investment properties before indirect expenses	0.42

Disclosure Note on Investment Properties acquired by the entity:

The investment properties consists of Property A and Property B. As at March 31, 2022, the fair value of the properties is ₹ 15.00 crores. The valuation is performed by independent valuers, who are specialists in valuing investment properties. A valuation model as recommended by International Valuation Standards Committee has been applied. The Company considers factors like management intention, terms of rental agreements, area leased out, and life of the assets etc. to determine classification of assets as investment properties.

The Company has no restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

Description of valuation techniques used and key inputs to valuation on investment properties:

Valuation technique	Significant unobservable inputs	Range (Weighted average)
Discounted cash flow (DCF) method	Estimated rental value per sq. ft. per month Rent growth per annum Discount rate	₹ 50 to ₹ 60 10% every 3 years 12% to 13%

(b) As on 31.03.2022

As at 31st March, 2022, Kundan Gems Pvt. Ltd. must transfer the property from investment property to property, plant and equipment since there is a change in use of the said building.

The transfer should be made at its carrying amount of Building A i.e., ₹ 10.50 Crores calculated as below:

Particulars	Amount (₹' Crores)
Cost of Building A	15.00
Less : Depreciation up-to FY 2021-22	4.50
Net Carrying Value	10.50

Since recoverable amount of the property as on 31st March, 2022 is ₹ 10.00 Crores, impairment loss ₹ 50.00 Lacs should be recognized in the Statement of Profit and Loss. So, the carrying amount of Investment property at 31st March,2022 would be ₹ 10.00 Crores.

The entity must disclose the reclassification.

From April, 2022, Kundan Gems Pvt. Ltd. will depreciate the building over its remaining useful life of 14 years.

7. (a) As per section 50B, any profits and gains arising from the slump sale effected in the previous year shall be chargeable to income-tax as capital gains arising from the transfer of capital assets and shall be deemed to be the income of the previous year in which the transfer took place.

If the assessee owned and held the undertaking transferred under slump sale for more than 36 months before slump sale, the capital gain shall be deemed to be long-term capital gain. Indexation benefit is not available in case of slump sale as per section 50B(2).

Ascertainment of tax liability of Sensque Technologies Pvt. Ltd. from slump sale of Software unit

Particulars	Amount (₹' lacs)
Full value of consideration for slump sale of Software Unit	770
Less: Cost of acquisition, being the net worth of Software Unit	370
Long term capital gains arising on slump sale	400
(The capital gains is long-term as the Software Unit is held for more than 36 months)	
Tax liability on LTCC	
Under section 112 @ 20% on ₹ 400 lacs	80.00
Add: Surcharge@ 7%	5.60
	85.60
Add: Health and Education cess@4%	3.424
	89.024

Working Note: Computation of net worth of Software Unit

	Amount (₹' lacs)
(1) Book value of non-depreciable assets	
(i) Land (Revaluation not to be considered)	80
(ii) Debtors	220
(iii) Inventories	70
(2) Written down value of depreciable assets under section 43(6) (See Note below)	180
Aggregate value of total assets	550
Less: Current liabilities of Software unit	180
Net worth of software unit	370

Note: For computing net worth, the aggregate value of total assets in the case of depreciable assets shall be the written down value of the block of assets as per section 43(6).

(b) Tax advice

Transfer of any capital asset by a holding company to its 100% Indian subsidiary company is exempt from capital gains under section 47(iv). Hence, the Company should try to acquire the remaining 26% equity shares in S Limited then make the slump sale in the above said manner, in which case the slump sale shall be exempt from tax. For this exemption, the Company will have to keep such 100% holding in S Limited for a period of 8 years from the date of slump sale, otherwise the amount exempt would be deemed to be income chargeable under the head "Capital Gains" of the previous year in which such transfer took place.

Alternatively, if acquisition of 26% share is not feasible, Sensque Technologies Pvt. Ltd. may think about demerger plan of Software Unit to get benefit of section 47(vib) of the Income-tax Act, 1961.

CASE STUDY 5**Part A****1. (b) 7**

Reason: As per Regulation 17A of the SEBI (LODR), a person cannot be a director in more than 7 listed entities.

According to Section 165(1) of the Companies Act, 2013, a person shall not hold office as director, including any alternate directorship, in more than 20 companies at the same time.

Further, out of the above limit of 20 companies, the maximum number of public companies in which a person can be appointed as a director shall not exceed 10.

It may be noted that the limit of public companies (i.e. 10) shall include directorship in private companies that are either holding or subsidiary company of a public company.

However, the limit of directorships of 20 companies shall not include the directorship in a dormant company; as also in a Section 8 company.

In the given case,

Type of Company	To count	Number of directorships
Listed Public Company	Yes	4
Unlisted Public Company	Yes	1
Private Limited Company	Yes	8
Dormant Company	No	-
Company registered u/s. 8 of the Companies Act, 2013	No	-
Total		13
Mr. Dishant can accept directorships in how many more private limited companies engaged exclusively in commercial business actively? (20-13)		7

2. (d) In four more companies.

Reason: As per Regulation 17A of the SEBI (LODR), a person cannot be a director in more than 7 listed entities.

According to Section 165(1) of the Companies Act, 2013, a person shall not hold office as director, including any alternate directorship, in more than 20 companies at the same time.

Further, out of the above limit of 20 companies, the maximum number of public companies in which a person can be appointed as a director shall not exceed 10.

It may be noted that the limit of public companies (i.e. 10) shall include directorship in private companies that are either holding or subsidiary company of a public company.

However, the limit of directorships of 20 companies shall not include the directorship in a dormant company; as also in a Section 8 company.

In the given case,

Type of Company	To count	Number of directorships
Listed Public Company	Yes	4
Unlisted Public Company	Yes	1
Private Limited Company which is subsidiary of an Unlisted Public Company	Yes	1
Private Limited Company	No	-
Dormant Company	No	-
Company registered u/s. 8 of the Companies Act, 2013	No	-
Total		6
Mr. Dishant can accept directorships in how many more public companies? (10-6)		In four more companies, out of which directorships allowed in case of listed companies will be limited to maximum three as Regulation 17A as aforesaid.

3. (c) Special resolution was required to be passed for the same and also particulars of such guarantee was to be entered in Form MBP-2 by 08.04.2021.

Reason: As per provisions of the Companies Act, 2013, every company shall, from the date of its incorporation maintain a register in Form MBP 2 and enter the particulars of loans and guarantees given, securities provided and acquisitions made. The entries in the register shall be made chronologically in respect of each such transaction within 7 days of making loan or giving guarantee or providing security or making acquisition

Here, guarantee is provided on 01.04.2021, **so particulars of such guarantee was to be entered in Form MBP-2 by 08.04.2021.**

Further, as per section 185 of the Companies Act, 2013, a company can provide guarantee in respect of loan sanctioned to its director provided a **special resolution** is passed in this regard

4. (b) ₹ 3,50,000

Reason: In this case, provisions of section 24(b) and section 80EEA of the Income-tax Act, 1961, respectively, are attracted.

Particulars	(₹)
Interest deduction for A.Y. 2022-23	
(i) Deduction allowable while computing income under the head "Income from house property" Deduction under section 24(b) ₹ 3,50,000, restricted to	2,00,000
(ii) Deduction under Chapter VI-A from Gross Total Income Deduction under section 80EEA ₹ 1,50,000 (₹ 3,50,000 – ₹ 2,00,000), restricted to	1,50,000
Total eligible deduction	3,50,000

Note: Interest payable during F.Y. 2021-22 was ₹ 3,50,000 i.e. ₹ 40,00,000 @ 10% p.a. for 6 months and ₹ 30,00,000 @ 10% p.a. for 6 months, as ₹ 10,00,000 principal repayment was made on 01.10.2021.

5. (d) ₹ 7,00,000

Reason:

Particulars	Amount in ₹	
Computation of GAV		
Step 1 Compute ER ER = Higher of MV of ₹ 10,00,000 p.a. and FR of ₹ 8,40,000 p.a., but restricted to SR of ₹ 9,60,000 p.a.	9,60,000	
Step 2 Compute Actual rent received/ receivable Actual rent received/ receivable for let out period less unrealized rent as per Rule 4 = ₹ 9,00,000 - ₹ 2,00,000	7,00,000	
Step 3 Compare ER and Actual rent received/ receivable		

Step 4	In this case the actual rent of ₹ 7,00,000 is lower than ER of ₹ 9,60,000 owing to vacancy, since, had the property not been vacant the actual rent would have been ₹ 10,00,000 (₹ 7,00,000 + ₹ 3,00,000, being notional rent for January, February and March,2022). Therefore, actual rent is the GAV.	7,00,000	
Gross Annual Value (GAV)			7,00,000

Part B

6. (I) (i) **Calculation of capitalization rate on borrowings other than specific borrowings:-**

Amount of loan (₹ in lakhs) (a)	Rate of interest (b)	Amount of interest (₹ in lakhs) (a×b)
400	12%	48
500	10.20%	51
<u>900</u>		<u>99</u>
Weighted average rate of interest = (99 L / 900 L) * 100		<u>11%</u>

(ii) **Computation of borrowing cost to be capitalized for specific borrowings and general borrowings based on weighted average accumulated expenses:-**

Date of incurrence of expenditure	Amount spent (₹ in lakhs)	Financed through Calculation	Calculation (₹ in lakhs)	(₹ in lakhs)
1st May, 2021	200	Specific borrowing	$200 \times 9\% \times 10/12$	15
1st September, 2021	180	Specific borrowing	$100 \times 9\% \times 10/12$	7.5
		General borrowing	$80 \times 11\% \times 6/12$	4.4
1st November, 2021	350	General borrowing	$350 \times 11\% \times 4/12$	12.8333
1st February, 2022	130	General borrowing	$130 \times 11\% \times 1/12$	11.9167
				<u>51.65</u>

Note: Since construction of building started on 1st May, 2021, it is presumed that all the later expenditures on construction of building had been incurred at the beginning of the respective month.

(iii) **Total expenses to be capitalized for building:-**

Particulars	(₹ in lakhs)
Cost of building ₹ (200L + 180L + 350L + 130L)	860
Add: Amount of interest to be capitalized	51.65
	<u>911.65</u>

(iv) **Journal Entry:-**

Date	Particulars	(₹ in lakhs)	(₹ in lakhs)
28.02.2022	Building account Dr. To Bank account To Interest payable (Being expenditure incurred on construction of building and borrowing cost thereon capitalized)	911.65	860 51.65

Note: In the above journal entry, it is assumed that interest amount will be paid at the year end. Hence, entry for interest payable has been passed on 28.02.2022.

- (II) **As per Ind-AS 23, 'Borrowing Costs'**, capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

An asset is normally ready for its intended use or sale when the physical construction of the asset is complete even though routine administrative work might still continue. If minor modifications, such as the decoration of a property to the purchaser's or user's specification, are all that are outstanding, this indicates that substantially all the activities are complete.

In the given case, the construction of building was completed by 28th February, 2022. Accordingly, Kiramji Ltd. should have capitalized borrowing costs only up to 28th February, 2022 as per the principles as aforesaid.

Manner of qualification in the audit report

"The statement of profit and loss and balance sheet comply with the accounting standards referred to in Section 133 of the Companies Act, 2013, except Indian Accounting Standard (Ind-AS) 23, 'Borrowing Costs', as interest payable on borrowings related to the acquisition of fixed assets has been capitalized for the period after which the asset was ready for its intended use. Consequently, the total comprehensive income for the year, the non-current assets and the other equity have been overstated by ₹ each as compared to the position which would have prevailed if the company had complied with the requirements of Ind-AS 23.

Subject to the above, we report that"

7. Computation of income from house property of Mr. Dishant for A.Y. 2022-23

Particulars	Amount (₹)
Annual Value of house used for self-occupation under section 23(2)	Nil
Less: Deduction under section 24 Interest on borrowed capital	
Interest on loan was taken for purchase of house on or after 1.4.99 - interest paid or payable subject to a maximum of ₹ 2,00,000 will be allowed as deduction.	2,00,000
Loss from house property	(2,00,000)

Computation of income from house property of Mr. Jayesh for A.Y. 2022-23

Particulars	Amount in ₹
Computation of GAV	
Step 1 Compute ER	
ER = Higher of MV of ₹ 10,00,000 p.a. and FR of	9,60,000

	₹ 8,40,000 p.a., but restricted to SR of ₹ 9,60,000 p.a.		
Step 2	Compute Actual rent received/ receivable Actual rent received/ receivable for let out period less unrealized rent as per Rule 4 = ₹ 9,00,000 - ₹ 2,00,000	7,00,000	
Step 3	Compare ER and Actual rent received/ receivable		
Step 4	In this case the actual rent of ₹ 7,00,000 is lower than ER of ₹ 9,60,000 owing to vacancy, since, had the property not been vacant the actual rent would have been ₹ 10,00,000 (₹ 7,00,000 + ₹ 3,00,000, being notional rent for January, February and March,2022). Therefore, actual rent is the GAV.	7,00,000	
	Gross Annual Value (GAV)		7,00,000
	<i>Less:</i> Municipal taxes (paid by the owner during the previous year) = 12% of ₹ 10,00,000		1,20,000
	Net Annual Value (NAV)		5,80,000
	<i>Less:</i> Deductions under section 24 30% of NAV = 30% of ₹ 5,80,000	1,74,000	1,74,000
	Income from house property		4,06,000

MOCK TEST PAPER
FINAL (NEW) COURSE: GROUP – II
PAPER – 6F: MULTIDISCIPLINARY CASE STUDY

*Attempt any **four** out of **five** case study based questions.*

Each Case Study carries 25 Marks.

Time Allowed – 4 Hours

Maximum Marks – 100

CASE STUDY 1

The Firm “Gautam Agrawal & Associates” was set up in the year 1985 by CA. Gautam Agrawal who has more than 35 years of experience in the profession.

The Firm strives best to bestow quality services in the area of Audit, Investigation, Due Diligence, Accounting, Reporting as per IndAS, Taxation (Direct & Indirect), Company Law Matters for both domestic and foreign companies, Management Consultancy, Information Systems Audit and FEMA. The Firm is well-balanced and has a robust team including Chartered Accountants, Company Secretaries and semi qualified personnel which furthermore include Article clerks.

The partners of the Firm having specialized knowledge and experience head each service department. They share their knowledge and practical experience with the team members to ensure effective and timely redressal of issues arising on routine basis or that can arise later. This will succor the clients in the best possible manner with cost optimization.

The Firm makes optimum utilization of their man-power resources for their broad spectrum of clientele. There are 5 partners in the Firm, CA. Gautam Agrawal, CA. Manish Agrawal, CA. Sudhir Joshi, CA. Jayesh Talati and CA. Rakesh Patel. The Firm has many Articled Trainees as well as other senior Assistants who are directly assisting the main Partners in their respective departments. They are otherwise called the ‘MAN FRIDAY’!

1. CA. Gautam Agrawal with his Senior Assistant paves the way with respect to Financial Reporting under IndAS.

Amid the eminent clients of the Firm, Goyal Textiles Ltd. is a distinct one. Leading the premium cotton shirting fabrics and the high street fashion printed fabrics; Goyal Textiles Ltd. is the global rulers of the industry. Goyal Textiles Ltd. recently undertook a backward integration project to integrate the manufacturing processes and to reduce dependence on vendors of yarn and weaved fabric. The expansion project is intended to replace the outsourcing of raw materials (yarn and fabric) and enable the company to achieve higher levels of integration of spinning, weaving and printing activities and thereby improve the margins. Consequently, the company purchased land and constructed a new factory for it. They solicited service of CA. Gautam Agrawal and his team in this respect.

On 1st April, 2021, Goyal Textiles Ltd. purchased some land for ₹ 2 Crores (including legal costs of ₹ 20 Lacs) in order to construct a new factory. Construction work commenced on 1st May, 2021. Goyal Textiles Ltd. incurred the following costs in relation with its construction:

Preparation and leveling of the land – ₹ 6,00,000.

Purchase of materials for the construction – ₹ 121.60 lacs in total.

Employment costs of the construction workers – ₹ 4,00,000 per month.

Overhead costs incurred directly on the construction of the factory – ₹ 2,00,000 per month.

Ongoing overhead costs allocated to the construction project using the company's normal overhead allocation model – ₹ 100,000 per month.

Income received during the temporary use of the factory premises as a car park during the construction period – ₹ 100,000.

Costs of relocating employees to work at the new factory – ₹ 600,000

Costs of the opening ceremony on 31st January, 2022 – ₹ 300,000

The factory was completed on 30th November, 2021 (which is considered as substantial period of time as per IndAS 23) and production began on 1st February, 2022. The overall useful life of the factory building was estimated at 40 years from the date of completion. However, it is estimated that the roof will need to be replaced 20 years after the date of completion and that the cost of replacing the roof at current prices would be 30% of the total cost of the building.

At the end of the 40-year period, Goyal Textiles Ltd. has a legally enforceable obligation to demolish the factory and restore the site to its original condition. The directors estimate that the cost of demolition in 40 years' time (based on prices prevailing at that time) will be ₹ 400 Lacs.

An annual risk adjusted discount rate which is appropriate to this project is 5%. The present value of ₹ 1 payable in 40 years' time at an annual discount rate of 5% is ₹ 0.142.

The construction of the factory was partly financed by a loan of ₹ 200 Lacs taken out on 1st April, 2021. The loan was at an annual rate of interest of 8%. Goyal Textiles Ltd. received investment income of ₹ 100,000 on the temporary investment of the proceeds.

2. CA. Jayesh Talati has vast Experience in the field of Statutory Audits, Taxation, Capital Market, Investment Advisory and Financial Advisory. He is an eminent consultant acting for various corporate houses in matters of project finance and heads the business and transaction advisory unit of the firm. His forte is handling Income Tax Search & seizure matters before the Income Tax Settlement Commission and other direct tax litigation matters. He has a multi-disciplinary team which works in a cohesive manner.

Among many of the classic clients of the firm, Riddhi Siddhi Traders Pvt. Ltd. is one of them. The Company's books of Accounts were being audited by the Firm. However, the Taxation Department was in hands of another Advisory Firm.

The Company, Riddhi Siddhi Traders Pvt. Ltd., is a leading supplier of fiber boards in India. With their extensive experience of supplying and trading WPC Board, the Company has made a reputed name for themselves in the market with high quality Fiber Board. Woefully, a survey was carried out at the business premises of the Company by the Income Tax Department on 31st March 2021. The Directors admitted the undisclosed portion of Stocks and Sales. After this incident, the distressed Directors with their senior Accounts Head approached CA. Jayesh Talati to guide them in the field of Taxation. The Senior Accounts head furnished following financial data as prepared by them.

The Trading & Profit & Loss Account of Riddhi Siddhi Traders Pvt. Ltd. having business of Agricultural produce, consumer items and other products for the year ended 31.03.2021.

Trading Account

Particulars	Amount (₹)	Particulars	Amount (₹)
Opening Stock	7,50,000	Sales	3,11,00,000
Purchases	2,51,50,000	Closing Stock	9,00,000

Freight & Cartage	2,52,000		
Gross Profit	58,48,000		
	3,20,00,000		3,20,00,000

Profit & Loss Account

Particulars	Amount (₹)	Particulars	Amount (₹)
Bonus to staff	95,000	Gross Profit	58,48,000
Rent of premises	1,07,000	Income tax refund	40,000
Advertisement	10,000	Warehousing Charges	15,00,000
Bad Debts	1,50,000		
Interest on loans	3,35,000		
Depreciation	1,43,000		
Goods and Service tax demand paid	2,16,700		
Miscellaneous Expenses	10,51,300		
Net Profit	52,80,000		
	73,88,000		73,88,000

The Senior Accountant of the Company provided following further details:

- i. A survey under section 133A was regulated at the business premises on 31st March 2021 in which it was revealed that the value of last year Closing Stocks was ₹ 17,50,000 and current year Sales to the tune of ₹ 1,50,000 was not recorded in the Books of Accounts. The value of Closing Stocks after these adjustments is calculated at ₹ 25,00,000 as on 31.03.2021.
- ii. Income tax refund includes amount of ₹ 9,140 of interest allowed thereon.
- iii. Bonus to staff includes an amount of ₹ 15,000 paid in December 2020 which was provided in the Books on 31st March 2020.
- iv. Rent on premises included ₹ 11,000 incurred on repairs. The assessee was under no obligation to incur such expense as per rent agreement.
- v. Advertisement expenses include an amount of ₹ 5,000 paid for the advertisement published in the souvenir issued by a Political party. The mode of payment was through account payee cheque.
- vi. Miscellaneous expenses includes :
 - a. Amount of ₹ 30,000 paid towards penalty for non-fulfillment of delivery conditions of a contract of sale for the reasons beyond control.
 - b. Amount of ₹ 2,00,000 paid to the wife of a director, who is working as a junior lawyer for seeking advice in a disputed issue. The junior advocate of High Courts generally charges ₹ 50,000 for the same kind of opinion.

- c. Amount of ₹ 1,00,000 paid to an Electoral Trust by cheque.
 - vii. Goods and Service tax demand paid includes an amount of ₹ 10,600 charged as penalty for delayed filing of returns and ₹ 25,500 towards interest for delay in payment of tax.
 - viii. The Company invested ₹ 25 Lacs on construction of a warehouse in rural area for purpose of storage of agricultural produce. It was put to use from 15.09.2020 and income from the said activity is credited to P& L A/c under the heading 'Warehousing Charges'.
 - ix. Depreciation under the Act is calculated at ₹ 1,20,000.
 - x. Interest on loan includes an amount of ₹ 1,20,000 paid to Mr. Raj, a resident, on which tax was not deducted.
3. CA. Sudhir Joshi is also a member of the Institute of Secretaries of India ('ICSI'). He has more than 15 years of experience and has obtained comprehensive exposure in handling Corporate Legal & Secretarial Matters, Statutory Compliances of both Listed & Unlisted Companies, drafting of requisite documents for the Initial Public Offering and vetting of various legal agreements and NCLT matters. He is well versed with the Companies Act 2013 & other statutory laws & regulations. He has provided his services to various Industries like Food Processing, Dairy Distribution etc.

Happy Crunch Ltd. is an upcoming Brand in the field of Confectioners and bakery segment, with the motto of providing best quality food products to the clients to ensure the best return of client's investment. Directors of Happy Crunch Ltd. approached CA. Sudhir Joshi to lend a hand in matters of Company Law provisions.

Happy Crunch Ltd. is an Unlisted Public Company having authorised share capital of ₹ 150 Lacs as on 31st March 2021. However, its shares are paid up only to the extent of ₹ 95 Lacs. The Company has got their Books audited for the financial year 2020-21. During April 2021, the Company increased its Paid-up capital to ₹ 120 Lacs through issue of Right Shares. The Turnover of the Company was to the tune of ₹ 275 Lacs during the year ended 31st March 2021.

The Company has 8 directors in its Board. One of them, Mr. Ramakrishna died due to a sudden cardiac arrest. This resulted in casual vacancy. This was filled by the Board at its meeting by appointing Mr. Shyam by passing a resolution. Subsequently, it was approved by the members in the immediate next general meeting.

Every Company registered under Companies Act is required to file their Financial Statements in E-Form AOC-4 including Directors Report along with other relevant attachments (Annual Report) and Annual Return in E-Form MGT-7 within 30 days/60 days respectively from conclusion of its Annual General Meeting (AGM). Owing to empty headedness of the Directors of the Company, the Company failed to file Financial Statements or Annual Returns for a continuous period of 3 years.

One of the Directors of the Company, Mr. P V Krishnan has been offered directorship in Agile Circuits Ltd. as Independent Director. It is an unlisted public company. The paid-up Capital of the Company is ₹ 20 Crores.

A Board Meeting was held on 20th October 2020. But due to lockdown amid the Covid-19 pandemic, minimum quorum could not be met. Video-conferencing was also not possible. The proceedings of the meetings could not be held and hence, the Chairman adjourned the meeting to next week on the same day. The date fixed for the adjourned meeting turned out to be the day of Diwali.

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

1. Happy Crunch Ltd.'s board had 8 Directors in total but was not represented by any woman Director. The Shareholders sought reasons for not appointing Woman Director on the Board. Is it mandatory for the Company to appoint a Woman Director for the year 2020-21?
 - (a) The Company is not required to appoint Woman Director as it is an Unlisted Public Company.
 - (b) The Company is required to appoint Woman Director as the Authorised Share Capital is more than ₹ 100 Lacs.
 - (c) The Company is required to appoint Woman Director as the Paid –up Capital has increased to ₹120 Lacs.
 - (d) The Company is not required to appoint Woman Director as its paid-up capital does not exceed ₹100 Lacs as well as the Turnover does not exceed ₹ 300 Lacs as per the Audited Balance Sheet dated 31.03.2021.
2. In Happy Crunch Ltd., due to unforeseen circumstances, Mr. Shyam vacated the office. What should be the course of action by the Board in such a situation?
 - (a) It will be a case of Casual vacancy that should be filled by the Board.
 - (b) The new director would be elected and appointed in the next general meeting.
 - (c) It shall be filled by the Board by appointing an Additional Director.
 - (d) The Board shall appoint Alternate Director in place of Mr. Shyam.
3. With reference to filing of Financial Statements with Registrar of Companies, throw light on provisions of Companies Act, 2013 which of the following would be an appropriate further action?
 - (a) The Directors of the Company shall be disqualified from being reappointed as a director of that company or appointed in any other company for a period of 5 years, from the date on which his company fails to do so.
 - (b) The directors shall not be disqualified, only the Company will attract penal provisions.
 - (c) The Directors of the Company shall be disqualified from being reappointed as a director of that company only for a period of 5 years and not other Companies.
 - (d) If the default is made good by the Company, the Director shall not continue to be disqualified for a period of 5 years.
4. Mr P V Krishnan was irresolute whether the Company Agile Circuits Ltd. can appoint Independent Directors? Albeit they can appoint Independent Directors, which of the following class of Companies can appoint them? How many minimum Independent Directors to be appointed in such class of Companies? Kindly shed light on provisions of Companies Act, 2013 to eliminate ambiguity of Mr. P V Krishnan. Which of the following is a CORRECT option?
 - (a) All such Public Companies which have paid up share capital of ₹ 5 Crores or more or whose turnover is ₹ 50 Crores or more or all such public companies which have in aggregate outstanding loans, debentures and deposits exceeding ₹ 50 crores shall have at least 2 Directors as Independent directors.
 - (b) All such Public Companies which have paid up share capital of ₹ 10 Crores or more or whose turnover is ₹ 100 Crores or more or all such public companies which have in aggregate

outstanding loans, debentures and deposits exceeding ₹ 50 crores shall have at least 2 Directors as Independent directors.

- (c) All such Public Companies which have paid up share capital of ₹ 5 Crores or more or whose turnover is ₹ 100 Crores or more or all such public companies which have in aggregate outstanding loans, debentures and deposits exceeding ₹ 50 crores shall have at least 3 Directors as Independent directors.
- (d) All such Public Companies which have paid up share capital of ₹ 10 Crores or more or whose turnover is ₹ 50 Crores or more or all such public companies which have in aggregate outstanding loans, debentures and deposits exceeding ₹ 100 crores shall have at least 2 Directors as Independent directors.
5. The Board of Directors of Happy Crunch Ltd. was befuddled whether the adjourned meeting of the Board can be held on the day of Diwali? Please guide them the appropriate course of action.
- (a) The adjourned Board Meeting can be held any day thereafter, need not be the same day or the same time next week.
- (b) The adjourned meeting cannot be held on the day of Diwali, as it is a holiday.
- (c) The adjourned meeting cannot be held only on National Holidays. Diwali, not being a national holiday, the meeting can be held.
- (d) The Board can adjourn the meeting only when minimum quorum is there.

Part B- Descriptive Questions

6. Compute the carrying amount of the factory in the Balance Sheet of Goyal Textiles Ltd. as at 31st March, 2022. You should explain your treatment of all the amounts referred to in this part in your answer. **(7 Marks)**
7. Compute the Income chargeable to tax for AY 2021-22 of Riddhi Siddhi Traders Pvt. Ltd. with supporting reasons. Ignore provisions of section 115BAA and MAT. **(8 Marks)**

CASE STUDY 2

- 1) Ideal Fabrics Ltd. is a Ludhiana based company incorporated in 1996. The company is one of the leading textile manufacturers of India having its presence across a wide spectrum, from manufacturing lowest to highest range of fabrics. The Company expanded its product offerings and entered into strategic alliance with leading global textile players to gain access to state-of-the-art technologies. Ideal Fabrics Ltd. is one of the very few vertically integrated fabric manufacturers in India producing large variety of fabrics in the apparel segment serving large retailers across USA, Europe, Asia and other emerging nations.
- 2) In recent board meeting, the following particulars are extracted from statement of profit and loss of the company for the year ended 31.03.2021:

Particulars	Amount (₹)
Gross Profit	90,00,000
Profit on sale of building (Cost ₹ 15,00,000 and written down value ₹ 9,00,000)	7,50,000
Salaries & Wages	3,75,000
Sundry Repairs to Fixed Assets	1,50,000

MOCK TEST PAPER
FINAL (NEW) COURSE: GROUP – II
PAPER – 6F: MULTIDISCIPLINARY CASE STUDY
SUGGESTED ANSWERS / HINTS

CASE STUDY 1:

Part A

1. (d) The Company is not required to appoint Woman Director as its paid-up capital does not exceed ₹ 100 Lacs as well as the Turnover does not exceed ₹ 300 Lacs as per the Audited Balance Sheet dated 31.03.2021.

Reason: Second proviso to section 149(1) of the Companies Act, 2013 provides that at least one woman director shall be on the Board of such class or classes of companies as prescribed in Rule 3 of the Companies (Appointment and Qualification of Directors) Rules, 2014.

Rule 3 provides that the following classes of companies shall appoint at least one woman director-

- (i) Every listed company;
- (ii) Every other public company having -
paid-up share capital of one hundred crore rupees or more; or
turnover of three hundred crore rupees or more.

Explanation- For the purposes of having a woman director on the board, it is clarified that the paid-up share capital or turnover, as the case may be, as on the last date of latest audited financial statements shall be taken into account.

2. (c) It shall be filled by the Board by appointing an Additional Director.

Reason: The casual vacancy arises when any director appointed in the general meeting vacates his office before the expiry of his term. Thus, such appointment of the director who vacates his office must have been made in the general meeting and the said casual vacancy shall be filled by the Board and subsequently approved by the members in the immediate next general meeting as per section 161(4) of the Companies Act, 2013. However, if the casual vacancy so filled is again vacated due to some casual occurrence, then it cannot be said to be a casual vacancy because it arose against an appointment which was not made in the general meeting. Such type of vacancy needs to be filled by the Board by appointing an additional director.

3. (a) The Directors of the Company shall be disqualified from being reappointed as a director of that company or appointed in any other company for a period of 5 years, from the date on which his company fails to do so.

Reason: Sub-section (2) of Section 164 of the Companies Act, 2013 prescribes disqualifications which get attached to a person if he is or has been a director of a company which has committed default as under—

His company has not filed financial statements or annual returns for any continuous period of 3 financial years; or

His company has failed to repay the deposits accepted by it or pay interest thereon or to redeem

any debentures on the due date or pay interest due thereon or pay any dividend declared and such failure to pay or redeem continues for 1 year or more.

In both the above cases of default, the director concerned shall not be eligible to be re- appointed as a director of such defaulting company or appointed in some other company for period of 5 years from the date on which the said company has committed default.

4. (b) All such Public Companies which have paid up share capital of ₹ 10 Crores or more or whose turnover is ₹ 100 Crores or more or all such public companies which have in aggregate outstanding loans, debentures and deposits exceeding ₹ 50 crores shall have at least 2 Directors as Independent directors.

Reason: As per section 149(4) of the Companies Act, 2013 every listed public company shall have 1/3rd of the total number of directors as independent directors.

The Central Government is empowered to prescribe certain minimum number of independent directors in case of any class or classes of public companies. Taking a step in this direction, Rule 4 of the Companies (Appointment and Qualification of Directors) Rules, 2014 has been framed which states that the following class or classes of companies shall have at least two directors as independent directors:

(1)	all such public companies which have paid up share capital of 10 crore rupees or more; or
(2)	all such public companies which have turnover of 100 crore rupees or more; or
(3)	all such public companies which have, in the aggregate, outstanding loans, debentures and deposits, exceeding 50 crore rupees.

5. (c) The adjourned meeting cannot be held only on National Holidays. Diwali, not being a national holiday, the meeting can be held.

Reason: When a board meeting is adjourned due to lack of quorum, then under section 174(4) of the Companies Act, 2013 the adjourned meeting can be held on the same day at the same time and place in the next week or if that day is a national holiday, till the next succeeding day, which is not a national holiday, at the same time and place, unless the Articles provide otherwise.

Since said section specifies exclusion of only a national holiday, any original/adjourned/ committee meetings can be held on Sundays and other holidays. In view of this provision, the adjourned meeting of the Board of 'Happy Crunch Ltd.' can be held on the day of Diwali without involvement of any illegality.

Part B

6. Computation of the cost of the factory

Description	Included in P.P.E. (₹ '000)	Explanation
Purchase of land	20,000	Both the purchase of the land and the associated legal costs are direct costs of constructing the factory.
Preparation and leveling	600	A direct cost of constructing the factory
Materials	12,160	A direct cost of constructing the factory

Employment costs of construction workers	2,800	A direct cost of constructing the factory for a seven-month period
Direct overhead costs	1,400	A direct cost of constructing the factory for a seven-month period
Allocated overhead costs	Nil	Not a direct cost of construction
Income from use as a car park	Nil	Not essential to the construction so recognized directly in profit or loss
Relocation costs	Nil	Not a direct cost of construction
Opening Ceremony costs	Nil	Not a direct cost of construction
Finance Costs	933.33	Capitalize the interest cost incurred in a seven-month period (purchase of land would not trigger off capitalization since land is not a qualifying asset. In fact, the construction started from 1st May, 2021)
Investment income on temporary investment of the loan proceeds	(100)	Offset against the amount capitalized
Demolition cost recognized as a provision	5,680	Where an obligation must recognize as part of the initial cost
Total	43,473.33	

Computation of accumulated depreciation

Total depreciable amount	23,473.33	All of the net finance cost of 833.33 (933.33 – 100) has been allocated to the depreciable amount. Also, acceptable to reduce by allocating a portion to the non-depreciable land element principle.
Depreciation must be in two parts:		
Depreciation of roof component	117.37	$23,473.33 \times 30\% \times 1/20 \times 4/12$
Depreciation of remainder	136.93	$23,473.33 \times 70\% \times 1/40 \times 4/12$
Total Depreciation	254.30	
Computation of carrying amount	43,219.03	$43,473.33 - 254.30$

7. Computation of Income of Riddhi Siddhi Traders Pvt. Ltd. chargeable to tax for the A.Y.2021-22

Particulars		Amount (₹)
Net Profit as per Profit & Loss A/c		52,80,000
Add:	Difference in the value of Stocks found on survey under Sec 133A on 31.03.2021 chargeable as Income (Refer Note 1)	7,50,000
		60,30,000
Less:	Income Tax refund credited in P& L A/c out of which Interest is to be shown separately under the head "Income from other Sources"	40,000
		59,90,000
Add:	Expenses disallowable or to be considered separately but charged in P & L A/c.	
	Repair expense on rented premises where assessee is under no obligation to incur is not allowable under section 30(a)(i). However, if such expenses are incurred for carrying business efficiently, the same is allowed under section 37.	--
	Advertisement in the souvenir of Political party is not allowed under section 37(2B) (Refer Note 3)	5,000
	Payment made to the wife of a director examined as per section 40 A (2) and excess payment is disallowed (Refer Note 5)	1,50,000
	Payment made to electoral trust by cheque (Refer Note 6)	1,00,000
	Penalty levied by GST department for delayed filing of returns not allowed as being paid for infraction of law. (Refer Note 7)	10,600
	Depreciation as per books	1,43,000
	30% Interest paid on loan paid to Mr. Raj, without deduction of TDS not allowed as per Sec 40(a) (ia)	36,000
		64,34,600
Less:	Depreciation allowable as per Income Tax Act, 1961.	1,20,000
		63,14,600
Less:	Income from specified business (warehousing charges) credited to P & L A/c, to be considered separately. (Refer Note 8)	15,00,000
Income from business (other than specified business)		48,14,600
Computation of Income/Loss from specified business (Refer Note 8)		
Income from specified business		15,00,000
Less:	Deduction under section 35AD @100% of ₹25 Lacs	25,00,000

Loss from specified business to be carried forward as per section 73A		(10,00,000)	
Income from other sources			
Interest on Income Tax refund			9,140
GROSS TOTAL INCOME			48,23,740
Less:	Deduction under Section 80GGB		
	Contribution to Political Party (Refer note 3)	5,000	
	Contribution to an Electoral trust (Refer Note 3)	1,00,000	1,05,000
	TOTAL INCOME		47,18,740

Notes:

- The business premises of the company were surveyed and differences were found in closing & opening stocks as well as sales. These differences were accepted by the assessee. This will result in change in Gross Profit as of 31st March 2021 which has been worked out as follows:

Revised Trading Account

Particulars	Amount (₹)	Particulars	Amount (₹)
Opening Stock	17,50,000	Sales	3,12,50,000
		(3,11,00,000+1,50,000)	
Purchases	2,51,50,000	Closing Stock	25,00,000
Freight & Cartage	2,52,000		
Gross Profit	65,98,000		
	3,37,50,000		3,37,50,000

The difference of Gross Profit of ₹ 7,50,000 (65,98,000 - 58,48,000) is to be added to as Income of the business of the year.

- Bonus for the previous year 2019-20 paid after the due date for filing return for that year would have been disallowed under section 43B for the PY 2019-20. However, when the same has been paid in December 2020, it should be allowed as deduction in the PY 2020-21. Since it is already included in the amount of bonus to staff debited to P & L A/c, no adjustment is required.
- Amount of ₹ 5,000/- paid for advertisement in the souvenir issued by a political party is disallowed under section 37(2B). However, such expenses are eligible under section 80GGB as it is considered as contribution under Sec 293A of the Companies Act, 1956. Any contribution to the political party or electoral trust made by way of cash is not allowed as deduction under section 80GGB. Since in the present case, the payment to the political party is made by way of an account payee cheque, it is allowed as deduction under section 80GGB.
- The penalty of ₹ 30,000 paid for non-fulfillment of delivery conditions of a contract for reasons beyond control is not for the breach of law but was paid for breach of contractual obligations and therefore, is an allowable expense.

5. It has been assumed that ₹ 50,000 is the reasonable payment for the wife of Director, working as a junior lawyer, since junior advocates of High Courts normally charge only ₹ 50,000 for the same opinion and therefore, the balance ₹ 1,50,000 has been disallowed.
6. Payment to an electoral trust qualifies for deduction under section 80GGB since the payment is made by way of a cheque. However, since the amount has been debited to profit and loss account, the same has to be added back for computing business income.
7. The interest of ₹ 25,500 paid on the delayed deposit of goods and services tax is for breach of contract and hence, is allowable as deduction. However, penalty of ₹ 10,600 for delay in filing of returns is not allowable since it is for breach of law.
8. Deduction @ 100% of the capital expenditure is available under section 35AD in respect of specified business of setting up and operating a warehouse facility for storage of agricultural produce which commences operation on or after 1.04.2012. It is presumed that ₹ 25 lacs does not include expenditure on acquisition of any land.

The loss from specified business under section 35AD (warehousing) should be segregated from the income from other businesses, since, as per section 73A(1), any loss computed in respect of any specified business referred to in section 35AD shall not be set off except against profits and gains, if any, of any other specified business.

In view of the provisions of section 73A(1), the loss of ₹ 10 lacs from the specified business cannot be set-off against income from other businesses. Such loss has to be carried forward to be set-off against profit from specified business in the next assessment year. The return should be filed on or before the due date under section 139(1) for carry forward of such losses.

CASE STUDY 2:

Part A

1. (b) 7 days, 27EQ

Reason: The person responsible for collecting tax shall deposit the TCS amount within 7 days from the last day of the month in which the tax was collected. Every tax collector shall submit Statement of TCS in Form 27EQ in respect of the tax collected by him.

2. (c) ₹ 1,593

Reason: The Government of India (GOI) in the Finance Bill, 2020 introduced a new sub section (1H) to section 206C of the Income Tax Act, 1961 (IT Act) that "Every person, being a seller, who receives any amount as consideration for sale of any goods of the value or aggregate of such value exceeding fifty lakh rupees in any previous year, other than the goods being exported out of India or goods covered in sub-section (1) or sub-section (1F) or sub-section (1G) shall, at the time of receipt of such amount, collect from the buyer, a sum equal to 0.1 per cent of the sale consideration exceeding fifty lakh rupees as income-tax." However, due to Covid-19, the rate of TCS has been reduced from 0.1% to 0.075% till 31.03.2021 as per GOI Press Release dated 13 May 2020. CBDT also clarified that the GST portion included in sale value would attract TCS u/s 206C(1H) of the Act.

Hence amount of TCS would be calculated as follows:

Taxable value = 18,00,000

Add GST = 18,00,000 * 18% = 3,24,000

MTP April 2021

Part B- Descriptive Questions

6. Whether the financial statements of Softbharti private limited are correctly presented as per the applicable financial reporting framework. If not, prepare the revised financial statements of Softbharti private limited after the careful analysis of facts and information mentioned in the case study. **(10 Marks)**
7. Calculate the non-controlling interest in the books of Iktara limited for the investment made in Maya private limited by both the methods mentioned in Ind AS 103. **(5 Marks)**

CASE STUDY 2

GLA Enterprises Pvt Ltd. (GLA) is a company based out of Pune. It manufactures and sells a part of certain component used in car assembly. The part sold by GLA is known as SBH-201 in trade terms. Usually, order for annual requirement is obtained from the customer by February every year and accordingly the production planning happens at GLA.

For FY 2020-21, the company has received an order of 30,000 units from Tada Motors, to be supplied evenly on monthly basis. Another order for the similar part known as MBH-198 is for 15,000 units from Force Motors.

A common component which is required in both the orders is currently procured from an outside vendor at a price of Rs. 760 per unit. The unit information about the two products is as follows:

Particulars	Selling price per unit	Contribution per unit
SBH-201	Rs. 10,000	Rs. 2,400
MBH-198	Rs. 9,800	Rs. 2,200

Until last year, only Tada Motors used to purchase the product. Since the company had a success in converting another customer (Force Motors), the FY20-21 would be quite different. The production manager is of the opinion that if the requirement is for 50,000 units, we can produce that component in-house and it will lead to better quality and faster output. He also estimated the following unit costs to implement the in-house production option:

Direct material – Rs. 340, Direct labour – Rs. 310, Factory overheads (60% variable) – Rs. 150

Total unit cost = Rs. 800

Since, the component is an internal matter of the company, it has no impact on the selling price and does not result any additional cost of marketing.

The selling price quoted above are all-inclusive price of the parts to be supplied to the respective customers at their premises on monthly basis.

The premises of Tada Motors are situated at Chinchwad which is 35km away from the factory of the company and that of Force Motors is in Chakan which is 55km away. The monthly transportation cost for the company for Tada Motors' order is Rs. 5,950 p.m. and for Force Motors' order is Rs. 9,350 p.m.

Apart from transportation, other overheads incurred in servicing the customers are as follows:

Particulars	Tada Motors	Force Motors
Quarterly meeting	Rs. 1,000	None
Annual meeting	Rs. 5,000	Rs. 4,000
Coordinator's salary* (based on time allocation estimate)	Rs. 12,000 per month	Rs. 18,000 per month

*One full-time resource is employed for coordination at a monthly salary of Rs. 30,000. This person directly reports to the director of the company.

The company's directors are in advanced stage of negotiation and discussion with other customers regarding its product and why they should choose the company instead of their competitors.

While the discussions are going on, the company has called you for the meeting with the board of directors. You're a CA who's working as a business consultant to the company. One of the agenda items in the board meeting is also to close the audit points raised by the company's auditor for the financial year ended on 31st March 2021.

Other items in the agenda include consultancy regarding some financial decisions to be taken by the company which have long term implications on the financials of the company.

During FY 2020-21, the following points were observed by the auditor:

1. GST input credit was wrongly claimed on food bills of directors who were travelling for customer meetings etc. The total amount of such ITC was Rs. 6,145 for the year.
2. Employer's contribution to EPF of Rs. 3,15,000/- for the month of March 2021, was deposited on 29th July, 2021. The net profit is arrived at after debiting this amount.
3. During the year, the company had incurred Repair & Maintenance cost of Rs. 2 lacs on the Plant & Machinery of which expenses worth Rs. 1.5 lacs were of capital nature but the entire amount was debited to P&L account.
4. The payment of Rs. 30 Lakhs to a contractor for processing raw material made during the year without deduction of tax is debited to statement of profit and loss. This amount includes Rs. 20 Lakhs for purchase of material and Rs. 10 Lakhs towards labour charges which is separately shown in bills submitted.
5. A sundry creditor whose amount of Rs. 32 Lakhs was outstanding since long time, has been settled for Rs. 26 Lakhs on 31.03.2021 based on compromise settlement. The amount waived has been credited to the statement of profit and loss.

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

1. What remedy is available for the wrongly claimed ITC in GST returns?
 - (a) It can be reversed in subsequent GST returns.
 - (b) Since the amount is small, it can be ignored.
 - (c) In the annual return and reconciliation statement it needs to be shown and GST to be paid on the same.
 - (d) Revised returns can be filed for the respective months.
2. Employer's contribution to EPF as stated in point no (2) is:
 - (a) Allowed as deduction as it has been deposited before due date of filing of return under section 139(1).
 - (b) Rs. 3,15,000 shall be deemed to be income of the company u/s 2(24)(x). The same will not be allowed as deduction in computation of income chargeable to tax.
 - (c) Rs. 3,15,000 cannot be allowed as deduction even if remitted to respective authorities within the due date of filing return of income u/s 139(1).
 - (d) Rs. 3,15,000 shall not be allowed as a deduction because it is paid beyond the due date prescribed under the EPF Act.
3. What is the impact of capital expense being debited to P&L account as given in point no. 3 of case study?
 - (a) Value of P&M will go up and profit will increase (loss will decrease).

- (b) Value of P&M will go up and profit will decrease (loss will increase).
- (c) Value of P&M will come down and profit will increase (loss will decrease).
- (d) Value of P&M will come down and profit will decrease (loss will increase).
4. What is the amount of disallowance for TDS non-compliance from the facts given in point no. 4 in case study?
- (a) Rs. 3 Lakhs
- (b) Rs. 10 Lakhs
- (c) Rs. 30 Lakhs
- (d) Rs. 9 Lakhs
5. From facts given in case study point no. 5, Rs. 6 Lakhs credited to statement of profit and loss would -
- (a) not be taxable since it is a capital receipt.
- (b) be taxable under the head PGBP.
- (c) be taxable under the head Capital Gain.
- (d) be exempt under Section 10.

Part B- Descriptive Questions

6. Whether the current practice of procuring the component from third party vendor is better than in-house production of the component to be used in the company's products, in financial terms? Evaluate. All working should form part of the answer. **(5 Marks)**
7. A third customer and a couple of others are in the pipeline and due for conversion any time soon. The management wants to know the customer-level profitability of Tada Motors and Force Motors so that they can take a suitable decision regarding the price to be quoted to the potential new customers. Derive customer profitability based on the available information. Make suitable assumptions if necessary. All working should form part of the answer. **(5 Marks)**
8. A delivery van of the kind the company uses for supplying its finished goods to two companies currently, is available at a finance cost of 8% p.a. for a price of Rs. 6 Lacs to be repaid over 4 years. The same vehicle can be used for picking-up material from vendors who are currently charging the cost of transport in the purchase price. The overall cost reduction if the goods are picked-up from vendor premises within Pune city would be Rs. 2,15,000 p.a. according to purchase manager of the company. If a full-time driver is employed to drive the delivery van at a salary of Rs. 15,000 p.m. (CTC), he could be deployed for both incoming and outgoing material within the city and also for petty transport needs whenever required. If the life of the vehicle is 7 years and the cost of running, repairs and maintenance is Rs. 30 per km of full-load, should the company buy such a vehicle instead of outsourcing the same? EMI amount for Rs. 1 Lac for 4 years at 8% interest rate is 2441.3. **(5 Marks)**

CASE STUDY 3

Cheerful & Healthy Limited is a company involved in manufacturing business of various types of cupboards and tables. Mr. X is one of the directors of the company. Mr. Y is brother of Mr. X, and is director in a nother company namely, Calm & Helpful Private Limited which is involved in manufacturing business of chairs and dining tables. Both the companies are registered in India. The following is the paid-up share capital and turnover of both the companies for the financial year 2019-20:

Name of the Company	Paid up share capital	Turnover
Cheerful & Healthy Limited	94 cr.	250 cr.
Calm & Helpful Private Limited	105 cr.	272 cr.

Cheerful & Healthy Limited is an unlisted public limited company and Calm & Helpful Private Limited is an unlisted company.

Cheerful & Healthy Limited consisted of 10 directors and 1 managing director, whereas Calm & Helpful Private Limited consisted of 4 directors.

During the financial year 2020-21, the Assessing officer of Cheerful & Healthy Limited, issued a direction for Special Audit of books of accounts of the company for the financial year 2018-19. The direction was issued after considering the whole situation and obtaining the previous approval of Principal Chief Commissioner of Income Tax. Further the company was also given a proper opportunity of being heard. After hearing about Special Audit, Mr. H who was one of the directors of the said company had following perceptions and queries relating to conduct of such special audit of books of accounts of the company:

- (1) Special Audit was not required for the company as its books of accounts for the financial year 2018-19 have already been audited according to the provisions of Companies Act, 2013.
- (2) In case Special audit is required for the company then, whether such audit would be conducted by a Chartered Accountant who would be appointed by Assessing Officer?
- (3) Whether expenses relating to Special Audit of the company would be decided by the Assessing Officer?
- (4) After Expenses relating to Special Audit have been decided, whether they would be paid by the company?

Four years back (i.e. on 01/04/2017), the net worth of Cheerful & Healthy Limited and Calm & Helpful Private Limited was Rs. 297 cr. and Rs. 209 cr. respectively. Further, Cheerful & Healthy Limited also had a subsidiary by the name of Extremely Capable Limited which was an unlisted public limited company.

Mr. X and Mr. Y while enjoying tea-time in the evening were discussing about the appointment of tax auditor and internal auditor to upgrade their knowledge. Mr. X was of the opinion that tax auditor of a company can only be appointed by members of that company in general meeting. Further, Mr. Y added that internal auditor of a company can also be appointed as tax auditor of that company.

Cheerful & Healthy Limited has two offices, one office known as the main office in State N of India and other office known as branch office in State W of India. The manufacturing business of various types of cupboards and tables is being done from main office as well as from branch office. While discussing about the GST registration requirement of the company with brother, Mr. Y, Mr. X was of the opinion that the company must obtain registration for the purpose of Goods and Services Tax, only for the main office located in State N of India and not for the branch office located in State W of India.

Further, his brother, Mr. Y added that Permanent Account Number is not required for the purpose of obtaining registration for Goods and Services Tax.

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

1. During the financial year 2020-21, Cheerful & Healthy Limited is required to appoint an internal auditor because of which of the following reason:
 - (a) Cheerful & Healthy Limited is an unlisted public company having paid up share capital of more than Rs. 5 crores during the financial year 2019-20.
 - (b) Cheerful & Healthy Limited is an unlisted public company having paid up share capital of more than Rs. 30 crores during the financial year 2019-20.
 - (c) Cheerful & Healthy Limited is an unlisted public company having paid up share capital of more than Rs. 45 crores during the financial year 2019-20.
 - (d) Cheerful & Healthy Limited is an unlisted public company having paid up share capital of more than Rs. 50 crores during the financial year 2019-20.

2. Calm & Helpful Private Limited is required to appoint an internal auditor during the financial year 2020-21 because:
 - (a) Calm & Helpful Private Limited is a private company having a turnover of more than Rs. 45 crores during the financial year 2019-20.
 - (b) Calm & Helpful Private Limited is a private company having a turnover of more than Rs. 105 crores during the financial year 2019-20.
 - (c) Calm & Helpful Private Limited is a private company having a turnover of more than Rs. 180 crores during the financial year 2019-20.
 - (d) Calm & Helpful Private Limited is a private company having a turnover of more than Rs. 200 crores during the financial year 2019-20.
3. Who is authorized for the purpose of verifying the Return of Income of Cheerful & Healthy Limited:
 - (a) Managing Director of Cheerful & Healthy Limited.
 - (b) Managing Director and Any two of the directors of Cheerful & Healthy Limited.
 - (c) Managing Director and Any three of the directors of Cheerful & Healthy Limited.
 - (d) Managing Director and Any four of the directors of Cheerful & Healthy Limited.
4. Suppose that Managing Director and five directors of Cheerful & Healthy Limited are on a visit outside India and none of them can verify the Return of Income of the company. In such situation who among the remaining five directors of Cheerful & Healthy Limited is authorized to verify the Return of Income of the company:
 - (a) Any 2 of the remaining 5 directors of Cheerful & Healthy Limited.
 - (b) Any 4 of the remaining 5 directors of Cheerful & Healthy Limited.
 - (c) Any 1 of the remaining 5 directors of Cheerful & Healthy Limited.
 - (d) Any 3 of the remaining 5 directors of Cheerful & Healthy Limited.
5. For Calm & Helpful Private Limited, who will be authorized to verify the Return of Income:
 - (a) Any 3 directors of Calm & Helpful Private Limited.
 - (b) Any 2 directors of Calm & Helpful Private Limited.
 - (c) Each one of the 4 directors of Calm & Helpful Private Limited.
 - (d) Any 1 director of Calm & Helpful Private Limited.

Part B- Descriptive Questions

6. Provide an answer to the following questions relating to Special Audit of Cheerful & Healthy Limited:
 - (a) Chartered Accountant for the purpose of Special Audit would be appointed by whom?
 - (b) The books of accounts for the financial year 2018-19, have already been audited according to the provisions of Companies Act, 2013. Can Special Audit still be conducted?
 - (c) Expenses relating to Special Audit would be decided by whom?
 - (d) After the expenses related to Special Audit have been decided then they would be paid by whom?

(4 Marks)
7. After reading and understanding the information provided in the case study, answer the questions that follow:
 - (a) Are Indian Accounting Standards applicable on Cheerful & Healthy Limited from 01/04/2017?
 - (b) From 01/04/2017 what can be said about the applicability of Indian Accounting Standards on Calm & Helpful Private Limited?

- (c) From point of view of Extremely Capable Limited, are Indian Accounting Standards applicable?
- (d) What would happen regarding applicability of Indian Accounting Standard on Cheerful & Healthy Limited for the financial statements relating to financial year 2020-21? **(4 Marks)**
8. Mr. X and Mr. Y had certain opinions on appointment of tax & internal auditor. After reading and understanding those opinions answer the following questions:
- (a) Is it correct that tax auditor of a company can only be appointed in general meeting of that company by the members of that company? Explain your answer with the help of a reason.
- (b) The opinion that internal auditor of a company can also be appointed as tax auditor of that given company, is correct or not? Give reason for your answer. **(3 Marks)**
9. Mr. X and Mr. Y had certain opinions on GST registration.
- (a) Is the opinion of Mr. X in this regard correct? Provide proper explanation for your answer.
- (b) Are the thoughts of Mr. Y appropriate? Give reason to justify your answer. **(4 Marks)**

CASE STUDY 4

M4 Home Private Limited incorporated in May 2020 having its registered office in New Delhi started construction of its premises building in NOIDA by using pre-fabricated structure common and prevalent in these times and building comprising about 1,00,000 square ft of covered area was ready to use by the end of July 2020 at a cost of Rs. 6.50 crores. The company also obtained GST registration in month of May 2020 in state of Uttar Pradesh.

The company had already ordered in advance import of certain textile machinery from South Korea at a cost of about Rs. 7.65 crore. However, due to COVID-19 induced lockdown, the machinery shipments had stuck at Mundra port in Gujarat. Further, indigenous previously used machinery at a cost of about Rs. 2.00 crores was also planned for installation. Considering nation-wide lockdown and consequent disruptions in logistics and supply chain, the company was able to bring imported as well as indigenous machinery to its premises in NOIDA only in 1st week of August 2020 and was able to kick start its commercial production of textile made-ups from 1st September 2020 only.

The made ups of company got a very good response in the overseas market of USA under *brand of M4* and the company had captured good chunk of export orders via *digital and online marketing platforms* beating its Chinese rivals resulting in export turnover of Rs. 50.00 crores during the year ended 31st March, 2021. The company had also credited duty drawback from customs authorities amounting to Rs. 2.00 crores in its statement of profit and loss for the same period. During the year ended 31st March, 2021, the company has also incurred research and development expenditure of Rs. 10.00 lakhs. The financial statements of the company reflected a net profit before tax amounting to Rs. 7.50 crores.

The finished products exported by the company carried a GST rate of 5% during year 2020-21. Further, during year ended 31st March, 2021, the company had availed input tax credit of Rs. 2.00 crore, the break-up of which is given as under: -

Eligible ITC on inputs	Rs. 1.50 crores
Eligible ITC on capital goods	Rs. 0.36 crores
Eligible ITC on services	Rs. 0.14 crores

The company had exported its products on payment of *IGST* in accordance with provisions of GST law prevalent during year 2020-21. The company has also filed its periodical returns by stipulated due dates in accordance with provisions of law.

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

1. As discussed above, the company is engaged in export on payment of IGST. Below are given certain assertions relating to preparation of invoice and related matters. Which of the following assertions

MTP April 2021

interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either:

- (a) fair value; or
- (b) the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets.

Accordingly, non-controlling interests will be measured in either of the following manner in the books of Iktara limited:

(a) If non-controlling interests are measured at fair value: *(Rs. in lacs)*

Identifiable net assets at fair value	Dr	135	
To Non-controlling interest			55
To Investment in Maya private ltd.			80

NCI = Rs. 55 lacs

(b) If non-controlling interests are measured at proportionate share of identifiable net assets:

(Rs. in lacs)

Identifiable net assets at fair value	Dr	135	
To Non-controlling interest			54
To Investment in Maya private ltd.			80
To Capital Reserve			1

NCI = Rs. 54 lacs

CASE STUDY 2:

Part A

1. (c) In the annual return and reconciliation statement it needs to be shown and GST to be paid on the same.

Reason: Since wrong claim of ITC pertains to various months throughout the year, it is not appropriate to reverse the entire credit in a particular month. Moreover, format of annual return has specific provision for reconciliation wherein adjustments like these can be made and the GST amount can be paid at the time of annual return.

2. (a) Allowed as deduction as it has been deposited before due date of filing of return under section 139(1).

Reason: As per Section 43B, Employer's contribution to EPF is allowable as deduction, since the same has been deposited on or before the due date of filing of return under section 139 (1).

3. (d) Value of P&M will come down and profit will decrease (loss will increase).

Reason: When a capex (capital expenditure) is treated as opex (operating expenditure), the value of assets will come down (as that portion of expense is reduced from the block of capital assets) and profit will come down (in case of loss, it will further increase) to that extent.

4. (a) Rs. 3 Lakhs

Reason: Section 40(a)(ia) of Income Tax Act provides for disallowance of expenses attracting TDS if TDS provisions are not complied with on those expenses. Under this section, 30 % of any sum paid to any resident on which tax is deductible is disallowed if tax is not deducted at source. In this

case, TDS provisions under Section 194C are attracted on labour charges which are shown separately in the bills.

5. (b) be taxable under the head PGBP.

Reason: Waiver of Rs. 6 Lakhs from the sundry creditors is a benefit in respect of a trading liability by way of remission or cessation thereof and is taxable under section 41(1).

Part B

6. **Evaluation of cost-benefit analysis in a make or buy decision:**

In-house production cost

Particulars	Cost p/u
Direct material	340
Dierct labour	310
Variable factory overheads (60% of 150)	90
Total variable cost per unit	740

Since, only variable cost matters in this decision-making, the cost of in-house production works out to Rs. 740 per unit which is lower than the buying cost of Rs. 760 per unit.

It means that for every lot of 50,000 units of production, the company can make an additional profit of Rs. 10 Lacs (Rs. 20*50,000 units) by making the component in-house rather than buying it from third party vendors.

Hence, the management is advised to go for the option of in-house production.

7. **Decision Support on pricing based on customer profitability**

Particulars		Tata Motors	Force Motors
Order size(units)	(A)	30,000	15,000
Selling price p/u	(B)	10,000	9,800
Annual revenue	(A) x (B) = (C)	3000,00,000	1470,00,000
Contribution p/u	(D)	2,400	2,200
Annual contribution	(A) x (D) = (E)	720,00,000	330,00,000
Transportation cost	(F)	71,400	1,12,200
Quarterly meeting cost	(G)	4,000	-
Annual meeting cost	(H)	5000	4,000
Coordinator's salary	(I)	1,44,000	2,16,000
Net annual contribution	(E) - (F) to (I)	717,75,600	326,67,800
Margin of net contribution	(I)/(A)	23.93%	22.22%

Although there are some minor cost factors after the gross contribution, the main difference is due to lower selling price for Force Motors. The net contribution margin ranges from 22% to 24% which should be a guiding factor for the pricing of new orders from new customers.

8. **Advice on outsourcing vs. own operation of transport services:**

Direct amount paid to third-party transport operator – Rs. 5,950 + Rs. 9,350 = Rs. 15,300

Annual cost = 15,300 x 12 = Rs. 1,83,600

Now, let's look at the cost of operating own-transport service:

EMI on loan – 2441.3 x 6 = Rs. 14,647.8 per month.

For 4 years the total EMI = 7,03,094.4 Say – 7,03,100

If the cost is Rs. 6 lacs, the interest element is Rs. 1,03,100

Life of the vehicle is 7 years, so annual depreciation is Rs. 85,714 and equalised cost of finance = Rs. 14,729 per annum.

Annual cost of ownership of vehicle = Rs. 1,00,443

In addition, the cost of a full-time driver = Rs. 1,80,000 per annum.

So, the fixed cost per annum comes to Rs. 2,80,443

Since there's a saving of Rs. 215,000 due to reduction of cost of purchase when the inward transport is done by the company, the fixed cost of ownership per annum will be less than that in the case of outsourcing.

In this decision, variable cost does not play a role since it depends on the no. of shipments and the distance travelled, the more the no. of trips the more savings because the cost of hiring will always involve the variable cost plus a certain percentage towards recovery of fixed cost of the vendor and a profit margin.

In this case, the management is advised to go for purchase of its own delivery van.

CASE STUDY 3:

Part A

1. (d) Cheerful & Healthy Limited is an unlisted public company having paid up share capital of more than Rs. 50 crores during the financial year 2019-20.
Reason: According to Section 138 of the Companies Act, 2013 (prescribed in Rule 13 of Companies (Accounts) Rules, 2014) each and every unlisted public company which has a paid-up share capital of Rs. 50 crores or more during the preceding financial year is required to appoint an internal auditor.
2. (d) Calm & Helpful Private Limited is a private company having a turnover of more than Rs. 200 crores during the financial year 2019-20.
Reason: According to Section 138 of the Companies Act, 2013 (prescribed in Rule 13 of Companies (Accounts) Rules, 2014) each and every private company which has a turnover of Rs. 200 crores or more during the preceding financial year is required to appoint an internal auditor.
3. (a) Managing Director of Cheerful & Healthy Limited.
Reason: According to Section 140 of the Income Tax Act, 1961 if a company has a managing director then that managing director is authorized to verify the Return of Income of that company.
4. (c) Any 1 of the remaining 5 directors of Cheerful & Healthy Limited.
Reason: According to Section 140 of the Income Tax Act, 1961 if because of certain reasons which are unavoidable, the managing director of a company is unable to verify the return of income of that company then any one of the director of that company can verify the return of income of that company.
5. (d) Any 1 director of Calm & Helpful Private Limited.
Reason: According to Section 140 of the Income Tax Act, 1961 any company which does not have a managing director then any one of the director of that company is authorized for the purpose of verifying the return of income of that company.

Part B

- 6. The answers relating to Special Audit of Cheerful & Healthy Limited are provided as follows:**
- (a) According to Section 142 of the Income Tax Act, 1961, the Chartered Accountant for the purpose of Special Audit would be nominated by Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner.
 - (b) Special Audit can still be conducted because according to Section 142 of the Income Tax Act, 1961 even if books of accounts of a financial year of assessee have been audited under any law then also Assessing Officer of that assessee can direct such assessee for Special Audit of books of accounts for that financial year.
 - (c) Expenses relating to Special Audit would be decided by Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner according to the Section 142 of the Income Tax Act, 1961.
 - (d) According to Section 142(2D) of the Income Tax Act, 1961 after the expenses relating to Special Audit have been decided then they would be paid by assessee and in default of such payment, shall be recoverable from the assessee in certain specified manner.
- 7.**
- (a) From 01/04/2017 the Indian Accounting Standards are applicable on Cheerful & Healthy Limited because on 01/04/2017 it was an unlisted company having net worth of Rs. 297 crore (ie. more than or equal to Rs. 250 crore). According to rule 4 of the Companies (Indian Accounting Standards) Rules, 2015, Indian Accounting Standards are applicable from 01/04/2017 on each and every unlisted company having a net worth of more than or equal to Rs. 250 crore.
 - (b) Indian Accounting Standards are not applicable on Calm & Helpful Private Limited from 01/04/2017 because on 01/04/2017, Calm & Helpful Private Limited was an unlisted company having net worth of Rs. 209 crore which was less than Rs. 250 crore. According to rule 4 of the Companies (Indian Accounting Standards) Rules, 2015, from 01/04/2017 Indian Accounting Standards are applicable on each and every unlisted company which has a net worth of more than or equal to Rs. 250 crore.
 - (c) From 01/04/2017, Indian Accounting Standards are applicable on Extremely Capable Limited because according to rule 4 of the Companies (Indian Accounting Standards) Rules, 2015, Indian Accounting Standards are applicable from 01/04/2017 on that company which is subsidiary of that unlisted company which has a net worth of more than or equal to Rs. 250 crore on 01/04/2017. On 01/04/2017 Cheerful & Healthy Limited was an unlisted company, which had a net worth of Rs. 297 crore which is more than Rs. 250 crore. Thus, Extremely Capable Limited being a subsidiary of Cheerful & Healthy Limited, is also required to apply Indian Accounting Standards.
 - (d) Indian Accounting Standards would be applicable on financial statements of Cheerful & Healthy Limited for the financial year 2020-21 as well because according to rule 3 of the Companies (Indian Accounting Standards) Rules, 2015 on applicability of Accounting Standards, a company which follows the Indian Accounting Standards (Ind AS) in accordance with the provisions of rule 4 shall follow such standards only.
- 8.**
- (a) The opinion that tax auditor of a company can only be appointed in general meeting of that company by the members of that company is incorrect because it is not necessary that appointment of tax auditor of a company is made by members of that company in general meeting, such appointment can also be made by Board of Directors or it can also be made by officer if such officer has been authorized by Board of Directors of that company.

- (b) It is incorrect that internal auditor of a company can also be appointed as tax auditor of that company because internal auditor of a company in no situation can be appointed as tax auditor of that company.
9. (a) Two different registrations for the purpose of Goods and Services Tax should be obtained by Cheerful & Healthy Limited, one for the main office located in State N of India and another for the branch office located in State W of India because according to Section 25(2) read with Rule 11 relating to Registration of the CGST Act, a company having different branch offices in different States of India is required to obtain different registrations for Goods and Services Tax for each of its branch office in different State of India.
- (b) Permanent Account Number is required for the purpose of obtaining registration for Goods and Services Tax because according to Section 25(6) and Section 25(7) relating to Registration of the CGST Act, every person shall have a Permanent Account Number in order to be eligible for grant of registration.

CASE STUDY 4:

Part A

1. (b) The company is legally bound to raise a tax invoice in Indian Rupees as well as commercial invoice in foreign currency in accordance with relevant rules and procedures governing such transactions. Further, foreign currency amount is to be converted into Indian Rupees in tax invoice by using exchange rate in accordance with exchange rate notification issued by CBIC relevant in relation to date of invoice.

Reason: As per Rule 34 of CGST Rules, 2017, the rate of exchange for determination of value of taxable goods shall be the applicable rate of exchange as notified by the Board under section 14 of the Customs Act, 1962 for the date of time of supply of such goods in terms of section 12 of the Act. The exchange rate notifications are issued by CBIC in exercise of powers conferred under section 14 of Customs Act on a periodic basis and value of taxable goods as reflected in tax invoice has to be arrived at in accordance with such notification. Further, commercial invoice in foreign currency amount is required to be raised for export transaction in accordance with procedures of customs.

2. (a) Only Statement II is correct.

Reason: The IGST liability of company pertaining to zero-rated supplies (export) in 2020-21 is 5% of Rs. 50 crores i.e. Rs. 2.50 crore. It is discharged by setting off eligible ITC of Rs. 2.00 crore. It is immaterial whether ITC is availed on inputs, capital goods or input services. The export supplies are zero-rated supplies and IGST paid of Rs.2.50 crore was refunded/refundable directly in bank account of the company by customs upon monthly filing of GSTR-3B and GSTR-1 for each tax period. Further, filing of GSTR-9 is an annual affair and hence nothing to do with refund of IGST.

The refund by customs is system generated upon filing of GSTR-3B and GSTR-1 for each tax period. The invoices transmitted to customs via GST network are matched with shipping bills and others details which are also system driven and refund scroll is generated. After scroll generation, refund is credited in bank account of exporter.

3. (a) Combination [1] and [i].

Reason: The TDS amount to be deducted during financial year 2020-21 is as under-

TDS to be deducted on clearing charges of Rs. 2.00 lakhs u/s 194 C is 2% in case of payment to companies. However, due to Covid-19, the rates were reduced by 25% of applicable rates. Hence, applicable rate is 1.5% on amount of Rs.2,00,000/- which comes to Rs. 3,000/-.

Test Series: October, 2020

MOCK TEST PAPER**FINAL (NEW) COURSE: GROUP – II****PAPER – 6F: MULTIDISCIPLINARY CASE STUDY***Attempt any **four** out of **five** case study based questions.**Each Case Study carries 25 Marks.***Time Allowed – 4 Hours****Maximum Marks – 100****CASE STUDY 1**

Rainwear & Co is based in Mumbai. Its turnover exceeded ₹ 40 lakhs on 1st November, 2019. It applied for GST registration on 7th November, 2019. It received the certificate of registration on 22nd November, 2019. From 1st November, 2019 till 22nd November, 2019, Rainwear & Co issued following invoices:

- Raj Enterprise, Madhya Pradesh, registered under GST: Value of invoice: ₹ 15 lakhs
- Kamla Enterprise, Rajasthan, registered under GST: Value of invoice: ₹ 5 lakhs,
- Rishabh & Co, based in Mumbai unregistered recipient: 03.11.2019-₹ 7.5 lakhs and 15.11.2019-₹ 10.5 lakhs.
- Alok & Co, based in Punjab, unregistered recipient: 04.11.2019: ₹ 4.5 lakhs.

An employee of Rainwear & Co, Mr. Raj is deputed to Country X for a period of 10 years from April 2019 onwards. At the end of the month, the salary of ₹ 2 lakhs is paid to Mr. Raj. Rainwear & Co also contributes to the social security scheme of Country X, a sum of ₹20000 every month. This amount is also paid at the end of the month. The contribution made is an obligation of Rainwear & Co. Mr. Raj does not derive any immediate benefit out of the contribution made by his employer towards social security contribution.

The salary is paid in the Indian bank account of Mr. Raj. Apart from above, Rainwear & Co also paid the education expense of his child. It amounts to ₹ 50,000 per month. Mr. Aditya is also an employee of Rainwear & Co who stays in Mumbai. His income for the financial year under consideration is ₹ 7,50,000. He could not file the return of income within the due date as he had to fly to New Zealand for some medical treatment. He finally filed the return of income on 1st April, 2021. He filed his return of income by availing the benefit of exemptions available under the Act.

Rainwear & Co has hired Mr. Evrick as he is specialised in the rainwear industry and also he had worked in his early days in the said sector. Mr. Evrick, had gone out of India to Spain when he was 5 years old only. He was working in Krayos Inc which was engaged in the business of manufacture and sale of passenger cars within and outside India. He had made deposits in A Ltd., an Indian company, in convertible foreign exchange when he was 20 years old. Today, when he is 30 years old, he decided to move back to India. He came to India on 1st May, 2019. Mr. Evrick wants to know from Rainwear & Co about the taxability of interests earned on above deposits.

Mr. Evrick's wife, a citizen of India, will stay back in Spain. Mr. Evrick's wife who was already in Spain since 2013 had invested foreign currency equivalent to ₹ 25,000 (100 shares) into ITC Ltd on 15th May, 2017 through her funds lying in Spain's bank account. On 3rd October, 2018, she received 100 bonus shares. On 31st December, 2019, she sold the entire stock of shares @ price of ₹850 per share. She has always taken the benefit of special provisions relating to non-residents. Mr. Evrick's wife intends to open bank account with SBI, a nationalised Bank and open bank deposits with them. She seeks to know some expert's views whether she can continue to hold the benefit of special provisions eligible for non-residents.

During the year, Rainwear & Co. has also paid legal fees of ₹ 5,00,000 to Batliboi & Purohit Co., an advocate firm being a partnership firm for fighting the case against trademark violation by the competitor of Rainwear & Co.

In the rainwear industry, there are only two players: Rainwear & Co and M/s Dushyant & Co. Dushyant & Co is there in the market since 1930. Rainwear & Co does not have a factory and M/s Dushyant & Co has a factory which is not registered under Factories Act, 1948. Until now, M/s Dushyant & Co used to sell the goods in the local market itself. For the first time, it had to sell the goods to a company based at Meerut. M/s Dushyant & Co took the services of Radheshyam Tiwari & Co, an unregistered transporter who mainly deals in transportation of goods. M/s Dushyant & Co paid consideration of ₹ 50,000 to Radheshyam Tiwari & Co for its transportation service.

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

- State the correct option regarding taxability of GST relating to Advocate services provided by Batliboi & Purohit Co.
 - Advocate services are exempt under GST.
 - Batliboi & Purohit Co. is liable to pay GST.
 - Rainwear & Co. is liable to pay GST under Reverse Charge Mechanism (RCM).
 - Batliboi & Purohit Co. is liable to pay GST under forward charge & Rainwear & Co. is liable to pay GST under RCM basis.
- What is the amount of income chargeable to tax in the hands of Mr. Raj in India?
 - ₹ 0
 - ₹ 29,48,800
 - ₹ 31,88,800
 - ₹31,90,000
- Kindly state what is the penal consequences which Mr. Aditya will have to follow due to delay in filing return of income in India.
 - Penalty of ₹ 5,000
 - Penalty of ₹10,000 and imprisonment for a term which shall not be less than three months but which may extend to two years and with fine
 - Penalty of ₹15,000 and imprisonment for a term which shall not be less than three months but which may extend to two years and with fine
 - Penalty of ₹10,000
- If Mr.Raj wants to transfer an amount of ₹ 7,50,000 lying in Indian bank account (in which the salary is credited) to his foreign bank account in a day or two, what is the procedure he will have to follow as per Income Tax Act, 1961?
 - No procedure is required
 - Part A of Form 15CA is required

- (c) Part B of Form 15CA and Form 15CB is required
- (d) Part C of Form 15CA and Form 15CB is required
5. Kindly let Mr. Evrick's wife know how much tax she needs to pay during FY 2019-20 (Ignore the effect of foreign currency conversion).
- (a) ₹15,080
- (b) ₹ 6,240
- (c) ₹ 4,680
- (d) ₹ 8,840

Part B- Descriptive Questions

6. The buyer of goods are demanding credit of taxes paid by them while buying the goods from Rain wear & Co. Kindly guide Rain wear & Co. as to what steps should be taken to resolve the issues of buyer. **(5 Marks)**
7. Kindly explain the GST Provisions to M/s Dushyant & Co regarding payment made to Radheshyam Tiwari & Co. **(5 Marks)**
8. Whether deposits with A Ltd., an Indian company, would still be construed as a foreign exchange asset eligible to claim the benefit of special provisions applicable to non –resident? **(5 Marks)**

CASE STUDY 2

HW Limited is into manufacturing business of tables and chairs in India. During the financial year 2019-20, the company transferred a land which was purchased by the company in the financial year 2015-16. The land was purchased on 20/11/2015 for ₹ 5.08 crore and it was sold on 04/12/2019 for ₹ 6.10 crore. On 20/02/2020, the company invested the 70% of the amount of capital gain arising from transfer of land in long term specified bonds of Rural Electrification Corporation Limited which were redeemable after 5 years.

During the financial year 2019-20, the company purchased the machinery named Machinery 67 for the purpose of its manufacturing business. Machinery 67 was purchased on 01/11/2019 for ₹ 5,60,000. On 01/01/2020 Machinery 67 was installed at the place where it was required to be installed and on the same day it was provided with conditions which were necessary for its functioning as desired by management of the company. However, Machinery 67 was actually used in manufacturing business of the company on 01/02/2020.

During the financial year 2018-19, the company had a net worth of ₹ 340 crore. One of the senior officials of the company named Mr. H was of the opinion that the company was required to constitute a Corporate Social Responsibility Committee of the Board of HW Limited.

The said company has two branch offices in India. One branch office is located in State K and other branch office is located in State Y. The manufacturing plant of the company is also located in State Y. The manufacturing plant and branch office of the above-mentioned company in State Y have single G.S.T. registration, while branch office in State K has a separate G.S.T. registration. During the financial year 2019-20, manufactured tables and chairs were transferred from manufacturing plant of the company in State Y to branch office in State Y. Similarly, tables and chairs were also transferred from manufacturing plant of the company in State Y to branch office in State K.

During the current financial year 2019-20, HW Limited sold tables and chairs amounting to ₹ 2,00,000 to Mr. W. The details relating to that transaction are as follows:

- (1) Date of issue of invoice by the company - 04/04/2019.
- (2) Date of delivery of tables and chairs to Mr. W – 05/04/2019.
- (3) Date of recording of payment in books of accounts of the company – 09/04/2019.
- (4) Date of crediting of payment in bank account of the company – 12/04/2019.

Due to some problem in the financial year 2019-20, for a very short duration tables and chairs manufactured by the company were sent by the company as a principal from State Y to a job worker in State N for the purpose of proper finishing of tables and chairs manufactured. The value of this consignment was ₹ 47,000.

During the financial year 2020-21, the company made payments to various individuals, the information regarding which is provided as follows:

Sl. No.	Name of Person Receiving Payment	Purpose of Payment	Total amount paid (In ₹)	Additional Information
(1)	Mr. T (Resident Individual Contractor)	Repairing of Office Building	₹ 1,20,000	Total of Three Contracts of ₹ 40,000 each in the financial year 2019-20.
(2)	Mr. N (Resident Individual Contractor)	Painting of Office Building	₹ 75,000	Total of Five Contracts of ₹ 15,000 each in the financial year 2019-20.
(3)	Mr. Z (Resident Individual)	Rent for use of Machinery	₹ 2,00,000	-
(4)	Mr. S (Resident Individual)	Rent for use of Building	₹ 4,70,000	-

The books of accounts of the company for the financial year 2019-20 was required to be audited by a Partnership Firm of Chartered Accountants by the name of YZ and Associates. Due to some unavoidable reasons, YZ and Associates resigned from being the auditor of HW Limited.

During the financial year, HW Ltd. also supplied tables and chairs to Mr. F, the consideration of which was not completely in terms of money. Consideration was made up into two parts as follows:

- (1) Consideration in terms of money- ₹ 70,000.
- (2) Non-monetary consideration- packaging bags manufactured by Mr. F.

Both the consideration were paid by Mr. F to HW Ltd.

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

1. During the financial year 2019-20, HW Limited purchased the machinery named Machinery 67 for the purpose of its manufacturing business. According to relevant Indian Accounting Standard, depreciation in financial year 2019-20 will be charged on Machinery 67 for:
 - (a) 5 months.
 - (b) 12 months.
 - (c) 2 months.
 - (d) 3 months.

2. During the financial year 2019-20, one of the senior officials of HW Limited named Mr. H was of the opinion that the company was required to constitute a Corporate Social Responsibility Committee of the Board. The opinion of Mr. H is incorrect because as per the provisions of Corporate Social Responsibility Committee of the Board, HW Limited was required to have a net worth of:
 - (a) ₹ 350 crore or more.
 - (b) ₹ 400 crore or more.
 - (c) ₹ 450 crore or more.
 - (d) ₹ 500 crore or more.

3. Tables and Chairs were also transferred from manufacturing plant of HW Limited in State Y to branch office of the company in State K during the financial year 2019-20. Both manufacturing plant of the company in State Y and branch office of the company in State K have separate G.S.T. registration. As per the provisions of Goods and Service Tax Act it will be:
 - (a) Not Considered as Supply of Goods.
 - (b) Considered as Supply of Goods.
 - (c) Considered as Supply of Services.
 - (d) Considered as Supply of both Goods and Services.

4. HW Limited sold tables and chairs amounting to ₹ 2,00,000 to Mr. W in the financial year 2019-20. Time of supply for tables and chairs sold to Mr. W will be:
 - (a) 12/04/2019.
 - (b) 04/04/2019.
 - (c) 05/04/2019.
 - (d) 09/04/2019.

5. In the financial year 2019-20, tables and chairs manufactured by HW Limited were sent to a job worker for the purpose of proper finishing of tables and chairs manufactured. The value of this consignment was ₹ 47,000. The E-way bill will be:
 - (a) Not required to be issued as value of consignment is less than ₹ 50,000.
 - (b) Required to be issued only because value of consignment is more than ₹ 30,000.
 - (c) Required to be issued only because value of consignment is more than ₹ 40,000.
 - (d) Required to be issued, whatever may be the value of consignment.

Part B- Descriptive Questions

6. During the financial year 2019-20, HW Limited transferred a land and invested the 70% of the amount of capital gain arising from transfer of land. Keeping in mind the scenario given in the case study, answer the following questions:
 - (a) What is the amount of exemption available to the company for the A.Y. 2020-21, after 70% of the amount of capital gain arising from transfer of land is invested in the manner as specified in the case study? (Consider Cost Inflation Index for the F.Y. 2014-15, 2015-16 and 2019-20 as 240, 254 and 289 respectively.) **(2 Marks)**

- (b) Assume that in financial year 2019-20, capital gain arising after the land was transferred was ₹ 65 lakhs and the company decided to invest the whole amount of 65 lakhs in long term specified bonds of Rural Electrification Corporation Limited, which were redeemable after 5 years. In this scenario can the company do so in A.Y. 2020-21? **(1 Marks)**
- (c) What would happen if HW Ltd. transferred the long term specified bonds of Rural Electrification Corporation Limited in the financial year 2021-22? **(1 Marks)**
7. HW Limited made payments to various individuals during the financial year 2019-20.
When payment is made by the company, whether T.D.S. would be deducted or not and if it would be deducted then what would be the T.D.S. rate in following situations:
- (a) When payment is made to Mr. T (Resident Individual Contractor) for Repairing of Office Building.
(b) When payment is made to Mr. N (Resident Individual Contractor) for Painting of Office Building.
(c) When payment is made to Mr. Z (Resident Individual) as Rent for use of Machinery.
(d) When payment is made to Mr. S (Resident Individual) as Rent for use of Building. **(4 Marks)**
8. Due to some unavoidable reasons YZ and Associates resigned from being the auditor of HW Limited for the financial year 2019-20.
Keeping the above situation in mind answer the questions that follow:
- (a) In this situation who will appoint the next auditor of the company in place of YZ and Associates and why?
(b) Will the next auditor of the company appointed in place of YZ and Associates require any approval and if so by whom?
(c) The next auditor appointed in place of YZ and Associates will hold office of auditor of the company for what duration? **(3 Marks)**
9. During the financial year 2019-20, HW Limited supplied tables and chairs to Mr. F.
Determine the value of supply of tables and chairs supplied by the company to Mr. F in the following situations as per C.G.S.T. Rules:
- (a) Open Market Value of tables and chairs supplied by the company to Mr. F is ₹ 94,000.
(b) The Open Market Value of tables and chairs supplied by the company to Mr. F is not known however amount of packaging bags supplied by Mr. F to the company as non-monetary consideration was ₹ 22,000.
(c) Open Market Value of tables and chairs supplied by the company to Mr. F is not known and similarly amount of packaging bags supplied by Mr. F to the company as non-monetary consideration is also not known. However, value of tables and chairs of similar kind and quality as supplied by the company to Mr. F was ₹ 92,500.
(d) Open Market Value of tables and chairs supplied by the company to Mr. F is not known, amount of packaging bags supplied by Mr. F to the company as non-monetary consideration is also not known and value of tables and chairs of similar kind and quality as supplied by the company to Mr. F is also not known. However, the cost of supply of tables and chairs supplied by the company to Mr. F was ₹ 83,000 **(4 Marks)**

CASE STUDY 3

Farmers face a lot of difficulty in operating the water-pump machines which are usually located close to the water source (river or well) and away from the farm. Not only do they have to walk up to the machine, the timing of such walks is unpredictable due to seasonal variations and the crop requirement. Also, there can be a saving in electricity consumption if the water pump can be switched off immediately instead of keeping it on until the farmer walks up to the water pump. Moreover, due to frequent power fluctuations the chances of the water pump getting damaged is as high as 20% in some cases and 12% on an average across various brands of water pumps available in the market for the economy class.

In case of damage to the water pump an additional cost ranging from ₹ 7,000 to ₹ 9,000 has to be incurred by the farmer to get it fixed and this happens at an interval of every 5 to 7 months.

For the problem of walking up to the pump for switching it on or off, there are various solutions available in the market which can help farmers to remotely operate the pump through a mobile app. Such a solution comes with a device that needs to be fixed with the water pump and a mobile app that the farmer needs to download for remotely switching on or off. Such a solution is averagely priced at ₹ 10,000.

However, none of these solutions help the farmers in addressing the problem of damage due to power fluctuations which burn a hole in the pocket of small farmers who can't afford advanced technology water pumps which are ₹ 70,000 more expensive than the economy range of water pumps available in the market.

Atul, Rohit and Sonia – 3 friends studying in NIT Surathkal have worked on a project that would help farmers in solving the above problems. The solution comes in the form of a larger device and a mobile app. The same has been tested with a farmer relative of Atul in his native place for 9 months and there has been no instance of any damage to the water pump, although the power fluctuations have been normal that can be compared to average scenario.

Sonia knows you since childhood as you studied together in school. After 12th standard you took commerce and she chose science. Later on, you went on to become a chartered accountant and your friend Sonia graduated from NIT Surathkal as a mechanical engineer. She contacted you to come and meet her colleagues who have jointly worked on the project.

Your firm has been appointed as a consultant who will also coordinate statutory audit and compliance part of the business, starting from incorporation of the company. Thereafter, a company by name PowerTech Solutions Pvt. Ltd. was formed.

Before the launch of the product (which is named as H2Ox) in the market, the co-founders want to know how to price the product since this is relatively new product in the market.

The product was launched in the market within 1 month from the date of incorporation (3rd July 2018) of PowerTech Solutions Pvt. Ltd. with all three friends becoming directors of the company holding 32% shares each and the remaining 4% given to an incubation centre who helped in product prototyping, testing and sample manufacturing.

The first board meeting of the company was held on 18th July 2018 just a day before the official launch of the product. The directors had informal discussions as and when required on all business matters. However, there was no formal board meeting after the first one, until the auditor asked for the records of board meeting in April 2019 after the financial year ended on 31st March 2019.

The directors want to know the details about the board meeting provisions and the way forward as they want to comply with all the fiscal laws while conducting business.

As on 31st March 2019, the revenue of the company was ₹ 8 lacs (approx.) and a paid-up capital of ₹ 1 lac and a net loss of ₹ 2.14 lacs.

During the summer of 2019, the company conducted van campaigning activities in rural clusters across Maharashtra. The results could be seen in the sales being picked up significantly from June 2019 onwards. In anticipation of growing demand, the company also hired more people from May 2019 to June 2019. During that period the company added as many as 30 employees in different departments. The average salary of new employees was ₹ 17,000 per month per head. The average date of joining can be considered as 15th May 2019.

As the demand increased, the amount of outsourcing the manufacturing activity was also going up proportionately. As a financial consultant of the company, you have drawn attention of the directors regarding in-house manufacturing option. The directors are thrilled about the same and Atul has already taken-up the responsibility to find out more details and lead the project.

According to the study conducted by Atul, the following details are available:

Minimum quantity to be produced: 1,000 per month.

Per unit cost:

Direct material – ₹ 3,800

Direct labour – ₹ 1,250

Direct overheads (Machine, Power and Maintenance) – ₹ 790

Apart from the above, a production manager is to be appointed for the sole responsibility of production at a cost of ₹ 75,000 per month and the rent of the production facility along with electricity, water and other maintenance would be ₹ 70,000 per month.

The current cost of outsourcing the manufacturing activity is ₹ 7,500 per unit but the minimum order quantity shall be as low as 100 quantity at a time.

The time of consideration of this decision, the average demand for the preceding three months was 900 units per month.

The demand for the next three years is set to increase since the product is new in the market until the competitors can learn the technology and implement the same. However, market predictions are never accurate.

A cluster of villages in Nasik district of Maharashtra has as many as 50,000 farmers within a radius of around 10 km. This cluster of farmers is served by a new-age, highly educated dealer Mr Sachin More who has graduated from Agriculture College of Pune. Along with his own farm of 5 acres, he also has a dealership of major seed and fertiliser companies.

Mr. More has approached the company with an offer to buy 10,000 units at a time provided he can get the unit price of ₹ 15,000.

For the financial year 19-20, the company's revenue was ₹ 3.12 crore.

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

1. Which of the following is not a feature of agriculture sector?
 - (a) Fragmented and unorganised structure.
 - (b) Lack of understanding of costs and prices.
 - (c) Farmers work in collaboration with others for cost reduction.

- (d) Imbalance of bargaining power.
2. In value-based pricing, True economic value (TEV) can be obtained by:
- Adding the value of performance differential to the cost of the base product.
 - Adding the value of performance differential to the cost of next best alternative.
 - Subtracting the cost of next best alternative from the value of the product.
 - Subtracting the value of performance differential from the value of the product.
3. For the calendar year 2018, the company has violated the provisions relating to board meetings as per the Companies Act, 2013.
- Yes
 - No
 - Yes, but can be regularised
 - Data is not sufficient
4. The approximate amount of additional deduction in respect of new employees as per relevant provisions of Income Tax Act works out to:
- ₹ 16 Lacs
 - ₹ 11 Lacs
 - ₹ 13 Lacs
 - ₹ 12 Lacs
5. The company did not hold any AGM as on 30th September 2019. As on 10th October 2019, what are the options available for the company?
- First AGM can be held any time before 31st December 2019.
 - First AGM was supposed to be held before 30th September 2019.
 - Extension can be sought from the Registrar for the delay in first AGM.
 - For a small company it's not necessary to hold AGM.

Part B- Descriptive Questions

6. Since you have studied different methods of pricing as part of your CA course, you are confident of advising your client on value-based pricing instead of digging-up the cost factors from the scratch. You are suggesting a price based on True Economic Value (TEV) of the product H2Ox. Show your calculations and comment on the value-based pricing that you may recommend to the client. (Life of the device and hence the entire solution offered by the company may be assumed as 5 years.) **(5 Marks)**
7. Since the point of board meetings has come up during the audit, the directors had a detailed discussion on the same with the member of your firm who's taking care of company law matters. What are the provisions relating to frequency of board meetings that may be applicable to PowerTech Solutions Pvt. Ltd.? Are there any exemptions? Briefly explain the same. **(5 Marks)**
8. The directors are obsessed with the thought that in-house manufacturing will reduce the overall cost of the product on per unit basis. At the same time, they are unsure about the demand that will meet the

minimum order quantity. To overcome that fear, the directors have decided to start marketing in states outside Maharashtra. With this background, should the company accept the order from Mr More if the company wants to make a minimum contribution of ₹ 8,000 per unit? Comment. (Allocable overheads of production manager cost and the rent etc. of production space should be allocated before arriving at the contribution per unit.) **(5 Marks)**

CASE STUDY 4

The decade of 90's witnessed a large shift in the way of doing business in India. The New Economic Policy of 1991 opened doors of and for the Indian economy to the outside world for interaction and business both inside and outside the country. The Service sector grew like anything. India soon proved to the world that it is not limited to Agriculture only and that there is much more scope for Industrialisation and the Tertiary sector. The nation saw an upsurge in the Global activities and thus its development was fast-paced. But every development has its cost and that cost which India started sharing with the whole world was Overexploitation of Natural resources, Global warming, Ozone layer depletion, Pollution and the list goes on. Now, it stands on the same platform as the other nations in facing these issues. With the progress, the World has been making, it also understood its responsibility to protect the planet from the ill-effects of carving out the road to development and modernisation and so did the Corporates. The Corporates also felt their Social responsibility in this regard and thus a term was coined by the name CORPORATE SOCIAL RESPONSIBILITY (CSR). Corporate Social Responsibility is corporate initiative to assess and take responsibility for the company's effects on the environment and its impact on social welfare. It can be conceptualized as the corporations' obligation to take necessary action to reduce the negative externalities and enhance the positive externalities associated with their business. In doing so, the corporations could protect and promote the interests of their stakeholders and society as a whole. The origin of CSR can be traced to philanthropic activities of corporations, viz., donations and charity. Over the years, the concept of CSR has evolved and it now includes within its scope, triple bottom line approach (achieving a balance of economic, environmental and social imperatives), corporate sustainability, improving and developing skills for sustainability, to name a few. CSR is the process by which an organization thinks about and evolves its relationships with stakeholders for the common good, and demonstrates its commitment in this regard by adoption of appropriate business processes and strategies. Thus, CSR is not charity or mere donations. CSR is a way of conducting business, by which corporate entities visibly contribute to the social good. Socially responsible companies do not limit themselves to using resources to engage in activities that increase only their profits. They use CSR to integrate economic, environmental and social objectives with the company's operations and growth.

THE INDIAN SCENARIO

Prior to the year 2014, CSR activities were voluntary for the corporates in India, however they ought to disclose their CSR spending to their shareholders. With an amendment to the Companies Act, 2013 in April 2014, India became the first country in the world to make CSR mandatory allowing the businesses to invest their profits in areas such as education, poverty, hunger to comply with CSR provisions. CSR is the procedure for assessing an organization's impact on society and evaluating their responsibilities. It begins with an assessment of the aspects of each business such as Customers, Suppliers, Environment, Communities, Employees, etc. Since the applicability of mandatory CSR provision in 2014, CSR spending by corporates in India has increased significantly. The year 2018 saw a 47% increase in CSR spending than in the year 2014-15, contributing ₹ 7,536 crores to CSR initiatives, according to a survey. Listed companies in India spent thousands of crores in various educational programs, skill development, social welfare, healthcare, and environment conservation. Taking into account the recent amendments to CSR provisions, industry research estimates CSR compliance to improve and range between 97 to 98 percent by FY 2019-20. Organizations in India taking up CSR initiatives and integrating them into their business processes. Companies now have specific departments and teams that develop specific policies, strategies, and goals for their CSR programs. One such company is "*Mahima Consumer Products Limited*" which manufactures consumable goods like

bath soap, tooth brushes, soap cases etc. This company has made a remarkable success in the recent times starting from a low investment. It had been doing CSR projects on its own without any requirement legally along with an established charitable company by the name of "Needs & Helps" but now since it has capitalised the market share to a good extent, the Board of Directors feel the need to know about all the CSR provisions that may be applicable to their Company, the Policies they need to develop, the Accounting treatment & the Taxation impact. For this purpose, they approach Nayyar & Co., a CA firm with an experience of 6 years in CA Practice. CA Karan Nayyar, the Senior Partner of the firm is invited for a meeting with the BOD of the Company to make them aware of all the provisions relating to CSR and what policies and procedures now would they need to set up to comply with the CSR provisions. Mr. Kapoor, one of the Directors on the Board of the Company is curious to ask about CSR applicability to the Company's Foreign subsidiary to which CA Nayyar replies that every company including its holding or subsidiary, and a foreign company defined under clause (42) of section 2 of the Act having its branch office or project office in India which fulfils the criteria specified in sub-section (1) of section 135 of the Act shall comply with the provisions of section 135 of the Act and these rules. Provided that net worth, turnover or net profit of a foreign company of the Act shall be computed in accordance with balance sheet and profit and loss account of such company prepared in accordance with the provisions of clause (a) of sub-section (1) of section 381 and section 198 of the Act. He tells them that in India, the Companies Act, 2013 has statutorily recognised the concept of CSR. Section 135 of the Companies Act, 2013 read with Schedule VII thereto and Companies (Corporate Social Responsibility Policy) Rules, 2014 are the special provisions under the new company law regime imposing mandatory CSR obligations. Schedule VII of Companies Act 2013 lists activities that may be included by companies in their Corporate Social Responsibility Policies. As per Rule 4 of the Companies (CSR) Rules, 2014, there are certain expenditures which are not considered as CSR activity for the purpose of section 135.

MANDATORY CSR OBLIGATIONS UNDER SECTION 135 OF THE COMPANIES ACT, 2013

- Every company, listed or unlisted, private or public, having a -
 - net worth of ₹ 500 crores or more [*Net worth criterion*]; or
 - turnover of ₹ 1,000 crores or more [*Turnover criterion*]; or
 - a net profit of ₹ 5 crores or more [*Net Profit criterion*] (to be calculated as per Section-198) during the immediate preceding financial year to constitute a CSR Committee of the Board;
- CSR Committee has to formulate CSR policy and the same has to be approved by the Board;
- Such company to undertake CSR activities as per the CSR Policy;
- Such company to spend in every financial year, at least 2% of its average net profits made in the immediately three preceding financial years "or where the company has not completed the period of three financial years since its incorporation, during such immediately preceding financial years, on the CSR activities specified in Schedule VII to the Companies Act, 2013.

Mr. Kapoor spontaneously interrupted and apprised the meeting with the fact that an amount of ₹ 5,00,000 was spent as CSR expense towards the education of a girl child. He further explained that the Company has decided to claim it as an expense against profits while computing income for Income tax purposes.

However, CA Nayyar tells them that legal provisions will be looked into and continued explaining further provisions that-

CSR Committee shall:

- (a) formulate and recommend to the Board-

- a. a CSR Policy indicating the activities to be undertaken by the company as specified in Schedule VII;
 - b. the amount of expenditure to be incurred on the above activities and
- (b) monitor the CSR Policy of the company from time to time

The Board shall disclose:

- (a) The composition of CSR Committee in its report
- (b) Approve the recommended CSR Policy for the company
- (c) Disclose the contents of such Policy in its report and place it on the company's website
- (d) Ensure that the activities included in CSR Policy of the company are duly executed by the company
- (e) Ensure that the company spends, in every financial year, at least two per cent of the average net profits of the company made during the three immediately preceding financial years by giving preference to the local area and areas around it where it operates
- (f) In case the company fails to spend such amount, the Board shall specify the reasons for not spending the amount.

THE ACCOUNTING ASPECT

Revenue Expenditure made in the Current Financial Year:

	Debit (₹)	Credit (₹)
CSR Expenditure (Profit and loss statement)	XXX	
To Cash/Vendor		XXX

The treatment of revenue expenditure will be the same under AS and Ind AS.

CSR Expenditure made towards a Capital Asset:

In case the expenditure incurred by the company is of such a nature that give rise to an 'asset', it should be recognised by the company in its balance sheet, provided the control over the asset is with the Company and future economic benefits are expected to flow to the company. The treatment of such expenditure is a bit different under AS and Ind AS which CA Nayyar said he would discuss with their Accounts Department in due course of time.

Mr. Parimal, another Director of the Company asks his queries on the following two issues to which CA Nayyar gives him a satisfactory reply:

1. Whether any Unspent Amount of CSR Expenditure is to be Provided for?
2. Whether the Excess Amount can be Carry Forward to set off against Future CSR Expenditure?

THE TAXATION ASPECT

- CSR expenditure, being an application of income, is not incurred wholly and exclusively for the purposes of carrying on business. As the application of income is not allowed as deduction for the purposes of computing taxable income of a company, amount spent on CSR cannot be allowed as deduction for computing the taxable income of the company.
- Based on the Explanatory Memorandum to the Bill, the CSR expenditure which is of the nature described in section 30 to section 36 of the Income-tax Act shall be allowed as deduction under those sections subject to fulfilment of conditions, if any, specified therein. If the nature of CSR expenditure incurred is

not covered under the aforesaid sections of the Act and is covered under section 37(1) of the Act, being a general deduction, the same is proposed to be disallowed by the Bill.

The meeting concludes with the Company appointing M/s Nayyar & Co. as its Statutory Auditors for a period of 5 years w.e.f. 2019-20 and CA Nayyar fixes the remuneration to be charged by his firm for the audit as well as the consultancy purposes in agreement with the BOD of Mahima Consumer Products Limited.

Later on, as part of the company's CSR policy, it was decided that for every pack of consumable goods sold, ₹ 0.80 will go towards 'Needs & Helps' which will qualify as a CSR spend as per Schedule VII. Consequently, at the year end, the company sold 25,000 such packs and a total of ₹ 20,000 was recognised as CSR expenditure. However, this amount was not paid to 'Needs & Helps' at the end of the financial year. The company also transferred a small building purchased by it to a school run and maintained by a Gram Panchayat for use as a Library by the school.

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

1. The management of the company "Needs & Helps" believes that the CSR provisions are not applicable to it. On discussion with Mr. Kapoor, they approach CA Nayyar to consult the same. What should be CA Nayyar's take on whether the provisions of CSR are applicable to "Needs & Helps" provided it fulfils the criteria of Section 135 of the Act?
 - (a) Not Applicable as all the activities of the company will be with the intent of charity.
 - (b) Not Applicable as all its activities are activities in the normal course of business.
 - (c) Applicable as it applies to every Company.
 - (d) Applicable only if the Company involves itself in any commercial activity other than the charitable ones.
2. Will the recognition of ₹ 20,000 as CSR expenditure qualify to be a CSR Expenditure?
 - (a) No, it needs to be spent actually for such qualification.
 - (b) Yes, as the Company has earmarked it separately to be used for the decided purpose.
 - (c) Yes, if the Company makes a provision for its use in near future for the same.
 - (d) Only 50% qualifies and balance 50% on actual expenditure by the Company.
3. What accounting treatment should be suggested to the Company relating to transfer of building?
 - (a) Capitalised as a CSR Asset as PPE as per IndAS 16 in the books of accounts.
 - (b) Capitalised as a CSR Asset as Investment Property as per IndAS 40 in the books of accounts.
 - (c) Capitalised as a CSR Asset without any sub-head classification as per AS in the books of accounts.
 - (d) Charged to the Statement of Profit & Loss for the year of Transfer.
4. Mr. Kapoor tells CA Karan Nayyar that their Company carries out CSR activities from rented premises in Pune. The rent paid for such premises is disclosed as CSR expenditure and subsequently their company also claimed deduction of the same under the Income-tax Act. Is this permissible?
 - (a) Not allowed as a Deduction as this expense is not directly benefitting any individual or organisation.
 - (b) Allowed as a Deduction.
 - (c) Partly allowed upto 30% of the total rent.

- (d) Rent can never be claimed as a CSR Expenditure.
5. During the year, company spent certain amount towards the education of a girl child. Is the treatment as decided by the company w.r.t. such CSR expenditure while computing income for Income tax purposes is valid?
- (a) This expenditure is an application of income, is not incurred wholly and exclusively for the purposes of carrying on business.
- (b) The amount involved is material as it might put a huge impact against the profits.
- (c) This expenditure is a diversion of income.
- (d) Such an allowance can be made only after applying for and receiving a certificate for the same from the Chief Commissioner of Income tax.

Part B- Descriptive Questions

6. CA Karan Nayyar tells the Directors of Mahima Consumer Products Limited that expenditure on certain activities cannot be considered as a CSR Expenditure as per Companies (CSR) Rules, 2014. Mention 4 such activities stating the relevant Rule. **(4 Marks)**
7. The treatment of CSR Expenditure made towards a Capital Asset is a bit different under AS and Ind AS which CA Nayyar said he would discuss with the Accounts Department in due course of time. You being an assistant to CA Nayyar have been asked by him to provide the Accounts Department with a brief write-up on the same giving an example. **(4 Marks)**
8. Mr. Parimal approaches you to provide him with a sample format to draft the Annual Report on CSR Activities on behalf of the Board of Directors of Mahima Consumer Products Limited for the year 2019-20 to be included in the Board's Annual Report. You are asked to draft the same. **(3 Marks)**
9. After the havoc caused by a devastating Tsunami in Andaman & Nicobar islands, a group of companies undertake during the period from October 2019 to December 2019 various commercial activities, with considerable concessions/discounts, along the related affected areas. The management of Mahima Consumer Products Limited intends to highlight the expenditure incurred on such activities as expenditure incurred on activities undertaken to discharge corporate social responsibility, while publishing its financial statements. State whether the management's intention is correct or not and why? **(4 Marks)**

CASE STUDY 5

Ease of doing business – this statement does seem to be lucrative and influencing but as they say, nothing comes to your kitty so easily. India is striving towards the ease of doing business with its new policies, less restrictions and business friendly environment which is supporting business facilitation efforts but one should always keep in mind that setting up a business and running it successfully is not a cakewalk as it seems to be. It requires a lot of efforts alongwith innovation, workforce, management, compliances and all above that, a dedication to survive in the market. These facts could be well supported by the success story of Annapurna Trading Pvt. Ltd. which is having business of agricultural produce, consumer items & other related products. Having been set up a decade ago by its Board of Directors' Chairman, Mr. Hasmukh Rawal, this company has carved a niche for itself. Mr. Rawal had started a small business in his rural village of Baddowal, near Ludhiana which he has grown into a big company in the past 10 years.

One fine evening, Mr. Rawal was sitting with his friends - Mr. Piyush Mutneja & Mr. Gorav Bhandari who are also Managing Directors in their respective companies set up by them and they discussed about Accounts, Audit & Tax over tea. CA Hariharan, who is a common Statutory Auditor and Consultant to their companies had also joined them in this discussion. During the discussion, when all of them were narrating their

experiences and difficulties they were facing at present relating to Accounts & Audit, CA Hariharan suggested them on appointing an Internal Auditor in their respective companies. He makes them aware of the benefits of such an Internal Audit function as how would it help them weed out the deficiencies and weaknesses in the Internal Controls on a timely basis but would also be very helpful to him, being the Statutory Auditor in auditing the Books of Account of all their companies at year end. Out of curiosity, all the 3 of them – Mr. Rawal, Mt. Mutneja & Mr. Bhandari ask CA Hariharan to tell them in detail about this Internal Audit function and whether they are legally required to comply with the requirements of Internal Audit. CA Hariharan tells them that many modern enterprises have become huge and sophisticated. This has resulted in decentralisation of their activities and consequently the top management is remotely concerned with the day-to-day activities of the concern.

THE INTERNAL AUDIT

Internal Audit means “an independent management function, which involves a continuous and critical appraisal of the functioning of an entity with a view to suggest improvements thereto and add value to and strengthen the overall governance mechanism of the entity, including the entity’s strategic risk management and internal control system”. The internal auditing need not to be confined to financial transactions and its scope may be extended to the task of reviewing whether the resource utilisation of the enterprise is efficient and economical. This would necessitate a review of all operations of the enterprise as also an evaluation of the effectiveness of management. One should not however lose sight of the fact that internal auditing is basically a service activity.

Applicability of Provisions of Internal Audit: As per section 138 of the Companies Act, 2013, following class of companies (prescribed in rule 13 of Companies (Accounts) Rules, 2014) shall be required to appoint **an internal auditor which may be either an individual or a partnership firm or a body corporate**, namely-

<p>(a) every listed company;</p> <p>(b) every unlisted public company having-</p> <p>(i) paid up share capital of fifty crore rupees or more during the preceding financial year; or</p> <p>(ii) turnover of two hundred crore rupees or more during the preceding financial year; or</p>	<p>(iii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year; or</p> <p>(iv) outstanding deposits of twenty five crore rupees or more at any point of time during the preceding financial year; and</p>
<p>(c) every private company having-</p> <p>(i) turnover of two hundred crore rupees or more during the preceding financial year; or</p>	<p>(ii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year.</p>

Further to this, they ask him as who could be appointed as Internal Auditor for their respective companies to which CA Hariharan replies that as per section 138, the internal auditor shall either be a chartered accountant or a cost accountant (whether engaged in practice or not), or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the companies. The internal auditor may or may not be an employee of the company.

Further, he tells them about the scope of work of an Internal auditor and also his qualifications as follows: -

QUALIFICATIONS:-

1.	The internal auditor should have the special expertise necessary for evaluating management control systems, especially financial and accounting controls.
2.	Accounting and finance functions provide basic data for management control of an enterprise. Therefore the internal auditor must have accounting and financial expertise to be able to discharge his duties.
3.	The internal auditor is also expected to evaluate operational performance and non-monetary, operational controls. This requires a basic knowledge of the technology and commercial practices of the enterprise.
4.	He should also have a basic knowledge of commerce, laws, taxation, cost accounting, economics, quantitative methods and EDP systems.
5.	An understanding of management principles and techniques is another essential qualification of an internal auditor as also the ability to deal with people.
6.	By his conduct the internal auditor should provide an assurance to the management that confidentiality of such information would be maintained.

On hearing all this from CA Hariharan, Mr. Rawal gets really impressed and appoints CA Ravi Mehta as the Internal Auditor for his Company Annapurna Trading Pvt. Ltd., by following the applicable procedure as per the Companies Act, 2013 and the relevant rules. On a discussion related to the scope of CA Ravi's work, Mr. Rawal requests him that he pay special attention to the following 2 aspects related to the business of his company :-

1. **Accounting Policies** being followed by the Company, especially related to Inventories and the Fixed assets. CA Ravi meets the Employees in the Accounts Department as well as in the Costing Department to get a knowledge about the Valuation, Presentation & Disclosure policies followed by the company w.r.t the inventories and fixed assets:-
 - a) In the factory, the Cost accountant tells him that in the case of packing Fruit beverages, they use tin cans of material DELTA and further, put them into boxes made of material GAMMA for transportation to Distributors.
 - b) The Marketing Manager tells him that they purchase certain goods from out of India to sell them in the domestic market & incur following expenses in relation to such transaction which have been put into following accounting codes –
 - (1) Trade discounts on purchase
 - (2) Handling costs relating to imports
 - (3) Salaries of accounting department
 - (4) Sales commission paid to sales agents
 - (5) After sales warranty costs
 - (6) Import duties
 - (7) Costs of purchases (based on supplier's invoices)
 - (8) Freight expense
 - (9) Insurance of purchases
 - (10) Brokerage commission paid to indenting agents

- c) The Sales Head tells about the following products and seeks CA Ravi's advice as to their accounting treatment wrt the relevant IND-AS :-
- I. One of Company's product lines – "MAGNI" is beauty products, particularly cosmetics such as lipsticks, moisturizers and compact make-up kits. The company sells hundreds of different brands of these products. Each product is quite similar, is purchased at similar prices and has a short lifecycle before a new similar product is introduced. The point of sale and inventory system is not yet fully functioning in this department. The sales manager of the cosmetic department is unsure of the cost of each product but is confident of the selling price and reliably informs him that the Company, on average, make a gross margin of 65% on each line.
 - II. The Company also sells handbags. The Company manufactures their own handbags as they wish to be assured of the quality and craftsmanship which goes into each handbag. The handbags are manufactured in India in the head office factory which has made handbags for the last fifty years. Normally, it manufactures 100,000 handbags a year in their handbag division which uses 15% of the space and overheads of the head office factory. The division employs ten people and is seen as being an efficient division within the overall company.
- d) On a scrutiny of the Fixed Assets Register, CA Ravi finds that the Company had acquired a building for its administrative purposes and presented the same as property, plant and equipment (PPE) in the financial year 2018- 19. During the financial year 2019- 20, it relocated the office to a new building and leased the said building to a third party. Following the change in the usage of the building, the company reclassified it from PPE to investment property in the financial year 2019- 20.
- e) On checking the previous records of the Company, he also comes to know that the Company has an investment property with an original cost of ₹ 1,00,000 which it inadvertently omitted to depreciate in previous financial statements. The property was acquired on 1st April, 2018. The property has a useful life of 10 years and is depreciated using straight line method. Estimated residual value at the end of 10 year is Nil.
2. Mr. Rawal also wants CA Ravi to help them in calculation of the Profits of the company as per the Income Tax Act and related rules because had they been worked out & calculated properly in the past years, their company would not have been subject to a survey as had been conducted on them in the past. CA Ravi meets the Head accountant who furnishes him the following Financial statements and tells him that :-
- (a) There was a survey under section 133A on the business premises on 31.3.2020 in which it was revealed that the value of closing stocks of 31.3.2019 was ₹ 8,75,000 and a sale of ₹ 75,000 made on 13.3.2020 was not recorded in the books. The value of closing stocks after considering these facts and on the basis of inventory prepared by the department as on 31.3.2020 worked out at ₹ 12,50,000, which was accepted to be correct and not disputed.
 - (b) The company had made an investment of ₹50lacs on the construction of a warehouse in rural area for the purpose of storage of agricultural produce. This was made available for use from 15.09.2019 and the income from this activity is credited in the Profit and Loss account under the head "Warehousing charges".
 - (c) The Head accountant also tells him that the Financial statements as furnished below are subject to following considerations also apart from as what is furnished above :-
 - i. Income-tax refund includes amount of ₹5,000 of interest allowed thereon.
 - ii. Bonus to staff includes an amount of ₹7,500 paid in the month of December 2019, which was provided in the books on 31.03.2019.
 - iii. Rent of premises includes an amount of ₹5,500 incurred on repairs. The assessee company was under no obligation to incur such expenses as per rent agreement.
 - iv. Advertisement expenses include an amount of ₹2,500 paid for advertisement published in the

souvenir issued by a political party. The payment is made by way of an account payee cheque.

- v. Goods and Services Tax demand paid includes an amount of ₹ 5,300 charged as penalty for delayed filing of returns and ₹12,750 towards interest for delay in deposit of tax.
- vi. Depreciation under the Income-tax Act, 1961 works out at ₹65,000.
- vii. Interest on loans includes an amount of ₹80,000 on which tax was not deducted.
- viii. Miscellaneous expenses include:
 - amount of ₹15,000 paid towards penalty for non-fulfillment of delivery conditions of a contract of sale for the reasons beyond control,
 - amount of ₹1,00,000 paid to the wife of a Mr. Hasmukh rawal, who is working as junior lawyer for taking an opinion on a disputed matter. The junior advocate of High Courts normally charge only ₹25,000 for the same opinion,
 - amount of ₹1,00,000 paid to an Electoral Trust by cheque.

TRADING AND PROFIT & LOSS ACCOUNT

Particulars	₹	Particulars	₹
Opening Stock	3,75,000	Sales	1,55,50,000
Purchases	1,25,75,000	Closing Stock	4,50,000
Freight & Cartage	1,20,000		
Gross profit	29,30,000		
	1,60,00,000		1,60,00,000

Particulars	₹	Particulars	₹
Bonus to staff	47,500	Gross profit	29,30,000
Rent of premises	53,500	Income-tax refund	20,000
Advertisement	5,000	Warehousing charges	40,00,000
Bad Debts	81,000		
Interest on loans	1,67,500		
Depreciation	71,500		
Goods and Services tax demand paid	1,08,350		
Miscellaneous expenses	5,25,650		
Net profit of the year	58,90,000		
	69,50,000		69,50,000

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

1. Packing material "GAMMA" as per the above case should be classified as per INDAS-2 as?
 - (a) Raw material.
 - (b) Finished Goods.
 - (c) Materials & Supplies awaiting for use in the Production Process.
 - (d) Selling Costs to be excluded as per INDAS-2.

2. The Marketing Manager tells CA Ravi about the Costs which they incur to sell imported goods in domestic market alongwith their accounting codes. From the following alternatives, choose the combination of codes from the above case which are allowed by INDAS-2 for inclusion in the cost of such goods?
 - (a) 01, 02, 06, 07, 08, 09, 10.
 - (b) 01, 02, 03, 05, 07, 09, 10.
 - (c) 01, 02, 03, 06, 08, 09, 10.
 - (d) 02, 04, 06, 07, 08, 09, 10.
3. How should "MAGNI" be measured in accordance with INDAS 2?
 - (a) Standard Cost.
 - (b) Retail Method.
 - (c) Net Realisable Value.
 - (d) Market Price.
4. How should the Handbags as made and traded by the Company be measured in accordance with INDAS 2?
 - (a) Standard Cost.
 - (b) Retail Method.
 - (c) Net Realisable Value.
 - (d) Market Price
5. How should the error be corrected in the case of Investment Property as found during checking of previous records, in the financial statements for the year ended 31st March, 2020, assuming the impact of the same is considered material? For simplicity, ignore tax effects.
 - (a) Prospectively restating the Comparatives.
 - (b) Retrospectively restating the Comparatives.
 - (c) It is not an error and therefore correction should be avoided.
 - (d) Eliminating the record of such asset from the books of account and dealt with separately.

Part B- Descriptive Questions

6. Differentiate between the two types of Audit functions as performed by CA Ravi Mehta and CA Hariharan as discussed in the above case of Annapurna Trading Pvt. Ltd. **(5 Marks)**
7. From the information given in the above passage, compute the income chargeable to tax for Assessment year 2020-21 of Annapurna Trading Pvt. Ltd, ignoring MAT and provisions of section 115BAA. Support your answer with working notes. **(10 Marks)**

MOCK TEST PAPER
FINAL (NEW) COURSE: GROUP – II
PAPER – 6F: MULTIDISCIPLINARY CASE STUDY
SUGGESTED ANSWERS / HINTS

CASE STUDY 1:**Part A**

1. (c) Rainwear & Co. is liable to pay GST under Reverse Charge Mechanism (RCM).

Reason: As per Section 9(3) of CGST Act, the Government may, on the recommendations of the Council, by notification, specify categories of supply of goods or services or both, the tax on which shall be paid on reverse charge basis by the recipient of such goods or services or both and all the provisions of this Act shall apply to such recipient as if he is the person liable for paying the tax in relation to the supply of such goods or services or both.

GST will be payable under Reverse Charge Mechanism on Services provided by an individual advocate including a senior advocate or firm of advocates by way of legal services, directly or indirectly.

2. (b) ₹ 29,48,800.

Reason:

Computation of Income of Mr. Raj		(₹)	(₹)
A	Salary Income		24,00,000
B	Education expense	6,00,000	
	Less: As per Rule 2BB: Children Education Allowance	1,200	5,98,800
	Gross Salary Income (A + B)		29,98,800
	Less: Standard Deduction		50,000
	Net Salary Income		29,48,800

There is no specific provision under Income Tax Act that governs the tax treatment for social security contributions made by an employer to the overseas social security scheme on behalf of its employees or by the inbound expatriate employees who continue to contribute to their home social security scheme.

Guidance can be drawn from past judicial rulings where it has been held that employer contribution may not be considered as a taxable perquisite provided the following conditions are satisfied:

- The contribution made is an obligation of employer and is mandatory in nature;
- The contribution made is not an obligation of the employee being met by employer;
- The contribution is not actually paid to the employee or allowed to the employee or due/accrued to the employee from the employer;
- The employee does not have vested right at the time when contribution is made;
- The receipt of the contribution made to the fund is contingent in nature;
- The employees do not have any right to claim the amount payable under the policy on the date on which the contribution is being made.

Thus, the payment by employer towards social security schemes of Country X is not considered as perquisite in the hands of Mr. Raj and thus, is not taken into his computation of income.

3. (c) Penalty of ₹10,000 and imprisonment for a term which shall not be less than three months but which may extend to two years and with fine.

Reason: As per Section 234F of Income Tax Act, 1961,

“(1) Without prejudice to the provisions of this Act, where a person required to furnish a return of income under section 139, fails to do so within the time prescribed in sub-section (1) of the said section, he shall pay, by way of fee, a sum of,—

- (a) five thousand rupees, if the return is furnished on or before the 31st day of December of the assessment year;
- (b) ten thousand rupees in any other case:

Provided that if the total income of the person does not exceed five lakh rupees, the fee payable under this section shall not exceed one thousand rupees.

(2) The provisions of this section shall apply in respect of return of income required to be furnished for the assessment year commencing on or after the 1st day of April, 2018.”

Since Mr. Aditya have filed the return of income after the expiry of the assessment year 2020-2021, he is required to pay penalty of ₹10000.

As per Section 276CC of Income Tax ACT, 1961-

“If a person wilfully fails to furnish in due time the return of fringe benefits which he is required to furnish under sub-section (1) of section 115WD or by notice given under sub-section (2) of the said section or section 115WH or the return of income which he is required to furnish under sub-section (1) of section 139 or by notice given under clause (i) of sub-section (1) of section 142 or section 148 or section 153A, he shall be punishable,—

- (i) in a case where the amount of tax, which would have been evaded if the failure had not been discovered, exceeds twenty-five hundred thousand rupees, with rigorous imprisonment for a term which shall not be less than six months but which may extend to seven years and with fine;
- (ii) in any other case, with imprisonment for a term which shall not be less than three months but which may extend to two years and with fine:

Provided that a person shall not be proceeded against under this section for failure to furnish in due time the return of fringe benefits under sub-section (1) of section 115WD or return of income under sub-section (1) of section 139—

- (i) for any assessment year commencing prior to the 1st day of April, 1975; or
- (ii) for any assessment year commencing on or after the 1st day of April, 1975, if—
- (a) the return is furnished by him before the expiry of the assessment year; or
- [(b) the tax payable by such person, not being a company, on the total income determined on regular assessment, as reduced by the advance tax or self-assessment tax, if any, paid before the expiry of the assessment year, and any tax deducted or collected at source, does not exceed ten thousand rupees.]”]

Mr. Aditya is not covered by the exception provided under Section 276CC of Income Tax Act, 1961. Since the amount of tax is less than twenty five hundred thousand rupees, it is covered by clause (ii) as stated above.

Thus, it will be liable to pay imprisonment for a term which shall not be less than three months but which may extend to two years and with fine.

4. (d) Part C of Form 15CA and Form 15CB is required.

Reason: As per Rule 37BB of Income Tax Rules, 1962, if the amount of payment is more than ₹5,00,000, then Part B of Form 15CA is to be filed, but after obtaining a certificate from Assessing Officer u/s 197 or an order u/s 195(2) or 195(3) Or fill Part C of Form 15CA along with Form 15CB.

Section 195(2)/195(3)/197 is not applicable to Mr. Raj, thus he will have to go for Form 15CB.

5. (a) ₹15,080.

Reason: Long-term capital gains earned by a non-resident on transfer of bonus shares which resulted from original investment of shares made out of convertible foreign exchange is eligible to be taxed at concessional rate of 10 per cent under section 115E.

Computation of Capital Gains	(₹)
Full value of Consideration	170000
Less: Cost of Acquisition	25000
Capital Gains	145000
Tax payable	15080

Part B

6. Every registered person who has been granted registration with effect from a date earlier than the date of issuance of certificate of registration to him, may issue Revised Tax Invoices. Such invoices shall be issued against the invoices already issued during said period.

This provision is necessary, as a person who becomes liable for registration has to apply for registration within 30 days of becoming liable for registration. When such an application is made within the stipulated time period and registration is granted, the effective date of registration is the date on which the person became liable for registration. In the above case, the effective date of registration is 1st November, 2019 since Rain Wear & Co applied for registration within 30 days of becoming eligible.

Thus there would be a time lag between the date of grant of certificate of registration and the effective date of registration. For supplies made by such person during this intervening period, the law enables the issuance of a revised invoice, so that ITC can be availed by the recipient on such supplies. There was a time lag of 22 days between the date of grant of certificate of registration (2nd November, 2019) and the effective date of registration (1st November, 2019). Thus, revised tax invoices need to be issued by Rainwear & Co so that the recipient of such supplies can take the credit of tax paid by them.

Further, a registered person may issue a Consolidated Revised Tax Invoice in respect of all taxable supplies made to an unregistered recipient during such period.

However, in case of inter-State supplies, a consolidated Revised Tax Invoice cannot be issued in respect of all unregistered recipients if the value of a supply exceeds ₹ 2,50,000.

Thus, Rainwear & Co has to issue revised tax invoice to Raj Enterprise, Kamla Enterprise and for Alok & Co. It cannot issue consolidated invoice for Alok & Co as though it is unregistered recipient, but the value of inter-supplies [Maharashtra and Punjab] exceeds ₹2.5 lakhs. For Rishabh & Co, consolidated tax invoices may be issued as the supplies are intra-state.

Following Particulars of Revised Tax Invoice needs to be taken care of while preparing revised tax invoice:

- Name, address and GSTIN of the supplier;
 - A consecutive serial number not exceeding 16 characters, in one or multiple series, containing alphabets or numerals or special characters - hyphen or dash and slash and any combination thereof, unique for a FY;
 - Date of issue of the document;
 - Name, address and GSTIN or UIN, if registered, of the recipient;
 - Name and address of the recipient and the address of delivery, along with the name of State and its code, if such recipient is un-registered;
 - Serial number and date of the corresponding tax invoice or, as the case may be, bill of supply;
 - Signature/digital signature of the supplier/his authorized representative.
7. As per Notification No. 13/2017 CT (R) dated 28.06.2017 as amended has notified the Goods transport Agency services wherein whole of the CGST shall be paid on reverse charge basis by the recipient of services.

GTA services are taxable at the following two rates:

- @ 5% (2.5% CGST+2.5% SGST/UTGST or 5% IGST) provided Goods Transportation Agency has not taken the Input Tax Credit (ITC) on goods and services used in supplying GTA service.
- @ 12% (6% CGST+6% SGST/UTGST or 12% IGST) where GTA opts to pay GST at said rate on all the services of GTA supplied by it. In this case, there is no restriction on availing ITC on goods and services used in supplying GTA service by GTA.

In this case, M/s Radheshaym Tiwari & Co is an unregistered transporter, which means he doesn't pay GST to the Government. Thus, M/s Dushyant & Co will have to pay GST on reverse charge basis if it is specified recipient.

The list of Specified Recipient is mentioned hereunder:

- (a) Any factory registered under or governed by the Factories Act, 1948; or
- (b) Any society registered under the Societies Registration Act, 1860 or under any other law for the time being in force in any part of India; or
- (c) Any co-operative society established by or under any law; or
- (d) Any person registered under the CGST Act or the IGST Act or the SGST Act or the UTGST Act; or
- (e) anybody corporate established, by or under any law; or
- (f) any partnership firm whether registered or not under any law including association of persons; or
- (g) any casual taxable person; located in the taxable territory.

In the case, M/s Dushyant & Co is a factory but it is not registered under Factories Act, 1948. Thus, it will have to first get registered under GST and then pay tax on the Goods Transport Agency service availed by it. Thus, he will have to pay GST of ₹ 2,500. Ms/ Dushyant & Co shall issue a self-generated invoice on the supplies received. Once the payment is made to M/s Radheshyam Tiwari & Co, M/s Dushyant & Co shall issue a payment voucher.

8. Mr. Evrick as a non-resident Indian, made deposits in A Ltd., an Indian company, in convertible foreign exchange. Later on, Mr. Evrick became a resident of India in the P.Y. 2019-20.

Assessing Officer held that assessee was not entitled to concessional rate of tax under section 115H, read with section 115E, for reason that the deposits with Indian company had ceased to be foreign exchange assets.

So long as original source of deposit was convertible foreign exchange, the foreign exchange asset, namely, deposit in A Ltd., an Indian company, would not affect its identity as a foreign exchange asset and, therefore, Mr. Evrick was entitled to concessional rate of tax on interest earned from deposits with A Ltd., under section 115H (reproduced below), read with section 115E of the Act.

Continuance of benefits after the non-resident becomes a resident [Section 115H]

- (a) Where a person who is NRI in any previous year becomes assessable as a resident in any subsequent year, then he may furnish a declaration in writing along with the return of income under section 139 for the year in which he is so assessable.
- (b) The declaration shall be to the effect that the provisions of this chapter shall continue to apply to him in respect of the investment income derived from foreign exchange assets being debentures, deposits, securities of Central Government and such other notified assets as specified under section 115C.
- (c) If he does so, the provisions of this chapter shall continue to apply to him in relation to such income for that assessment year and every subsequent year until the transfer or conversion into money of such assets.

CASE STUDY 2:

Part A

1. (d) 3 months

Reason: According to Indian Accounting Standard number 16 relating to Property, Plant and Equipment, the depreciation on an asset of a company begins when that asset is installed in the location and is provided with such conditions which are required for its working in the manner as desired by the management of that company.

2. (d) ₹ 500 crore or more.

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

3. (b) Considered as Supply of Goods.

Reason: As per provisions of Section 25(5) of C.G.S.T. Act, and Explanation 1 to Section 8 of I.G.S.T. Act transfer of goods between two units of an entity having separate G.S.T. registrations would be considered as supply of goods between those two units.

4. (b) 04/04/2019

Reason: As per Section 12(2) read with Section 31 of C.G.S.T. Act, time of supply of goods in scenario of forward charge is earlier of following dates:

- (i) Date of issue of invoice by supplier.
- (ii) Date of delivery of goods to recipient.
- (iii) Date of recording of payment in books of accounts of supplier.
- (iv) Date of crediting of payment in bank account of supplier.

5. (d) Required to be issued, whatever may be the value of consignment.

Reason: According to third proviso to rule 138(1) of Chapter XVI of the C.G.S.T. Rules, 2017 when goods are sent by a principal located in one State to a job worker located in another State then e-way bill is required to be issued, whatever may be the value of consignment.

Part B

6. Keeping the scenario of HW Limited in mind the answer for each question is as follows:

- (a) The amount of exemption available to HW Limited for the A.Y. 2020-21 as per Section 54 EC of Income Tax Act, 1961 is equal to lower of capital gain on transfer of land or the amount invested in long term specified bonds of Rural Electrification Corporation Limited. So, Capital Gain=

<u>Particulars</u>	<u>Amount (In ₹)</u>
Net Sale Consideration of Land being sold	6,10,00,000
Less: Indexed Cost of Acquisition of Land	<u>5,78,00,000</u>
[5,08,00,000 * [[289/254]]	
Long Term Capital Gain	<u>32,00,000</u>

Amount invested in Long Term Specified Bonds of Rural Electrification Corporation Limited is equal to = [[70/100] * 32,00,000] = ₹ 22,40,000.

Amount of exemption available to HW Limited for the A.Y. 2020-21 = ₹ 22,40,000.

- (b) HW Limited cannot do so in A.Y. 2020-21, because according to Section 54 EC of Income Tax Act, 1961 for A.Y. 2020-21, HW Limited can invest maximum amount of ₹ 50 lakhs in long-term specified bonds of Rural Electrification Corporation Limited.
- (c) As per Section 54 EC of Income Tax Act, 1961 if HW Limited transferred the long-term specified bonds of Rural Electrification Corporation Limited in the financial year 2021-22 then long-term capital gain of ₹ 22,40,000 exempted earlier would be taxed in the financial year 2021-22 for HW Limited.
7. When payments are made by HW Limited, its affect in the following situations will be as follows:
- (a) When payment is made to Mr. T (Resident Individual Contractor) for Repairing of Office Building then according to Section 194C of Income Tax Act, 1961 T.D.S. @ 1% would be deducted as aggregate amount paid to Mr. T (Resident Individual Contractor) during a financial year was more than ₹ 1,00,000 and individual payment made for each contract was more than ₹ 30,000.
- (b) When payment is made to Mr. N (Resident Individual Contractor) for Painting of Office Building then according to Section 194C of Income Tax Act, 1961 no T.D.S. would be deducted as aggregate amount paid to Mr. N (Resident Individual Contractor) during a financial year did not exceeded ₹ 1,00,000 and individual payment made for each contract was not more than ₹ 30,000.
- (c) When payment is made to Mr. Z (Resident Individual) as Rent for use of Machinery then according to Section 194I of Income Tax Act, 1961, no T.D.S. would be deducted as aggregate amount paid to Mr. Z (Resident Individual) during a financial year did not exceeded ₹ 2,40,000.
- (d) When payment is made to Mr. S (Resident Individual) as Rent for use of Building then according to Section 194I of Income Tax Act, 1961 T.D.S. @ 10% would be deducted as aggregate amount paid to Mr. S (Resident Individual) during a financial year was more than ₹ 2,40,000.
8. Keeping the above situation in mind the answer to the questions is as follows:
- (a) In place of YZ and Associates the next auditor of HW Limited will be appointed by Board of Directors of HW Limited because according to Section 139(8) of the Companies Act, 2013 any casual vacancy in office of an auditor of a company is filled by Board of Directors of that company.

- (b) The next auditor of HW Limited appointed in place of YZ and Associates will require approval and that approval must be given by the above-mentioned company at a general meeting held within three months of the recommendation of Board of Directors of HW Limited.
- (c) The next auditor appointed in place of YZ and Associates will hold office of auditor of HW Limited till the conclusion of next annual general meeting of the above-mentioned company.
9. The value of supply of tables and chairs supplied by HW Limited to Mr. F will be determined according to Rule 27 of Chapter IV relating to Determination of Value of Supply of C.G.S.T. Rules will be as follows:
- (a) The value of supply of tables and chairs supplied by HW Limited to Mr. F will be equal to open market value of tables and chairs i.e. ₹ 94,000.
- (b) The value of supply of tables and chairs supplied by HW Limited to Mr. F will be-
= Consideration in terms of Money + Amount of packaging bags supplied by Mr. F to HW Limited
= [70,000 + 22,000] = ₹ 92,000.
- (c) The value of supply of tables and chairs supplied by HW Limited to Mr. F will be-
= Value of tables and chairs of similar kind and quality = ₹ 92,500.
- (d) If the open market value of tables and chairs is not known, consideration in terms of money and amount of non-monetary consideration is not known and value of tables and chairs of similar kind and quality is also not known, then the value of supply of tables and chairs supplied by HW Limited to Mr. F will be determined according to Cost Based Valuation as mentioned in Rule 30 or Reasonable Means as referred to in Rule 31 which is-
= Cost of supply of tables and chairs supplied by HW Limited to Mr. F + 10% of Cost of supply of tables and chairs supplied by HW Limited to Mr. F
= [83,000 + [10/100] * 83,000]
= 83,000 + 8,300 = ₹ 91,300.

CASE STUDY 3:

Part A

1. (c) Farmers work in collaboration with others for cost reduction.
Reason: There is a lack of understanding in farmers regard the cost concepts. Moreover, they do not understand the merits of working in collaboration.
2. (b) Adding the value of performance differential to the cost of next best alternative.
Reason: The formula of TEV is as follows:
TEV = Cost of next best alternative + Value of performance differential
3. (b) No
Reason: The first board meeting has to be held within 30 days of incorporation as per section 173 of the Companies Act, 2013. Subsequent board meetings must be held such that there are 4 board meetings in a calendar year and the maximum gap between any two board meetings can be 120 days.
However, sub-section 5 of section 173 provides that an OPC, small company and dormant company, the provision of 4 board meetings is not applicable. Such companies can hold one board meeting in each half of the calendar year and the gap between two meetings can't be less than 90 days.
Sec. 2(85) defines small company as a company other than public company which has:

- a) Paid-up capital not exceeding ₹ 50 Lacs, and
- b) Turnover not exceeding ₹ 2 Crore.

However, this provision is not applicable to a holding company or a subsidiary company, a section 8 company and a company or body corporate governed by any special Act.

So, in the instant case, the company, being a small company, has not violated any provision of the Companies Act in respect of board meetings.

4. (a) ₹ 16 Lacs

Reason: As per section 80JJAA of the Income Tax Act, 1961, an assessee to whom section 44AB applies, be allowed a deduction of an amount equal to 30% of employee cost on account of new employees employed during the year for 240 days or more.

In the given case, the average employment of the new employees has been for more than 10 months as on 31st March, 2020.

Avg. salary = ₹ 17,000 per month per head. Employment for 10.5 months.

₹ 17,000 x 30 x 10.5 = ₹ 53.55 lacs is the normal deduction.

Additional deduction at 30% = ₹ 16.07 Lacs approx.

5. (a) First AGM can be held any time before 31st December 2019.

Reason: First and Second proviso to section 96(1) of the Companies Act, 2013 deal with the provisions of First AGM of a company. Accordingly, 1st AGM of a company can be held within a period of 9 months from the date of closing the first financial year of the company. If such an AGM is held by the company, it need not hold any AGM in the year of incorporation.

In the instant case, the first financial year for the company has ended on 31st March 2019. If nine months are counted from that date, the first AGM can be held any time before 31st December 2019.

Part B

6. Value-based pricing using true economic value (TEV) method:

Calculation of True Economic Value (TEV) in ₹

Cost of next best alternative	10,000
Add:	
Value of performance differential #	9,600
True Economic Value	19,600

Working Notes:

# Value of performance differential	
Probability of damage to water-pump due to power fluctuations	0.12
Avg. cost of repair in case of damage	8,000
Cost of damage occurrence	960
Frequency of damage	6 months
Life of the new solution	5 years
No. of times damage is avoided during the product life	10
Total cost of damage occurrence avoided	9600

Since the price of advanced pump-set is more by ₹ 70,000 to protect against the risk of damage due to power fluctuations, the value of performance differential for the new product is reasonable and acceptable for a rational customer.

7. Regulatory provisions w.r.t. Board Meetings: Section 173 of the Companies Act, 2013 deals with the provisions relating board meetings. The following points are important from the frequency point of view:

- The first board meeting of the company should be held within 30 days from the date of incorporation.
- Subsequent board meetings can be held such that in a calendar year there are minimum four board meetings and the gap between two board meetings is not more than 120 days.
- One-person Company (OPC), Small Company and dormant company is given some relaxation in this regard. Such companies can have one board meeting in each half of a calendar year and the gap between two meetings should not be less than 90 days.
- If an OPC has only one director, such an OPC is not required to hold even a single board meeting during the year. Thus, making it completely exempt from the requirement of board meetings.
- A section 8 company which has filed its annual return and financial statements on time, can also take the advantage of having only one board meeting in 6 calendar months.

8. Bulk-order analysis (Amount in ₹)

Selling price per unit	A	15,000
Variable cost *	B	5,840
Allocable overheads**	C	145
Contribution	D = A - (B+C)	9,015

Working Notes:

(Amount in ₹)

*Variable cost/unit based on in-house production option

Direct material	3,800
Direct labour	1,250
Direct overheads	790
Variable cost	5,840

** Unit overheads based on annual cost and annual MOQ.

Salary of production manager (75000 x 12)	9,00,000
Rent and other expenses (70000 x 12)	8,40,000
Total allocable overheads	17,40,000
Annual Minimum Order Quantity (MOQ)	12,000
Allocable overheads per unit	145

In the given case, the contribution per unit is ₹ 9,015 which is more than ₹ 8,000 as required by the management. Hence, the company can accept the bulk order from Mr More. Also, since the company is going to expand in states outside Maharashtra, the in-house production decision is financially viable.

CASE STUDY 4:

Part A

1. (c) Applicable as it applies to every Company.

Reason: Section 135 of the Companies Act is applicable to every company meeting the specified criteria. As per section 2(20) of the Companies Act, 'company' means a company incorporated under the Companies Act or under any other previous company law. This would imply that companies set up for the purposes of CSR/public welfare are also required to comply with the provisions of CSR.

2. (a) No, it needs to be spent actually for such qualification.

Reason: By earmarking the amount from such sale for CSR expenditure, the company cannot show it as CSR expenditure. To qualify the amount to be CSR expenditure, it has to be spent. Hence, ₹ 20,000 will not be automatically considered as CSR expenditure until and unless it is spent on CSR activities.

3. (d) Charged to the Statement of Profit & Loss for the year of Transfer.

Reason: The control over the asset is not with the Company and no future economic benefits are expected to flow to the company. So, to be charged as a Revenue Expenditure and not capitalised.

4. (b) Allowed as a Deduction.

Reason: CSR expenditure which is of the nature described under the section 30 to 36 of the Income-tax Act shall be allowed as a deduction. Rent expenses can be claimed under section 30 of the Act and hence it can be claimed as a deduction.

5. (a) This expenditure is an application of income, is not incurred wholly and exclusively for the purposes of carrying on business.

Reason: For the purposes of section 37(1), any expenditure incurred by an assessee on the activities relating to corporate social responsibility referred to in section 135 of the Companies Act, 2013 shall not be deemed to have been incurred for the purpose of business and hence, shall not be allowed as deduction under section 37..

Part B

6. As per Rule 4 of the Companies (CSR) Rules, 2014, the following expenditure are not considered as CSR activity for the purpose of section 135:

- Expenditure on activities undertaken in pursuance of normal course of business;
- Expenditure on CSR activities undertaken outside India;
- Expenditure which is exclusively for the benefit of the employees of the company or their families; and
- Contributions to political parties.

7. (a) Accounting treatment as per AS

Where any CSR asset is recognized in its balance sheet, the same may be classified under natural head (e.g. Tangible assets or Intangible assets) with specific subhead of 'CSR Asset' if the expenditure satisfies the recognition criteria of 'asset'.

	Debit (₹)	Credit(₹)
CSR Asset (Balance Sheet)	XXX	
To Cash/Vendor		XXX

(b) Accounting treatment as per Ind AS

Where any CSR asset is recognized in its balance sheet, the same may be classified under natural head (e.g. Property plant and equipment, Intangible assets or Investment property) with specific sub-head of 'CSR Asset' if the expenditure satisfies the recognition criteria of 'asset'.

The recognition criteria for asset under Ind AS i.e.,

- Ind AS 16 : Property, plant and equipment,
- Ind AS 40 : Investment Property
- Ind AS 38 : Intangible assets

is to be satisfied.

8.

FORMAT FOR THE ANNUAL REPORT ON CSR ACTIVITIES TO BE INCLUDED IN THE BOARD'S REPORT

1. A brief outline of the company's CSR policy, including overview of projects or programs proposed to be undertaken and a reference to the web-link to the CSR policy and projects or programs.
2. The Composition of the CSR Committee.
3. Average net profit of the company for last three financial years.
4. Prescribed CSR Expenditure (two per cent. Of the amount as in item 3 above)
5. Details of CSR spent during the financial year.
 - (a) Total amount to be spent for the financial year;
 - (b) Amount unspent, if any;
 - (c) Manner in which the amount spent during the financial year is detailed below.

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
S. No.	CSR Project or activity identified	Sector in which the Project is covered	Projects or programs (1) Local area or other (2) Specify the State and district where projects or programs was undertaken	Amount outlay (budget) project or programs wise	Amount spent on the projects or programs Sub -heads: (1) Direct expenditure on projects or programs. 2.Overheads:	Cumulative expenditure upto to the reporting period	Amount spent: Direct or through implementing agency
1							
2							
3							
	TOTAL						

*Give details of implementing agency:

6. In case the company has failed to spend the two per cent of the average net profit of the last three financial years or any part thereof, the company shall provide the reasons for not spending the amount in its Board report.
7. A responsibility statement of the CSR Committee that the implementation and monitoring of CSR Policy, is in compliance with CSR objectives and Policy of the company.

Sd/- (Chief Executive Officer or Managing Director or Director)	Sd/- (Chairman CSR Committee)	Sd/- (Person specified under clause (d) of sub-section (1) of section 380 of the Act) (wherever applicable)
--	----------------------------------	---

9. Corporate Social Responsibility (CSR) Reporting is an information communiqué with respect to discharge of social responsibilities of corporate entity. Through 'CSR Report' the corporate enterprises disclose the manner in which they are discharging their social responsibilities. More specifically, it is addressed to the public or society at large, although it can be squarely used by other user groups also.

Section 135 of the Companies Act, 2013 mandated the companies fulfilling the criteria mentioned in the said section to spend certain amount of their profit on activities as specified in the Schedule VII to the Act. Companies not falling within that criteria can also spend on CSR activities voluntarily. However, besides the requirements of constitution of a CSR committee and a CSR policy, the corporate entities should also take care that expenditure incurred for CSR should not be the expenditure incurred for the activities in the ordinary course of business. If expenditure incurred is for the activities in the ordinary course of business, then it will not be qualified as expenditure incurred on CSR activities.

Here, it is assumed that the commercial activities performed at concessional rates are the activities done in the ordinary course of business of the companies. Therefore, the intention of the management to highlight the expenditure incurred on such commercial activities in its financial statements as the expenditure incurred on activities undertaken to discharge CSR, is not correct.

CASE STUDY 5:

Part A

1. (d) Selling Costs to be excluded as per INDAS-2

Reason: While the primary packing material may be included within the scope of the term 'materials and supplies awaiting use in the production process' but the secondary packing material and publicity material cannot be so included, as these are selling costs which are required to be excluded as per Ind AS 2. For this purpose, the primary packing material is one which is essential to bring an item of inventory to its saleable condition, for example, bottles, cans etc., in case of food and beverages industry. Other packing material required for transporting and forwarding the material will normally be in the nature of secondary packing material.

2. (a) 01 , 02 , 06 , 07 , 08 , 09 , 10

Reason: Items number 01, 02, 06, 07, 08, 09, 10 are allowed by Ind AS 2 for the calculation of cost of inventories. Salaries of accounts department, sales commission, and after sale warranty

costs are not considered to be the cost of inventory. Therefore, they are not allowed by Ind AS 2 for inclusion in cost of inventory and are expensed off in the profit and loss account.

3. (b) Retail Method

Reason: The retail method can be used for measuring inventories of the beauty products. The cost of the inventory is determined by taking the selling price of the cosmetics and reducing it by the gross margin of 65% to arrive at the cost.

4. (a) Standard Cost

Reason: The handbags can be measured using standard cost especially if the results approximate cost. Given that The company has the information reliably on hand in relation to direct materials, direct labour, direct expenses and overheads, it would be the best method to use to arrive at the cost of inventories.

5. (b) Retrospectively restating the Comparatives.

Reason: The error shall be corrected by retrospectively restating the comparatives. A third balance sheet as at the beginning of the earliest period shall also be presented.

Part B

6.

BASIS FOR COMPARISON	INTERNAL AUDIT	EXTERNAL AUDIT
1. Meaning	It refers to an ongoing audit function performed within an organization by a separate internal auditing department.	It is an audit function performed by the independent body which is not a part of the organization.
2. Examination	Internal auditor examines the Operational efficiency of the organisation.	External auditor examines the Accuracy and Validity of Financial Statements.
3. Appointment	Internal auditor is appointed by the Management.	External auditor is appointed by the Members.
4. Users of Report	User of internal audit report is Management.	User of external audit report is Stakeholders.
5. Period	Internal audit is a Continuous Process throughout the year.	External audit is done once in a year.
6. Opinion	Opinion is provided on the effectiveness of the operational activities of the organization.	Opinion is provided on the truthfulness and fairness of the financial statement of the company.
7. Status of Auditor	Internal auditor is employee of the company, thus, less independent.	External auditor is an independent person.

7. Computation of Income of Annapurna Trading Pvt. Ltd. chargeable to tax for the A.Y.2020-21 :-

Particulars	₹
Net profit as per profit and loss account	58,90,000
Add: Difference in the value of stocks detected on survey under section 133A on 31.03.2020 chargeable as income (See Note 1)	3,75,000
	62,65,000
Less: Income-tax refund credited in the profit and loss account, out of which interest is to be considered separately under the head "Income from other sources"	20,000
	62,45,000
Add: Expenses either not allowable or to be considered separately but charged in the profit & loss account	
Repair expenses on rented premises where assessee is under no obligation to incur such expenses are not allowable as per section 30(a)(i). However, if such expenses are required for carrying on the business efficiently, the same are allowable under section 37. In this case, assuming that such expenses are required for carrying on business efficiently, the same are allowable under section 37.	-
Advertisement in the souvenir of political party not allowable as per section 37(2B) (See Note 3)	2,500
Payment made to the wife of a director examined as per section 40A(2) and the excess payment made to be disallowed (See Note 5)	75,000
Payment made to electoral trust by cheque (See Note 6)	1,00,000
Penalty levied by the Goods and Services tax department for delayed filing of returns not allowable as being paid for infraction of law (See Note 7)	5,300
Depreciation as per books	71,500
30% of interest paid on loan without deduction of tax at source not allowable as per section 40(a)(ia)	24,000
	65,23,300
Less: Depreciation allowable as per Income-tax Act, 1961	65,000
	64,58,300
Less: Income from specified business (warehousing charges) credited to profit and loss account, to be considered separately (See Note 8)	40,00,000
Income from business (other than specified business)	24,58,300
Computation of income/ loss from specified business (See Note 8)	
Income from specified business	₹ 40,00,000
Less: Deduction under section 35AD @ 100% of ₹50 lakhs	₹ 50,00,000
Loss from specified business to be carried forward as per section 73A	₹ (10,00,000)
Income from Other Sources	
Interest on income-tax refund	5,000
Gross Total Income	24,63,300
Less: Deduction under section 80GGB	
Contribution to political party (See Note 3)	₹ 2,500
Contribution to an Electoral trust (See Note 3)	₹ 1,00,000
Total Income	23,60,800

Notes:

- (1) The business premises were surveyed and differences in the figures of opening and closing stocks and sales were found which have not been disputed and accepted by the assessee. Therefore, the trading account for the year is to be re-cast to arrive at the correct amount of the gross profit/ net profit for the purpose of return of income to be filed for the previous year ended on 31.3.2020.

Revised Trading Account

Particular	₹	Particular	₹
Opening Stock	8,75,000	Sales (₹ 1,55,50,000 + ₹ 75,000)	1,56,25,000
Purchases	1,25,75,000	Closing Stock	12,50,000
Freight and Cartage	1,20,000		
Gross Profit	33,05,000		
	1,68,75,000		1,68,75,000

The difference of gross profit of ₹33,05,000 - ₹29,30,000 = ₹3,75,000 is to be added as income of the business for the year.

- (2) Bonus for the previous year 2018-19 paid after the due date for filing return for that year would have been disallowed under section 43B for the P.Y.2018-19. However, when the same has been paid in December 2019, it should be allowed as deduction in the P.Y.2019-20 (A.Y.2020-21). Since it is already included in the figure of bonus to staff debited to profit and loss account of this year, no further adjustment is required.
- (3) The amount of ₹2,500 paid for advertisement in the souvenir issued by a political party attracts disallowance under section 37(2B). However, such expenditure falls within the meaning assigned to "contribute" under section 293A of the Companies Act, 1956, and is hence, eligible for deduction under section 80GGB. Any contribution to the political party or electoral trust made by way of cash is not allowed as deduction under section 80GGB. Since in the present case, the payment to the political party is made by way of an account payee cheque, it is allowed as deduction under section 80GGB.
- (4) The penalty of ₹15,000 paid for non-fulfilment of delivery conditions of a contract for reasons beyond control is not for the breach of law but was paid for breach of contractual obligations and therefore, is an allowable expense.
- (5) It has been assumed that ₹25,000 is the reasonable payment for the wife of Director, working as a junior lawyer, since junior advocates of High Courts normally charge only ₹25,000 for the same opinion and therefore, the balance ₹75,000 has been disallowed.
- (6) Payment to an electoral trust qualifies for deduction under section 80GGB since the payment is made by way of a cheque. However, since the amount has been debited to profit and loss account, the same has to be added back for computing business income.
- (7) The interest of ₹12,750 paid on the delayed deposit of goods and services tax is for breach of contract and hence, is allowable as deduction. However, penalty of ₹5,300 for delay in filing of returns is not allowable since it is for breach of law.
- (8) Deduction @ 100% of the capital expenditure is available under section 35AD in respect of specified business of setting up and operating a warehouse facility for storage of agricultural produce which commences operation on or after 1.04.2012. It is presumed that ₹50 lacs does not

include expenditure on acquisition of any land.

The loss from specified business under section 35AD (warehousing) should be segregated from the income from other businesses, since, as per section 73A(1), any loss computed in respect of any specified business referred to in section 35AD shall not be set off except against profits and gains, if any, of any other specified business.

In view of the provisions of section 73A(1), the loss of ₹10 lacs from the specified business cannot be set-off against income from other businesses. Such loss has to be carried forward to be set-off against profit from specified business in the next assessment year. The return should be filed on or before the due date under section 139(1) for carry forward of such losses.

- (b) In the context of this Mahajan Food Products Ltd.'s Related parties, the potential effects of inherent limitations on CA Grace's ability to detect material misstatements are greater than usual. Give 2 reasons why? **(2 Marks)**
- (c) What shall the audit team inspect for indications of the existence of related party relationships or transactions that management has not previously identified or disclosed to them? **(2 Marks)**
- (d) Audit Procedures to be followed by the Audit team for identifying significant Related Party Transactions outside the Company's Normal Course of Business. **(2 Marks)**
- (e) Matters that may be addressed in the discussion among the engagement team from time to time for understanding the entity's Related Party Relationships and Transactions. **(3 Marks)**

CASE STUDY 3

The company STYZ Limited was incorporated in the year 2010. The company STYZ Limited was an Indian company that began its business activities soon after incorporation. Board of Directors of STYZ Limited consisted of 7 directors. The seven directors of STYZ Limited were namely Mr. B, Mr. H, Mr. K, Mr. N, Mr. R, Mr. W and Mr. F.

Out of the above mentioned seven directors of STYZ Limited, one director named Mr. B was absent from all the meetings of Board of Directors held during the period of past 12 (twelve) months. Mr. B did not inform about his absence from all the meetings to Board of Directors.

During the financial year 2019-20 one of the directors of STYZ Limited namely Mr. W decided to resign from his office as a director of STYZ Limited by giving a notice in writing to the company STYZ Limited. On 02/11/2019 Mr. W wrote the notice, in which Mr. W clearly mentioned that he would vacate his office as a director of STYZ Limited on 16/11/2019. However, the written notice of resignation of Mr. W was received on 7/11/2019 by the company STYZ Limited. One of the directors namely Mr. K who was not very clear about the provisions of Companies Act was of the opinion that effective date of resignation of Mr. W would be taken as 7/11/2019 because written notice of resignation of Mr. W was received by STYZ Limited on 7/11/2019.

The turnover of STYZ Limited as per the last audited Financial Statements for the financial year 2019-20 was Rs. 128 crore. Mr. N who was one of the directors of STYZ Limited was of the opinion that STYZ Limited was not required to constitute an Audit Committee as turnover of STYZ Limited as per the last audited Financial Statements was less than Rs. 200 crore.

Mr. R also one of the directors of STYZ Limited did not completely agree with the opinion of Mr. N. According to Mr. R if STYZ Limited was required to constitute an Audit Committee then apart from turnover it must also look at its paid up capital.

In opinion of Mr. R, STYZ Limited was required to constitute an Audit Committee if turnover of STYZ Limited as per the last audited Financial Statements was more than or equal to Rs. 200 crore and its paid up capital as per last audited Financial Statements was more than or equal to Rs. 20 crore.

STYZ Limited from beginning was only involved in manufacturing business of furniture. The demand of furniture manufactured by STYZ Limited was huge in the market.

Mr. H one of the directors of STYZ Limited who was the head of accounts department of STYZ Limited asked the employees of accounts department to account for impairment loss on assets in books of accounts of STYZ Limited for the financial year 2019-20. A recently appointed employee of accounts department asked Mr. H whether impairment loss was required to be calculated on all assets. Mr. H explained to the recently appointed employee about the assets on which impairment loss was required to be calculated and the assets on which impairment loss was not required to be calculated.

While calculating impairment loss on different assets in books of accounts of STYZ Limited for the financial year 2019-20 the employees of accounts department of STYZ Limited were facing problem in calculating impairment loss on a machinery that was required for manufacturing business of furniture of STYZ Limited.

The details regarding that machinery for the financial year 2019-20 as per the books of accounts of STYZ Limited was as follows:

PARTICULARS	AMOUNT (In Rs.)
Carrying Amount of Machinery	2,90,000
Fair Value of Machinery	2,20,000
Cost of Disposal	20,000
Value in Use	2,50,000

During the first half of financial year 2019-20, STYZ Limited transferred a machinery named Machinery 20 for Rs. 7,00,000 to its wholly owned subsidiary named SZ Limited on 11/07/2019. SZ Limited was also an Indian company. The Machinery 20 transferred by STYZ Limited was purchased in financial year 2018-19 for Rs. 6,10,000 on 07/12/2018.

In the second half of financial year 2019-20, SZ Limited transferred another machinery named Machinery 34 for Rs. 4,00,000 to its 100% holding company named STYZ Limited on 09/11/2019. The Machinery 34 transferred by SZ Limited was purchased in financial year 2017-18 for Rs. 2,90,000 on 22/2/2018.

In the financial year 2019-20, STYZ Limited had its office for business purpose located in State N. During the financial year 2019-20 STYZ Limited supplied furniture (manufactured by STYZ Limited) as following:

- (a) By delivery of furniture to the buyer named WK Limited, whose office for business purpose was located in State H.
- (b) By delivery of furniture to FJ Limited, whose office for business purpose was located in State H. However, this supply of furniture was made to FJ Limited on instruction of buyer named MZ Limited whose office for business purpose was located in State N.
- (c) Some furniture of STYZ Limited was of such nature that it required to be assembled. On instruction from buyer RG Limited (whose main office for business purpose was located in State N), STYZ Limited was required to assemble that furniture at branch office of RG Limited located in State H.

Keeping the basic concepts of Company Law, Company Audit, Impairment of Assets, Income Tax and Goods and Services Tax in mind answer the following multiple choice questions and descriptive questions:

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

1. In the above case study one of the directors of STYZ Limited named Mr. B without informing to Board of Directors was absent from all the meetings of Board of Directors held during the period of past 12 months. In such scenario which of the following statement is correct:
 - (a) Mr. B will not be allowed to attend next meeting of Board of Directors of STYZ Limited.
 - (b) Mr. B will not be allowed to attend next two meetings of Board of Directors of STYZ Limited.
 - (c) Nothing will happen, as Mr. B is allowed to do so.
 - (d) Mr. B must vacate his office as director of STYZ Limited.

2. In the case study given above one of the directors of STYZ Limited named Mr. K was of the opinion that effective date of resignation of director Mr. W would be taken as 07/11/2019 because written notice of resignation of Mr. W was received by STYZ Limited on 07/11/2019. After considering the opinion of Mr. K which of the following statement is correct:
- (a) Opinion of Mr. K is correct and effective date of resignation of director Mr. W would be taken as 07/11/2019.
 - (b) Effective date of resignation of director Mr. W would be taken as 16/11/2019.
 - (c) Effective date of resignation of director Mr. W would be taken as 07/11/2019 as it is earlier of the two dates i.e. 07/11/2019 and 16/11/2019.
 - (d) Effective date of resignation of director Mr. W would be taken as 02/11/2019 as it was the date on which Mr. W wrote the notice to STYZ Limited.
3. The opinion of Mr. R (one of the directors of STYZ Limited) was that STYZ Limited was required to constitute an Audit Committee if turnover of STYZ Limited as per the last audited Financial Statements was more than or equal to Rs. 200 crore and its paid up capital as per last audited Financial Statements was more than or equal to Rs.20 crore. Opinion of Mr. R was incorrect because STYZ Limited was required to constitute an Audit Committee if:
- (a) Turnover of STYZ Limited as per the last audited Financial Statements was more than or equal to Rs.100 crore or paid up capital of STYZ Limited as per the last audited Financial Statements was more than or equal to Rs.10 crore.
 - (b) Turnover of STYZ Limited as per the last audited Financial Statements was more than or equal to Rs.25 crore or paid up capital of STYZ Limited as per the last audited Financial Statements was more than or equal to Rs.2 crore.
 - (c) Turnover of STYZ Limited as per the last audited Financial Statements was more than or equal to Rs.50 crore or paid up capital of STYZ Limited as per the last audited Financial Statements was more than or equal to Rs.5 crore.
 - (d) Turnover of STYZ Limited as per the last audited Financial Statements was more than or equal to Rs.75 crore or paid up capital of STYZ Limited as per the last audited Financial Statements was more than or equal to Rs.7 crore.
4. For calculating impairment loss, Recoverable Amount is required. For the financial year 2019-20 what was the Recoverable Amount of Machinery that was required for manufacturing business of furniture of STYZ Limited:
- (a) Rs.2,00,000
 - (b) Rs.2,20,000
 - (c) Rs.2,90,000
 - (d) Rs.2,50,000.
5. For the financial year 2019-20 what was the amount of Impairment Loss on Machinery that was required for manufacturing business of furniture of STYZ Limited:
- (a) Rs.20,000
 - (b) Rs.70,000
 - (c) Rs.40,000
 - (d) Rs.30,000.

Part B- Descriptive Questions

6. Calculate the amount of Capital Gain chargeable to tax in A.Y. 2020-21 for:
- (a) STYZ Limited on Machinery 20 transferred to SZ Limited on 11/7/2019.
 - (b) SZ Limited on Machinery 34 transferred to STYZ Limited on 09/11/2019. **(4 Marks)**
7. In the case study given above the director Mr. W decided to resign from his office as a director of STYZ Limited. In such a scenario what are the duties or the responsibilities of each of the following:
- (a) Director Mr. W who is going to resign from his office as a director of STYZ Limited.
 - (b) Board of Directors of STYZ Limited.
 - (c) The company STYZ Limited. **(5 Marks)**
8. Explain with a reason what would be the place of supply regarding furniture manufactured and supplied by STYZ Limited during the financial year 2019-20, in the following scenarios:
- (a) When furniture was delivered to the buyer WK Limited.
 - (b) When furniture was delivered to FJ Limited on instruction of buyer MZ Limited.
 - (c) When furniture was required to be assembled at the branch office of the buyer RG Limited. **(6 Marks)**

CASE STUDY 4

Rahul is the manager in a consultancy firm of chartered accountants namely, M/s ABC chartered accountants. Over the period of seven years since his qualification as a chartered accountant, he has worked on various assignments in diversified specialisations. Rahul's expertise has not been limited to a particular profile only, due to his versatile experience with number of engagements across the industry segments.

Recently, Rahul has been looking on assignments related to Ind AS. So, he has been appointed for a project by his consultancy firm to work on the project to prepare a report for one of its clients, HIM Limited relating to Ind AS Impact analysis.

HIM Limited's finance team does not have any experience in the preparation of financials as per Indian accounting standards. However, some employees of HIM Limited finance's team have recently done a refresher course on Ind AS to understand its principles in general and to have a fair idea for the transition period adjustments. Rahul is required to coordinate with them accordingly.

HIM Limited being a listed entity and having net-worth above Rs.500 crores is required to adopt Ind AS from April 1, 2020 in accordance with the Companies (Indian Accounting Standard) Rules 2015.

After doing extensive research, Rahul has identified some issues which need specific attention of management so that opening Ind AS balance sheet as on the date of transition can be prepared accordingly. Those issues which require consideration, after consultation and working with management are identified as follows, whose impact is going to be carved in the opening Ind AS balance sheet.

Issue 1:

As part of Property, Plant and Equipment, Company has elected to measure land at its fair value and want to use this fair value as deemed cost on the date of transition.

The carrying value of land as on the date of transition is Rs. 5,00,000.

However, the fair value of land as on the date of transition is Rs. 8,00,000.

MTP May 2020

CASE STUDY 3:

Part A

1. (d) Mr. B must vacate his office as director of STYZ Limited.

Reason: If a director absents himself from all the meetings of board of directors of a company held during the period of past 12 months whether informing or not informing the board of directors about his absence then that director must vacate the office as director of that company.

2. (b) Effective date of resignation of director Mr. W would be taken as 16/11/2019.

Reason: Effective date of resignation of a director of a company is taken as the date on which written notice of resignation is received by the company or the date specified by the director (who is resigning) in the written notice of resignation, whichever of the two dates is later.

3. (a) Turnover of STYZ Limited as per the last audited Financial Statements was more than or equal to Rs. 100 crore or paid up capital of STYZ Limited as per the last audited Financial Statements was more than or equal to Rs. 10 crore.

Reason: Every public company is required to constitute an audit committee if turnover of that public company as per the last audited financial statements is more than or equal to Rs. 100 crore or paid up capital of that public company as per the last audited financial statements is more than or equal to Rs. 10 crore.

4. (d) Rs. 2,50,000

Reason: Recoverable amount of an asset is fair value less cost of disposal and value in use whichever of the two is higher.

Fair value less cost of disposal of machinery = Rs.2,20,000 – Rs.20,000 = Rs. 2,00,000

Value in use of machinery = Rs. 2,50,000

Recoverable amount of machinery in this scenario will be value in use of machinery as it is higher than fair value less cost of disposal of machinery. Therefore, recoverable amount of machinery = Rs. 2,50,000.

5. (c) Rs. 40,000

Reason: Impairment loss on an asset = carrying amount of an asset – recoverable amount of an asset, therefore impairment loss on machinery = Rs.2,90,000 – Rs.2,50,000 = Rs. 40,000.

Part B

6. **The amount of capital gain chargeable to tax in A.Y. 2020-21 would be as follows:**

- (a) No capital gain will be chargeable to tax in A.Y. 2020-21 for STYZ Limited on machinery 20 transferred to SZ Limited because when a capital asset is transferred by a holding company to its wholly owned subsidiary company and that wholly owned subsidiary company is an Indian company then such transfer is not regarded as transfer from the point of view of capital gain. So when no transfer has taken place then no capital gain will arise in this situation.
- (b) No capital gain will be chargeable to tax in A.Y. 2020-21 for SZ Limited on machinery 34 transferred to STYZ Limited because when a capital asset is transferred by a subsidiary company to its 100% holding company and that 100% holding company is an Indian company then such transfer is not regarded as transfer from the point of view of capital gain. So, when no transfer has taken place in this situation then no capital gain will arise.

7. Duties or the responsibilities of each is as follows:

- (a) Director Mr. W must give notice in writing to STYZ Limited about his resignation from office as director of STYZ Limited.

Director Mr. W may also forward reasons of resignation along with copy of resignation to registrar within a period of 30 days from resignation date in prescribed form and along with prescribed fees.

- (b) The board of directors of STYZ Limited on receiving the written notice of resignation of director Mr. W must take a noting of the fact that Mr. W is resigning from his office as director of STYZ Limited.
- (c) STYZ Limited must within 30 days from the date of receiving notice of resignation from director Mr. W inform the registrar in prescribed form and also mention this information about resignation of director Mr. W on the official website of the company STYZ Limited if the company STYZ Limited is having any official website. STYZ Limited must mention this information about resignation of director Mr. W in report of directors which is to be presented in next general meeting of company STYZ Limited.

8. The place of supply regarding furniture manufactured and supplied by STYZ Limited during the financial year 2019-20 was as follows:

- (a) The place of supply would be State H, because when goods which are moveable are delivered to the recipient who is also the buyer then the place where such movement of goods end is the place of supply of such goods.
- (b) The place of supply would be State N, because when recipient receives the movable goods on instructions of buyer then it is deemed that buyer has received the moveable goods and place of office of business of the buyer is the place of supply of such goods.
- (c) The place of supply would be State H, because goods which are required to be assembled, for such goods place of supply is the place where those goods are assembled.

CASE STUDY 4:

Part A

1. (c) Nil

Reason: Section 50 provides for the computation of capital gains in case of depreciable assets. Where all assets in a block are transferred during the previous year, the block itself will cease to exist. In such a situation, the difference between the sale value of the assets and the WDV of the block of assets at the beginning of the previous year together with the actual cost of any asset falling within that block of assets acquired by the assessee during the previous year will be deemed to be the capital gains arising from the transfer of short- term capital assets.

In this case, since the block of assets still continues to exist as the company has other buildings also in its portfolio, hence there would be no capital gains on the asset sold.

2. (b) Rs. 50,000

Reason: TDS is applicable on sale of immovable property wherein the sale consideration of the property exceeds or is equal to Rs 50,00,000 (Rs. Fifty Lakhs). Sec 194 IA of the Income Tax Act, 1961 states that for all transactions, Tax @ 1% should be deducted by the purchaser of the property at the time of making payment of sale consideration.

MOCK TEST PAPER 1

FINAL (NEW) COURSE: GROUP – II

PAPER – 6F: MULTIDISCIPLINARY CASE STUDY

*Attempt any **four** out of **five** case study based questions.*

Each Case Study carries 25 Marks.

Time Allowed – 4 Hours

Maximum Marks – 100

CASE STUDY 1

Para I

Mars Construction Ltd. is an Indian construction & manufacturing conglomerate having net worth of Rs. 900 crore during the immediately preceding financial year. It addresses the needs of infrastructure industry for the customers by having several branch offices and a supply chain extending throughout the country. The company is also engaged in executing civil contracts through tenders from various companies, Central Government and State Governments. Every aspect of the company's businesses is characterised by expertise and high standards of corporate governance. The company was correspondingly declared as one of India's Most Honoured Companies in the Institutional Investor Survey because it also has the concern for the community. It contributes to inclusive progress by empowering communities and accelerating growth through interventions in sanitation, health and education. Even before the enactment of provisions relating to Corporate Social Responsibility under the Companies Act, 2013, the company started eradicating hunger, poverty and malnutrition; promoting health care; contributing to the Swachh Bharat Kosh for the promotion of sanitation; promoting education, including employment enhancing vocation skills especially among children, women, elderly and the differently abled.

The Financial Statements of the company for the year ended 31st March, 2019 reveals a net profit (before tax) amounting to Rs. 35,50,00,000 after debiting/crediting the following items:

- (i) Interest of Rs. 3,00,000 due to a public financial institution for the last quarter of the financial year 2018-19 paid on 20th October 2019.
- (ii) Rs. 6,00,000 paid in India to Mr Philip, a non-resident towards fee for technical services without deduction of tax at source. TDS was, however, paid on 30th October, 2019.
- (iii) Damages amounting to Rs. 15,00,000 paid to the Government of West Bengal as per the terms of contract for defects found in construction of a flyover after 5 years of its construction.
- (iv) Depreciation charged Rs. 20,00,000.
- (v) Marked to market loss amounting to Rs. 6,00,000 in respect of an unsettled derivative contract. The contract was settled in May, 2019 with a gain of Rs. 1,00,000.

- (vi) Profit of Rs. 10,00,000 on sale of land to Neptune Inc., U.S.A, which is a wholly owned subsidiary company.
- (vii) Retention money amounting to Rs. 10,00,000 held by a public sector undertaking which can be released on the satisfaction of certain performance criteria as per the terms of contract. The contract was completed during the previous year 2018-19.
- (viii) Rs. 3,00,000 being interest on fixed deposit made with a bank as margin money for obtaining a guarantee required by a State Government for particular contract.
- (ix) Dividend of Rs. 10,00,000 received from a Real Estate Investment Trust (REIT) the break-up of which is as follows:
 - Component of short-term capital gain on sale of development properties by the REIT Rs. 6,00,000.
 - Component of rental income from properties owned by the REIT Rs. 4,00,000.

Other Information

- (i) Depreciation as per Income-tax Rules Rs. 25,00,000.
- (ii) Land sold to Neptune Inc was acquired at a cost of Rs. 38,00,000 in the financial year 2013-14 Value on the date of sale assessed by the Stamp Valuation Authority was Rs. 50,00,000 (Cost Inflation Index-Financial Year 2013-14 : 220; Financial Year 2018-19 : 280).
- (iii) During the year 20 new employees were recruited. All these new employees contribute to recognized provident fund. 15 employees out of 20 employees joined on 01-05-2018 and the other 5 employees joined on 15th November, 2018. 10 employees, who joined on 1st May, 2018 were offered salary of Rs.24,500 per month and the other employees who joined on the same date drew salary of Rs.32,000 per month. All the employees were paid through single account payee cheque except the one employee who joined on 1st May, 2018 at salary of Rs. 24,500 per month who drew his salary by bearer cheques of Rs. 12,500 and Rs. 12,000 every fortnight in a month.
- (iv) The company's accounts are required to be audited under section 44AB of the Income-Tax Act.

Para II

The extract of Independent Auditors' Report to the members of Mars Construction Ltd. is given below:

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Individual Financial Statements of the current period. These matters were addressed in the context of our audit of the Individual Financial Statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The Company has material uncertain tax positions including matters under dispute which involves significant judgment to determine the possible outcome of these disputes. Notes on accounts (a) and (b) are relevant in this regard.

(a) Taxes on income

Tax on income for the current period is determined on the basis of taxable income and tax credits computed in accordance with the provisions of the Income Tax Act, 1961 and based on the expected outcome of assessments/appeals.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Company's financial statements and the corresponding tax bases used in computation of taxable profit and quantified using the tax rates and laws enacted or substantively enacted as at the Balance Sheet date.

Deferred tax liabilities are generally recognised for all taxable temporary differences including the temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are generally recognised for all taxable temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets relating to unabsorbed depreciation/business losses/losses under the head "capital gains" are recognised and carried forward to the extent of available taxable temporary differences or where there is convincing other evidence that sufficient future taxable income will be available against which such deferred tax assets can be realised.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of reporting period, to recover or settle the carrying amount of its assets and liabilities.

Transaction or event which is recognised outside Profit or Loss, either in Other Comprehensive Income or in equity, is recorded along with the tax as applicable.

(b) Provisions, Contingent Liabilities and Contingent Assets

Provisions are recognised only when:

- (i) the Company has a present obligation (legal or constructive) as a result of a past event;
- (ii) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (iii) a reliable estimate can be made of the amount of the obligation.

Provision is measured using the cash flows estimated to settle the present obligation and when the effect of time value of money is material, the carrying amount of the provision is the present value of those cash flows. Reimbursement expected in respect of expenditure required to settle a provision is recognised only when it is virtually certain that the reimbursement will be received.

Contingent Liability is disclosed in case of:

- (i) a present obligation arising from past events, when it is not probable that an outflow of resources will be required to settle the obligation; and
- (ii) a present obligation arising from past events, when no reliable estimate is possible.

Contingent Assets are disclosed where an inflow of economic benefits is probable. Provisions, contingent liabilities and contingent assets are reviewed at each Balance Sheet date.

Where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under such contract, the present obligation under the contract is recognised and measured as a provision.

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

1. What amount shall be considered as the full value of consideration for the purpose of calculation of income under the head Capital Gain as per Income Tax Act, 1961?
 - (a) Rs. 48,00,000
 - (b) Rs. 50,00,000
 - (c) Rs. 38,00,000
 - (d) Rs. 50,40,000
2. Which of the following employee's salary shall be considered for the purpose of calculation of additional deduction allowed in respect of emoluments paid to new employees under the Income Tax Act, 1961?
 - (a) All of the new employees shall be considered as the company has generated new employment in the era of retrenchment.
 - (b) Five employees who joined on 01-05-2018 and drew salary within the range i.e. exceeding Rs. 25,000 per month but below Rs. 35,000 per month.
 - (c) Only one employee who joined on 01-05-2018 whose monthly emolument is within the limit of Rs. 25,000 and onetime payment does not exceed Rs. 15,000 each through bearer cheques.
 - (d) Nine employees who joined on 01-05-2018 whose monthly emolument is within the limit of Rs. 25,000 and payment is made through account payee cheque.

3. The Companies Act, 2013 lays down the provisions requiring certain specified companies to mandatorily spend a prescribed percentage of their profits on certain specified areas of social upliftment in discharge of their social responsibilities. Broadly, CSR implies a concept, whereby companies decide voluntarily to contribute to a better society and a cleaner environment – a concept, whereby the companies integrate social and other useful concerns in their business operations for the betterment of its stakeholders and society in general in a voluntary way.

In the context of above para, state which of the following statement is correct.

- (a) Mars Construction Ltd. is not mandatorily required to empower communities because of the exemption given to construction companies.
 - (b) Mars Construction Ltd. is mandatorily required to empower communities because it need to make good the loss of defects found in the construction of one of its flyovers.
 - (c) Mars Construction Ltd. is not mandatorily required to constitute a Corporate Social Responsibility Committee of the Board as it is having net worth less than Rs. 1000 crore.
 - (d) Mars Construction Ltd. is mandatorily required to constitute a Corporate Social Responsibility Committee of the Board as it is having net worth more than Rs. 500 crore.
4. How much additional deduction shall be allowed in respect of emoluments paid to new employees under the Income Tax Act, 1961?
- (a) Rs. 7,27,650
 - (b) Rs. 9,70,200
 - (c) Rs. 24,25,500
 - (d) Rs. 26,95,000
5. How much gain/ loss would be chargeable to tax under the head 'Capital Gain' as per Income Tax Act, 1961?
- (a) Rs. 2,03,636
 - (b) Rs. 1,63,636
 - (c) Rs. 10,00,000
 - (d) Rs. (36,364)

Part B- Descriptive Questions

6. From the information given in Para I, compute Profits and Gains from Business or Profession for the Assessment Year 2019-20 indicating reasons for treatment of each item and ignoring the provisions relating to minimum alternate tax (MAT).

The due date for filing of return of Income Tax for Assessment Year 2019-20 be taken as 30-09-2019.

(10 Marks)

7. From the information given in Para II, where key audit matters have been addressed by the auditors, describe principal audit procedures that may have been followed by the auditor regarding material uncertain tax positions. **(5 Marks)**

CASE STUDY 2

Background

VayuSanchar Limited is a leading telecommunications company of India headquartered in Delhi. The Company ranks among the top four network service providers. It offers 2G, 3G and 4G wireless services under post-paid and pre-paid connectivity, fixed line telephone services and mobile commerce. It operates more than 2,260 telecom towers across 12 telecom circles.

The Company's dream is to boost the lives of customers. Its passion is to win customers for life through an exceptional experience. During the current year, the company also launched Unified Payments Interface (UPI) enabled digital payments allowing payments to any bank account of different merchants through smartphones, to beat the rivalries. This bitter relationship between VayuSanchar Limited and HawaSanchar Limited, Lucy Limited & Magadh Limited (the rivalries) in network service providers, has spilled over to the high-speed broadband to corporates segment, as all the four companies battle for monopoly in market share.

VayuSanchar Limited launched its hyper speed VS Fibre broadband service, matching the price of other network service providers. This plan comes with unlimited landline calls along with premium online membership to the latest movies released through VS Fibre Application (the App).

Employees' Wellbeing

In addition to boosting the lives of its customers, the company also believe in looking after the wellbeing of its employees. For this, it has established a Code of Conduct, Human Rights Policies demonstrating its commitment towards protection of Human Rights. In addition to this, the company has set up Internal Complaint Committee, to prevent sexual harassment at workplace, comprising a Presiding Officer who is a senior level woman employee, two employees who are committed to the cause of women having experience in social work along with legal knowledge, one independent member from outside the organization who expertise in dealing with such matters. All the members need to hold office for a period not exceeding three years from the date of nomination as member. The Committee is responsible for dealing with all matters related to the subject.

Besides having an Internal Complaint Committee, company went through an intermittent vacancy of the woman director on 19th June, 2018, the vacancy of which was filled on 18th September, 2018 by the Board, though, the immediate Board meeting held on 18th August, 2018.

Accounting and Auditing Perception

The Balance Sheet of VayuSanchar Limited as at 31st March is given below:

ASSETS	2019 Amount (Rs.)	2018 Amount (Rs.)
Non-Current Assets		
Property, Plant and Equipment	8,44,00,000	7,17,40,000
Other Non-Current Assets	3,92,00,000	2,79,40,000
Current Assets		
Financial Assets:		
Investments	1,95,00,000	2,12,00,000
Cash and Cash Equivalents	74,00,000	1,44,60,000
Trade Receivables	1,35,00,000	1,26,60,000
Total	16,40,00,000	14,80,00,000
EQUITY AND LIABILITIES		
Equity		
Equity Share Capital	4,30,00,000	4,30,00,000
Other Equity:		
Reserve and Surplus	3,56,00,000	2,25,00,000
Liabilities		
Non-Current Liabilities:		
Long Term Borrowings	2,25,00,000	3,90,00,000
Current Liabilities:		
Financial Liabilities		
Trade Payables	2,55,00,000	1,70,00,000
Payables for Expenses	2,24,00,000	1,49,00,000
Other Current Liabilities	1,50,00,000	1,16,00,000
Total	16,40,00,000	14,80,00,000

Other information: The company made a net profit after tax of Rs. 1,40,00,000 during the current year and paid interim dividend of Rs. 9,00,000. The value of Property, Plant and Equipment have been arrived after deducting Rs. 15,00,000 on account of depreciation. However, the company also sold one of its Property, Plant and Equipment for Rs. 9,00,000, the carrying amount of which was Rs. 8,00,000 at the end of the year 2019.

The company has the practice of releasing quarterly reports containing financial and operating highlights, key developments, results of operations, stock market highlights, ratio analysis, summarised financial statements, etc. These reports are submitted to the Delhi Stock Exchange, where it has listed security receipts, and are also hosted on the Company's website.

The 23rd Annual General Meeting of the company held on 8th August, 2019 at Sky Force Auditorium, Delhi where statutory auditor's report were adopted.

The extracts of Independent Auditor's Report to the members of Vayu Sanchar Limited for the Financial Year 2018-19 along with Notes to the Individual Financial Statements and Annexures are given below:

Report on the Individual Financial Statements

We have audited the Individual Financial Statements of VayuSanchar Limited ("the Company"), which comprise the balance sheet as at March 31, 2019, and the Statement of Profit & Loss (including Other Comprehensive Income), Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, and Notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

Responsibilities of Management for the Individual Financial Statements

The Company's Board of Directors are responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these Individual Financial Statements that give a true and fair view of the financial position, financial performance including other comprehensive income, cash flows and changes in equity of the Company in accordance with the Indian Accounting Standards (Ind AS) prescribed under section 133 of the Companies Act, 2013 read with the Companies (Indian Accounting Standards) Rules, 2015, as amended, and other accounting principles generally accepted in India.

This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Individual Financial Statements

Our responsibility is to express an opinion on these Individual Financial Statements based on our audit. In conducting our audit, we have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the

provisions of the Act and the Rules made thereunder and the Order issued under section 143(11) of the Act.

We conducted our audit of the Individual Financial Statements in accordance with the Standards on Auditing specified under section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Individual Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the Individual Financial Statements. The procedures selected depend on the auditor's judgment, including identifying and assessing the risks of material misstatement of the Individual Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates and related disclosures made by management. It further describes the auditor's responsibilities to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

We believe that the audit evidence obtained by us is sufficient and appropriate to provide a basis for our audit opinion on the Individual Financial Statements.

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid Individual Financial Statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the Ind AS and other accounting principles generally accepted in India, of the state of affairs of the Company as at March 31, 2019, its profit, total comprehensive income, changes in equity and its cash flows for the year ended on that date.

Emphasis of Matter

We draw attention to **Note 18** to the Individual Financial Statements which describes the uncertainties related to the legal outcome of Department of Telecommunications demand with respect to one-time spectrum charges.

Our opinion is not modified in respect of this matter.

Report on Other Legal and Regulatory Requirements

As required by the Companies (Auditor's Report) Order, 2016 ("the Order") issued by the Central Government in terms of Section 143(11) of the Act, we give in "**Annexure C**" a statement on the matters specified in paragraphs 3 and 4 of the Order, to the extent applicable.

Notes to Individual Financial Statements stated as follows:

18. On February 9, 2014, Department of Telecom issued a demand for Rs. 24,00,000 towards levy of one-time spectrum charge. The demand includes a prospective charge of Rs. 20,00,000 for GSM spectrum held beyond 3.5 MHz for the period from February 1, 2014, till the expiry of the initial terms of the respective licenses along with retrospective charge of Rs. 4,00,000 for GSM spectrum held beyond 5.1 MHz for the period from February 1, 2010 to December 31, 2013.

In view of the Company, said demand amounts to modification of financial terms of the licenses issued in the past. A petition being filed by the Company, the Hon'ble High Court of Delhi, vide its order dated February 28, 2014, has directed the Department of Telecom to respond and not to take any coercive action until the next date of hearing. The DoT has filed its reply and the matter is currently pending with the Hon'ble High Court of Delhi.

25. Contingent Liabilities- Claims against the Company not acknowledged as debt

Customs Duty

During the current Financial Year, the custom authorities issued a demand notice for custom duty with regard to import of certain software on the basis of the fact that the software was preloaded in the hardware at the time of import. In response to that, the company filed an application to the Hon'ble Central Excise and Service Tax Appellate Tribunal ('CESTAT') opposing the demand of custom authorities, contending that such imports shall not be subject to custom duty as it is an operating software which is exempted from any custom duty. However, the CESTAT has passed an order in favour of the custom authorities. Consequently, the Company has filed an appeal with the Hon'ble Supreme Court against the CESTAT order, which is still unheard.

Annexure C to the Independent Auditor's Report

(ii) As elucidated to us, the inventories, except for those lying with the third parties, were physically verified during the year by the Management at reasonable intervals and no material discrepancies were noticed.

(iii) As elucidated to us, the Company has not granted any loans, secured or unsecured, to companies, firms, Limited Liability Partnerships or other parties covered in the register maintained under section 189 of the Companies Act, 2013.

(xi) In our opinion and as elucidated to us, the Company has paid managerial remuneration in accordance with the requisite approvals mandated by the provisions of section 197 read with Schedule V to the Companies Act, 2013, except that the commission of Rs. 34,570 to non-executive directors is in excess by Rs. 18,200, basis the lower limits approved by the Shareholders of the Company.

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

1. While reporting on Companies (Auditor's Report) Order, 2016 (the Order) under the head Other Legal and Regulatory Requirements, the auditor included a statement on payment of

managerial remuneration in accordance with the requisite approvals mandated by the provisions of section 197 read with Schedule V to the Companies Act, 2013. State whether the reporting is in accordance with the reporting requirement under the Order.

- (a) Yes, the auditor has reported as per the reporting requirement which requires stating the amount involved in case of qualified answer.
 - (b) No, the auditor has not reported as per the reporting requirement which requires stating the steps taken by the company for securing refund of the same.
 - (c) No, the auditor has not reported as per the reporting requirement which requires stating the period of default upto the date of seeking Shareholders' approval for which excess commission was paid.
 - (d) No, the auditor has not reported as per the reporting requirement which requires stating the compliance of section 198 of the Companies Act, 2013.
2. Every listed company shall appoint at least one woman director on the Board in compliance of the provisions of the Companies Act, 2013 read with the Companies (Appointment and Qualification of Directors) Rules, 2014. In the given case, the company went through an intermittent vacancy of the woman director, which was filled later on. State whether the appointment of another women director by the Board to fill the intermittent vacancy is valid.
- (a) The intermittent vacancy of a woman director can only be filled by the shareholders not later than coming annual general meeting. Thus, the appointment is invalid.
 - (b) The intermittent vacancy of the woman director shall be filled by the Board. There is no such compliance for time limit. Thus, the appointment is valid.
 - (c) The intermittent vacancy of a woman director can only be filled by the Board not later than immediate next Board Meeting or two months from the date of such vacancy whichever is later. Thus, the appointment is invalid.
 - (d) The intermittent vacancy of a woman director can only be filled by the Board not later than immediate next Board Meeting or three months from the date of such vacancy whichever is later. Thus, the appointment is valid.
3. The Securities and Exchange Board of India (SEBI) has issued the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("LODR Regulations"). The objective of the LODR Regulations are streamlining and consolidating the provisions of various listing agreements in operation for different segments of the capital markets. State which of the following companies is not covered under LODR Regulation for the purpose of its compliances.
- (a) VayuSanchar Limited which has established a Code of Conduct, Human Rights Policies towards protection of Human Rights. In addition to this, the company has also set up Internal Complaint Committee to prevent sexual harassment at workplace.
 - (b) HawaSanchar Limited, a public company, which has a paid up capital of Rs. 100 crore.

- (c) Lucy Limited which has a paid up capital of Rs. 10 crore and listed non-convertible debt securities.
 - (d) Magadh Limited which has listed securitised debt instruments on a recognised stock exchange.
4. Regarding demand notice for custom duty from the custom authorities, state, whether the company needed to provide for the provision/ liability/ contingent liability in the books of VayuSanchar Limited.
- (a) A provision is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. Thus, provision shall be made in the financial statements, instead of showing it to the notes to financial statements.
 - (b) It is a liability of uncertain timing and amount, thus, the demand shall be recognised as a liability.
 - (c) It is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Thus, the presentation as contingent liability under notes to financial statements is correct.
 - (d) It is a present obligation that arises from past events but is not recognised because (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or (ii) the amount of the obligation cannot be measured with sufficient reliability. Thus, the presentation as contingent liability under notes to financial statements is correct.
5. Referring the Independent Auditor's Report to the members of Vayu Sanchar Limited, the auditor has included a section with the heading "Auditor's Responsibilities for the Audit of the Financial Statements.". Elucidate, what shall not be stated under this section of the Auditor's Report.
- (a) Auditor's responsibilities for identifying and assessing the risks of material misstatement of the financial statements.
 - (b) Auditor's responsibilities for obtaining an understanding of internal control relevant to the audit in order to design audit procedures.
 - (c) Auditor's responsibilities for assessing the entity's ability to continue as a going concern.
 - (d) Auditor's responsibilities for evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates.

Part B- Descriptive Questions

6. Referring the presentation made by the auditor regarding Emphasis of Matter paragraph in the Auditor's Report, state the conditions for including such paragraph. Also give certain examples of cases where the auditor may consider necessary to include an Emphasis of Matter

paragraph. Consequently, state, whether the reporting made by the auditor in the Auditor's Report is in accordance with the relevant Standards on Auditing. **(7 Marks)**

7. Considering the Balance Sheet of VayuSanchar Limited and 'Other information' as provided along with the facts mentioned below, construct a statement of cash flows under indirect method.

- (i) Income tax paid during the current year is Rs. 30,00,000.
- (ii) Other Non-Current Assets and Current Liabilities do not contain any element of Financing and Investing Activities. **(8 Marks)**

CASE STUDY 3

Akhil, Nikhil and Sahil are partners of **Soil Elements LLP**. They have started a new business in 2018 based on their experience of more than 10 years in chemicals industry.

Soil Elements LLP is based on the concept that soil quality in terms of fertility and its nutritional values to the plant differ every few yards even in the same plot of land. So, the partners at Soil Elements will do essential testing of soil, plant stem, leaf and the fruit on non-invasive and non-destructive basis. The test results and analysis will help the farmers in optimal use of plant nutrients in order to not only maximise the yield but also to preserve the soil fertility from excess use of fertilisers which deplete the soil fertility.

Precision farming is a new concept in the field of agriculture which aims at providing the essential nutrients to plants based on the need both in terms of nature and quantity of such nutrient. Agriculturally advanced countries like Israel, parts of USA and Netherlands have achieved much more through precision farming than just a traditional farming.

India has been an agrarian economy since eons. In the recent years the agricultural land has been shrinking due to construction and many other reasons but the population is increasing faster than the shrinkage of fertile land. In such a situation, India has no option but to indulge in precision farming sooner than later.

You're a CA friend of Sahil who has approached you with his other partners to help them out with the finances and initial handholding in accounts.

Based on your multiple meetings with the partners and potential vendor partners of the LLP, you've gathered the following additional information about the business.

Farmers will be on-boarded through Mobile Application which will be able to capture location-mapped images of the farmland, display information about their sample results and also get important news on weather in their area.

Samples will be collected by the sales representatives from the farms based on specific guidelines by the LLP.

Samples are tested, analysed and reported based on special purpose machines (SPMs) which are imported from Netherlands. Each SPM will cost 96000 Euros. The cost of shipping and installation would be around 10% of the cost of the machine. SPM, in order to be usable in the business should

be calibrated for each category of plants like Mango. The cost of calibration varies based on the duration of the plant, season of the year and its target market like exports or domestic as follows:

Crop/Plant	Duration	Season of the year	Target Market	Cost (Rs.)
Mango	Perennial	Summer	Domestic	5 Lacs
Mango	Perennial	Summer	Exports	8 Lacs
Tomato	6 to 9 months	All season	Domestic	3 Lacs
Tomato	6 to 9 months	All season	Exports	7 Lacs
Pomegranate	Perennial	Winter & Summer	Domestic	6 Lacs
Pomegranate	Perennial	Winter & Summer	Exports	9 Lacs
Grapes	Perennial	Feb to April	Domestic	4 Lacs
Grapes	Perennial	Feb to April	Exports	6 Lacs

Calibration exercise of each domestic SPM takes about 6 months' time. The partners have decided to focus only on perennial crops in domestic markets except for Mango as Export market is far more attractive for Mango. Accordingly, 3 SPMs were ordered. 1 Euro was equal to Rs. 79.12 on the date of order when 50% payment was done. The remaining 50% payment was done after receiving the machines in India when the exchange rate was Rs. 80.24.

You were invited by the partners for the meeting with potential vendors for Mobile App development. Going through multiple meetings, finally a vendor by name **Indosys** is selected on the following terms:

3 resources will be allocated by Indosys to Soil Elements who will be directly reporting to Nikhil. Anurag from Indosys will be the project manager and single point of contact (SPOC) for the App Development.

Average resource cost of Indosys is Rs. 75,000 per month per head. The Application is expected to be ready in 4 months as per the Statement of Work (SOW) signed by the parties. The profit margin of Indosys is 40% for all domestic projects. Once the application is ready, the ongoing support will be provided by Indosys through an Annual Maintenance Contract (AMC) which is usually 5% of the development cost.

Miscellaneous fixed assets (MFA) like Office furniture, computers, laptops etc. is expected to cost Rs. 5 lacs.

Budget for each sales representative salary is Rs.25,000 p.m. per head and 6 people will be hired initially from 1st October, 2018 and this headcount is expected to remain the same for first 6 months. This headcount is expected to increase by 6 every 6 months in the first 3 years and then stabilize at that level for year 4 and year 5. Salary increment every year can be assumed at 10%.

Office rent and other overheads are expected to be Rs. 80,000 p.m. One-time cash outflow for Office Rent Deposit is Rs. 3 Lacs. The partners have agreed to remain unpaid for initial 3 years. From year 4 and 5, each partner will draw a remuneration of Rs. 2 lacs p.m. as salary.

Akhil is in-charge of the marketing campaign. Marketing budget given by him is as follows: (Rs.)

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5
Van Campaign	5 Lacs	10 Lacs	10 Lacs	12 Lacs	15 Lacs
Wall Painting	3 Lacs	5 Lacs	6 Lacs	8 Lacs	10 Lacs
Farmers Meeting	3 Lacs	4 Lacs	5 Lacs	6 Lacs	8 Lacs
Marketing collaterals	1 Lac	1.5 Lacs	2 Lacs	3 Lacs	3 Lacs

Van Campaigning, Wall Painting and Farmers meetings these are some of the age-old marketing practices for agricultural business. Even though farmers in recent times have started using smart phones and internet, these practices are still yielding results, especially for new brands coming into the market. Moreover, these practices also ensure continuity of employment opportunities for people engaged in painting etc. who normally live nearby major village clusters.

The revenue model of the firm has been kept simple for now. Farmers need to subscribe the test-packages through mobile application. Anyone can download the App but only paid members will be able to access advanced features like taking geo-location based pictures of the land, requesting for test reports etc.

The subscription plans of the firm are as follows (per sample basis):

2-test package	Rs. 2000
8-test package	Rs. 5000
16-test package	Rs. 10000

Barely, 3 months into the operations, the firm has already started getting attracted towards angel investors in Mumbai, Bangalore and Chennai. As a finance consultant you have advised your friend Sahil to wait for some more time before actually responding to any investors or trying to approach one on his own.

This is so because with time the valuations get better and better. Also, if there are any issues in the minimum viable product (MVP) during the trial run, the same can be fixed and a new version can be launched in the market.

During the first year of operations, the LLP incurred the following cost:

Direct Cost – Rs. 19,00,000

Indirect Cost – Rs. 75,32,500 (which includes depreciation and amortization of intangible asset)

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

- The Mobile Application that is being developed by Soil Elements LLP can be classified as _____ subject to criteria in the specified IND AS. Successful trial of on-boarding a few pilot customers has been done by the firm.

- (a) R & D cost.
 - (b) Intangible Asset.
 - (c) Revenue Expenditure.
 - (d) Deferred Revenue Expenditure.
2. The special purpose machines imported from the Netherlands, can't put to use directly without calibrating the same for crop-specific pre-set information and conditioning. Cost of calibration should be treated as _____.
- (a) Revenue expenditure.
 - (b) Calibration expenses.
 - (c) Capitalized as part of SPM cost in PPE.
 - (d) Deferred Revenue Expenditure.
3. There has been a fluctuation in the foreign exchange rate of Euro. What will be the treatment of foreign exchange difference between the time of order and the time of balance payment for SPMs?
- (a) Will be treated as exchange loss and debited to P&L Account.
 - (b) Will be ignored.
 - (c) Will be treated as part of preliminary expenses to be written off over next 5 years.
 - (d) Will be added to the cost of SPM to be capitalized.
4. In year 3, the firm is approached by an investor for 10% stake and with an exit plan of 5 years from there. If the investment is to be taken from the investor what is the first compliance required?
- (a) Private Placement Offer.
 - (b) Increase in contribution.
 - (c) Conversion of LLP into company.
 - (d) Filing of PAS-3 and PAS-4 with the Registrar of Companies (RoC).
5. What is the total cost of calibration of SPMs purchased?
- (a) Rs. 15 Lacs
 - (b) Rs. 16 Lacs
 - (c) Rs. 17 Lacs
 - (d) Rs. 18 Lacs

Part B- Descriptive Questions

6. What is the cost of SPM used for Mango, if all the SPMs were funded by bank (invoice value only) at a cost of 10% p.a.? Assuming that it took 13 months for the machines to get ready for the intended use? **(5 Marks)**
7. Special Purpose Machines (SPM) have been the major capex for the firm. What are the disclosure requirements as per relevant IND ASs in respect of SPMs? **(5 Marks)**
8. If the firm wants to achieve break even in the first year of operation, what would be break-even no. of farmers subscribing to the App? Assume that each farmer will buy 10 numbers of only the 2-test package in the first year? **(5 Marks)**

CASE STUDY 4

Live Green, Love Green, Be Green.....

With this thought in mind, Rahul Jain, an Environmental Engineer innovated the idea of setting up a Venture for providing “**Gardening Services**” as a Start-up in his home city of Ludhiana. Since childhood, he had heard many a times that Ludhiana is the Manchester of India, an industrial hub and wondered how much his city needs to be Green for its Beautification and a Pollution- Free Environment. He discussed the idea of this start-up with his school friend Riya, a Commerce Graduate and Rohan Pai, a college friend living in Bengaluru - a Software Engineer & Application Developer. The three of them discussed several times over this idea and finally decided to go ahead with the venture. They knew that before proceeding forward with anything, they had to be clear with the research and set clear objectives.

“**New India Green India**” being the need of the hour, this start-up business idea of theirs would cater to the following products & services:

1. The Business of their start-up would be to provide Pots, Flowers, Seeds, Saplings and other Plants of utility or having aesthetic value at the door-step of the Customer.
2. The Business would also include providing Gardening services to the Customers by employing Gardeners either directly or on Contract Basis.
3. They would advertise and take orders via Website, Mobile App, Phone Calls and they would need to develop an appropriate Payment & Feedback Policy.

They divided all the Preliminary Work among themselves. They were apprehensive that they need to opt for a suitable Business Structure for their Start-up keeping in mind various compliances, so Rohan took the task of researching on this and for the development of the necessary e-infrastructure, i.e., the Website and Mobile Application as well. Riya, being a Commerce graduate took the charge of looking into the Taxation Compliance of the Business and Rahul himself took upon the task of looking into the design and costing process for the proposed Start-up.

LEGAL STRUCTURE & DESIGN

Rohan, being an Application Developer himself would easily design the Mobile App, Website and other necessary e-infrastructure. However, for giving their start-up a suitable legal form, he consulted Mr. Lamba, a Practising Chartered Accountant. On being approached, Mr. Lamba suggested him that if they are a Start-up, then they must opt for a Private Limited Company because of more benefits available but lesser and easy to follow compliances. He briefed Rohan on the following points:-

1. They would need to think of an innovative and catchy name whose availability will be checked with the Ministry of Corporate Affairs, Govt. Of India.
2. The Country is Passing through a **"Start-Up India Movement"** and a host of benefits will be available to their Start-Up.
3. He will Carry out the whole Incorporation Process for them.
4. Rahul, Riya & Rohan would be the subscribers to the MOA of the Co. and therefore would be its First directors. They would need to apply for Director Identification Number (DIN) and all the Provisions w.r.t. a Private Co. for Board Meetings, General Meetings, Maintenance of Books of Accounts, Statutory Registers, Filing of Periodic & Annual Forms would apply mutatis mutandis to their start-up as well.
5. Under the Incentive of Doing Business initiatives of the Government of India, the Government in order to ease the incorporation process, has set up a mobile application as well as a dedicated web portal whereby:-
 - (a) A simplified form can be filled for registration of start-up with various government agencies. Importantly, this mobile application has been integrated with the Ministry of Corporate Affairs for seamless integration.
 - (b) Filing for compliances and obtaining information on the status of various clearances and approvals has also been made possible on the app.

TAXATION

Riya, herself had read about start-ups and their taxation during her study and training time. She researched more on this aspect and found about the taxation policies and incentives relating to their Start-Up. On this aspect, she found the following important considerations necessary:-

1. Their start-up would be liable to taxation under the head PGBP like any other Normal Business.
2. However, with the present govt. supporting and motivating the growth of start-ups, they will be eligible for Tax- Incentives u/s 80-IAC in order to aid their growth in the early phase of their business.
3. A deduction of 100% of the Profits & Gains derived by them from this Proposed Business, being an eligible business for section 80-IAC, is allowed for any 3 consecutive Assessment Years out of 7 years beginning from the year in which their eligible Start-up company is incorporated.

4. She got to Know about the meaning of Eligible Business and Eligible Start-up under 80-IAC of the Income Tax Act, 1961.

Company or LLP engaged in Eligible Business is an Eligible Start-Up for claiming Deduction if :-
1. Incorporated during the Period from 01.04.2016 - 31.03.2021
2. Total Turnover \leq Rs. 25 crores in the P.Y. relevant to the A.Y. in which deduction is claimed.
3. Holds a certificate of eligible business from the notified IMBC.

5. A CBDT notification also exempted Start-ups from taxation in respect of Share Premium received from Resident investors. This means that their Start-up may receive funding from Resident investors without having to pay income-tax on the amount of Share Premium received on the shares issued to investors.
6. Also, Capital Gains arising from the sale of Residential Property by an Individual & HUF have been made exempt **u/s 54GB** of the Income Tax Act, 1961 when such gains are invested to subscribe equity shares of an eligible Start-up subject to certain terms and conditions.

COSTING & REVENUE ASPECTS

Rahul, an Environmental Engineer was thought to be fit to take upon this aspect. He would need to carry out detailed Operational Analysis, Investment involved, Costing Technique and Methods to be adopted and how to induce the investors to fund their business for they being low on Budget. The most important task was the Strategic Analysis of the Operating Income, they could expect to generate from their Start-up in early years and in Future. He evaluated various Costing techniques to evaluate Profitability and found the ABC method to be the best suitable for their start-up. For analyzing Operating income, he spread his analysis into 3 main areas of **Growth Component, Price Recovery Component & Productivity Component** and to cover both revenue and cost-effect on these Components separately.

Rahul found that a well-Designed ABC system is a powerful aid to management evaluation & decision making to improve organizational performance. ABC, with its emphasis on activities and their cost-drivers, helps cost to be identified more easily & effectively. However, in their case, **Customer Profitability Analysis** was more important because to cost customers was more important than to cost their products/ services. Being a relatively new technique, ABC creates Cost pools for activities based upon the customers' different activity profiles. All customers may not cost the same owing to distance variations w.r.t. delivery to various customers, rush orders, after-sales services, contract-based services, etc. Their cost included Flower Pots, Plants and Saplings cost, Designing, Order Processing costs, Delivery Costs, Gardeners' Salary/ Daily Wages for Gardening Services provided to Customers on a Periodic or Contract basis, etc.

After gaining full knowledge of the tasks assigned amongst themselves, they all met again with their respective research findings and decided to go ahead with their eligible start-up under the name &

style of '**Haryali Private Limited**', which is a technology driven start-up, with the tagline 'Greener than Ever' to make the city of Ludhiana beautifully green than ever. The registered Office of the Company was set up in Ludhiana itself and starting operations to be carried at Ludhiana level only. It was also decided to expand the business Pan- India once it is successful in Ludhiana.

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

1. Rohan, one of the Directors of Haryali Pvt Ltd., residing in Bengaluru, usually attends the Board Meetings through Video-Conferencing. However, he is not allowed to attend the Meeting of Board of Directors through Video-Conferencing or other audio visual means but IN PERSON only for-
 - (i) Approval of Annual Financial Statements.
 - (ii) Approval of Board's Report.
 - (iii) Approval of Managerial Remuneration.
 - (iv) Approval of Prospectus.
 - (v) Approval of Buy-Back of Shares.
 - (vi) Approval of Appointment of New Directors.
 - (a) (i), (ii) & (vi)
 - (b) (ii), (iv) & (v)
 - (c) (i), (ii) & (iv)
 - (d) (iii), (iv) & (v)
2. Rahul, Riya & Rohan need to decide on the Maximum Managerial Remuneration they can get as Directors. So, on a reading of section – 197 of the Companies Act, 2013 read with Schedule V, the maximum percentage of Net Profits of the Company they can get in the form of Managerial Remuneration is -
 - (a) 11%
 - (b) 10%
 - (c) 5%
 - (d) Sec.-197 not applicable to their Company
3. The Management of Haryali Pvt Ltd. would need to file Form _____ for submitting Financial Statements and Form _____ for filing their Annual Return respectively with ROC every year.
 - (a) AOC – 4, MGT – 7
 - (b) MGT – 9, AOC – 4

- (c) AOC – 4, DIR – 8
- (d) AOC – 4, MGT – 9
4. As per a CBDT notification, a start-up is exempt from taxation w.r.t. Share Premium received From Resident investors. Here, Share Premium refers to-
- (a) Aggregate consideration received for issue of shares as exceeds the fair market value of such shares.
- (b) Aggregate consideration received for issue of shares as exceeds the paid-up value of shares.
- (c) Aggregate consideration received for issue of shares as exceeds the Face Value of such shares.
- (d) Fair market value of Shares as exceeds the Face Value of shares issued.
5. Mr- X sold a Residential Property and wants to invest his Capital Gains in the Shares of Haryali Pvt. Ltd. for clamming exemptions u/s 54GB . He is subject to the condition that he holds more than 50% Shares of Haryali Pvt Ltd., a technology driven start-up, and such amount is further utilised by the Company to purchase-
- (a) Land or Building.
- (b) Flower Pots & other items.
- (c) Computer or Computer Software.
- (d) Floral park.

Part B- Descriptive Questions

6. Haryali Private Ltd.'s total turnover & Profits and gains from its eligible Start-up Business turn out to be as follows for the P.Y. 2018-19 to P.Y. 2024-25:

<u>PARTICULARS</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>	<u>2021-22</u>	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>
Profit/Loss (in Rs. Lakhs)	(2.52)	(1.37)	6.52	8.13	9.87	7.59	9.42
<u>Turnover (in Rs. Lakhs)</u>	15.42	18.36	20.21	22.72	24.95	23.52	24.68

- (a) Explain what is an 'Eligible Business' as per section 80 – IAC of the Income Tax Act, 1961. **(2 Marks)**
- (b) By what time does Haryali Pvt Ltd. need to file its Return of Income for the A.Y.2019-20 to claim deduction u/s 80 – IAC ? **(1 Mark)**
- (c) Explain in respect of which year the company can avail benefit under section 80 – IAC and how much? **(3 Marks)**

7. List the provisions of the Companies Act, 2013 w.r.t. holding of Board Meetings by Haryali Pvt. Ltd. **(3 Marks)**
8. 'X' and 'Y' are two Prime Customers of Haryali Pvt. Ltd. who purchase a special category of Plant Saplings from the Company to distribute in various societies of the city under 'Green India Initiative' through their respective NGO's. The Selling Price per Sapling is Rs. 540 and its cost to Haryali Ltd. is Rs. 442.

The Additional costs are:

Order Processing Cost : Rs. 20 per Order

Delivery Cost : Rs. 35 per Delivery

Details of X & Y's Purchase for the Period is as Follows:

Particulars	X	Y
Pots Purchased (in No.)	35	50
No. Of Orders	5 (each of 7 units)	10 (each of 5 units)
No. Of Deliveries	5	0

Haryali Pvt. Ltd. has devised a Policy to give a Discount of 5% on the S.P. on order for 5 Units or more and to further give 8% discount on the Undiscounted Selling Price if a Customer places order through their Mobile App & uses his own transport to collect the order.

Required :-

- (a) Analyse the Profitability by Comparing Profit per unit for each Customer. **(4 Marks)**
- (b) Comment on the Discount Policy on Delivery. **(2 Marks)**

CASE STUDY 5

'INDIA - THE BUDDING INVESTMENT HUB'

Gone are the days when India used to be known as an underdeveloped nation and then, a slowly developing nation which could only cater to the demands of its own Population barely. Time changes and so does the global image. With the hard work of its huge Population and tremendous growth opportunities, India is slowly becoming a favorite destination for investments from outside of its boundaries. It has become one of the most progressive countries in the world which possesses immense human potential, both as the Producer and as the Consumer. With such a buzzing name in

the Foreign Investment world, there has been huge amounts of FDI into the country and trends reveal that every year the FDI inflow in India is increasing due to a host of foreign businesses starting their operations in the country.

One such foreign business is of '**Ahuja Designs Incorporated**' based in U.K and headed by an India-born UK citizen Mr. Ramesh Ahuja. Mr. Ahuja had migrated to the U.K. in the 80's with his family and set up a business over there which flourished over so many years and is now a big Brand name in the UK market in the business of Furniture Designing and its Uniquely Designed High Quality Products. Now Mr. Ahuja is eyeing on investing in Indian market and he has asked the General Manager of his company Mr. Tandon to work out the feasibility of investing in India in Business and all related Procedural Compliances.

Mr. Tandon has approached CA Vishal in India for Consultancy purposes and assigning all the work relating to setting up of their business in India. CA Vishal is a Partner in the Partnership firm M/s G & Co. since the past 6 years. On being approached, he assured Mr. Tandon that their firm would give them the best services possible in setting up of their business in India. CA Vishal after due discussions with his Partners in the firm has prepared a detailed report to be sent to Mr. Tandon for consideration and quoting fee to be charged by their firm from time to time for the services to be rendered in the due course time as follows:-

M/s G & Co.

ABC Road, New Delhi

**REPORT ON PROCEDURAL & TAXATION COMPLIANCES W.R.T SETTING UP OF BUSINESS
IN INDIA**

It is indeed a Pleasure for our Firm to assist your reputed company in setting up your business in India, a buzzing destination for overseas investments. We, hereby provide you with all the details as requested by you:-

LEGAL FORM & PROCEDURE

Foreign businesses can adopt 2 strategies for entry into Indian market – One is by registration of a company or other is by establishing a branch/liaison office in India. The former is the easiest way and the fastest also because it falls under the Automatic route for FDI in India and in such case, no special permission is required from the Central Govt. in India. The latter case however requires RBI and/or Government approval and therefore, we suggest you to opt for the Private Company route because the cost and the time which is required for the registration of a Branch/Project/Liaison office

in India is higher than the time & cost attached to the incorporation of a Private Limited Company as a Foreign Company in India.

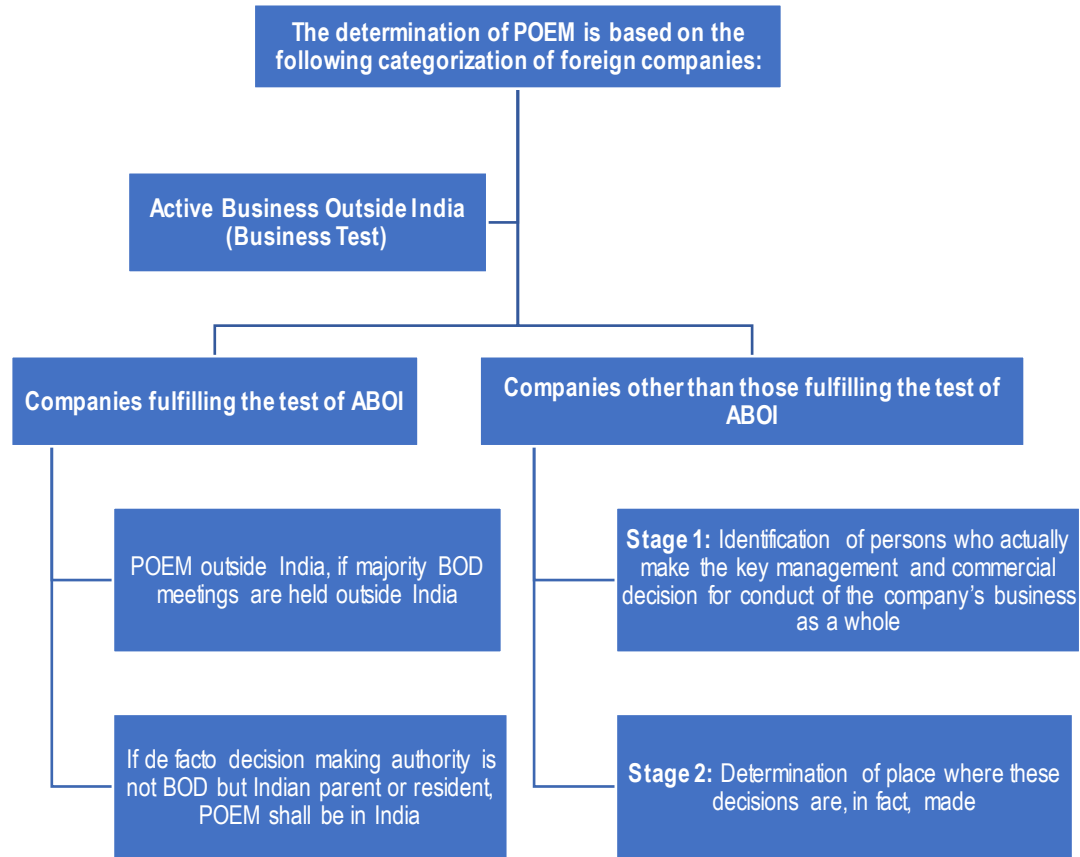
The Indian law defines a 'Foreign Company' as any company or body corporate incorporated outside India and which has a place of business in India whether by itself or through an agent, physically or through electronic mode and it conducts any business activity in India in any other manner. Further, every Foreign company has to deliver to its Jurisdictional Registrar of Companies, all the required documents (to be prepared by us) within 30 days of establishing its place of business in India in the requisite form.

In order to start a company in India, a minimum of two individuals and an address is required in India. If we are talking about a Private Limited Company, it should have at least two directors (individuals) and a minimum of two shareholders (can be individuals or even corporate entities). Furthermore, one of the Director of the Company must be an Indian Citizen and also an Indian Resident. As per the rules, the preferred legal entity structure for the Foreign companies is to preferably establish a company which consists of three Directors, out of which two directors can be foreign nationals belonging to the Parent company and one of the directors have to be an Indian citizen. There are no such rule of minimum shareholding of the Indian Director. It is mandatory to have an address in India which can be served as the registered office address of the company. Most of the foreign companies setup their registered offices in the metro cities in India like Mumbai, Delhi, Bangalore, Chennai, Hyderabad etc.

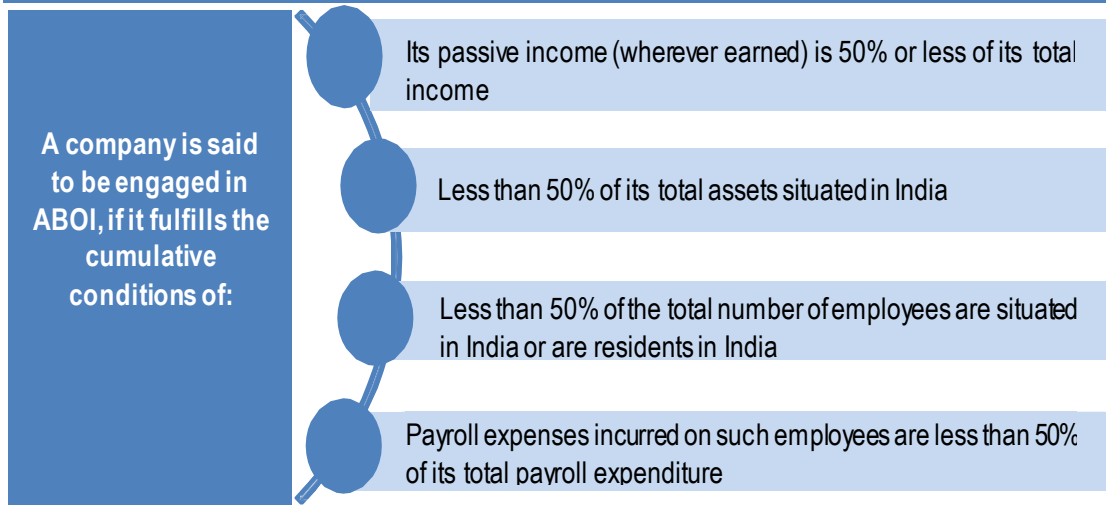
All other issues w.r.t. issue of Prospectus and further Procedural Compliances like Accounts, Audit, etc. can be dealt at a later stage once we finalise with the Registration Process. However, it is necessary to bring to your kind notice that there are Fines/Punishments under the Indian Companies Law for the contravention of its provisions by a Foreign Company too as laid down under Section-392. But, you may note that the Foreign Company's failure to comply with such provisions of the Chapter-XXII of the Companies Act,2013 would not affect the validity of its contracts, etc.

TAXATION COMPLIANCES

Taxation of Cross-border transactions in India is generally based on Residence and Source of Income. The overview of these rules is contained in Sections-5,6,8,9 of the Income tax Act,1961. While Residents are taxable on Global income, Non-residents are taxed on their Indian sourced income or income received or accrued or deemed to accrue or arise in India. The residential status of any Non-Indian Company in India is determined w.r.t. its **POEM - Place of Effective Management** of the Company. If POEM of the Company in any year is in India, then it is a Resident in India for that particular year. Further, the process of determination of POEM would be primarily based on the fact as to whether or not the company is engaged in Active Business Outside India (ABOI) as follows:-



What is ABOI test?



Hence, where a Foreign Company's income –taxation is based upon its POEM, its Employees or Director's who might come on frequent basis in India to transact business are governed by the provisions w.r.t. Residential Status of Individuals as contained in the Indian Income-tax law. Further, Taxation Provisions as regards to the Business of the Company can be discussed later on, once of the Company Starts Operating its business in India.

We, at M/s G & Co. will be very delighted to render our services to your prestigious company and help you grow to achievable heights in India. We hope that in the beginning –this much of information is beneficial for your decision making purposes. Please let us know if any further information is required at your end or any clarity you feel to seek, we shall be happy to help.

Please refer to the attachment with this e-mail for the fee quotes w.r.t. the services to be rendered by our firm to your good self in due course of time.

Thanks

CA Vishal

Partner

M.No.- XXXXXX

M/s G & Co.

Chartered Accountants

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

1. If Ahuja Designs Incorp. conducts any business activity in India through Electronic mode, it means carrying out electronically based, whether main server is installed in India or not, including, but not limited to-
 - (i) B2B & B2C transactions, data interchange and other digital supply transactions.
 - (ii) Offering to accept deposits or inviting deposits or accepting deposits or subscriptions in securities, in India or from citizens of India.
 - (iii) Online services such as telemarketing, telecommuting, telemedicine, education and information research.
 - (iv) All related data communication services.
 - (a) (i) & (ii)
 - (b) (ii) & (iii)
 - (c) (i), (ii), (iii) & (iv)
 - (d) (ii), (iii) & (iv)

2. 'Ahuja Designs Ltd.' would require to file all the information & documents with the jurisdictional ROC within 30 days of the establishment of its place of business in India in FORM:
- (a) FC-2
 - (b) FC-1
 - (c) FDI-1
 - (d) FDI-2
3. Foreign Nationals or entities can hold _____ of the shares in Ahuja Designs Ltd. if incorporated as a Foreign Co. In India.
- (a) 100%
 - (b) 75%
 - (c) 57%
 - (d) 25%
4. "Passive Income" as referred to in the ABOI test for a Foreign Company's taxation refers to:
- (a) Income from the transactions where both the purchase and sale of goods is from/to its associated enterprises.
 - (b) Income by way of royalty, dividend, Capital Gains, interest or rental income whether or not involving associated enterprises.
 - (c) Aggregate of (a) & (b).
 - (d) Net income obtained by deducting (b) from (a).
5. 'Head office' of Ahuja Designs Ltd. would be the place where the company's Senior management and their direct support staff are predominantly located and not where the majority of its employees work or where its board typically meets. Which of the following officers of the company doesn't fall under the definition of 'Senior Management'?
- (a) Managing Director or CEO.
 - (b) Financial Director or CFO.
 - (c) Chief Operating Officer (COO).
 - (d) Debenture Trustee/ Nominated Director.

Part B- Descriptive Questions

6. Ahuja Designs Ltd., sets up its Indian Principal Place of business in New Delhi. It is required to deliver various documents to ROC under the provisions of the Companies Act, 2013:

- (a) You are required to state, where the said company should deliver such documents. **(1 Mark)**
- (b) In case, it fails to do so, state the Penalty prescribed under the said Act, which can be levied. **(3 Marks)**
7. To handle the growing Indian Business more effectively, Mr. Ramesh Ahuja decides to permanently shift to India with his family and decides to manage the UK business from India itself. He returned to India on 12th June, 2018 for permanently residing in India after a stay of about 20 years in UK and provides the following sources of his various income & seeks your opinion to know about his liability to income tax thereon in India in Assessment Year 2019-20:
- (a) Income of rent of the flat in London which was deposited in a bank there. The flat was given on rent by him after his return to India since July, 2018.
- (b) Dividends on the shares of three UK Companies which are being collected in a bank account in London. He proposes to keep the dividend on shares in London with the permission of the Reserve Bank of India.
- (c) He has got two sons, one of whom is of 12 years and other 19 years. Both his sons are staying in London and not coming to India with him. Each of his sons is having income of Rs. 75,000 in U.K. in foreign currency (not received in India) and of Rs. 20,000 in India.
- (d) During the preceding accounting year when he was a non-resident, he had sold 1000 shares which were acquired by him in British Pound Sterling and the sale proceeds were repatriated. The profit in terms of British Pound Sterling on sale of these 1000 shares was 175% of the cost at Rs. 37,500 while in terms of Indian Rupee it was Rs. 50,000. **(8 Marks)**
8. Examine with reasons whether the following statements are correct/incorrect :-
- (a) Amount paid by the Govt. of India for use of a Patent developed by 'Ahuja Designs Incorp.'(UK) is taxable in India U/s 9 of the Income Tax Act, 1961. **(2 Marks)**
- (b) As per CBDT Circular no. 8/2017, dated 23-02-2017, POEM guidelines shall not apply to Ahuja Designs Ltd. if its Turnover or Gross receipts are Rs. 100 Crores or less in a Financial Year. **(1 Mark)**

MOCK TEST PAPER 1
FINAL (NEW) COURSE: GROUP – II
PAPER – 6F: MULTIDISCIPLINARY CASE STUDY
SUGGESTED ANSWERS / HINTS

CASE STUDY 1:

Part A

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Part B

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

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

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

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

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

- (a) Obtaining understanding of key uncertain tax positions;
- (b) Obtaining details of completed tax assessments and demand for the current year from the management,
- (c) Along with internal tax experts -
 - (i) Discussing with appropriate senior management and evaluate the Managements' underlying key assumptions in estimating the tax provision;
 - (ii) Assessing management's estimate of the possible outcome of the disputed cases; and
 - (iii) Considering legal precedence and other rulings in evaluating management's position on these uncertain tax positions.
- (d) Considering the effect of new information in respect of uncertain tax positions as at the beginning of the year to evaluate whether any change is required to management's position on these uncertainties.

CASE STUDY 2:

Part A

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

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

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

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

3. (b) HawaSanch Ltd., a public company, which has a paid up capital of Rs. 100 crore.
Reason: The LODR Regulations shall apply to the listed entity who has listed designated securities on recognised stock exchange.
4. (c) It is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Thus, the presentation as contingent liability under notes to financial statements is correct.
Reason: As per Ind AS 37, a contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. In the given case, the appeal is pending before the court which is a possible obligation because the liability for payment arising or not is dependent on the outcome of court decision.
5. (c) Auditor's responsibilities for assessing the entity's ability to continue as a going concern.
Reason: As per SA 700, the auditor's report shall include a section with a heading "Responsibilities of Management for the Financial Statements.". This section of the auditor's report shall describe management's responsibility for assessing the entity's ability to continue as a going concern.

Part B

6. SA 706 'Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report', provides that if the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements, the auditor shall include an Emphasis of Matter paragraph in the auditor's report provided:
- (a) The auditor would not be required to modify the opinion in accordance with SA 705 'Modifications to the Opinion in the Independent Auditor's Report' as a result of the matter; and
- (b) When SA 701 'Communicating Key Audit Matters in the Independent Auditor's Report' applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report.

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

- (a) An uncertainty relating to the future outcome of exceptional litigation or regulatory action.
- (b) A significant subsequent event that occurs between the date of the financial statements and the date of the auditor's report.
- (c) Early application (where permitted) of a new accounting standard that has a material effect on the financial statements.
- (d) A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.

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

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

Therefore, the reporting is in accordance with SA 706.

7.

Statement of Cash Flows of VayuSanchar Limited

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

CASE STUDY 3:

Part A

1. (b) Intangible Asset

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

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

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

- (i) It is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- (ii) The cost of the asset can be measured reliably.

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

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

Reason: Para 16 of Ind AS 16 says that-

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

- (i) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- (ii) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

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

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

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

4. (c) Conversion of LLP into company

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

5. (d) Rs. 18 Lacs

Reason: Domestic and Perennial combination –

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

Exports and Perennial combination –

Mango Rs. 8 Lacs

So, total cost of calibration = Rs. 18 lacs

Part B

6.

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

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

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

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

Special Purpose Machine

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

- Cost of shipping and installation at the place of business.
- Cost of calibrating the SPM for the desired level of performance of the machine to suit the business requirement.
- Borrowing cost which is incurred wholly for the purpose of buying the SPM and since the same was required to be calibrated for a period of 13 months, it satisfied the criteria of qualifying asset as per IND AS 23
- The assets in this class are depreciated over the useful life from the date of being ready to use.
- The method of depreciation used is straight line method.

8. **Operational break-even level in year 1:**

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

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

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

$4717/10 = 471.7$ or 472 farmers.

CASE STUDY 4:

Part A

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

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

2. (d) Sec.-197 not applicable to their Co.
Reason: Sec.-197 lays down the max. remuneration payable to Managerial Personal of a Public Co. and is not applicable to a Private Ltd. Co.
3. (a) AOC – 4, MGT – 7
Reason: Form AOC-4 is used for filing Annual Accounts & MGT-7 is used for filing Annual details w.r.t. Management of the Company with ROC annually.
4. (a) Aggregate consideration received for issue of shares as exceeds the fair market value of such shares.
Reason: As per the relevant CBDT notification, this Exemption has been provided to Start-ups from taxability under Section-56(2)(vib) of Income tax Act, 1961.
5. (c) Computer or Computer Software.
Reason: The Company has to utilize this amount to purchase Computer or Computer Software.

Part B

6. (a) **Meaning of eligible business:** A business carried out by an eligible start-up engaged in –
 - Innovation, development or improvement of products or processes or services or
 - a scalable business model with a high potential of employment generation or wealth creation.
- (b) Section 80AC stipulates compulsory filing of return of income on or before the due date specified under section 139(1), as a pre-condition for availing benefit of deductions under any provision of Chapter VI-A under the heading “C. – Deductions in respect of certain incomes”. Hence, Haryali Pvt. Ltd. should file its IT Return on or before 30.09.2019.
- (c) Haryali (P) Ltd. is an eligible start-up, since –
 - (1) it is a company engaged in eligible business of innovation of new products/services.
 - (2) it is incorporated during the period 1.4.2016 to 31.3.2021.
 - (3) its total turnover does not exceed Rs. 25 crores in the P.Y. 2018-19.
 - (4) it holds a certificate of eligible business from the notified IMBC.

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

In the first and second year i.e., P.Y.2018-19 and P.Y.2019-20, Haryali (P) Ltd. has incurred a loss. In the P.Y. 2020-21, Haryali (P) Ltd. earns profits from eligible business and can hence, claim 100% of its profits as deduction for any three consecutive assessment years under section 80-IAC from the P.Y.2020-21 to P.Y.2024-25. However, for P.Y.2020-21, the profits eligible for deduction would be the profits after set-off of brought forward losses of P.Y.2018-19 and P.Y. 2019-20.
7. Section 173 of the Companies Act, 2013 provides for Meetings of Board. According to this section:
Frequency of Board Meetings [Section 173 (1)]:
 - (a) **First Board meeting:** Every company shall hold the first meeting of the Board of Directors within 30 days of the date of its Incorporation.
 - (b) **Subsequent Board meetings:** Every company shall hold minimum of 4 meetings every year provided that the gap between two consecutive board meetings shall not be more than 120 days.

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

8. (a) **Customer's Profitability Statement**

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

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

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

CASE STUDY 5:

Part A

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

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

- (i) business to business and business to consumer transactions, data interchange and other digital supply transactions;
- (ii) offering to accept deposits or inviting deposits or accepting deposits or subscriptions in securities, in India or from citizens of India;

- (iii) financial settlements, web based marketing, advisory and transactional services, database services and products, supply chain management;
 - (iv) online services such as telemarketing, telecommuting, telemedicine, education and information research; and
 - (v) all related data communication services,
- whether conducted by e-mail, mobile devices, social media, cloud computing, document management, voice or data transmission or otherwise.

2. (b) FC-1

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

3. (a) 100%

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

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

Reason: It is the aggregate of, -

- (i) income from the transactions where both the purchase and sale of goods is from/to its associated enterprises; and
- (ii) income by way of royalty, dividend, capital gains, interest or rental income.

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

5. (d) Debenture Trustee/ Nominated Director

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

- (i) Managing Director or Chief Executive Officer;
- (ii) Financial Director or Chief Financial Officer;
- (iii) Chief Operating Officer; and
- (iv) The heads of various divisions or departments (for example, Chief Information or Technology Officer, Director for Sales or Marketing).

Part B

- 6. (a) The Companies Act, 2013 vide section 380 requires every foreign company to deliver to the Registrar for registration, within 30 days of the establishment of office in India, documents which have been specified therein. According to the Companies (Registration of Foreign Companies) Rules, 2014, any document which any foreign company is required to deliver to the Registrar shall be delivered to the Registrar having jurisdiction over New Delhi.
- (b) The Companies Act, 2013 lays down the governing provisions for foreign companies in Chapter XXII which is comprised of sections 379 to 393. The penalties for non filing or for contravention of any provision for this chapter including for non filing of documents with the Registrar as required by section 380 and other sections in this chapter are laid down in section 392 of the Act which

provides that if a foreign company contravenes the provisions of this Chapter, the foreign company shall be punishable with a fine which shall not be less than Rs. 1,00,000 but which may extend to Rs. 3,00,000 and in the case of a continuing offence, with an additional fine which may extend to Rs. 50,000 for every day after the first day during which the contravention continues and every officer of the foreign company who is in default shall be punishable with imprisonment for a term which may extend to six months or with fine which shall not be less than Rs. 25,000 but which may extend to Rs. 5,00,000, or with both.

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

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

- (a) Rental income from a flat in London which was deposited in a bank there shall not be taxable in the case of a resident but not ordinarily resident, since both the accrual and receipt of income are outside India.
- (b) Dividends from shares of three UK Companies, collected in a bank account in London, would also not be taxable in the case of a resident but not ordinarily resident since both the accrual and receipt of income are outside India.
- (c) As per section 64(1A), all income accruing or arising to a minor child is includible in the hands of the parent, after providing for deduction of Rs.1,500 per child under section 10(32). Accordingly, income of Rs. 20,000 accruing to his minor son, aged 12 years, in India is includible in the income of Ramesh, after providing deduction of Rs. 1,500. Therefore, Rs. 18,500 is includible in the income of Ramesh. Income accruing to the minor child outside India (which is also received outside India) is not includible in the income of Ramesh. Since the other son is major, his income is not includible in the income of Ramesh.
- (d) Repatriation of sale proceeds of 1000 shares sold in the preceding accounting year, when Ramesh was a non-resident, is not taxable in the A.Y.2019-20 since it is not the income of the P.Y.2018-19.

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

8. (a) The statement is correct. As per section 9(1)(vi), income by way of royalty payable by the Government of India is deemed to accrue or arise in India. "Royalty" means consideration for, inter alia, use of patent. Therefore, the amount paid by Government of India for use of patent developed by 'Ahuja Designs Incorp.'(UK), a non-resident, is deemed to accrue or arise in India. Hence, it is taxable in India in the hands of the Company.
- (b) The statement is incorrect. The CBDT vide Circular no. 8/2017 dated 23.02.2017 clarified that POEM guidelines shall not apply to a company having turnover or gross receipts of Rs. 50 crores or less in a financial year.

MOCK TEST PAPER
FINAL (NEW) COURSE: GROUP – II
PAPER 6F: MULTIDISCIPLINARY CASE STUDY

Background

M/s. XYZ and Associates is a reputed firm of Chartered Accountants having their Head Office at Delhi and branches in Chennai, Bengaluru, Visakhapatnam, Pune and Kolkatta. The Audit firm at Head Office specializes in Mergers and Acquisitions, Business Valuation, International Taxation, Corporate Finance and Debt Re-structuring, Due Diligence, IPO's, Qualified Institutional Placements, Investigations and remediation framework besides regular audit and auxiliary services, handling Income Tax assessments/appeals etc. The Head Office and all the branches has a variety of listed corporate entities and un-listed corporate entities doing businesses in the growth sector of the economy like Textiles, Cement, Pharmaceuticals, Iron and Steel, NBFC's, Technology, Real Estate, Software and Media segments besides Individuals, Partnership Firms, Trusts, HUF and AoP clients.

You are a young and robust Chartered Accountant with 10 years of post qualification experience, holding certificate of merit from ICAI for securing all India 1st Rank in the final examination, possess excellent communication and inter-personal, skills, computer savvy and technically thorough in all gamut's of Audit, Taxation, Company Law and Advisory roles on multidisciplinary and economic legislations.

Based on your qualifications, experience and merits, you have been appointed as the Audit Partner of the Pune branch and you have been specifically assigned to support Ms. Sudha, Senior Partner of the Pune branch who looks after major clients.

You have been made responsible for heading and implementing various aspects of risk management, internal controls, governance and ethics into the very fabric of the client's organization, revising and reframing the compliance framework, policies, processes in line with the corporate and local regulations and guidelines, exercising company's zero error and zero compliance/breach standards, changing perception of the clients to viewing, compliance as an - enabler - rather than - hindrance - and contributing strategically to the achievement of business objectives and goals and you have agreed to undertake the tasks and assured to be a value addition not only to the audit firm but also to the respective clients.

During the first week of April, 2018 you have been assigned to undertake the statutory audit of one of the key clients, M/s. Unique Equipments and Foundries Limited (UEFL), a listed entity having its shares listed on the NSE Ltd and BSE Ltd, and which has two subsidiaries. The audit firm at Pune branch does all the statutory audit, taxation and advisory roles of these entities.

The Finance Director of the Company, Mr. Kirti Iyer has requested the statutory auditors to take up first the audit of M/s. Artha Techno Plast Limited (ATPL) and M/s. Rubber Technologies and Solutions Limited (RTSL), the two subsidiaries of UEFL having large scale operations and issue the audit report along with the parent Company on or before 28.05.2018 so that, at the Board meeting of the Company scheduled on 10.06.2018, certain critical decisions impacting the future operations of the Company would be taken including a probable acquisition/merger. The CEO of the Company, Mr. Kumar is in active discussion with the parent Company and the Board of Directors. This information is proposed to be kept confidential at this stage.

Accordingly, you have been asked to commence the audit work of M/s. ATPL and RTSL. The Chief Accounts Officer, Mr. Lakshmikant has provided you with the draft management prepared draft financial statements of ATPL and RTSL respectively for your perusal and audit. You have taken charge of this engagement and deployed Ms. Pratibha, Ms. Gayatri, the Audit Managers and Ms. Samanvitha, the articled clerk to support you on this engagement. You have asked them to review the Board minutes and other secretarial / regulatory records and take note of all important and relevant issues for the audit.

Company Information

M/s. Artha Techno Plast Limited (ATPL)

ATPL, is a subsidiary of UEFL, an unlisted public company, incorporated on 1st February, 2013 under the Indian Companies Act, 1956. It specializes in the business of Tool & Die making, Injection Moulding and Die Casting for its various clients spread across India and Europe. The Company has three segments namely X, Y and Z whereby it provides products and services and operates in geographical areas that are subject to differing rates of profitability, opportunities for growth, future prospects and risks. The authorized and paid up capital of the Company is Rs. 1,000 Lakhs.

The shareholding pattern of the Company as at 31st March, 2018 is as under:

Particulars	No. of Equity Shares (In Lakhs)	Total paid up Equity Share Capital (Rs. In Lakhs)
Unique Equipments and Foundries Limited (UEFL)	51.00	510.00
Mr. M. Shankar (as a nominee of UEFL)*	32.50	325.00
Ms. Manju Srimathi (as a nominee of UEFL)*	16.00	160.00
Financial Institutions	0.10	1.00
NRIs	0.10	1.00
Individuals - 3 shareholders	0.30	3.00
Total	100.00	1000.00

The face value of each equity share is Rs. 10 and the shares are fully paid up.

* The Company has complied with the requirements of the Companies Act, 1956/2013 with respect to taking note of/filing the beneficial interest of UEFL in the Company with the Registrar of Companies.

ATPL has been performing well in its business despite continued recession in this segment due to its strong customer base. The Company has earned a niche in the market for its superior quality, timely delivery and reasonable pricing.

The Management prepared draft Balance Sheet of ATPL as at 31st March, 2018 is as under:

HEADING	NOTE NUMBER	31 ST MARCH 2018	31 ST MARCH 2017
EQUITY AND LIABILITIES			
Share Capital	1	xxx	xxx
Reserves & Surplus	2	0	0
Employee Stock Option Outstanding	3	xxx	xxx
Share Application Money Refundable	4	xxx	xxx
NON-CURRENT LIABILITIES			
Deferred Tax Liability (Arising out of Indian Income Tax)	5	xxx	xxx
CURRENT LIABILITIES			
Trade Payables	6	xxx	xxx
Total		XXXXX	XXXXX
ASSETS			
NON-CURRENT ASSETS			
Fixed Assets - Tangible	7	xxx	xxx

CWIP (including Capital Advances)	8	xxx	xxx
CURRENT ASSETS			
Trade Receivables	9	Xxx	Xxx
Deferred Tax Assets (arising from Indian Income Tax)	10	Xxx	Xxx
Debit balance of Profit and Loss Account		Xxx	XXX
Total		XXXXX	XXXXX

M/s. Rubber Technologies and Solutions Limited (RTSL)

RTSL, is another subsidiary of UEFL, which was incorporated on 1st February, 2014 under the Indian Companies Act, 1956. It specializes in the processing and compounding technology used for manufacture of tyres and other rubber products.

The Company has duly complied with all the requirements of the Companies Act, 1956/ 2013 with respect to taking note of/filing the beneficial interest of UEFL in the Company with the Registrar of Companies. The face value of each equity share is Rs.10 and the shares are fully paid up.

Whilst the Company was doing well in the initial periods, due to continuous recession in this segment, the business performance has gone south during the last few years. The Company has resorted to borrowings to fund the losses.

You have been informed by the Finance Director that in respect of RTSL, the Board of Directors at their meeting held on 10.11.2017 resolved to borrow an additional sum of Rs. 95 crores from the Company's Bankers and subsequently, the said amount was received by the Company. However, the majority of the Independent directors who opposed the said borrowing as not in the interest of the Company, has raised an issue that the said borrowing is outside the powers of the Board of Directors.

Following is the financial data relating to the RTSL:

	(Rs. In Crores)
Authorised Capital	42
Paid -up Share Capital	40
General Reserves	20
Debenture Redemption Reserve	10
Provision for Taxation	5
Loan (Long Term)	10
Short Term Creditors	3

Information reported by the Audit Engagement Team

The Engagement team led by Ms. Pratibha has reported the following matters to you based on their field audit:

- (1) ATPL has not followed the applicable Accounting Standard for disclosing Earnings Per Share (EPS) in the financial statements. The fact of such non-disclosure was however, mentioned in the notes forming part of the accounts.
- (2) The Company has received a grant of Rs. 8 crores from the Government of Tamil Nadu for setting up a factory in a backward area. Out of this grant, the Company distributed Rs. 2 crores as interim dividend. Also, the Company received a land free of cost from the State Government but it has not recorded it at all in the books as no money has been spent.
- (3) The Board of Directors have decided on 31.03.2018 to increase the sale price of certain items retrospectively from 01.01.2018. In view of this price revision with effect from 01.01.2016, the Company

has to receive Rs.15 lakhs from its customers in respect of sales made from 01.01.2018 to 31.03.2018. The chief accountant could not make up his mind to include Rs. 15 lakhs in the sales for 2017-2018.

- (4) ATPL has made a contribution of Rs. 2.5 lakhs during the financial year ended 31.3.2018 to a political party for running a school, situated in the village, where most of the workers of the Company reside. It is admitted that the benefit of the school is mostly for the children of the workers of the Company. The Company has not made sufficient profits in the last four years.
- (5) In respect of 3 segments, the total assets of the Company are Rs. 10 crores. Segment 'X' has Rs. 2 crores, segment 'Y' has Rs. 3 crores and segment 'Z' has Rs. 5 crores, Deferred tax assets included in the assets of each segment are 'X'- Rs. 0.50 crore, 'Y'- Rs. 0.40 crores and 'Z' - Rs. 0.30 crores. The Chief Accountant has contended that all the three segments are reportable segments.
- (6) The Company had made an annual budget of Rs. 2 crores for marketing of a new product and estimated that the Company would have a turnover of Rs. 25 crores from the new product. The Company had debited to its Statement of Profit and Loss, the total expenditure of Rs. 2 crores incurred on extensive special initial advertisement campaign for the new product.
- (7) The Company had installed a new plant at its production facility on which it had incurred the following costs:

		In Rs.
01	Cost of the plant (as per supplier's invoice plus taxes)	25,00,000
02	Initial delivery and handling costs	2,00,000
03	Cost of site preparation	6,00,000
04	Consultants fees for advice on the acquisition of the plant	7,00,000
05	Interest charges paid to supplier of plant for deferred credit	2,00,000
06	Estimated dismantling costs to be incurred after 7 years	3,00,000
07	Operating losses before commercial production	4,00,000

- (8) The Company has changed its employee remuneration policy from 1st of April, 2017 to provide for 12% contribution to provident fund on leave encashment also. As per the leave encashment policy, the employees can either utilize or en-cash it. As at 31st March, 2018 the Company obtained an actuarial valuation for leave encashment liability. However, it did not provide for 12% PF contribution on it: The Management is of the opinion that as and when the employees availed leave encashment, the provident fund contribution would be made. The Company further contends that this is the correct treatment as it is not sure whether the employees will avail leave encashment or utilize it.
- (9) The Audit Managers have observed that Inter Corporate deposit of Rs. 50 lakhs has been overdue. The Company has disclosed this in the notes to accounts in Note No. 15 in schedule No. 21 stating that Rs. 50 lakhs is overdue from XYZ Co. Ltd. and the said Company is in the process of liquidation. The Management is taking steps to appoint the liquidator.
- (10) The 'Securities Premium Account' of ATPL had Rs. 49 lakhs as at 31st March, 2017. Unfortunately, in the month of July 2017, the godown of the Company caught fire and stock worth Rs. 45 lakhs were burnt to ashes. The Management has adjusted the loss due to fire against the said premium account.

Whilst the Audit team has identified various matters; they need your advice to conclude on the same.

Findings based on File Review

After a careful consideration of the matters reported by the engagement team, you have also reviewed the financial statements, audit working papers and noted the following additional matters for your conclusion and overall assessment:

- (1) Huge differences were noticed between the control accounts and subsidiary records. The Chief Accountant has informed that this is common due to huge volume of business done by the Company during the year.
- (2) On a request by the audit team to the accounts department to provide confirmation of balances from the Creditors, the Chief Accountant has made a request not to seek confirmation from certain trade payables citing disputes.
- (3) The Company has paid minimum alternate tax under Section 115JB of the Income Tax Act, 1961, for the year ended 31st March, 2018. The Company wants to disclose the same as an 'Asset' since the Company is eligible to claim credit for the same.
- (4) The Company has flexi deposit linked current account with various banks. Cheques are issued from the current account and as per the requirements of funds, the flexi deposits are en-cashed and transferred to current accounts. As of 31st March, 2018 certain cheques issued to vendors are not presented for payment, resulting in the credit balance in the books of the Company. The Management wants to present the book overdraft under current liabilities and flexi deposits under cash & bank balances.
- (5) Subject to Indian Income Tax Act, 1961, the Company discloses advance Income-tax paid (Current tax asset) and provision for Income-tax (Current tax liability), separately in Balance Sheet for the year ended 31.3.2018, i.e., it does not offset the amount.

During your interactions with the Finance Director, he has indicated that he would expect a clean opinion on the financial statements and reference to matters which would have negative perception could be ignored considering the possibility of the merger under evaluation. He has also indicated that he does not expect any further adjustments to the financial statements since the same has been shared with the bankers already.

Based on the above information, you have to provide your inputs on the below aspects to Ms. Sudha, your Senior Partner to assist her in forming her opinion.

PART A – MULTIPLE CHOICE QUESTION

- 1.1 Non-disclosure of Earnings Per Share (EPS) in the financial statements of ATPL is:
 - (a) A qualification to be made by the Auditor as it affects the "True & Fair" position of financial results of the Company.
 - (b) No qualification is required to be made by the Auditor as the fact of such non-disclosure was however, mentioned in the notes forming part of accounts.
 - (c) AS-20 is not one of the Accounting Standards notified in Section 133 of the Companies Act, 2013.
 - (d) Even if the Auditor qualifies the position, the same is, however, not a qualification to affect the "True & Fair" position, of financial results of the Company. **(2 Marks)**
- 1.2 In respect of the Government grants received of Rs. 8 crores and the land received free of cost from the State Government by ATPL:
 - (a) The treatment of both the elements of the grant is correct.
 - (b) The treatment of cash element of Rs. 8 crores is correct but incorrect in respect of land received free of cost from the State Government.
 - (c) The treatment of cash element of Rs. 8 crores is incorrect but correct in respect of land received free of cost from the State Government.
 - (d) The treatment of both the elements of the grant is incorrect. **(2 Marks)**
- 1.3 In respect of price revision during 2016-17, where ATPL stands to receive Rs.15 lakhs from its customers in respect of sales made from 1st January, 2018 to 31st March, 2018 :
 - (a) The additional revenue cannot be recognised in 2017-18 as it has not been accepted by the customer.

- (b) The additional revenue can be recognised in 2017-18 only if there is certainty of assessing the ultimate collection.
- (c) The additional revenue can be recognised in 2018-19 as the Board of Directors have decided the price revision only on 31.03.2018 and therefore, the payment can be expected only in 2018-19.
- (d) The additional revenue cannot be recognised at all **(2 Marks)**
- 1.4 Rs.2.5 lakhs contributed by ATPL during the financial year ended 31.3.2018 to a political party for running a school, situated in the village, where most of the workers of the Company reside:
- (a) There is no bar in making political contribution of Rs. 2.5 lakhs despite not having profits in the last four years as the benefit of the school is mostly for the children of the workers of the Company.
- (b) The Company cannot make contribution to the political fund as it has not earned any profits in the last four years and is a violation of, the provisions of the Companies Act, 2013 and should be qualified by the Auditor.
- (c) The Company cannot make contribution to the political fund as it has not earned any profits in the last four years. It is, however, not a violation of the provisions of the Companies Act, 2013. But the Auditor need to qualify in his report.
- (d) As the contribution to the political fund is for the benefit of the school where children of the workers reside, it is neither a contravention of the provisions of the Companies Act, 2013 nor a matter of audit qualification. It is enough if the Company discloses such contribution in the notes forming part of the accounts. **(2 Marks)**
- 1.5 Pursuant to AS-17 on 'Segment Reporting', in respect of three segments namely X, Y and Z belonging to ATPL:
- (a) All the segments are not reportable segments.
- (b) Only segment X and Y are reportable segments.
- (c) Only segment X and Z are reportable segments.
- (d) All the segments are reportable segments. **(2 Marks)**
- 1.6 ATPL has debited to its statement of profit and loss, the total expenditure of Rs. 2 crores incurred on extensive special initial advertisement campaign for the new product. Pursuant to AS-26 "Intangible Assets" insert,
- (a) The above accounting treatment is correct as no intangible asset is acquired or created that can be recognized
- (b) The above accounting treatment is incorrect as an intangible asset is acquired or created that can be recognized as it forms part of the cost of an intangible asset.
- (c) Expenditure on advertising and promotional activities is not covered under AS-26.
- (d) It is enough if the expenditure of Rs. 2 crores incurred on extensive special initial advertisement campaign for the new product is disclosed in the notes forming part of the accounts. **(2 Marks)**
- 1.7 ATPL had installed a new plant at its production facility on which it had incurred certain costs. The costs that can be capitalized in accordance with AS-10 (revised) is:
- (a) Rs. 44 Lakhs
- (b) Rs. 46 lakhs
- (c) Rs. 43 lakhs
- (d) Rs. 45 lakhs. **(2 Marks)**

- 1.8 Referring to AS 15 on "Employee Benefits" in respect of revision by ATPL of its employee remuneration policy from 1st of April 2017 to provide for 12% contribution to provident fund on leave encashment also, the contention of the management of ATPL regarding the accounting treatment is:
- Correct
 - Incorrect
 - AS-15 is not applicable.
 - Since the Company had obtained actuarial valuation for leave encashment, it is obvious that the compensated absences are not accumulating in nature. **(2 Marks)**
- 1.9 Regarding the overdue inter-corporate deposits, ATPL has disclosed in the notes to accounts in Note No. 15 in Schedule No. 21 stating that Rs. 50 lakhs is overdue from XYZ Co. Ltd. and the said Company is in the process of liquidation: The management is taking steps to appoint the liquidator. Therefore:
- Since the company is in the process of liquidation, provision for the loss is required to be made in the accounts and the auditor should qualify in his audit report.
 - No provision for the loss is required to be made in the accounts. But, the auditor should qualify in his audit report.
 - No provision for the loss or compliances of any accounting standard is required since adequate disclosures have been made in the notes on accounts.
 - The overdue inter-corporate deposit is safe and realisable in full as the management is taking steps to appoint a liquidator. **(2 Marks)**
- 1.10 ATPL desires to adjust loss due to fire against securities premium account. In this regard:
- The Company is permitted to adjust its loss against the securities premium account.
 - The Company is not permitted to adjust its loss against the securities premium account.
 - The Company can adjust the loss from any other item of revenue.
 - The Company can partly adjust its loss against the securities premium account. **(2 Marks)**

PART B

- 1.11 In the draft management prepared Balance Sheet of M/s. Artha Techno Plast Limited (ATPL) as at 31st March, 2018, comment on the presentation of the Balance Sheet in terms of Schedule III to the Companies Act, 2013. **(8 Marks)**
- 1.12 In respect of the data given for M/s. Rubber Technologies and Solutions Limited (RTSL), analyse the borrowing powers of the Board, of Directors and the procedure to be followed by the Company in the light of the provisions of the Companies Act, 2013. **(7 Marks)**
- 1.13 As a Statutory Auditor, how would you deal when you find huge differences between the control accounts and subsidiary records? **(5 Marks)**
- 1.14 Regarding flexi-deposit linked current account with various banks, the Management wants to present the book overdraft under current liabilities and flexi-deposits under cash & bank balances. What are the presentation requirements of Book Overdraft as per Schedule III to the Companies Act, 2013? **(5 Marks)**
- 1.15 As a Statutory Auditor state with reasons whether you would accede to the request of the Chief Accountant not to seek confirmation from certain trade payables citing disputes. **(5 Marks)**

Question No. 2

Your Position in the Professional Arena

You are an extrovert, competent and innovative young Management Consultant of 35 years. You are always interested in providing solutions rather than just problems. You have learnt a lot and learnt it fast at the top notch business school in India and abroad and started a dot-com company in USA when you were not even

25 but finally came back to India and started a partnership firm of Cost and Management Accountants for providing solutions in financial reporting, operational and management audits, budgetary control, cost analysis, capital budgeting and other areas of costing and management reporting to multinational companies and large corporates.

You are well known in the professional arena as an open minded, sensible, competent professional with fruitful decision making ability and for your cutting edge sense of forecasting the consequences of grey areas/problems associated with the- existing costing, budgetary, standard setting practices followed by the corporates and help them in providing remedial measures and making it more effective and duly aligned with the emerging innovative financial reporting processes. You were waxing eloquence on the Board of Directors of many reputed Companies.

Last Thursday, you received a call from, Mr. Gopalakrishnan, Special Director (Finance) of M/s. Indotech Engineering Components Limited, (IECL) a fast emerging Company involved in development of specialized components for CNC machines. He has sought your appointment 'to meet him on the coming Monday at 11.00 AM at the conference room - 'B' of a reputed five star hotel for seeking your views and solutions on certain issues that they are facing in controlling costs and improving the profitability amidst growing tension between the management and the employees. You have accepted his invitation.

M/s. Indotech Engineering Components Limited (IECL)

IECL is a Company incorporated on 12.04.2012 as a Public Limited Company under the provisions of the Companies Act, 1956 having its registered and corporate office at Financial District, Hyderabad and its manufacturing plants at Renigunta, Andhra Pradesh. The Company was set up by Mr. Venkiah Reddy group in collaboration with Carl Walther GmbH Germany. The shareholding of Mr. Venkiah Reddy is 51% and that of Carl Walther GmbH is 49%. Whilst the day to day activities are monitored by Mr. Venkiah Reddy, the technical know-how is provided by Carl Walther GmbH. IECL has established a unique name for itself in the supply of components required for CNC machines and has been making reasonable profits in the competitive market till recently. Currently, it only caters to the needs of customers in India. During recent times, due to large imports of machinery components from China, there has been a tremendous pressure on the profitability of the Company.

On the appointed date, Mr. Gopalakrishnan arrived at the venue at 11.05 AM along with his team members. You were punctual as usual and arrived at the venue at 10.45 AM. After pleasantries, the meeting started with Mr. Gopalakrishnan who initially gave a presentation of an overview of the Company with relevant facts and figures. Later, he ran through the external and the internal factors impacting the Company's performance and its profitability. He also explained that there is an urgent need to control costs to survive in the market and face the cut throat competition resulting in wafer thin margins to the Company. He highlighted the current trend of the business vis-a-vis the past business environment and the rapid changes in the current business environment and explained that the brunt of such changes had a significant impact on the affairs and welfare of the Company.

Management Overview

The Management of IECL is driven by a renowned Board of Directors where Venkiah Reddy group and Carl Walther GmbH, Germany has Board members as per the investment agreement entered between the parties. The Board drives the business plan, operating, investment, and financing activities besides all key decisions. The Board is supported by the Special Director (Finance) who has an oversight over the day to day activities, but has no powers to take any independent, major decisions.

Further, the various department heads are required to report to the Special Director (Finance) as per the organizational hierarchy of the Company.

Product Overview

The specialized components for CNC machines manufactured by IECL represents a standard set which includes precision spindles, angular head, extension head and other tools. The Company uses TQM for ensuring highest standards of quality in manufacture of parts.

Competition Overview

Whilst the market size has shrunk in the recent years, the competition, in particular from the Chinese manufacturers is pushing the price down drastically and the margins are coming down notwithstanding the past track record and the brand position of the Company. The Company could just survive the 'year based on the committed contracts executed in the past with a premium customer which contract expired on 31st March, 2018. During the recent Board meeting, the representative Board member from Carl Walther GmbH, Germany raised the issue as to whether the Company need to adopt the minimum cost approach for fixing the prices given the competition and the expiry of the premium contract and he was keen to understand the factors to be considered in deciding on the same to survive in the market.

Cost Overview

The Company uses variance analysis and standard costing approach for setting and monitoring costs. The variance between standards and the actuals of FY 2017 - 2018 is analyzed for further evaluation.

Particulars	Budgeted	Actual	Variance
Sales Production (sets in Units)	550,000	400,000	150,000
Sales in Rs.	9,00,00,000	7,50,00,000	1,50,00,000
Less: Variable Cost in Rs.	5,55,00,000	4,65,00,000	90,00,000
Less: Fixed Cost in Rs.	2,45,00,000	2,25,00,000	20,00,000
Profit	1,00,00,000	60,00,000	40,00,000

Whilst budgeted production data is based on the assumption that the market size would be 15,00,000 units but it turned out to be 12,00,000 units.

Apart from the standard cost based monitoring, the Company also prepares the value added statements. Details of the value added statements of the Company prepared by the Management for the year ended 31st March, 2018 along with the comparative details are as given below:

Particulars	(In Rs.)	
	31.03.2018	31.03.2017
Turnover	7,50,00,000	7,34,00,000
Cost of Materials	2,62,50,000	2,53,00,000
Production and Operational Expenses	2,02,50,000	2,24,10,000
Depreciation	95,00,000	97,00,000
Administration Expenses	81,00,000	53,00,000
Interest and other Charges	87,00,000	93,00,000
Value Added by Manufacturing Activities	22,00,000	13,90,000
Add: Other Income	38,00,000	26,00,000
Total Value Added	60,00,000	39,90,000

Other information provided as notes forming part of the value added statement are as under:

Particulars	(In Rs.)	
	31.03.2018	31.03.2017
Depreciation. for the year on machinery which was not put in use but kept idle	5,00,000	7,00,000
Salaries and Wages included in Production and Operational Expenses	1,92,00,000	2,03,00,000

Amount of interest paid to Banks for working capital loan included in interest cost. (Balance amount represents interest paid on debentures)	31,00,000	28,00,000
Income Tax Paid	20,00,000	12,00,000
Dividend Paid	12,00,000	8,00,000

Local management is not convinced with the approach of value added statement and is not sure of the benefits of this model for any meaningful analysis. However, Carl Walther GmbH, Germany has mandated continued preparation of the value added statement.

Budget Overview

The Budgets are set by the Company based on the decision of the Board of Directors which is pushed down to various teams. Whilst during the initial years, the budgets were exceeded, of late, the variance between the budget and the actual is widening and has become a cause of concern to the senior management.

Carl Walther GmbH, Germany is concerned about this variation and has mandated the local management to find solutions for dealing with the same. In particular, it has emphasized on the need for involving everyone in the budgetary process, and perhaps even considering the possibility of asking each and every manager to set his own targets and consolidate the same for setting the target for the Company. One of the Board members raised the issue of McDonaldization of the budget process and its suitability for IECL.

Corporate Culture

Whilst the set up of the Company is historically Board managed, it believes in the principle of developing with everyone. IECL always looks at its responsibilities to all the, stakeholders and is equally concerned with the society, environment and its work force.

IECL spends on an average 1.50 crores on various CSR activities which is the approved budget every year. Considering the new CSR requirements of the Indian Companies Act, 2013, Carl Walther GmbH Germany Board representatives would like to understand the statutory requirements in terms of thresholds, if any, the possibility of accruing the CSR for each year based on the budget etc.

Apart from the CSR involvement, IECL also has a policy of environment conservation. It has set up a small renewable energy plant out of solid waste, in Ananthpur and the power generated out of the same is consumed on its own to support its manufacturing plant in Renigunta through central grid upload facility. This plant is registered and is eligible for Certified Emission Reduction Credit' and the details of the CERs available on hand and its value are as given below:

Particulars	31.03.2018	31.03.2017
Units of CER Generated	14,000	12,000
Market Value per CER	Rs. 45	Rs. 38
NRV per CER	Rs. 30	Rs. 24
Disposal Value per CER	Rs. 32	Rs. 29

*These CERs have a validity period of 3 years and there has been no sale of CERs in the last two years.

To follow its principle of collective growth, IECL provides several benefits to employees and values its employees as value additions. Details of the employees are as given below.

Particulars	Skilled	Unskilled
Annual average earning of an employee till the retirement age	Rs.75,000	Rs. 25,000
Age of retirement	58 years	58 years
Discount Rate	15%	15%
No. of employees in the group	15	20
Average Age	55 years	55 years

Carl Walther GmbH Germany also wants IECL to prepare integrated report to align with its global practices. It follows international IR framework for capitals. IECL is in the process of understanding the requirement and aligning its reporting with that of Carl Walther GmbH Germany.

Your Proposal

After analysing the inputs provided by the Special Director (Finance), you have suggested various measures, the details of which are as under:

(a)	Budgetary process needs to be revised to involve the employees. Further, the feasibility of option for "Beyond the Budget" approach may also be considered.
(b)	In addition, a careful consideration of throughput Accounting concept could also help in streamlining the decision making process.
(c)	Innovative New Gen Reporting would bring in more transparency and aid in better monitoring

With respect to enhancing the market and cost reduction, the following measures were suggested:

- (a) The profitability of exports to be explored which would result in the possibility of enhancing the market size of IECL of 2018 by an assured amount of 25,000 sets with the support of Carl Walther GmbH for which a Management support fee of Rs. 50 per set would have to be paid to them.
- (b) Further, with the introduction of incentive based compensation system, the net reduction in the variable cost would be Rs. 16 per set and the domestic production and the sales is expected to increase by an additional 10,000 sets.
- (c) To introduce modernisation in the production techniques, an amount of Rs. 15 Lakhs is expected to be spent towards additional one time fixed capital cost, the useful life of which would be 5 years.
- (d) To introduce transparency in the reporting process, a system of making the integrated report, value added report, environmental impact report and a robust human resource accounting details will be introduced, which will result in an additional one time expense of Rs. 20 Lakhs. This would lead to getting some new orders from MNCs that would lead to increase in the demand by 5000 Sets.

Based on the above facts, critically examine the following:

PART A – MULTIPLE CHOICE QUESTION

- 2.1 Minimum Price should be set at _____
 - (a) Total Cost
 - (b) Variable Cost
 - (c) Marginal cost pins opportunity costs, if any
 - (d) Incremental costs of manufacturing and opportunity costs, if any **(2 Marks)**
- 2.2 IECL has to mandatorily use the, various categories of Capital defined in International IR framework and there is no option to change the same under such framework.
 - (a) Yes
 - (b) No
 - (c) Permissible if the industry leader has changed it already
 - (d) Can be changed with the consent of IR Council **(2 Marks)**
- 2.3 Accrual for CSR in the books of account based on the approved budget for financial statement preparation is permissible under the Indian GAAP
 - (a) Allowed under Indian GAAP
 - (b) Accrual can be done only with the approval of CSR Committee
 - (c) No

- (d) If the eligible projects are identified, amounts can be accrued notwithstanding the commitment/spending. **(2 Marks)**
- 2.4 The approach of the current budget formulation at IECL can best be termed
- (a) Management Style Approach
 - (b) Imposed Style Approach
 - (c) Participative Approach
 - (d) Carl Walther GmbH Approach **(2 Marks)**
- 2.5 McDonaldization of the standard setting approach is more relevant for:
- (a) Automobile Services
 - (b) Research and Development Services
 - (c) Hair dressing, dentistry type of Services
 - (d) Manufacturing Plant **(2 Marks)**
- 2.6 Throughput Accounting involves use of variance analysis
- (a) No
 - (b) Yes
 - (c) Would vary on a case to case basis
 - (d) Traditional variance analysis is used **(2 Marks)**
- 2.7 The variance analysis used by IECL had an inherent problem of:
- (a) Metrics driven monitoring
 - (b) Encouraging short termism
 - (c) Improper measurement
 - (d) Lack of clarity **(2 Marks)**
- 2.8 Providing freedom and flexibility to managers to set their own targets in the budget setting process has the potential danger of having:
- (a) Failure
 - (b) Non-performance
 - (c) Resistance
 - (d) Budget slacks **(2 Marks)**
- 2.9 Beyond budgeting is a:
- (a) Centralized Process
 - (b) Process that explains the modus operandi of traditional budget
 - (c) Decentralized Process
 - (d) Hybrid Process **(2 Marks)**
- 2.10 What will be the amount of income to be recognized by IECL for CERs, if any, as per the applicable Accounting Standard for the year ended 31st March, 2018 and 31st March, 2017 respectively?
- (a) Rs. 6,30,000, Rs. 4,56,000
 - (b) Rs. 4,20,000, Rs. 2,88,000
 - (c) Rs. 4,48,000, Rs. 2,88,000
 - (d) Rs. 4,20,000, Rs. 4,56,000 **(2 Marks)**

PART B

- 2.11 You are required to reconcile the budgeted profit and the actual profit through marginal costing approach and provide a statement of reconciliation **(10 Marks)**
- 2.12 Calculate the impact of your plan in improving the profitability of IECL Limited and the key considerations that need to be factored by the management before implementation of the same. **(10 Marks)**
- 2.13 Prepare an Application Statement of the Value added by IECL for the years ended 31st March, 2018 and 31st March, 2017 and provide a reconciliation of value added with Profit before tax for the YE 31st March, 2018. Also explain the benefits of preparation of Value Added statements to the local management. **(10 Marks)**

Question No.3

CURE Pharma Pvt. Ltd is fast growing Indian Pharmaceutical Company engaged in developing, manufacturing and marketing of broad range of pharmaceutical products globally. Company's Core strength lies in developing and manufacturing differentiated pharmaceutical products in-house, which it commercializes through its marketing infrastructure spread across geographies and relationships with multi-national pharma companies. Benchmarked to international standards, Cure's facilities are approved by international regulatory agencies such as US FDA, UK MHRA, Japan's MHLW, TGA Australia, WHO, and the MCC South Africa.

It has become one of the world's largest manufacturers of Tuberculosis (TB) drugs. Today, it has significant market share in the cardiovascular, diabetology, asthma, paediatrics, CNS, anti-infectives and NSAIDs therapy segments.

Chairman is of the view that people are the most essential part of any organisation as they provide the inspiration, creativity, vision and motivation that keep an organisation alive. He said that the workplace is where people spend most of their time in a day and a happy employee would be a catalyst translating the organisation's growth. Company debited to the statement of profit and loss Bonus to employees Rs. 2,00,000 provided. However, payment was made on the occasion of Diwali festival on 18th October, 2018.

Company has always been quick to adapt to market changes as reflected in the tremendous track record. In the past ten years alone, Company has seen increase in revenues. This growth has been an outcome of meticulous planning, differentiated strategies, complex products and disciplined execution across markets. The bedrock of a pharma enterprise is Innovation.

Moving forward, Company will consolidate on generics portfolio while focusing on complex generics and specialty products. Company expects to rise to this challenge with appropriate acquisitions, calibrated investments in R&D, supported by the right skill sets. This would enable it to enhance the quality of its business and transcend from the existing paradigm towards new horizons.

In addition, the company has gained a special consideration amongst pediatric specialists, primary care physicians and the OB/GYN women's health community with a dedicated field force to promote its branded product portfolio. Backed by strong commercial capabilities in the US market for both branded and generic products, Company is uniquely positioned to execute its growth strategy built on niche products, world-class research, manufacturing and supply chain capabilities, protected by strong Intellectual Property rights.

Company is consciously investing in adopting green chemistry and enzymatic technologies with a dual purpose of improving efficiencies and protecting the environment. Fermentation technology based products have been its special expertise and it is on track to introduce newer products in this field.

Company's investments in Research and Development (R&D) have helped it gain a leadership position in differentiated product introductions and become a formidable player in the generics space. It forms the base for further successes as it emerges gradually as a specialty pharmaceutical player. These investments are calibrated for risks and appropriate returns and encompass not merely the developed markets like US, Europe and Japan but also the emerging markets. Contribution of Rs. 1,50,000 to Banaras Hindu University which is approved and notified under Section 35(1)(ii). This amount has been debited to statement of profit and loss.

With a solid team of scientists and technologists employed at its state-of-the art facilities in India and abroad, it is well on track to emerge as an innovation led transnational pharmaceutical powerhouse providing affordable healthcare solutions with uncompromising quality. Its research scientists have a proven track record of delivering high quality technology intensive products, Active Pharmaceutical Ingredients (APIs), Formulations and newer dispensation forms. Company has incurred revenue expenditure of Rs. 10 Lakhs towards scientific research in the month of September and this amount has been debited to profit and loss account.

There was a healthcare exhibition in London in the month of October, 2017 and where all the directors of the company had gone to attend this particular exhibition. Since all the directors were present in London, they decided to hold the Board meeting in London itself.

Company believes it carries a deep social responsibility. Its products touch and heal human lives. There is a premium in making products of the highest quality. This quality needs to be derived from a consistently high operating benchmark.

Company aims to transform rural India by creating sustainable and replicable programs around economic, social and infrastructure development targeted at uplifting the poorest of the poor residing in remote villages of India. Company has made a donation of Rs. 1,00,000 to Swachh Bharat Kosh. This payment is debited to statement of profit and loss.

Company maintained its upward growth momentum amidst very challenging and dynamic global economic conditions in the year gone by. The Company ended the fiscal on a high note registering significant growth across its key markets.

CURE Pharma Pvt. Ltd called its AGM ON 25-08-2017 and at the meeting, the quorum was complete. The proceedings of the meeting started and agenda items were taken up. After completing few agenda items, the Chairman, Mr. S, adjourned the meeting on his own without even seeking the consensus of the members who were present at the meeting. Mr. S suggested to schedule this adjourned meeting at a later date which would be decided by the Board of Directors.

CURE Pharma Pvt. Ltd. provides taxable as well as exempted medicines. Turnover of CURE Pharma Pvt. Ltd. during the month of December, 2017 is as under:

Particulars	Rs.
Value of exempted supply of medicines	60,00,000
Value of taxable supply of medicines	1,28,00,000
Value of Zero rated taxable supply of medicines	32,00,000
Supply made for personal use	20,00,000
Total	2,40,00,000

Details of Input tax for the month of December, 2017 are as under:

Particulars	CGST (Rs)	SGST (Rs.)	IGST (Rs.)
Total Input tax available	4,32,000	4,32,000	2,16,000
The above Input tax on input includes the following:			
(i) Input tax on input exclusively used for supplying exempted medicines	72,000	72,000	28,800
(ii) Input tax on input of medicines exclusively used for supplying taxable medicines (including Zero rated supplies)	2,16,000	2,16,000	14,400
(iii) Input tax availed on inputs which are not eligible for credit u/s. 17(5)	72,000	72,000	25,200

(iv) Input tax on input exclusively used for supplying medicines for personal use.	43,200	43,200	21,600
--	--------	--------	--------

The Company recorded consolidated sales of Rs. 30 Crores in FY 2018, a growth of 24% over FY 2017

Net profit increased by 13% to Rs. 90 Lakhs as compared to 80 Lakhs in FY 2016

Keeping the long term vision and cost competitiveness in mind, the Company continues to invest in creating new manufacturing facilities as well as augmenting existing manufacturing facilities globally to aid efficiencies as well as build capacities to meet the future demand. It also remains committed to investing in technology, automation and safe-guarding intellectual property. The Company invested Rs. 20 lakhs on for capital investment during FY 2017-18

Mr. W is working as Chief Accountant in CURE Pharma Private Limited. The Board of Directors of the company propose to charge him with the duty of ensuring compliance with the provisions of the Companies Act, 2013 so that books of account can be properly maintained and Balance Sheet and Profit and Loss Account can be prepared as per the provisions of law

Statement of Profit & Loss of CURE Pharma Pvt Ltd., a resident company shows net profit of Rs. 90,00,000 for the financial year ended on 31st March, 2018 after debit/credit of the following items.

A. Credited to the statement of Profit and Loss:

- a. Rent received from vacant land Rs.1,20,000.
- b. Rent received (gross) from a commercial property owned by the company- Rs. 2,50,000 (Tax deducted by tenant @ 10%).
- c. Interest received on income tax refund Rs. 1,00,000
- d. Profit on sale of unused land Rs. 10,00,000

B. Other Items Debited to the Statement Profit and Loss:

- a. Depreciation charged to the Statement of Profit and Loss Rs. 12,00,000
- b. Contribution to Political party amounting to Rs.2,00,000 paid in cash.
- c. Payment made to transporter Rs. 1,00,000 by account payee cheque, but no tax has been deducted at source. (Transporter is having PAN and furnished declaration that he is covered under Section 44AE and is not having more than 10 goods carriages at any time during the previous year).
- d. Provision made for income tax Rs. 3,00,000.
- e. Loss of Rs. 2,50,000 incurred by way of trading in futures and options (derivatives) in shares in a recognized stock exchange.

Additional information:

1. Depreciation as per Income tax Act, 1961 Rs. 20,00,000. However, while calculating such depreciation, rate applicable to computers has been adopted for (i) accessories like printers and scanners, and (ii) EPABX. The written down value of these items as on 01.04.2017 is given below:
 - a. Printers and scanners Rs. 3,00,000
 - b. EPABX Rs. 5,00,000
2. Additional Depreciation on Plant and machinery purchased for Rs. 20,00,000 on 15th October, 2017 has not been considered while calculating depreciation as per Income tax Act, 1961 as above.
3. Provision for audit fee Rs. 1,00,000 was made in the books for the year ended on 31st March, 2017 without deducting tax at source.

Such fee was paid to auditors in September, 2017 after deducting tax at source under Section 194J and tax so deducted was deposited on 6th October, 2017.

4. The company during the financial year 2014-15 made a provision for an outstanding bill of Rs. 1,00,000 for purchase of raw material. Out of such outstanding amount the company has paid Rs. 50,000 in cash on 15th September, 2017.
5. During the year the company has issued 1,00,000 equity shares of face value of Rs. 10 each at premium of Rs. 90 each. The fair market value is Rs. 60 per share at the time of issue of shares.
6. Unused land which was sold during the year for Rs. 50,00,000 was acquired by the company in the financial year 2013-14 for Rs. 40,00,000.

PART A - Multiple Choice QUESTION (2 Marks each).

- 3.1. Which of the following activities does not amount to supply?
 - (a) An architect in India seeks legal advice from his brother settled in London free of cost with regard to his family dispute.
 - (b) A Resident Welfare Association provides the service of depositing the electricity bills of the residents in lieu of some nominal charges.
 - (c) A dealer of air-conditioners permanently transfers an air conditioner from his stock in trade on which ITC has been taken, for personal use at his residence.
 - (d) An electronic commerce operator in India seeks legal advice for its business from its head office in US free of cost.
- 3.2. A taxable person has made following supplies in January, 2018 – Sales within the State – Rs. 2,00,000. Exports out of India– Rs. 60,000. Supplies to SEZ located within the State – Rs. 40,000. He does not intend to clear goods under Letter of Undertaking (LUT) or bond. The input tax credit available to him during January, 2018 – IGST – Nil. CGST – Rs.10,000. SGST – Rs.20,000. There is no opening balance in his electronic cash ledger or electronic credit ledger. Tax rates are – SGST – 9%, CGST – 9%, IGST – 18%. How much amount is payable by him in cash?
 - (a) CGST – 8,000 SGST – Nil
 - (b) CGST – 11,600 SGST – 1,600
 - (c) CGST – 8,000, SGST – Nil, IGST – 5,200
 - (d) CGST – 8,000 SGST – Nil, IGST – 16,000
- 3.3. Which of the following supplies are exempt from GST?
 - (1) Warehousing of jaggery
 - (2) Loading and unloading of green tea packets
 - (3) Warehousing of coffee beans
 - (4) Warehousing of rice
 - (a) (1) and (3)
 - (b) (1), (2) and (3)
 - (c) (3) and (4)
 - (d) (1) and (2)
- 3.4. Which of the following services are OIDAR [Online Information Database Access and Retrieval] services?
 - (1) Online course consisting of pre-recorded videos and downloadable pdfs plus support from a live tutor
 - (2) Pdf document manually emailed by provider
 - (3) Pdf document automatically downloaded from site

- (4) Pdf document automatically emailed by provider's system
- (1) and (3)
 - (1), (3) and (4)
 - (3) and (4)
 - (2), (3) and (4)
- 3.5. A taxable person is engaged in supplying restaurant service in Delhi. In the preceding financial year, it has an aggregate turnover of Rs. 90 lakh from restaurant service and Rs. 10 lakh from supply of farm labour and has earned a bank interest of Rs. 10 lakh. Such person wants to opt for composition scheme. Which of the following statements are true in context of composition scheme?
- Aggregate turnover of the taxable person in the preceding FY is Rs. 90 lakh.
 - Aggregate turnover of the taxable person in the preceding FY is Rs. 100 lakh.
 - Aggregate turnover of the taxable person in the preceding FY is Rs. 110 lakh.
 - Supply of farm labour and supply of service of extending loans/deposits does not make the taxable person ineligible for composition scheme.
 - Supply of services other than restaurant service - supply of farm labour and supply of service of extending loans/deposits - by the taxable person makes it ineligible for composition scheme.
- (1) and (4)
 - (2) and (4)
 - (1) and (5)
 - (3) and (5)
- 3.6. Stylish Technology Limited engaged in the manufacturing of mobiles and chargers. The company's Board of Directors consist of 8 directors i.e. Mr. Ram (Director), Mr. Shyam (Director), Mr. Mohan (Director), Mr. Vijay (Director), Mr. Naresh (Director), Mr. Ashish (Independent Director), Mr. Neeraj (Independent Director) and Mr. Anil (Small shareholders' director). Calculate the number of directors to retire at Annual General Meeting held on 15th September, 2017.
- One
 - Two
 - Three
 - Four
- 3.7. DEF Limited engaged in producing and manufacturing cotton. DEF Limited is having one subsidiary XYZ Limited. The company DEF Limited wants to appoint an Independent Director on its Board during the financial year 2018-19. The company has CV of four persons who are interested for appointment as Independent Director in DEF Limited. Advice the company regarding the selection of the independent director amongst the following four persons whom they can appoint:
- Mr. Rajeev who is promoter of XYZ Limited
 - Mr. Smith who had pecuniary relationship with DEF Limited during the F/y 2016-17 and 2017-18.
 - Mr. John whose relative hold the position of Key Managerial personnel in XYZ Limited in the F/Y 2014-2015.
 - Mr. Vishal along with his relatives holds 2.5% of the total voting power of the DEF
- 3.8. XYZ Limited is an unlisted company engaged in manufacturing of fabrics. The turnover of the company as on the last date of latest audited financial statements is Rs. 100 Crore. The company is having 7 directors in its Audit Committee. Advice the company by choosing the correct option for the company

regarding requirement of appointment of independent director and minimum number of independent directors if required?

- (a) The appointment of independent directors is mandatorily required under XYZ Limited and the minimum number of independent directors is two.
 - (b) The appointment of independent directors is mandatorily required under XYZ Limited and the minimum number of independent directors is three.
 - (c) The appointment of independent directors is mandatorily required under XYZ Limited and the minimum number of independent directors is four.
 - (d) The appointment of independent directors is not mandatorily required under XYZ Limited.
- 3.9. The turnover of XYZ Ltd. as on the last date of latest audited financial statements is 150 crore rupees. An Intermittent vacancy of the independent director arises on 15th June, 2018 in the company. The immediate Board meeting was held on 14th August, 2018. The vacancy of the independent director shall be filled up by-----:
- a. Appointment of independent director is not mandatory.
 - b. 14th August, 2018
 - c. 14th September, 2018
 - d. 14th October, 2018
- 3.10 State among the following companies, which company shall not annex secretarial audit report with its board report-
- (a) Listed Company
 - (b) Public company having paid up share capital of 20 crore or more
 - (c) Public company having a turnover of 250 crore or more
 - (d) Public company having paid up share capital of 50 crore or more

PART B

- 3.11. Compute the Company's income under the head Profits and Gains of Business or Profession. (giving reasons for treatment of each item) Ignore MAT provisions. **(10 Marks)**
- 3.12. Compute the total income of CURE Pharma Pvt. Ltd. for the A.Y. 2018-19. Cost inflation Index - FY 2013-14: 220; FY 2017-18: 272. **(5 Marks)**
- 3.13. What would be the entitlement of input tax credit of CURE Pharma Pvt. Ltd. for month of December, 2017 under the CGST Rules and also calculate the amount to be added to output tax liability of CURE Pharma Pvt. Ltd. **(7 Marks)**
- 3.14. Examine the validity of Chairman's decision to adjourn the meeting. **(3 Marks)**
- 3.15. Advise on the Board's decision regarding its meeting held in London. **(2 Marks)**
- 3.16. Draft a "Board Resolution" for charging Mr. W, Chief Accountant, with the duty of Compliance with the provisions of Companies Act, 2013 regarding books of accounts and Balance Sheet and Statement of Profit and Loss. **(3 Marks)**

MOCK TEST PAPER
FINAL (NEW) COURSE: GROUP – II
PAPER 6F: MULTIDISCIPLINARY CASE STUDY

CASE STUDY I

PART-A

- 1.1. (d)
- 1.2. (d)
- 1.3. (b)
- 1.4. (a)
- 1.5. (d)
- 1.6. (a)
- 1.7. (c)
- 1.8. (b)
- 1.9. (a)
- 1.10. (b)

PART B

ANSWER 1.11

Following Errors are noticed in presentation as per Schedule III:

- (i) Share Capital & Reserve & Surplus are to be reflected under the heading "Shareholders' funds", which is not shown while preparing the balance sheet. Although it is a part of Equity and Liabilities yet it must be shown under head "shareholders' funds". The heading "Shareholders' funds" is missing in the balance sheet given in the question.
- (ii) Reserve & Surplus is showing zero balance, which is not correct in the given case. Debit balance of statement of Profit & Loss should be shown as a negative figure under the head 'Surplus'. The balance of 'Reserves and Surplus', after adjusting negative balance of surplus shall be shown under the head 'Reserves and Surplus' even if the resulting figure is in the negative.
- (iii) Schedule III requires, that Employee Stock Option outstanding should be disclosed under the heading "Reserves and Surplus".
- (iv) Share application money refundable shall be shown under the sub-heading "Other Current Liabilities". As this is refundable and not pending for allotment, hence it is not a part of equity.
- (v) Deferred Tax Liability has been correctly shown under Non-Current Liabilities, But Deferred tax assets and deferred tax liabilities, both, cannot be shown in balance sheet because only the net balance of Deferred Tax Liability or Asset is to be shown if taxes levied under the some governing taxation laws.
- (vi) Under the main heading of Non-Current Assets, Fixed Assets cue further classified as under:
 - (a) Tangible assets
 - (b) Intangible assets
 - (c) Capital work in Progress
 - (d) Intangible assets under development

Keeping in view the above, the CWIP shall be shown under Fixed Assets as Capital Work in Progress. The amount of Capital advances included in CWIP shall be disclosed under the sub-heading "Long Term loans and advances" under the heading Non-Current Assets.

- (e) Deferred Tax Asset shall be shown under Non-Current Asset. It should be the net balance of Deferred Tax Asset after adjusting the balance of deferred tax liability.

ANSWER 1.12

Borrowing by the Company (Section 180(1)(c) of the Companies Act, 2013): Section 180 of the Companies Act, 2013 provides restrictions on powers of Board. According to Section 180(1)(c) of the Companies Act, 2013, the Board of Directors of a company, can exercise borrowing powers only with the consent of the company passed by a special resolution wherein the money to be borrowed including money already borrowed will exceed aggregate of its paid up capital and free reserves, apart from temporary loans obtained from the company's bankers in the ordinary course of business. Free reserves do not include the reserves set apart for specific purpose.

According to the above provisions, the Board of Directors of Rubber Limited can borrow, without the approval of the shareholders in an general meeting, only up to an amount calculated as follows:

Particulars	Rs. In crores
Paid up Share Capital	40
General Reserve (being free reserve)	20
Debenture Redemption Reserve (This reserve is not to be considered since it is kept apart for specific purpose of debenture redemption)	-
Aggregate of paid up capital and free reserve.	60
Total borrowing power of the Board of Directors of the company, i.e, 100% of the aggregate of paid up capital and free reserves	60
Less: Amount already borrowed as Long term loan	10
Amount upto which the Board of Directors can further borrow without the approval of shareholders in a general meeting	50

In the present case, the directors of Rubber Technologies and Solutions Limited by a resolution passed at its meeting decide to borrow an additional sum of Rs. 95 crores from the company bankers. Thus, the borrowing will be beyond the powers of the Board of directors.

Thus, the management of Rubber Technologies and Solutions Limited., should take steps to convene he general meeting and pass a special resolution by the members in the meeting as stated in Section 180(1)(c) of the Companies Act, 2013. Then, the borrowing will be valid and binding on the company and its members.

ANSWER 1.13

Difference between Control Accounts and Subsidiary Records: The huge differences found between control accounts and subsidiary records in the books of M/s OPQ Ltd. indicate that there may be material misstatements requiring detailed examination by the auditor to ascertain the cause. The contention of Chief Accountant cannot be accepted simply because the company has done huge volume of business. Such a phenomenon indicates that recording of transactions is not being done properly or the accounting system in the company which might have several branches spread over the country fails to capture all transactions in time. It would also be interesting to see whether it is a recurring phenomenon or such reconciliation could not be done at a subsequent date. Having regard to all these circumstances, it appears from the facts of the case that these differences indicate the possibility of some kind of material misstatements. As per SA 240, "The Auditor's Responsibilities relating-to Fraud in an Audit of Financial Statements", when the auditor identifies a misstatement, the auditor shall evaluate whether such a misstatement is indicative of fraud. If there is such an indication, the auditor shall evaluate the implications of the misstatement in relation to other aspects of the audit, particularly the reliability of management representations, recognizing that an instance of fraud is unlikely to be an isolated occurrence. When the auditor confirms that, or is unable to conclude whether, the

financial statements are materially misstated as a result of fraud the auditor shall evaluate the implications for the audit.

ANSWER 1.14

Presentation of Book Overdraft as per Schedule III to the Companies Act, 2013:

The instructions in accordance with which current assets being "cash and cash equivalents" should be made out to Part I of Schedule III to the Companies Act, 2013 states as follows:

- (i) Cash and cash equivalents shall be classified as:
 - (a) Balances with banks;
 - (b) Cheques, drafts on hand;
 - (c) Cash on hand;
 - (d) Others (specify nature).
- (ii) Earmarked balances with banks (for example, for unpaid dividend) shall be separately stated.
- (iii) Balances with banks to the extent held as margin money or security against the borrowings, guarantees, other commitments shall be disclosed separately.
- (iv) Repatriation restrictions, if any, in respect of cash and bank balances shall be separately stated.
- (v) Bank deposits with more than 12 months maturity shall be disclosed separately. From the facts of the case it is evident that in substance the position is that the composite bank balance including the balance in flexi deposit accounts are positive, even though physical set-off has not been made as on the balance sheet date.

Further the bank has got the right to set off of flexi deposits against the cheques issued and hence it would be more informative and useful to the readers of the financial statements to disclose the book credit balance as a set-off from the flexi deposit accounts. The disclosure of the said book credit balance as book overdraft under the head current liabilities as proposed by the management is not correct.

ANSWER 1.15

SA 505, "External Confirmations", establishes standards on the auditor's use of external confirmation as a means of obtaining audit evidence. It requires that the auditor should employ external confirmation procedures in consultation with the management. The auditor may come across certain situations in which the management may request him not to seek external confirmation from certain parties because of dispute with the trade payables, etc. The management, for example, might make such a request on the grounds that due to a dispute with the particular trade payable, the request for confirmation might aggravate the sensitive negotiations between the entity and the trade payables. In such cases, when an auditor agrees to management's request not to seek external confirmation regarding certain trade payables, the auditor should consider validity of grounds for such a request and assess management's integrity and obtain evidence to support the same. The auditor should also ask the management to submit its request in a written form, detailing therein the reasons for such a request. If the auditor of ATPL agrees to management's request not to seek external confirmation regarding a particular matter, the auditor should document the reasons for acceding to the management's request and should apply alternative procedures to obtain sufficient appropriate evidence regarding that matter.

CASE STUDY-II

PART A

- 2.1. (d)
- 2.2. (b)
- 2.3. (c)
- 2.4 (b)

- 2.5 (c)
 2.6 (b)
 2.7 (b)
 2.8 (d)
 2.9 (c)
 2.10 (b)

PART –B

ANSWER 2.11.

Statement of Reconciliation – Budgeted vs. Actual Profit

Particulars	Rs.
Budgeted Profit	1,00,00,000
Less: Sales Volume Contribution : Planning Variance (Adverse)	69,00,000
Less: Sales Volume Contribution : Operational Variance (Adverse)	25,09,091
Add: Sales Price Variance (Favourable)	95,45,455
Less: Variable Cost Variance (Adverse)	61,36,364
Add: Fixed Cost Variance (Favourable)	20,00,000
Actual Profit	60,00,000

Workings

CALCULATION OF VARIANCES

Sales Variance

Volume Contribution = Planning*	<p>Budgeted Market Share% x (Actual Industry Sales Quantity in units - Budgeted Industry Sales Quantity in units) x (Average Budgeted Contribution per unit)</p> $= \frac{5,50,000 \text{ units}}{15,00,000 \text{ units}} \times (12,00,000 \text{ units} - 15,00,000 \text{ units}) \times \frac{\text{Rs.}3,45,00,000}{5,50,000 \text{ units}}$ <p>= 69,00,000 (A) (*) Market Size Variance</p>
Volume Contribution Operational**	<p>(Actual Market Share % Budgeted Market Share %) x (Actual Industry Sales Quantity in units) x (Average Budgeted Contribution per unit)</p> $\left(\frac{4,00,000 \text{ units}}{12,00,000 \text{ units}} - \frac{5,50,000 \text{ units}}{15,00,000 \text{ units}} \right) \times (12,00,000 \text{ units}) \times \frac{\text{Rs.}3,45,00,000}{5,50,000 \text{ units}} = 25,09,091 \text{ (A)}$ <p>(**)Market ShareVariance</p>
Price =	<p>Actual Sales-Standard Sales</p> <p>= Actual Sales Quantity x (Actual Price-Standard price)</p> $= 4,00,000 \text{ units} \times \left(\frac{\text{Rs.}7,50,00,000}{4,00,000 \text{ units}} - \frac{\text{Rs.}9,00,00,000}{5,50,000 \text{ units}} \right) = 95,45,455 \text{ (F)}$
Variable Cost Variance Cost=	<p>Standard Cost for Production – Actual Cost</p> <p>=Actual Production x (Standard Cost per unit- Actual Cost per unit)</p>

	= 4,00,000 units x $\left(\frac{\text{Rs.}5,55,00,000}{5,50,000 \text{ units}} - \frac{\text{Rs.}4,65,00,000}{4,00,000 \text{ units}} \right)$ = Rs. 61,36,364 (A)
Fixed Cost Variances Expenditure	= Budgeted Fixed Cost - Actual Fixed Cost = Rs. 2,45,00,000 – Rs. 2,25,00,000 = Rs. 20,00,000 (F)

ANSWER 2.12

The impact of the new proposal is summarised below. For the purposes of this computation, the actual details of FY 2018 have been considered in order to estimate the possible impact of the same for FY 2017:

Particulars	Formula Used	Amount (Rs.)
Higher export sales	Incremental number of units (25000)* average actual sale price of last year	46,87,5000
Less: Management fee to be paid	Rs.50 per unit *number of units (25000)	(12,50,000)
Higher sales expected for the year (-) Domestic + Addl MNC orders	Incremental sales of 15000 units* average actual sale price for last year (A)	28,12,500
Net Incremental Sales Revenue (Sub total) (A)		62,50,000
Net variable cost on incremental sales (B)	40000 units (incremental sale units) *Rs. 100.25 (Actual variable cost per unit of last year less net reduction in variable cost)	(40,10,000)
Net Reduction in the variable cost (C)	Reduction in variable cost per unit of Rs.16* actual units of last year	64,00,000
Net impact on Contribution (D)=(A+B+C)		86,40,000
Increase in fixed cost (E)	Increase in accounting/reporting costs and depreciation over a period of 5 years	(23,00,000)
Net impact in FY 2017 (D) +(E)	Total	63,40,000

Factors to be considered by the Management in implementing the proposal:

The Management needs to bear in mind some of the below aspects for an effective implementation of changes in the budgeting process particularly considering concepts such as beyond the budget approach:

- Define the case for change and provide an outline vision
- Be prepared to convince the senior management for the need for the change
- Get the process rolling involving all levels of employees
- Rethink the role of finance in the entire process
- Training and education of the people is extremely critical and this should be taken up as a priority
- Design and implement the new process
- Change the behaviour pattern of employees through improved processes and not through management orders
- Evaluate the benefits on a periodical basis
- Consolidate the gains

It is important that the Management bears in mind some of the above aspects so that the benefits of concepts such as Beyond Budgeting brings in the required benefits.

Beyond budgeting benefits the organisations in ensuring that the managers work in co-ordination to beat the competition and reduce internal rivalry amongst managers. It helps in motivating individuals by bringing in

clarity on roles and responsibilities. Involvement of operational managers brings about concerned action and increased ability to react quickly for taking corrective measures. It also establishes customer/target oriented team and bring in process/systems that provide fast and open information throughout the organisation.

ANSWER 2.13

Value added statement for the YE 31st March, 2018 and 31st March, 2017 is as given below:

Particulars	31.03.2018	31.03.2017
Sales	7,50,00,000	7,34,00,000
Less: cost of bought in materials and service		
- cost of materials	26,250,000	253,00,000
- production and operating expenses (excluding salary)	1,050,000	2,110,000
- administration expenses	8,100,000	5,300,000
- interest on overdraft	31,00,000	28,00,000
Value added by manufacturing and trading activities	3,65,00,000	3,78,90,000
Add: Other income	38,00,000	26,00,000
Total Value added	4,03,00,000	4,04,90,000
Application of value added:		
- To pay employees-salaries, wages and other benefits	1,92,00,000	2,03,00,000
- To pay government-income tax	20,00,000	12,00,000
- To pay providers for capital:		
- interest on loan	56,00,000	65,00,000
- Dividend	12,00,000	8,00,000
- To provide for the maintenance and expansion of the Company:		
- depreciation	95,00,000	97,00,000
- retained profit	<u>28,00,000</u>	<u>19,90,000</u>
	4,03,00,000	4,04,90,000

Reconciliation of Value added with Profit before tax for the YE 31 March, 2018 is given below:

Particulars	Amount
Profit Before Tax	60,00,000
Add:	
Employee cost	1,92,00,000
Interest on Loan	56,00,000
Depreciation	<u>95,00,00</u>
Total Value Added	4,03,00,000

Benefits of preparing a value added statement is given below:

- It improves the attitude of employees towards their employing companies.
- Makes it easier for the company to introduce a productivity linked bonus to employees
- Value added based ratios are useful in diagnostic and predictive tools.
- Provide a very good measure of the size and importance of a company.
- Links a company's financial income to national income
- Build on the basis of conceptual foundations which are currently accepted in balance sheets and income statements.

CASE STUDY III

PART A

- 3.1. (a)
- 3.2. (d)
- 3.3. (c)
- 3.4. (c)
- 3.5. (a)
- 3.6. (a)
- 3.7. (c)
- 3.8. (c)
- 3.9. (c)
- 3.10. (b)

PART B

3.11. CURE Pharma Pvt Ltd.

Computation of Income under the head Profits and Gains of Business or Profession

Particulars	Amount (Rs.)	
Profits and Gains from Business and Profession		
Net profit as per profit and loss account		90,00,000
Add: Items debited but to be considered separately or to be disallowed		
(i) Donation paid to Swachh Bharat Kosh, considered separately [Not an expenditure incurred wholly and exclusively for the manufacturing business. Hence, not allowable under section 37]	1,00,000	
(ii) Contribution to political party [Not an expenditure incurred wholly and exclusively for the manufacturing business. Hence, not allowable under section 37]	2,00,000	
(iii) Payment to transport contractor [As per section 194C(6), no tax is required to be deducted at source since the payment is to a transport contractor not having more than 10 goods carriages at any time during the previous year and he has given a declaration to that effect alongwith his PAN. Hence, disallowance under section 40(a)(ia) for non-deduction of tax at source is not attracted. Also, since payment is made by account payee cheque, no disallowance under section 40A(3) is attracted].		
(iv) Bonus to employees [Since the payment is made after the due date of filing of return of income, disallowance under section 43B is attracted].	2,00,000	
(v) Provision for income-tax [Not allowable as deduction. Disallowance under section 40(a)(ii) is attracted].	3,00,000	
(vi) Loss from trading in futures and options (derivatives) in shares in a recognized stock exchange	2,50,000	

[Since loss from trading in futures and options in share is not related to the business of manufacturing pharmaceutical, the same is not incurred wholly and exclusively for this business, and hence, is not allowable as deduction under section 37 while computing profits from the business of manufacturing]. However, such loss can be set off under section 70.		10,50,000
		1,00,50,000
OTHER ADJUSTMENTS,		
Add: Cash Payment for purchase of raw material deemed as income [Since the provision of outstanding bill for purchase of raw material has been allowed as deduction during the P.Y.2014-15 cash payment in excess of Rs. 10,000 against such bill in the P.Y. 2017-18 would be deemed as income of P.Y. 2017-18 as per section 40A(3A)]		50,000
		1,01,00,000
Less: Expenditure to be allowed Depreciation [Difference between the normal depreciation of Rs.18.75 lakhs as per Income-tax Act, 1961 [See Working Note 1] and depreciation charged to the statement of profit and loss of Rs.12 lakhs].	6,75,000	
Less: Additional depreciation on new plant and machinery Since plant and machinery was purchased only on 15.10.2017, it was put to use for less than 180 days during the year. Hence, additional depreciation is to be restricted to 10% (i.e., 50% of 20%) of Rs.20 lakhs.	2,00,000	
Less: Audit Fees relating to P.Y. 2016-17 [Rs.30,000, being 30% of audit fees of Rs.1,00,000 provided for in the books of account of P.Y. 2016-17 would have been disallowed due to non-deduction and deposit of tax at source. Since tax has been deducted in September, 2017 and paid on 6.10.2017, the amount of Rs.30,000 is deductible while computing business income of P.Y. 2017-18.	30,000	
Less: Contribution to University [Contribution to a University approved and notified under section 35(1)(ii) would qualify for weighted deduction @150%. Since Rs.1,50,000 has already been debited to the statement of profit and loss, the balance Rs.75,000 has to be deducted while computing business income)	75,000	9,80,000
		91,20,000
Less: Items credited to statement of profit and loss, but not includible in business income.		
(I) Rent received from vacant land [Chargeable to tax under the head "Income from other sources".]	1,20,000	
(II) Rent received from commercial property owned by the company [Chargeable to tax under the head "Income from house property").	2,50,000	
(III) Interest received on income tax refund [Chargeable to tax under the head "income from other sources)	1,00,000	
(IV) Profit on sale of unused land [Chargeable to tax under the head 'Capital Gains')	10,00,000	14,70,000
Profits and gains from the business or Profession		76,50,000

Working Note 1 for Calculation of Depreciation of 18.75 Lakhs-

Printers and scanners form an integral part of the computer system and they cannot be used without the computer. Hence, they are part of the computer system, they would be eligible for depreciation at the higher rate of 40% applicable to computers including computer software. However, EPABX is not a computer and is, hence, not entitled to higher depreciation @40%.

Particulars	Rs.
Depreciation computed as per Income tax Act, 1961	20,00,000
Less: Depreciation @60% wrongly provided in respect of EPABX = 40% of Rs.5,00,000	2,00,000
	18,00,000
Add: Depreciation @ 15% on EPABX = 15% of Rs.5,00,000	75,000
Correct Depreciation as per Income-tax Act, 1961	18,75,000

3.12. Computation of Total Income of CURE Pharma Pvt Ltd. for the A.Y. 2018-19

	Particulars	Amount (Rs.)	
I	Income from house property [Rental income from commercial property] Net Annual Value	2,50,000	
	Less: Deduction under section 24 30% of Net Annual Value	75,000	1,75,000
II	Profits and gains of business and profession	76,50,000	
	Less: Set-off of losses from trading in derivatives in a recognized stock exchange [allowed to be set-off against profits from the business of manufacturing as per section 70(1) since it is not speculative in nature.	2,50,000	74,00,000
III	Capital Gains Sale consideration	50,00,000	
	Less: Indexed Cost of Acquisition [Rs.40,00,000 x 272/220]	49,45,455	
	Long-Term capital gain		54,545
	Income from Other Sources Rent received from vacant land	1,20,000	
	Interest received on income-tax refund	1,00,000	
	Excess of issue price of shares over the fair market value of shares is taxable as per section 56(2)(viib) in the case of CURE Pharma Pvt. Ltd., not being a company in which public are substantially interested [Rs.40 (i.e. Rs.100-Rs. 60) x 1,00,000 shares]	40,00,000	42,20,000
	Gross Total Income		1,18,49,545
	Less: Deductions under Chapter VI-A		
	Deduction under section 80G		
	Donation to Swachh Bharat Kosh [qualifies for 100% deduction-assuming that the same has not been spent in pursuance of corporate social responsibility under section 135(5) of the Companies Act, 2013]	1,00,000	
	Deduction under section 80GGB		

	Contribution to Political Party [Not allowable as deduction since the contribution is made in cash]	Nil	1,00,000
	Total Income		1,17,49,545

3.13. Computation of Input tax credit eligible for the tax period December, 2017:

Particulars	CGST (Rs)	SGST (Rs.)	IGST (Rs.)
Total Input tax in a tax period [T]	4,32,000	4,32,000	2,16,000
Less:			
Input tax on input services exclusively used for effecting supply of goods for personal use. [T ₁]	43,200	43,200	21,600
Input tax on input exclusively used for effecting exempt supply of goods [T ₂]	72,000	72,000	28,800
Input tax availed on input which are ineligible under Section 17(5) [T ₃]	<u>72,000</u>	<u>72,000</u>	<u>25,200</u>
Amount of Input tax credited to the electronic credit ledger [C₁] C₁=T-[T₁+T₂+T₃]	244,800	244,800	1,40,400
Less: Credit on inputs exclusively used for supplying taxable goods (including Zero rated supplies) [T₄]	<u>2,16,000</u>	<u>2,16,000</u>	<u>14,400</u>
Common credit of input and input services used for providing supply of medicines [C₂] C₂=C₁-T₄	28,800	28,800	1,26,000
Total inadmissible common credit as per Rule 42(1) [D₁ + D₂] [Working shown below]	<u>8,640</u>	<u>8,640</u>	<u>37,800</u>
Net eligible common credit C₃=C₂-[D₁+D₂]	<u>20,160</u>	<u>20,160</u>	<u>88,200</u>
Total credit eligible i.e. [T₄ + C₃]	<u>2,36,160</u>	<u>2,36,160</u>	<u>1,02,600</u>
Amount to be added to output tax liability of CURE Pharma Pvt Ltd. is [D₁+D₂]	8,640	8,640	37,800

Working Note: Calculation of amount of input tax credit towards exempt supplies and supply made for non business use:

Particulars	CGST (Rs)	SGST (Rs.)	IGST (Rs.)
Aggregate Value of Exempted supply of goods [E] 60,00,000			
Total Turnover for December, 2017 [F] 2,40,00,000			
Credit attributable towards exempt supplies D ₁ =[E/F]x C ₂	7,200	7,200	31,500
Credit attributable for supplies made for non business purpose as per Rule 42(1) [D ₂ =5% xC ₂]	1,440	1,440	6,300
Total inadmissible common credit as per Rule 42(1) [D₁+D₂]	8,640	8,640	37,800

3.14. Adjournment of a meeting means the deferring or suspending the meeting to a future time, either at an appointed date or indefinitely or as decided by the members present at the scheduled meeting. For a valid adjournment of a General Meeting, the holding of the Meeting at its scheduled time is necessary.

It may be adjourned after some items of business have been transacted and the remaining items can be transacted at the adjourned meeting.

The following points are relevant in this regard on the basis of Case Laws :

1. Once a meeting is called, the Chairman cannot adjourn it arbitrarily. Its continuance or adjournment rests entirely on the will of the members. If a Chairman vacates the Chair or adjourns the meeting regardless of the views of the majority, those remaining, even if a minority, can appoint a Chairman and conduct the business left unfinished by the former Chairman
2. Where a meeting is unlawfully adjourned by the Chairman thinking that he is not likely to succeed in his object, the remaining members possess the right to continue the meeting and conduct the business left un-transacted by the Chairman
3. Every Chairman has the right to make a bona fide adjournment whilst a poll or other business is proceeding, if circumstances of violent interruption make it unsafe or seriously difficult for the members to tender their votes.

Conclusion : Therefore, though the Chairman has power to adjourn the meeting on its own but only in exceptional cases where it becomes extremely difficult to continue because of violent interruption and continuing the meeting will be unsafe.

3.15. In the Companies Act, 2013 there is no such restriction of holding a board meeting outside India.

The decision of Cure Pharma Ltd. to hold a meeting in London when all the directors present there is valid.

3.16. Board Resolution for charging Mr. W Chief Accountant, with the duty of Compliance with the requirements of Section 128 and 129 of the Companies Act, 2013.

“Resolved that Mr. W, Chief Accountant of the Company be and is hereby charged with the duty of seeing that the requirements of Sections 128 and 129 of the Companies Act, 2013 are duly and fully complied with.

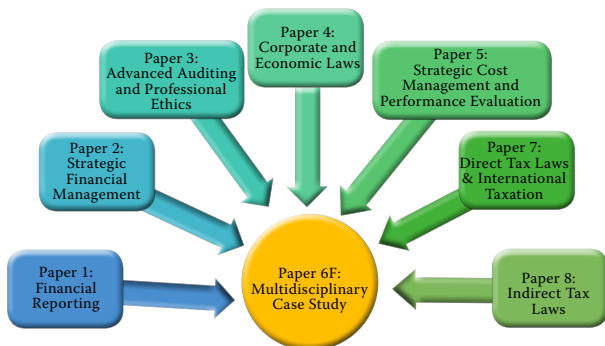
Resolved further that the said Mr. W is hereby entrusted with the authority to do such Act or deeds as may be necessary or expedient for the purpose of discharging his above referred duties”.

INDEX

Page No.	Edition of Students' Journal	Topics
<i>1-3</i>	<i>December 2019</i>	<i>Case Study 1</i>
<i>3-5</i>	<i>December 2019</i>	<i>Case Study 2</i>
<i>5-8</i>	<i>December 2019</i>	<i>Case Study 3</i>
<i>8-12</i>	<i>December 2019</i>	<i>Answers</i>
<i>13-15</i>	<i>August 2020</i>	<i>Case Study 1</i>
<i>15-16</i>	<i>August 2020</i>	<i>Case Study 2</i>
<i>16-20</i>	<i>August 2020</i>	<i>Answers</i>
<i>21-23</i>	<i>October 2020</i>	<i>Case Study 1</i>
<i>23-24</i>	<i>October 2020</i>	<i>Case Study 2</i>
<i>24-28</i>	<i>October 2020</i>	<i>Answers</i>

CA FINAL (NEW) - PAPER 6F - MULTIDISCIPLINARY CASE STUDY

As students are aware that no books are separately released for Paper 6F Multidisciplinary Case Study, they are advised to refer the study material of the core subjects at the Final Level.



Standards/ Guidance Notes/ Legislative Amendments etc. applicable for above-mentioned core papers would also be applicable as it is to the Paper 6F Multidisciplinary Case Study. Students need to keep in mind that this paper involves application of all the core papers, thus conceptual understanding of each and every topic is required to look for the relevant topic from the reference material in the examination hall.

Students must also be aware that, from November, 2019 examination, the competent authority has decided that the question paper of this subject would contain 5 case studies of 25 marks each, out of which student has to attempt any 4. In each case study carrying 25 marks, MCQs would be for 10 marks and descriptive questions involving computation/ analysis/ interpretation would be for 15 marks in the ratio of 40:60 between MCQs and descriptive questions. Thus, while choosing which case studies to attempt, student may first go through all the case studies at one glance and then decide which of the four case studies out of five he/ she has prepared well with maximum topics coverage. Students must divide their four hours between four case studies to be answered meticulously. Once the case studies have been opted, give them a comprehensive reading while attempting the same. Try to note down the topics covered and then refer the same from the reference material.

Some of the illustrative case studies have been provided below for practice purpose. Students are suggested to solve the same in examination condition and check for the answers only after attempting all the case studies.

CASE STUDY 1

Mr. Tinuraj, owner of M/s TR Textiles, is born and brought up in Uttar Pradesh, India. He has an experience of more than 35 years in textiles manufacturing industry through setting up his firm in 1984. Under his leadership M/s TR Textiles (the Firm) has achieved assorted growth in its textile business throughout India. The Firm is a prominent player in the leading textile conglomerates of the country possessing modern technologies with larger capacity, constituting everything from fibre to garments. Today, M/s TR Textiles is developing as an unified textile powerhouse, manufacturing yarns, fabrics, acrylic fiber and garments.

Due to the fact that the textile industry contributes significantly towards the growth of the economy via exports, Mr. Tinuraj,

for the past 10 years, is exporting premium quality yarns, dyed yarns in acrylic and a variety of production garments to Asia Pacific regions. Approximately 28 % of the total yarns produced is exported which has made M/s TR Textiles as one of the largest exporters of cotton yarn to some of the growing markets of Asia Pacific regions.

To enhance the export business, Mr. Tinuraj used to travel various locations of the continent. For the past two years, he stayed out of India for about 600 days. During the current Financial Year also, he spent 300 days in travelling. His travelling session in days from Financial Year 2012 – 13 to Financial Year 2016 – 17 is given below:

Financial Year	Number of days
2012 – 13	250
2013 – 14	250
2014 – 15	300
2015 – 16	490
2016 – 17	

During the current Financial Year 2019 - 20, Mr. Tinuraj made a profit of ₹ 20 crore from the business in Uttar Pradesh, India [including profit of ₹ 15 crore made by exporting under Letter of Undertaking (LUT) to Bhutan of ₹ 150 crore (the invoice for which is raised/ payments received in Indian currency)] along with profit of ₹ 60 crore earned from business in Malaysia which Mr. Tinuraj controls from Uttar Pradesh. However, only ₹ 10 crore out of profit earned from business in Malaysia, received in India through a credit in Bharat Bank of India, the bank account maintained by him in Banaras Branch, Uttar Pradesh.

While his stay in China for 15 days out of total travelling of 300 days in the current financial year 2019 - 20, Mr. Tinuraj received a major aggregate assignment of ₹ 100 crore in Delhi, India through its marketing team (discussion was on ₹ 125 crore project, however could garb only ₹ 100 crore project in the end). However, he could only manage to make profit of ₹ 18 crore through managing the entire business from China. This assignment includes a Government order for making uniforms for a commando unit which is exempted from GST under a special notification. The fabric used as raw material is exclusively procured for the exempt supply, but thread and lining material procured for the collars are also used for taxable supply. The turnover of the taxable supply and exempted uniforms is ₹ 75 crore and ₹ 25 crore respectively, the ITC on thread and lining material procured is ₹ 1,00,000 and ₹ 3,00,000 respectively.

Mr. Tinuraj used to make huge investments to intensify the scope of his business. From such investments he made major amount of income as follows:

Investments	Income from Investments
HK Development Bonds, Hong Kong	Interest of ₹ 2 crore (out of which ₹ 0.70 crore received in Bharat Bank of India)
Shares of Taj Tashu Steel Ltd., Bhutan	Dividend of ₹ 1 crore received in Bhutan
Shares of Taj Raman Ltd., India	Dividend of ₹ 0.50 crore
15 % Debentures of Taki Motors Ltd., India	Interest of ₹ 3 crore (out of which ₹ 0.50 received in Junshi Bank, Bhutan)

After so much of earnings and striving to earn more, Mr. Tinuraj wanted to budget his finances following the mantra 'Budget Your Money'. He wanted to protect the money from unwanted expenses and taxes. Knowing that this system of controlling cost includes preparation of budgets; co-ordinating the departments and establishing responsibilities; comparing actual performance with the budgeted and acting upon results to achieve maximum profitability, Mr. Tinuraj wanted to involve senior managers while preparing for budget. However, the managers do not want to get involved into such major task of budgetary control. Mr. Tinuraj explains his view-point that if managers do not get involved in the process, they may find the budget too challenging and therefore reduce their effort. That in turn would distort any evaluation. The participation of managers in setting targets for themselves tends to improve motivation and performance. Moreover, the budget is framed to act as a plan for the managers. The managers may therefore pursue this plan at the cost of other critical success factors that emerge in the internal or external environment of the firm. For example, a production manager may continue to use the planned materials mix even if the sales department are indicating that customers would desire a different product design and the purchasing department have accommodated their purchases accordingly. The production manager then has to choose between the plan and inter departmental coordination.

Mr. Tinuraj further explains that many of the conflicts arise due to the human nature of a budgetary control system. Managers may not always follow organisational goals, they may not always think long term, they may be cautious of moving away from the plan etc. This provides a conflict between many of the goals of a budgetary control system which needs to be considered at a strategic level when implementing such a system. Thus, it would be appropriate if managers take the ownership of their targets if they have been involved while preparing for it. For budget preparation in future with the managers participation, Mr. Tinuraj provided a budget prepared by him w.r.t. assignment received in Delhi (which he managed from China) for reference purpose as follows:

(In crore)

Particulars	Budget	Actual	Variance
Sales/ Production (units)	12	10	(2)
Sales (₹)	125	100	(25)
Less: Variable Cost (₹)	76	62	14
Less: Fixed Costs (₹)	19	20	(1)
Profit (₹)	30	18	(12)
While preparing budget, total market size assumed was 24 units, however it turned out to be 22.50 units later on.			

The above budget outlay really helped out the managers while participating in the budget preparation process.

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

- Many of the conflicts arise due to the human nature of a budgetary control system. Managers may not always follow organisational goals, they may not always think long term, they may be cautious of moving away from the plan etc. This provides a conflict between many of the goals of a budgetary control system which needs to be considered at a strategic level when implementing such a system. Thus, involving managers while preparing for budget may overcome these conflicts. However, there are certain

disadvantages too for such involvement. State which of the following may be considered as a disadvantage for involving managers in the budget preparation process.

- Managers may take the ownership of its target as their budget.
 - Managers would not have an option of blaming unrealistic goals as an excuse for not achieving budget expectations.
 - Managers may decide among themselves to adjust the proposed budget so that it is easier for them to attain the cost targets they have set.
 - Managers may feel that they are being venerated for the value that their experience brings to the running of the business.
- Market leadership is something that every entrepreneur strives to achieve. It is the position with largest market share for goods and/ or services. Same way, Mr. Tinuraj wanted to achieve this market share in Delhi. To help him understand his market share/ leadership in Delhi, calculate the Budgeted Market Share (in percentage) and Actual Market Share (in percentage), from the information given in the budget made for the purpose of Delhi assignment.
 - 50% , 44%
 - 50% , 42%
 - 53% , 44%
 - 53% , 42%
 - A Planning Variance simply compares a revised standard to the original standard. From the information given in the budget made for the purpose of Delhi assignment, calculate the Sales Volume Contribution – Planning Variance (market size variance).
 - ₹ 3,06,00,000 F
 - ₹ 3,06,00,000 A
 - ₹ 4,08,00,000 F
 - ₹ 4,08,00,000 A
 - The aggregate assignment of ₹ 100 crore in Delhi, India includes a government order for making uniforms for a commando unit. Calculate the eligible Input Tax Credit available under this assignment.
 - ₹ 5,00,000
 - ₹ 4,00,000
 - ₹ 3,00,000
 - ₹ 2,00,000
 - An Operational Variance simply compares the actual results against the revised amount. It would be calculated after the planning variances have been established and are thus a realistic way of assessing performance. From the information given in the budget made for the purpose of Delhi assignment, calculate the Sales Volume Contribution – Operational Variance (market share variance).
 - ₹ 5,87,52,000 F
 - ₹ 5,87,52,000 A
 - ₹ 5,50,80,000 F
 - ₹ 5,50,80,000 A

Part B- Descriptive Questions

- From the information given in the case study, determine the residential status of Mr. Tinuraj by stating the relevant provisions of the Income Tax Act, 1961 for the Assessment Year 2020 - 21. (5 Marks)
- Compute the total income in the hands of Mr. Tinuraj for the A. Y. 2020 – 21 if he were a Resident and ordinarily resident or Resident but not ordinarily resident or Non-resident considering the additional information as follows:
 - Closing bank balance of Bharat Bank of India as ₹ 60 Lakh (including savings bank account interest of ₹ 1.8 Lakh)
 - Wedding Gift received from a friend in Bhutan ₹ 0.45 Lakh. (6 Marks)
- If a supply is exempted from tax according to relevant provisions of the CGST Act, 2017, the output suffers no

tax, however, the inputs and input services have suffered tax and since availment of tax credit on input side is not permitted, it becomes a cost for the supplier. Then there comes the concept of zero rating of supplies which aims to correct this anomaly. A 'zero rated supply' means export of goods/ services/ both; or supply of goods/ services/ both to a Special Economic Zone developer or a Special Economic Zone unit.

In the above context, Mr. Tinuraj is not sure about the treatment of supply/ sales to Bhutan as export under LUT or as local supply, for the purpose of claiming exemption from IGST, as the invoice has been raised/ payment received in Indian currency. Please guide. (4 Marks)

CASE STUDY 2

THE INDIAN AGRICULTURIST

Mr. Harnek Singh is an Indian resident who has been working in Agriculture and its allied activities for the past 30 years. As a Farmer, he has been a witness to the Green Revolution and the White Revolution in the Indian economy. Being not much educated, he gave all his life to the laborious work of Agriculture but always wanted his children to study well and contribute towards the nation in their own ways as their father has been doing by playing the role of a Farmer - a Community that feeds the whole nation and without which the Indian Economy's growth may come at loggerheads. He himself is very much established in his farming activities and majorly produces Sugarcane along with other agricultural produce. His Wife Mrs. Singh is a homemaker and runs a Dairy Farm which she is running successfully for the past many years. His elder son Gopi, a Graduate, has established himself as an industrialist and successfully runs a Sugar Mill for which he procures Sugarcane majorly from his father's farm in addition to other Sugarcane growing Farmers. In the mill, he produces majorly Refined Sugar with Baggaese and Jaggery as the By-Products. Mr. Harnek Singh's younger son, Harpreet, was studying Agricultural and Allied Sciences in UK and has just returned to India 2 months ago to help his Family in their respective Businesses with the adoption of new techniques and quality developments he has learnt about during his Foreign studies. While studying abroad, he would usually study about taxes on Agriculture and the allied activities but was clueless about applicability of various taxes on Agricultural & allied activities in India except for that he had heard that income from Agriculture is exempt from tax in India. He wants to help his family by expanding the respective businesses and giving them a Corporate set-up. He, himself had studied Liquor Sciences abroad and wants to set up a Wine Distillery here in his village where he would grow Grape vines, harvest them and then produce wine from them for sale in the national as well as Global market. Having no knowledge of the Indian Accounting and Tax structure related to Agriculture, he approaches CA Arun Khemka who has his office in the city nearest to his village to discuss about the set-up he has planned for his family as well as his Wine business. He wants to get a Preliminary knowledge of the Accounting and Taxation aspects related to these businesses so that he can employ all the required resources in the most rational and economical manner possible. His father, Mr. Harnek Singh, has had no experience ever with accounting or taxes, being an agriculturist, so it is only he and his elder brother who know about the basics.

CA Arun Khemka, after a long discussion with Harpreet on understanding the current business set up of the Family and what Harpreet plans to do and how he plans to modify the current set up of such businesses assures him of the best services possible he can render. He tells him that the major aspects involved in this would be of Accounting, Income tax and GST and he would deliberate to him on some of the basic

concepts applicable to these businesses relating to these fields and what would be required to be done at his end, is possible only after Harpreet has a genuine knowledge of these subjects. He tells him that he will be able to deliver quality services to Harpreet as a Client only if the latter can provide him with all the requisite facilities, knowledge and working of the Family business.

ACCOUNTING ASPECTS IN AGRICULTURE

CA Arun tells Harpreet that Agricultural Accounting was never an issue in India till now and there were no special rules relating to it as it was completely voluntary but now since he plans to expand and modernise his Father's agriculture activities, he must know about the Indian Accounting Standard 41 known as the IndAS 41 on AGRICULTURE.

IndAS 41, Agriculture is the first standard that specifically covers the accounting and reporting requirements for the primary sector. Prior to this standard, there were no established guidance on agriculture and allied industry. IndAS 41 Agriculture sets out the accounting for agricultural activity, the management of the transformation of biological assets (living plants and animals) into agricultural produce (harvested product of the entity's biological assets).

IndAS 41 addresses following key critical issues:

- When should a biological asset or agricultural produce be recognised on the Balance Sheet?
- At what value should a recognised biological asset or agricultural produce be measured?
- How should the differences in value of a recognised biological asset or agricultural produce be accounted for between two different reporting dates?
- What should be the key disclosures?

This Standard shall be applied to account for the biological assets; agricultural produce at the point of harvest; and government grants when they relate to agricultural activity, with its own exceptions listed in the Standard itself where it is not applicable. It also lays down the definitions of various important terms related to agriculture such as Agricultural Activity, Biological Asset, Biological transformation, Agricultural Produce, Harvest, Fair Value, Bearer Plant, etc.

Entities are required to recognise a biological asset or agricultural produce when, and only when, all of the following conditions are met:

- the entity controls the asset as a result of past events; Control over biological assets or agricultural produce may be evidenced by legal ownership or rights to control, for example legal ownership of cattle and the branding or otherwise marking of the cattle on acquisition, birth, or weaning.
- it is probable that future economic benefits associated with the asset will flow to the entity; and Future economic benefits are expected to flow to the enterprise from its ownership or control of the asset. The future benefits are normally assessed by measuring the significant physical attributes.
- the fair value or cost of the asset can be measured reliably.

DIRECT TAXATION - INCOME TAX ON AGRICULTURE

As per the Indian Income tax law, agricultural income is not to be included in the total income of the assessee. The reason for totally exempting agricultural income from the scope of central income- tax is that under the Constitution, the Central Government has no power to levy a tax on agricultural income.

The term “Agriculture” has not been defined in the Act. However, it is taken into consideration if a Person has both Agricultural and Business income more than the prescribed limits while calculating tax on the Business Income and this process is known as Partial Integration of agricultural Income with non- agricultural income.

“Agriculture” means tilling of the land, sowing of the seeds and similar operations. It involves basic operations and subsequent operations. However, the term ‘agriculture’ cannot be extended to all activities which have some distant relation to land like dairy farming, breeding and rearing of livestock, butter and cheese making and poultry farming. Agricultural income is exempt, whether it is received by the tiller or the landlord. However, non-agricultural income does not become agricultural merely on account of its indirect connection with the land.

Agricultural income may arise in any one of the following three ways:

- It may be rent or revenue derived from land situated in India and used for agricultural purposes.
- It may be income derived from such land by agriculture or the performance of a process ordinarily employed by a cultivator or receiver of rent in kind to render the produce fit to be taken to the market or the sale of such agricultural produce in the market.
- Lastly, agricultural income may be derived from any farm building required for agricultural operations.

Sometimes, to make the agricultural produce a saleable commodity, it becomes necessary to perform some kind of process on the produce. The income from the process employed to render the produce fit to be taken to the market would be agricultural income. The ordinary process employed to render the produce fit to be taken to market includes thrashing, winnowing, cleaning, drying, crushing etc. However, if marketing process is performed on a produce which can be sold in its raw form, income derived therefrom is partly agricultural income and partly business income like in the case of Rubber, Tea , Coffee or Sugarcane where if these are subjected to manufacturing process and the manufactured product is sold, the profit on such sale will consist of agricultural income as well as business income. That portion of the profit representing agricultural income will be exempted. Rules 7, 7A, 7B & 8 of Income-tax Rules, 1962 provides the basis of apportionment of income between agricultural income and business income.

For Example - Rule 7: Where income is partially agricultural income and partially income chargeable to income-tax as business income, the market value of any agricultural produce which has been raised by the assessee or received by him as rent in kind and which has been utilised as raw material in such business or the sale receipts of which are included in the accounts of the business shall be deducted. No further deduction shall be made in respect of any expenditure incurred by the assessee as a cultivator or receiver of rent in kind.

Determination of market value - There are two possibilities here:

- The agricultural produce is capable of being sold in the market either in its raw stage or after application of any ordinary process to make it fit to be taken to the market. In such a case, the value calculated at the average price at which it has been so sold during the relevant previous year will be the market value.
- It is possible that the agricultural produce is not capable of being ordinarily sold in the market in its raw form or after application of any ordinary process. In such case, the

market value will be the total of the following:

- The expenses of cultivation;
- The land revenue or rent paid for the area in which it was grown; and
- Such amount as the Assessing Officer finds having regard to the circumstances in each case to represent at reasonable profit.

POSITION AS PER GOODS & SERVICE TAX

The Following Agriculture related services are exempt from the payment of GST via the Entries mentioned therein:

Entry No.	Description of services
24	Services by way of loading, unloading, packing, storage or warehousing of rice.
24A	Services by way of warehousing of minor forest produce.
53A	Services by way of fumigation in a warehouse of agricultural produce.
54	Services relating to cultivation of plants and rearing of all life forms of animals, except some, for food, fibre, fuel, raw material or other similar products or agricultural produce by way of— (a) agricultural operations directly related to production of any agricultural produce including cultivation, harvesting, threshing, plant protection or testing; (b) supply of farm labour; (c) processes carried out at an agricultural farm which do not alter the essential characteristics of agricultural produce but make it only marketable for the primary market; (d) renting or leasing of agro machinery or vacant land with or without a structure incidental to its use; (e) loading, unloading, packing, storage or warehousing of agricultural produce; (f) agricultural extension services; (g) services by any Agricultural Produce Marketing Committee or Board or services provided by a commission agent for sale or purchase of agricultural produce. (h) services by way of fumigation in a warehouse of agricultural produce.
55	Carrying out an intermediate production process as job work in relation to cultivation of plants and rearing of all life forms of animals, except some, for food, fibre, fuel, raw material or other similar products or agricultural produce.

With a long and productive discussion on all these aspects of Agricultural Accounting & its Taxation, Harpreet started with the work of modernising the respective businesses of his Family and set up his own Wine distillery in the village after following all licensing and procedural compliances.

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

- Harpreet grows grape vines, harvests the grapes & produces wine. Select the most appropriate option stating the IndAS applicability as per the respective activities covered above.

- (a) Growing (IndAS 16); Harvesting (IndAS 41); Wine Production (IndAS 2).
 - (b) Growing (IndAS 41); Harvesting (IndAS 16); Wine Production (IndAS 2).
 - (c) All are covered under IndAS 41.
 - (d) Growing & Harvesting (IndAS 41) & Wine Production (IndAS 2).
2. The term 'Agricultural produce' includes any produce out of rearing of all life forms of animals, except the rearing of _____ for food, fibre, fuel, raw-material or other similar products under the GST law.
 - (a) Fish.
 - (b) Silkworms.
 - (c) Sheep.
 - (d) Horses.
 3. Which of the following processes that make the agricultural produce marketable are not covered under GST Exemption?
 - (a) Harvesting.
 - (b) Packing for Primary Market.
 - (c) Packing for Retail Market.
 - (d) Fumigating & Curing.
 4. The application of Scientific research and knowledge to agricultural practice through farmer education or training is known as-
 - (a) Kissan Jagao Muhim.
 - (b) Agricultural Extension Services.
 - (c) Notified Agricultural Scientific Research Services.
 - (d) Agricultural Development Services.
 5. The GST exempts loading, Packing & warehousing of certain agricultural products. However, such exemption is not available in the case of-
 - (a) Green tea leaves.
 - (b) Potatoes.
 - (c) Jaggery.
 - (d) Whole Pulse Grains.

Part B- Descriptive Questions

6. (a) "IndAS 41 applies to agricultural produce, which is the harvested product of the entity's biological assets, only at the point of harvest". State the exceptional circumstances as mentioned in the IndAS on which IndAS 41 doesn't apply. **(4 Marks)**
- (b) State with reasons whether the following statements are correct/incorrect:
 - (i) Income arising to Mr. Harnek Singh from transfer of Agricultural land situated in urban area is agricultural income.
 - (ii) X was the managing agent of Gopi's Sugar Mill. He was entitled for a commission at the rate of 10% p.a. on the annual net profits of the company. A part of the company's income was agricultural income from the sale of sugarcane grown by the Company in its fields and sold further. X claimed that since his remuneration was calculated with reference to income of the company, part of which was agricultural income, such part of the commission as was proportionate to the agricultural income was exempt from income tax.
 - (iii) Mrs. Singh owned 100 acres of agricultural land, a part of which was used as pasture for cows. The lands were purely maintained for manuring and other purposes connected with agriculture and only the surplus milk after satisfying her

family's needs was sold. The question arose whether income from such sale of milk was agricultural income in the hands of Mrs. Singh?

(iv) Harpreet is a shareholder in certain tea companies, 60% of whose income was exempt from tax as agricultural income. He claimed that 60% of the dividend received by him on his shares in those companies was also exempt from tax as agricultural income. **(1 Mark x 4 = 4 Marks)**

7. Mrs. Singh, as seen in the above case is into Dairy Farming. She owns a dairy herd, of 3 years old cattle as at April 1, 2018 with a fair value of ₹ 13,750 and the no. of the cattle in the herd was 250. The fair value of 3 years cattle as at March 31, 2019 was ₹ 60 per cattle. The fair value of 4 years cattle as at March 31, 2019 is ₹ 75 per cattle. Calculate the measurement of group of Cattle as the March 31, 2019 stating price & physical change separately. **(3 Marks)**
8. Gopi grows sugarcane and uses the same for the purpose of manufacturing sugar in his factory. 30% of sugarcane produced is sold for ₹ 10 lacs, and the cost of cultivation of such sugarcane is ₹ 5 lacs. The cost of cultivation of the balance sugarcane (70%) is ₹ 14 lacs and the market value of the same is ₹ 22 lacs. After incurring ₹ 1.5 lacs in the manufacturing process on the balance sugarcane, the sugar was sold for ₹ 25 lacs. Compute Gopi's Business income and Agricultural income. **(4 Marks)**

CASE STUDY 3

Background

VayuSanchar Limited is a leading telecommunications company of India headquartered in Delhi. The Company ranks among the top four network service providers. It offers 2G, 3G and 4G wireless services under post-paid and pre-paid connectivity, fixed line telephone services and mobile commerce. It operates more than 2,260 telecom towers across 12 telecom circles.

The Company's dream is to boost the lives of customers. Its passion is to win customers for life through an exceptional experience. During the current year, the company also launched Unified Payments Interface (UPI) enabled digital payments allowing payments to any bank account of different merchants through smartphones, to beat the rivalries. This bitter relationship between VayuSanchar Limited and HawaSanch Limited, Lucy Limited & Magadh Limited (the rivalries) in network service providers, has spilled over to the high-speed broadband to corporates segment, as all the four companies battle for monopoly in market share.

VayuSanchar Limited launched its hyper speed VS Fibre broadband service, matching the price of other network service providers. This plan comes with unlimited landline calls along with premium online membership to the latest movies released through VS Fibre Application (the App).

Employees' Wellbeing

In addition to boosting the lives of its customers, the company also believe in looking after the wellbeing of its employees. For this, it has established a Code of Conduct, Human Rights Policies demonstrating its commitment towards protection of Human Rights. In addition to this, the company has set up Internal Complaint Committee, to prevent sexual harassment at workplace, comprising a Presiding Officer who is a senior level woman employee, two employees who are committed

to the cause of women having experience in social work along with legal knowledge, one independent member from outside the organization who expertise in dealing with such matters. All the members need to hold office for a period not exceeding three years from the date of nomination as member. The Committee is responsible for dealing with all matters related to the subject.

Besides having an Internal Complaint Committee, company went through an intermittent vacancy of the woman director on 19th June, 2018, the vacancy of which was filled on 18th September, 2018 by the Board, though, the immediate Board meeting held on 18th August, 2018.

Accounting and Auditing Perception

The Balance Sheet of VayuSanchar Limited as at 31st March is given below:

ASSETS	2019 Amount (₹)	2018 Amount (₹)
Non-Current Assets		
Property, Plant and Equipment	8,44,00,000	7,17,40,000
Other Non-Current Assets	3,92,00,000	2,79,40,000
Current Assets		
Financial Assets:		
Investments	1,95,00,000	2,12,00,000
Cash and Cash Equivalents	74,00,000	1,44,60,000
Trade Receivables	1,35,00,000	1,26,60,000
Total	16,40,00,000	14,80,00,000
EQUITY AND LIABILITIES		
Equity		
Equity Share Capital	4,30,00,000	4,30,00,000
Other Equity:		
Reserve and Surplus	3,56,00,000	2,25,00,000
Liabilities		
Non-Current Liabilities:		
Long Term Borrowings	2,25,00,000	3,90,00,000
Current Liabilities:		
Financial Liabilities		
Trade Payables	2,55,00,000	1,70,00,000
Payables for Expenses	2,24,00,000	1,49,00,000
Other Current Liabilities	1,50,00,000	1,16,00,000
Total	16,40,00,000	14,80,00,000

Other information: The company made a net profit after tax of ₹ 1,40,00,000 during the current year and paid interim dividend of ₹ 9,00,000. The value of Property, Plant and Equipment have been arrived after deducting ₹ 15,00,000 on account of depreciation. However, the company also sold one of its Property, Plant and Equipment for ₹ 9,00,000, the carrying amount of which was ₹ 8,00,000 at the end of the year 2019.

The company has the practice of releasing quarterly reports containing financial and operating highlights, key developments, results of operations, stock market highlights, ratio analysis, summarised financial statements, etc. These reports are submitted to the Delhi Stock Exchange, where it has listed security receipts, and are also hosted on the Company's website.

The 23rd Annual General Meeting of the company held on 8th August, 2019 at Sky Force Auditorium, Delhi where statutory auditor's report were adopted.

The extracts of Independent Auditor's Report to the members of VayuSanchar Limited for the Financial Year 2018-19 along with Notes to the Individual Financial Statements and Annexures are given below:

Report on the Individual Financial Statements

We have audited the Individual Financial Statements of VayuSanchar Limited ("the Company"), which comprise the balance sheet as at March 31, 2019, and the Statement of Profit & Loss (including Other Comprehensive Income), Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, and Notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

Responsibilities of Management for the Individual Financial Statements

The Company's Board of Directors are responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these Individual Financial Statements that give a true and fair view of the financial position, financial performance including other comprehensive income, cash flows and changes in equity of the Company in accordance with the Indian Accounting Standards (Ind AS) prescribed under section 133 of the Companies Act, 2013 read with the Companies (Indian Accounting Standards) Rules, 2015, as amended, and other accounting principles generally accepted in India.

This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Individual Financial Statements

Our responsibility is to express an opinion on these Individual Financial Statements based on our audit. In conducting our audit, we have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder and the Order issued under section 143(11) of the Act.

We conducted our audit of the Individual Financial Statements in accordance with the Standards on Auditing specified under section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Individual Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the Individual Financial Statements. The procedures selected depend on the auditor's judgment, including identifying and assessing the risks of material misstatement of the Individual Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates and related disclosures made by management. It further describes the auditor's responsibilities to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

We believe that the audit evidence obtained by us is sufficient and appropriate to provide a basis for our audit opinion on the Individual Financial Statements.

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid Individual Financial Statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the Ind AS and other accounting principles generally accepted in India, of the state of affairs of the Company as at March 31, 2019, its profit, total comprehensive income, changes in equity and its cash flows for the year ended on that date.

Emphasis of Matter

We draw attention to **Note 18** to the Individual Financial Statements which describes the uncertainties related to the legal outcome of Department of Telecommunications demand with respect to one-time spectrum charges.

Our opinion is not modified in respect of this matter.

Report on Other Legal and Regulatory Requirements

As required by the Companies (Auditor's Report) Order, 2016 ("the Order") issued by the Central Government in terms of Section 143(11) of the Act, we give in "**Annexure C**" a statement on the matters specified in paragraphs 3 and 4 of the Order, to the extent applicable.

Notes to Individual Financial Statements stated as follows:

18. On February 9, 2014, Department of Telecom issued a demand for ₹ 24,00,000 towards levy of one-time spectrum charge. The demand includes a prospective charge of ₹ 20,00,000 for GSM spectrum held beyond 3.5 MHz for the period from February 1, 2014, till the expiry of the initial terms of the respective licenses along with retrospective charge of ₹ 4,00,000 for GSM spectrum held beyond 5.1 MHz for the period from February 1, 2010 to December 31, 2013.

In view of the Company, said demand amounts to modification of financial terms of the licenses issued in the past. A petition being filed by the Company, the Hon'ble High Court of Delhi, vide its order dated February 28, 2014, has directed the Department of Telecom to respond and not to take any coercive action until the next date of hearing. The DoT has filed its reply and the matter is currently pending with the Hon'ble High Court of Delhi.

25. Contingent Liabilities- Claims against the Company not acknowledged as debt

Customs Duty

During the current Financial Year, the custom authorities issued a demand notice for custom duty with regard to import of certain software on the basis of the fact that the software was preloaded in the hardware at the time of import. In response to that, the company filed an application to the Hon'ble Central Excise and Service Tax Appellate Tribunal ("CESTAT") opposing the demand of custom authorities, contending that such imports shall not be subject to custom duty as it is an operating software which is exempted from any custom duty. However, the CESTAT has passed an order in favour of the custom authorities. Consequently, the Company has filed an appeal with the Hon'ble Supreme Court against the CESTAT order, which is still unheard.

Annexure C to the Independent Auditor's Report

- (ii) As elucidated to us, the inventories, except for those lying with the third parties, were physically verified during the year by the Management at reasonable intervals and no material discrepancies were noticed.
- (iii) As elucidated to us, the Company has not granted any loans, secured or unsecured, to companies, firms, Limited Liability Partnerships or other parties covered in the register maintained under section 189 of the Companies Act, 2013.
- (xi) In our opinion and as elucidated to us, the Company has paid managerial remuneration in accordance with the requisite approvals mandated by the provisions of section 197 read with Schedule V to the Companies Act, 2013, except that the commission of ₹ 34,570 to non-executive directors is in excess by ₹ 18,200, basis the lower limits approved by the Shareholders of the Company.

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

1. While reporting on Companies (Auditor's Report) Order, 2016 (the Order) under the head Other Legal and Regulatory Requirements, the auditor included a statement on payment of managerial remuneration in accordance with the requisite approvals mandated by the provisions of section 197 read with Schedule V to the Companies Act, 2013. State whether the reporting is in accordance with the reporting requirement under the Order.
 - (a) Yes, the auditor has reported as per the reporting requirement which requires stating the amount involved in case of qualified answer.
 - (b) No, the auditor has not reported as per the reporting requirement which requires stating the steps taken by the company for securing refund of the same.
 - (c) No, the auditor has not reported as per the reporting requirement which requires stating the period of default upto the date of seeking Shareholders' approval for which excess commission was paid.
 - (d) No, the auditor has not reported as per the reporting requirement which requires stating the compliance of section 198 of the Companies Act, 2013.
2. Every listed company shall appoint at least one woman

director on the Board in compliance of the provisions of the Companies Act, 2013 read with the Companies (Appointment and Qualification of Directors) Rules, 2014. In the given case, the company went through an intermittent vacancy of the woman director, which was filled later on. State whether the appointment of another woman director by the Board to fill the intermittent vacancy is valid.

- (a) The intermittent vacancy of a woman director can only be filled by the shareholders not later than coming annual general meeting. Thus, the appointment is invalid.
 - (b) The intermittent vacancy of the woman director shall be filled by the Board. There is no such compliance for time limit. Thus, the appointment is valid.
 - (c) The intermittent vacancy of a woman director can only be filled by the Board not later than immediate next Board Meeting or two months from the date of such vacancy whichever is later. Thus, the appointment is invalid.
 - (d) The intermittent vacancy of a woman director can only be filled by the Board not later than immediate next Board Meeting or three months from the date of such vacancy whichever is later. Thus, the appointment is valid.
3. The Securities and Exchange Board of India (SEBI) has issued the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("LODR Regulations"). The objective of the LODR Regulations are streamlining and consolidating the provisions of various listing agreements in operation for different segments of the capital markets. State which of the following companies is not covered under LODR Regulation for the purpose of its compliances.
- (a) VayuSanchar Limited which has established a Code of Conduct, Human Rights Policies towards protection of Human Rights. In addition to this, the company has also set up Internal Complaint Committee to prevent sexual harassment at workplace.
 - (b) HawaSanchar Limited, a public company, which has a paid up capital of ₹ 100 crore.
 - (c) Lucy Limited which has a paid up capital of ₹ 10 crore and listed non-convertible debt securities.
 - (d) Magadh Limited which has listed securitised debt instruments on a recognised stock exchange.
4. Regarding demand notice for custom duty from the custom authorities, state, whether the company needed to provide for the provision/ liability/ contingent liability in the books of VayuSanchar Limited.
- (a) A provision is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. Thus, provision shall be made in the financial statements, instead of showing it to the notes to financial statements.
 - (b) It is a liability of uncertain timing and amount, thus, the demand shall be recognised as a liability.
 - (c) It is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Thus, the presentation as contingent liability under notes to financial statements is correct.

(d) It is a present obligation that arises from past events but is not recognised because (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or (ii) the amount of the obligation cannot be measured with sufficient reliability. Thus, the presentation as contingent liability under notes to financial statements is correct.

5. Referring the Independent Auditor's Report to the members of VayuSanchar Limited, the auditor has included a section with the heading "Auditor's Responsibilities for the Audit of the Financial Statements.". Elucidate, what shall not be stated under this section of the Auditor's Report.
 - (a) Auditor's responsibilities for identifying and assessing the risks of material misstatement of the financial statements.
 - (b) Auditor's responsibilities for obtaining an understanding of internal control relevant to the audit in order to design audit procedures.
 - (c) Auditor's responsibilities for assessing the entity's ability to continue as a going concern.
 - (d) Auditor's responsibilities for evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates.

Part B- Descriptive Questions

6. Referring the presentation made by the auditor regarding Emphasis of Matter paragraph in the Auditor's Report, state the conditions for including such paragraph. Also give certain examples of cases where the auditor may consider necessary to include an Emphasis of Matter paragraph. Consequently, state, whether the reporting made by the auditor in the Auditor's Report is in accordance with the relevant Standards on Auditing. (7 Marks)
7. Considering the Balance Sheet of VayuSanchar Limited and 'Other information' as provided along with the facts mentioned below, construct a statement of cash flows under indirect method.
 - (i) Income tax paid during the current year is ₹ 30,00,000.
 - (ii) Other Non-Current Assets and Current Liabilities do not contain any element of Financing and Investing Activities. (8 Marks)

ANSWERS

CASE STUDY 1

Part A

1. (c) Managers may decide among themselves to adjust the proposed budget so that it is easier for them to attain the cost targets they have set.
Reason: Besides having advantages of involving managers in budget preparation, there are disadvantages too where managers may alter the proposed budget so that it is easier for them to attain the cost targets they have set.
2. (a) 50% , 44%
Reason:

Budgeted Market Share (in %)	$= \frac{12 \text{ crore units}}{24 \text{ crore units}} = 50\%$
Actual Market Share (in %)	$= \frac{10 \text{ crore units}}{22.50 \text{ crore units}} = 44\%$

3 (b) ₹ 3,06,00,000 A

Reason: Calculation of Sales Volume Contribution – Planning Variance

Budgeted Market Share (in %) = $\frac{12 \text{ crore units}}{24 \text{ crore units}} = 50\%$
Budgeted Contribution = ₹ 125 crore – ₹ 76 crore = ₹ 49 crore
Average Budgeted Contribution (per unit) = $\frac{₹ 49 \text{ crore}}{12 \text{ crore units}} = ₹ 4.08$
Sales Volume Contribution – Planning Variance = Budgeted Market Share (in %) x [Actual Industry Sales Quantity (in units) - Budgeted Industry Sales Quantity (in units)] x Average Budgeted Contribution (per unit) = 50% x [22.50 crore units – 24 crore units] x ₹ 4.08 = ₹ 3,06,00,000 A

4. (c) ₹ 3,00,000

Reason: Thread and lining material are inputs which are used for making taxable as well as exempt supplies. Therefore, credit on such items will be apportioned and credit attributable to exempt supplies will be reversed in terms of rule 42 of the CGST Rules.

Credit attributable to exempt supplies = Common credit x (Exempt turnover/ Total turnover)

Common credit = ₹ 3,00,000 + ₹ 1,00,000 = ₹ 4,00,000

Exempt turnover = ₹ 25 crore

Total turnover = ₹ 100 crore [₹ 25 crore + ₹ 75 crore]

Credit attributable to exempt supplies = (₹ 25 crore / ₹ 100 crore) x ₹ 4,00,000 = ₹ 1,00,000.

Ineligible credit of ₹ 1,00,000 will be reversed. Credit of ₹ 3,00,000 will be eligible credit.

5. (d) ₹ 5,50,80,000 A

Reason: Calculation of Sales Volume Contribution – Operational Variance

Actual Market Share (in %) = $\frac{10 \text{ crore units}}{22.50 \text{ crore units}} = 44\%$
Budgeted Market Share (in %) = $\frac{12 \text{ crore units}}{24 \text{ crore units}} = 50\%$
Budgeted Contribution = ₹ 125 crore – ₹ 76 crore = ₹ 49 crore
Average Budgeted Contribution (per unit) = $\frac{₹ 49 \text{ crore}}{12 \text{ crore units}} = ₹ 4.08$
Sales Volume Contribution – Operational Variance = [Actual Market Share (in %) - Budgeted Market Share (in %)] x Actual Industry Sales Quantity (in units) x Average Budgeted Contribution (per unit) = (44% - 50%) x 22.50 crore units x ₹ 4.08 = ₹ 5,50,80,000 A

Part B

6. Determination of residential status of Mr. Tinuraj for the Assessment Year 2020 - 21

Under section 6(1) of the Income Tax Act, 1961, an individual is said to be resident in India in any previous

year, if he satisfies any one of the following conditions:

- (i) He has been in India during the previous year for a total period of 182 days or more, or
- (ii) He has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.

In the given case, period of stay of Mr. Tinuraj during the current Financial Year = 366 – 300 = 66 days. Thus, the first condition of staying in India during the previous year for a total period of 182 days or more is not met.

Calculation of period of stay during 4 preceding previous years:

Financial Year	Number of days
2018 – 19 & 2017 – 18 [(365 days x 2 years) – 600 days]	130
2016 – 17 & 2015 – 16 [(365 days + 366 days) – 490 days]	241
Total	371

Mr. Tinuraj has been in India for a period more than 60 days during previous year 2018-19 and for a period of more than 365 days during the 4 immediately preceding previous years. Therefore, since he satisfies one of the basic conditions under section 6(1), he is a resident for the assessment year 2020-21.

Further, a not-ordinarily resident person is one who satisfies any one of the conditions specified under section 6(6) of the Income Tax Act, 1961, i.e.,

- (i) If such individual has been non-resident in India in any 9 out of the 10 previous years preceding the relevant previous year, or
- (ii) If such individual has during the 7 previous years preceding the relevant previous year been in India for a period of 729 days or less.

Computation of period of stay during 7 preceding previous years:

Financial Year	Number of days
2018-19	130
2017-18	
2016-17	241
2015-16	
2014-15 (365 days – 300 days)	65
2013-14 (365 days – 250 days)	115
2012-13 (365 days – 250 days)	115
Total	666

Since Mr. Tinuraj satisfies condition (ii) above of staying in India for a period of 729 days or less during the 7 previous years preceding the relevant previous year, he is a not-ordinarily resident during the assessment year 2020-21.

Therefore, Mr. Tinuraj is a resident but not ordinarily resident during the previous year 2019-20 relevant to the assessment year 2020-21.

7. Computation of total income in the hands of Mr. Tinuraj for the A. Y. 2020 – 21

Particulars	Resident and ordinarily resident (Rs.)	Resident but not ordinarily resident (Rs.)	Non-resident (Rs.)
Profit from the business in Uttar Pradesh, India	20 crore	20 crore	20 crore
Profit from business in Malaysia which is controlled from Uttar Pradesh, out of which ₹ 10 crore received in India	60 crore	60 crore	10 crore
Profit from business in Delhi but managed entire business from China	18 crore	18 crore	18 crore
Interest on HK Development Bonds, Hong Kong	2 crore	0.70 crore	0.70 crore
Dividend on shares of Taj Tashu Steel Ltd., Bhutan	1 crore	-	-
Dividend on shares of Taj Raman Ltd., India [Exempted under section 10(34)]	-	-	-
Interest on debentures of Taki Motors Ltd., India	3 crore	3 crore	3 crore
Interest on savings bank account in Bharat Bank of India	0.018 crore	0.018 crore	0.018 crore
Gift on the occasion of wedding [not taxable]	-	-	-
Gross Total Income	104.018 crore	101.718 crore	51.718 crore
Less: Deduction under section 80TTA [Interest on savings bank account subject to a maximum of ₹ 10,000]	.001 crore	.001 crore	.001 crore
Total Income	104.017 crore	101.717 crore	51.717 crore

- 8. GST on Export to Bhutan:** As per relevant RBI Master Circular, there is no restriction on invoicing of export contracts in Indian Rupees in terms of the Rules, Regulations, Notifications and Directions framed under the Foreign Exchange Management Act, 1999. Further, it is also clarified that the acceptance of LUT for supplies of goods to Nepal or Bhutan or SEZ unit/

Developer will be permissible irrespective of whether the payments are made in Indian currency or convertible foreign exchange as long as they are in accordance with the applicable RBI guidelines.

Consequently, export of goods to Nepal or Bhutan fulfils the condition of GST Law regarding taking goods out of India. Hence, export of goods to Nepal and Bhutan will be treated as zero rated and consequently will also qualify for all the benefits available to zero rated supplies under the GST regime.

Thus, the sales made by Mr. Tinuraj to Bhutan will be treated as zero rated being export under LUT without payment of IGST.

CASE STUDY 2

Part A

1. (a) Growing (IndAS 16); Harvesting (IndAS 41); Wine Production (IndAS 2).

Reason: The grape vines are bearer plants that continually generate crops of grapes which are covered by IndAS 16, Property, Plant and Equipment. When the entity harvests the grapes, their biological transformation ceases and they become agricultural produce covered by IndAS 41, Agriculture. Wine involves a lengthy maturation period. This process is similar to the conversion of raw materials to a finished product rather than biological transformation hence treated as inventory in accordance with IndAS 2, Inventories.

2. (d) Horses.

Reason: Services relating to cultivation of plants and rearing of all life forms of animals, except the rearing of horses, for food, fibre, fuel, raw material or other similar products' under Entry 54 include activities like breeding of fish (pisciculture), rearing of silk worms (sericulture), cultivation of ornamental flowers (floriculture) and horticulture, forestry, etc.

3. (c) Packing for Retail Market.

Reason: The processes of packaging in retail packs of agricultural products, which make the agricultural products marketable in retail market, would NOT be covered in this entry. Only such processes are covered in the relevant entry of exemption which makes agricultural produce marketable in the primary market.

4. (b) Agricultural Extension Services

Reason: Item (f) of the entry exempts Agricultural extension services which mean application of scientific research and knowledge to agricultural practices through farmer education or training.

5. (c) Jaggery.

Reason: Products such as tea (i.e. black tea, white tea etc.), processed coffee beans or powder, pulses (dehusked or split), jaggery, processed spices, processed dry fruits, processed cashew nuts etc. fall outside the definition of agricultural produce and therefore the exemption from GST is not available to their loading, packing, warehousing etc. [Circular No. 16/16/2017 GST dated 15.11.2017].

Part B

6. (a) **IndAS 41 does not apply to:**

- (i) land related to agricultural activity: for example, the land on which the biological assets grow, regenerate and/or degenerate (IndAS 16 Property, Plant and Equipment and IndAS 40 Investment Property);

- (ii) bearer plants related to agricultural activity. Such bearer plants are covered within the scope of IndAS 16, Property, plant and Equipment. However, this Standard applies to the produce on those bearer plants.
- (iii) government grants related to bearer plants (IndAS 20 Accounting for Government Grants and Disclosure of Government Assistance).
- (iv) intangible assets associated with the agricultural activity, for example licenses and rights are covered under IndAS 38 Intangible Assets.

(b) (i) Incorrect.

Reason: As per Explanation 1 to section 2(1A), the capital gains arising from the transfer of such urban agricultural land would not be treated as agricultural income under section 10 but will be taxable under section 45.

(ii) Incorrect.

Reason: Since, X received remuneration under a contract for personal service calculated on the amount of profits earned by the company, such remuneration does not constitute agricultural income.

(iii) Incorrect.

Reason: The regularity with which the sales of milk were effected and quantity of milk sold showed that Mrs. Singh carried on regular business of producing milk and selling it as a commercial proposition. Hence, it was not agricultural income.

(iv) Incorrect.

Reason: Dividend is derived from the investment made in the shares of the company and is hence, not an agricultural income.

7. Measurement of group of Cattle as the March 31, 2019

Particulars	Amount (Rs.)
Fair value as at April 1, 2018	13,750
Increase due to Price change [250 x {60 - (13,750/250)}]	1,250
Increase due to Physical change [250 x {75-60}]	3,750
Fair value as at March 31, 20X9	18,750

8. Computation of Business income and Agricultural income

Particulars	Business Income	Agricultural Income	
	(Rs.)	(Rs.)	(Rs.)
Sale of Sugar			
Business income			
Sale Proceeds of sugar	25,00,000		
Less: Market value of sugar (70%)	22,00,000		
Less: Manufacturing exp.	1,50,000		
	1,50,000		
Agricultural income			
Market value of sugar (70%)		22,00,000	
Less: Cost of cultivation		14,00,000	8,00,000
Sale of sugarcane			
Agricultural Income			
Sale proceeds of sugarcane (30%)		10,00,000	
Less: Cost of cultivation		5,00,000	
			5,00,000
			13,00,000

CASE STUDY 3

Part A

1. (b) No, the auditor has not reported as per the reporting requirement which requires stating the steps taken by the company for securing refund of the same. **Reason:** As per clause (xi) of Para 3 of CARO, 2016, the auditor of a company has to report whether managerial remuneration has been paid or provided in accordance with the requisite approvals mandated by the provisions of section 197 read with Schedule V to the Companies Act? If not, state the amount involved and steps taken by the company for securing refund of the same.
2. (d) The intermittent vacancy of a woman director can only be filled by the Board not later than immediate next Board Meeting or three months from the date of such vacancy whichever is later. Thus, the appointment is valid. **Reason:** As per section 149(1) of the Companies Act, 2013 read with the Companies (Appointment and Qualification of Directors) Rules, 2014, the Board shall fill the vacancy by 18th August, 2018 or by 18th September, 2018 (i.e. 3 months from the date of such vacancy) whichever is later. In the given case, it has been filled on 18th September, 2018, thus the appointment is valid.
3. (b) Hawa Sanch Ltd., a public company, which has a paid up capital of ₹ 100 crore. **Reason:** The LODR Regulations shall apply to the listed entity who has listed designated securities on recognised stock exchange.
4. (c) It is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Thus, the presentation as contingent liability under notes to financial statements is correct. **Reason:** As per Ind AS 37, a contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. In the given case, the appeal is pending before the court which is a possible obligation because the liability for payment arising or not is dependent on the outcome of court decision.
5. (c) Auditor's responsibilities for assessing the entity's ability to continue as a going concern. **Reason:** As per SA 700, the auditor's report shall include a section with a heading "Responsibilities of Management for the Financial Statements.". This section of the auditor's report shall describe management's responsibility for assessing the entity's ability to continue as a going concern.

Part B

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

- (a) The auditor would not be required to modify the opinion in accordance with SA 705 'Modifications to the Opinion in the Independent Auditor's Report' as a result of the matter; and
- (b) When SA 701 'Communicating Key Audit Matters in the Independent Auditor's Report' applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report.

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

- (a) An uncertainty relating to the future outcome of exceptional litigation or regulatory action.
- (b) A significant subsequent event that occurs between the date of the financial statements and the date of the auditor's report.
- (c) Early application (where permitted) of a new accounting standard that has a material effect on the financial statements.
- (d) A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.

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

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

Therefore, the reporting is in accordance with SA 706.

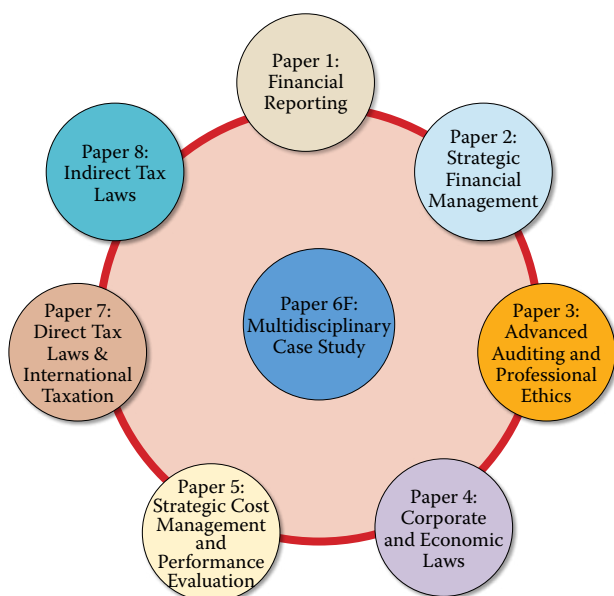
7. Statement of Cash Flows of VayuSanchar Limited

Particulars	Amount (₹)	Amount (₹)
Cash Flows from Operating Activities		
Net Profit after Tax	1,40,00,000	
Add: Income Tax Paid	30,00,000	
Net Profit before Tax	1,70,00,000	
Add: Depreciation	15,00,000	
Less: Gain on Sale of Machine	(1,00,000)	

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

CA FINAL (NEW) - PAPER 6F - MULTIDISCIPLINARY CASE STUDY

Students electing this Paper 6F Multidisciplinary Case Study are advised to refer the study material of the core subjects at the Final (New) level. Students need to keep in mind that this paper involves application of all the core papers, thus, conceptual understanding of each and every topic is required in detail to answer the questions in an efficient and effective manner.



Standards/ Guidance Notes/ Legislative Amendments etc. applicable for above-mentioned core papers would also be applicable as it is to the Paper 6F Multidisciplinary Case Study.

The question paper of this subject would contain 5 case studies of 25 marks each, out of which student has to attempt any 4.

In each case study carrying 25 marks, MCQs would be for 10 marks and descriptive questions involving computation/ analysis/ interpretation would be for 15 marks in the ratio of 40:60 between MCQs and descriptive questions.

Thus, while choosing which case studies to attempt, student may first go through all the case studies at one glance and then decide which of the four case studies out of five he/ she has prepared well with maximum topics coverage.

Students must divide their four hours between four case studies to be answered meticulously. Once the case studies have been opted, give them a comprehensive reading while attempting the same. Try to note down the topics covered and then refer the same from the reference material.

Two illustrative case studies have been provided below for practice purpose. Students are suggested to solve the same in examination condition and check for the answers only after attempting both the case studies.

CASE STUDY 1

Shanaya Limited owns a Building A which is specifically used for the purpose of earning rentals and had been classified as 'Property, Plant and Equipment' in the financial statements, before the applicability of financial reporting framework as per the principles of Indian accounting standards. The Company has not been using the building A or any of its facilities for its own use for a long time. The company is also exploring the opportunities to sell the building if it gets the reasonable amount in consideration.

Following information is relevant for the Building A for the year ending 31st March, 2020:

Building A was purchased 5 years ago at the cost of Rs. 10 crore and building life is estimated to be 20 years. The company follows straight line method for depreciation.

During the year, the company has invested in another Building B with the purpose to hold it for capital appreciation. The property was purchased on 1st April, 2019 at the cost of Rs. 2 crore. Expected life of the building is 40 years. As usual, the company follows straight line method of depreciation.

Further, during the year the company earned/incurred following direct operating expenditure relating to Building A and Building B, however the accountant instead of capitalising the same, has directly debited it to Profit and Loss:

Rental income from Building A	=	Rs. 75 lakhs
Rental income from Building B	=	Rs. 25 lakhs
Sales promotion expenses	=	Rs. 5 lakhs
Fees & Taxes	=	Rs. 1 lakhs
Ground rent	=	Rs. 2.5 lakhs
Repairs & Maintenance	=	Rs. 1.5 lakhs
Legal & Professional	=	Rs. 2 lakhs
Commission and brokerage	=	Rs. 1 lakhs

The company does not have any restrictions and contractual obligations against Property - A and B. For complying with the requirements of Ind AS, the management sought an independent report from the specialists so as to ascertain the fair value of Buildings A and B. The independent valuer has valued the fair value of property as per the valuation model recommended by International valuation standards committee. Fair value has been computed by the method by streamlining present value of future cash flows namely, discounted cash flow method.

The other key inputs for valuation are as follows:

The estimated rent per month per square feet for the period is expected to be in the range of Rs. 50 - Rs. 60. And it is further expected to grow at the rate of 10 percent per annum for each of 3 years. The weighted discount rate used is 12% to 13%.

Assume that the fair value of properties based on discounted cash flow method is measured at Rs. 10.50 crores. The treatment of fair value of properties is to be given in the financials as per the requirements of Indian accounting standards.

One of the Shanaya Limited's manufacturing units is situated at one of the remotest areas of India. Being the company, whose main objective is also concerned with the welfare of masses, it has been specifically told by the Government of India to take part

MULTIDISCIPLINARY CASE STUDY

in initiatives such as 'Swachh Bharat Abhiyaan'. Its main objective would be to create awareness amongst the rural people to be more cautious towards cleanliness and thereby also constructing toilets and imparting training programs. With the passage of time, the costs are expected to be increased. The campaign would run for 4 years and the expected costs to be incurred by company from year to year are expected as follows:

Year 1	=	Rs. 20 crore
Year 2	=	Rs. 40 crore
Year 3	=	Rs. 70 crore
Year 4	=	Rs. 120 crore

The company has also received the grant of Rs. 35 crore from Government of India to compensate for the costs which it is going to incur over a period of 4 years.

Meanwhile assume that the financial statements have been prepared for the year ending March 2020; the auditor of Shanaya Limited has noted following observation in its audit report, said observation has been documented after discussions with 'Those charged with governance':

"The Holding Company also owns various immovable properties that have been let out to Group Companies/ third parties for varied lease periods. Ind AS 40 'Investment Property' requires assets to be classified as Investment Property in case certain conditions are met. This involves significant judgment and estimation with respect to the lease term, management intention etc., basis which the assets are classified either as property, plant and equipment or investment property in the Balance sheet."

Corresponding to above observation, issue has been addressed in the audit report by auditors as follows:

"We obtained an understanding of financial statement closure process, including the process of assessment and classification of immovable properties and preparation of relevant disclosures. We also understood design and implementation of controls, tested the operating effectiveness of these controls, including validation of management review controls."

We assessed various lease agreements entered into by with group Companies / third parties and evaluated terms of agreements, along with requirements of Ind AS.

We read the judgements and assumptions made by the management with respect to classification of investment properties.

We assessed the disclosure of investment property made in the consolidated Ind AS financial statements."

Shanaya Limited's turnover during the P.Y. 2017-18 and 2018-19 was Rs. 500 crore and Rs. 600 crores respectively. The company's turnover for the P.Y. 2019- 20 is Rs. 800 crores. Net profit as per the Statement of Profit and Loss Account for the previous year 2019-20 is Rs. 500 crores. Details of the expenses debited to the Statement of Profit and Loss A/c for the year ended 31.3.2020:

Particulars	Rs. (crores)
Depreciation as per the Companies Act, 2013	80.00
Interest on borrowings from banks not paid up to tax return filing	2.75
Provision for bad and doubtful debts	6.20
Corporate social responsibility expenses	2.50
Expenses incurred for services taken from Saurashtra Pvt. Ltd., a company registered in Maharashtra region, on which corresponding TDS under section 194C has not been deducted	7.00
Bonus paid on April 30th,2020	3.00
Expenses incurred on voluntary retirement scheme	2.40

During the previous year 2018-19, company has not deducted tax at source on the amount of expenditure of Rs. 15.73 crores incurred and paid to PQR Private Limited. Company has collectively deducted tax at source on the further payment made to PQR Limited and deposited the same to the credit of Central Government in the financial year 2019-20 along with interest.

Following information relates to Block of assets for financial year 2019-20 as per Income-tax Act, 1961:

Block of assets	Written down value on the first day of previous year	Purchase of new asset	Date of purchase	Date of ready to use	Date of put to use
Land	Nil	50	01/04/2019	-	-
Plant and Machinery	480	Nil	-	-	-
Office Building	200	75	08/02/2020	15/02/2020	
Furniture and fittings	65	35	10/09/2019	13/09/2019	25/09/2019
Intangible assets	-	40	25/05/2019	25/05/2019	25/05/2019

The brought forward business loss as per Income-tax return for A.Y. 2019-20 is Rs. 35 crores and the company's retained earnings balance for FY 2018-19 is Rs. 1,200 crores.

The company is doing well for some time as the company has witnessed rise in its revenue due to its aggressive marketing campaigns. Although the revenue has increased since past, but the debtors are also accumulating over a period of time. Most of its clients are related to Government sector which takes reasonably long period of time to get the payment cleared. The company is facing liquidity problems due to non-availability of cash; hence it has not been able to pay the statutory dues within the time. As a consequence, company filed the return of income on 31st December, 2020 and paid the due taxes accordingly.

The tax audit of the company started in the month of November 2020 due to delay on the part of the management. It was finally signed by auditor on 20th January, 2021. It may be noted that the transfer pricing audit is not applicable to the company for assessment year 2020-2021.

QUESTIONS

Part A- Multiple Choice Questions

- What appropriate term of the following would be used for auditor's observation on the analysis of issue regarding Investment property in the audit report as per relevant standard on auditing?
 - Emphasis of matter
 - Other matter
 - Key audit matter
 - Opinion Para
- If Income tax provision at the year beginning was Rs. 150 crores as per books and Income tax paid during the year is Rs. 126.09 crores, then the closing balance of Income tax provision as per books of accounts is:
 - Rs. 129.20 crores
 - Rs. 177.66 crores
 - Rs. 102.45 crores
 - Rs. 146.89 crores

3. There are certain carve-outs and significant differences between IFRS and Ind AS. Which of the following statements is correct in reference to Ind AS 40 vis-à-vis IAS 40?
 - (a) Ind AS 40 permits both cost model and fair value model for measurement of investments after initial recognition.
 - (b) IAS 40 permits only cost model for measurement of investments after initial recognition.
 - (c) Ind AS 40 permits only fair value model for measurement of investments after initial recognition.
 - (d) IAS 40 permits both cost model and fair value model for measurement of investments after initial recognition.

4. Calculate the amount, Shanaya Limited would recognise in its books of accounts in first year, for the grant received from Government of India amounting to Rs. 35 crores.
 - (a) Rs. 8.40 crores
 - (b) Rs. 8.75 crores
 - (c) Rs. 35 crores
 - (d) Rs. 2.80 crores

5. Whether Shanaya Limited is liable to pay any penalty for failure to furnish tax audit report in accordance with the relevant provisions of Income-tax Act, 1961 and if yes, then what would be amount of penalty leviable?
 - (a) Yes, Shanaya Limited is liable to pay penalty of Rs. 1,50,000.
 - (b) Yes, Shanaya Limited it is liable to pay penalty of Rs. 4 crores.
 - (c) Yes, Shanaya Limited is liable to pay penalty of Rs. 8 crores.
 - (d) No, Shanaya Limited is not liable to pay penalty, since the company has filed the tax audit report before the end of relevant assessment year.

Part B- Descriptive Questions

6. What would be the treatment of Building A and Building B in the Balance Sheet of Shanaya Limited? Provide detailed disclosures and computations in line with relevant Indian accounting standards. Treat it as if you are preparing a separate note or schedule, of the given assets in the Balance Sheet.

7. Compute total income and tax liability of Shanaya Limited for the assessment year 2020-21, as per provisions of Income-tax Act, 1961. Ignore the provisions of Minimum Alternate Tax.

8. Compute the amount of advance tax payable along with due date for payment of instalments of advance tax during the previous year 2019-20 as per the provisions of Income-tax Act, 1961.

CASE STUDY 2

Glaxosd Ltd. has dedicated an expenditure of Rs. 50 lakhs towards advertising of its products. They contacted advertising agencies such as McLeod to undertake the marketing of its products. They entered into a contractual arrangement for

undertaking advertisement on TV, Hotstar and Netflix for FY 2019-2020. However, McLeod did not charge any money to Glaxosd Ltd. as Glaxosd Ltd. has helped McLeod during the recession in the year 2008. In order to show gratitude, McLeod did not bill them for advertising services rendered by them.

McLeod charges a sum of Rs. 25 lakhs for advertising on TV, Hotstar and Netflix to companies who are engaged in trading of goods for a year. McLeod generally charges a mark -up of 40% on the cost.

Glaxosd Ltd. has a branch at Guwahati. It supplied 1,00,000 pieces of garments to the branch on 17th January, 2020. Since it had supplied the goods to the branch, it did not charge any consideration from the branch.

Guwahati branch sources its entire purchase from the Glaxosd Ltd. The branch in turn sells it to retail customers. The Branch sells the goods to the customers at a price of Rs. 15 per piece. Glaxosd Ltd. issued an invoice of Rs. 1,50,000 plus 5 percent GST to a customer who bought 20,000 pieces on 15th May, 2019. The goods sold to the customer were from the defect lot. On 20th May 2019, the rate of tax changed from 5 percent to 18 percent. The customer paid the company through a cheque dated 18th May, 2019. The funds got credited in the bank account on 25th May 2019. The customer got delivery of goods on 21st May, 2019.

Mr. Adrio works in Canada for Glaxosd Ltd. He earned salary of USD 10,000 per month.

Mr. Adrio works exclusively to develop the market of the product which Glaxosd Ltd. trades in India.

He is deputed in Canada since January 2019. Glaxosd Ltd. has also deputed Mr. Ricky for assisting Mr. Adrio in all the administrative work of the Mr. Adrio. His salary is USD 100. Salary to the employee is due on last day of the month. Salary is paid on the due date only. The telegraphic transfer Buying rate is stated as under:

Date	TT Buying Rate
31.10.2019	65.50
30.11.2019	69.45
31.12.2019	70.57
31.01.2020	72.58
29.02.2020	73.68
31.03.2020	74.69

Mr. Adrio has signed a contract with Glaxosd Ltd. for a period of 6 years. Glaxosd Ltd. has insisted Mr. Adrio to sign this agreement as the nature of services rendered by him are crucial for the company so that they can establish a market in Canada.

The Company got on board the brand "Jain Sweets" to manage the hunger needs of its employees from May 2019 onwards. The company distributed coupons to its entire staff worth Rs. 200 each. Jain Sweets has variety of food items on its shelf: samosa, burger, sweets, farsan, sandwich, etc. The Company distributes the coupons on monthly basis. i.e. at the start of the month. The Company has 100 employees on its payroll.

The Company also received advance consideration worth Rs. 10,00,000 on 16th August, 2019 from Jain Sweets in respect of the goods in which the company trades in. Jain Sweets wanted to buy such goods to distribute it in his village as a token of

MULTIDISCIPLINARY CASE STUDY

love. The goods are to be delivered by end of February, 2020. Glaxosd Ltd. requests the Commissioner of Police, Mumbai to provide security in and around the NESCO where exhibition will be held for 5 days from 17th January to 21st January, 2020. The Commissioner of Police arranges the required security for an agreed consideration of Rs. 10 lakhs.

The son of the promoter of Glaxosd Ltd. wanted to enroll himself at IIM for a post graduate degree in business Analytics. Since, he is a CA Final student, IIM discussed the following details with him so that IIM could check his knowledge on GST.

IIMs have designed following courses for FY 2019-2020:

Name of the Course	Duration of the Course	Annual Fee
Post graduate in Business Analytics	2 years	Rs. 2,50,000
Diploma Course in Data Science	9 months	Rs. 3,50,000
Masters in Business Planning	3 years	Rs. 4,00,000

IIM also has canteen for its students and teachers and professors. It has in-house canteen for those students who take post graduate and Masters course in IIM. It has outsourced the catering services to "Jagdishan Foods" for students pursuing Diploma courses.

During the month of April, 2019, 20 students have enrolled for postgraduate course, 30 students have enrolled for Diploma course and 50 students for Masters course. The monthly billing of in-house canteen is Rs. 5,00,000 and the monthly billing of Jagdishan Foods is Rs. 2,00,000 for the month of April, 2019.

QUESTIONS

Part A- Multiple Choice Questions

- What is the amount of salary chargeable to tax in the hands of Mr. Adrio and Mr. Ricky? Assume that salary is chargeable to tax in India.
 - Rs. 22,09,500 and Rs. 21,683
 - Rs. 22,31,183 and Rs. 22,095
 - Rs. 22,09,500 and Rs. 22,095
 - Rs. 22,31,183 and Rs. 21,683
- Would Mr. Adrio be eligible for gratuity from Glaxosd Ltd., on completion of his period of service?
 - No, since he is rendering services outside India
 - No, since he is only a contractual employee
 - No, due to reasons mentioned in both (a) and (b) above
 - Yes, he is entitled to gratuity from Glaxosd Ltd. since he would have rendered continuous service of not less than 5 years.
- What is the value of supply of goods sent by Glaxosd Ltd. to its branch?
 - Rs. 13,50,000
 - Rs. 15,00,000
 - Rs. 7,50,000
 - Rs. 11,55,000

- What is the time of supply in case of sale of goods by Glaxosd to a customer?
 - 15th May, 2019
 - 20th May, 2019
 - 21st May, 2019
 - 25th May, 2019
- Who will pay the GST on the services provided by Mumbai Police?
 - Mumbai Police.
 - Glaxosd Ltd.
 - No liability to pay tax as services rendered by Mumbai Police are exempt.
 - No liability to pay tax as services rendered by Mumbai Police are covered under zero rated supply.

Part B- Descriptive Questions

- What is the value of supply rendered to Glaxosd Ltd. by McLeod?
- When should Jain Sweets pay GST on the vouchers distributed to employees of Glaxosd Ltd. for the month of August 2019 and when should Glaxosd Ltd. pay GST on advance received by them from Jain Sweets?
- What is the value of supply of service rendered by IIMs chargeable under the GST Act?

ANSWERS

CASE STUDY 1

Part A

- (c) Key audit matter
Reason: As per SA 701, 'Communicating Key Audit Matters in the Independent Auditor's Report', Key audit matters are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance.
- (b) Rs. 177.66 crores
Reason:

Particulars	Amount (Rs.)
Opening Provision of Income tax	150.00 crores
Provision made during the year	153.75 crores
Tax paid during the year	(126.09 crores)
Closing Provision of Income tax	177.66 crores
- (d) IAS 40 permits both cost model and fair value model for measurement of investments after initial recognition.
Reason: This is due to difference between Ind AS 40 and IAS 40 not resulting into carve out. IAS 40 permits both cost model and fair value model (except in some situations) for measurement of investment properties after initial recognition. Ind AS 40 permits only the cost model.

4. (d) Rs. 2.80 crores

Reason: As per Ind AS 20, Government grants shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.

Accordingly, Amount to be recognised in Year 1 = $(20/250) \times 35 = \text{Rs. } 2.80 \text{ crores}$

5. (a) Yes, Shanaya Limited is liable to pay penalty of Rs. 1,50,000

Reason: If a taxpayer who is required to obtain the tax audit report under section 44AB or to furnish auditor's report with income tax return but if it fails to do so, then it is penalized accordingly. The defaulters of tax audit report are penalised under section 271B of Income-tax Act.

Penalty is lower of Rs. 1,50,000 or 0.5% of total sales/turnover (Rs. 4 crores in this case)

6. Investment property is held to earn rentals or for capital appreciation or both. Ind AS 40 shall be applied in the recognition, measurement and disclosure of investment property. An investment property shall be measured initially at its cost. After initial recognition, an entity shall measure all of its investment properties in accordance with Ind AS 16's requirements for cost model.

The measurement and disclosure of Investment property as per Ind AS 40 in the Balance Sheet would be depicted as follows:

INVESTMENT PROPERTIES:	
Particulars	Period ended March 31 st , 2020 (Rs. In crores)
Gross Amount:	
Opening balance (A)	10.00
Additions during the year (B)	2.00
Closing balance (C) = (A) + (B)	12.00
Depreciation:	
Opening balance (D)	2.50
Depreciation during the year (E) (0.5 + 0.05)	<u>0.55</u>
Closing balance (F) = (D) + (E)	<u>3.05</u>
Net balance (C) - (F)	8.95

The changes in the carrying value of investment properties for the year ended 31st March, 2020 are as follows:

Amount recognised in Profit and Loss with respect to Investment Properties

Particulars	Period ending 31 st March, 2019 (Rs. In crores)
Rental income from investment properties (0.75 + 0.25)	1.00
Less: Direct operating expenses generating rental income (5+1+2.5+1.5+2+1)	(0.13)
Profit from investment properties before depreciation and indirect expenses	0.87
Less: Depreciation	(0.55)
Profit from earnings from investment properties before indirect expenses	0.32

Disclosure Note on Investment Properties acquired by the entity

The investment properties consist Property A and Property B. As at March 31st, 2020, the fair value of the properties is Rs. 10.50 crores. The valuation is performed by independent valuers, who are specialists in valuing investment properties. A valuation model as recommended by International Valuation Standards Committee has been applied. The Company considers factors like management intention, terms of rental agreements, area leased out, life of the assets etc. to determine classification of assets as investment properties.

The Company has no restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

Description of valuation techniques used and key inputs to valuation on investment properties:

Valuation technique	Significant unobservable inputs	Range (Weighted average)
Discounted cash flow (DCF) method	-Estimated rental value per sq. ft. per month	-Rs. 50 to Rs. 60
	-Rent growth per annum	-10% every 3 years
	-Discount rate	-12% to 13%

7. Computation of Total Income and Tax Liability of Shanaya Limited for the Assessment year 2020-2021

Particulars	Rs. in crores	Rs. in crores
Profit as per the Statement of Profit & Loss A/c		500.00
Add: Items debited but to be considered separately or to be disallowed		
- Depreciation as per the Companies Act, 2013 [Disallowed, since depreciation as per Income-tax Act is allowed]	80.00	
- Interest on borrowings from banks [Disallowed as per section 43B, since interest payable to banks not paid on or before the due date for filing return of income under section 139(1)]	2.75	
- Provision for bad and doubtful debts [Provision for doubtful debts is allowable as deduction under section 36(1)(vii) only in case of banks, public financial institutions, state financial corporations, state industrial investment corporations and non-banking financial corporations. Such provision is not allowable as deduction in the case of other person. Since the same has been debited to Statement of profit and loss, it has to be added back for computing business income]	6.20	
- Corporate social responsibility expenses [CSR expenditure incurred under the Companies Act, 2013 is not allowable as deduction by virtue of section 37(1)]	2.50	
- Expenses payable to Saurashtra Pvt. Ltd. [30% of Rs. 7 lakhs, being payment to Saurashtra Pvt. Ltd., would have been disallowed under section 40(a)(ia) while computing the business income of A.Y.2019-20, since tax has not been deducted during the previous year 2019-20]	2.10	

MULTIDISCIPLINARY CASE STUDY

Particulars	Rs. in crores	Rs. in crores
- Expenses incurred on voluntary retirement scheme <i>[As per section 35DDA, where an Indian company incurs expenditure in connection with voluntary retirement, one-fifth of the amount so paid shall be deducted in computing the profits and gains of the business for that previous year, and the balance shall be deducted in equal installments for each of the four immediately succeeding previous years. Since whole amount debited to the profit and loss account, 4/5th would be added back]</i>	1.92	95.47
Less : Permissible expenditure and allowances		
- 30% of the amount of Rs. 15.73 crores, being payment to PQR Limited was disallowed during the previous year 2018-19 due non-deduction of tax at source would be allowed during the current previous year, since TDS has been deducted and deposited this year.	4.72	
- Depreciation as per Income-tax Act, 1961	115.75	120.47
Income from business or profession		475.00
Less: Brought forward business loss from the A.Y. 2019-20		35.00
Gross Total Income		440.00
Less: Deduction under Chapter VI-A		Nil
Total Income		440.00
Tax @ 30% on the above total income (since the turnover exceeded Rs. 400 crore in the P.Y. 2017-18)		132.00
Add: Surcharge @ 12% (since total income exceeds Rs. 10 crore)		15.84
		147.84
Add: Health and Education Cess @ 4%		5.91
Total Tax Liability		153.75

Working Note: Computation of Depreciation as per Income-tax Act, 1961

Block of assets	Opening WDV (A)	Depreciation rate (B)	Additions (put to use for 180 days or more) (C)	Additions (less than 180 days) (D)	Total (E) = (A) + (C) + (D)	Depreciation (F)
Land	Nil	-	50	-	50	-
Plant and Machinery	480	15%	-	-	480	72 (480 x 15%)
Office Building	200	10%	-	75	275	23.75 [200 x 10% + 75 x 5% (50% of 10%)]
Furniture and fittings	65	10%	35	-	100	10 (100 x 10%)
Intangible assets	-	25%	40	-	40	10 (40 x 25%)
TOTAL	745		125	75	945	115.75

8. Computation of advance tax liability and due date for payment of advance tax:

Particulars			(Rs. in crores)
Total tax liability of the company for the assessment year 2020-21 payable as advance tax			153.75
Due date of installment	Advance tax payable till date (%)	Amount payable (Rs. in crore)	Net amount payable
On or before 15.06.2019	15%	23.06 (153.75 x 15%)	23.06
On or before 15.09.2019	45%	69.18 (153.75 x 45%)	46.13 (69.19 - 23.06)
On or before 15.12.2019	75%	115.31 (153.75 x 75%)	46.13 (115.31 - 69.18)
On or before 15.03.2020	100%	153.75	38.43 (153.75 - 115.31)

CASE STUDY 2

Part A

1. (a) Rs. 22,09,500 and Rs. 21,683

Reason: Since both the expatriates received their salaries in foreign currency. In such cases, the salary denominated in foreign currency is to be converted to Indian rupees using the Telegraphic Transfer Buying Rate of such foreign currency as on the following dates:

— In case where tax is deducted at source by the employer: the date on which tax is required to be deducted at source i.e. at the time of payment of such salary

— In other cases: the last day of the month immediately preceding the month in which the salary is due or is paid in advance or in arrears.

Thus, salary of Mr. Adrio and Mr. Ricky is computed as under:

Date	TT Buying Rate	Mr. Adrio Salary	Mr. Ricky Salary
31.10.2019	65.50		
30.11.2019	69.45		
31.12.2019	70.57		
31.01.2020	72.58	7,25,800	=100*70.57=7,057
29.02.2020	73.68	7,36,800	=100*72.58=7,258
31.03.2020	74.69	7,46,900	=100*73.68=7,368
Total		Rs. 22,09,500	Rs. 21,683

2. (d) Yes, he is entitled to gratuity from Glaxosd Ltd. since he would have rendered continuous service of not less than 5 years.

Reason: Section 10(10) of Income-tax Act, 1961 dealing with gratuity is stated as under:

“(ii) any gratuity received under the *Payment of Gratuity Act, 1972 (39 of 1972)*, to the extent it does not exceed an amount calculated in accordance with the provisions of sub-sections (2) and (3) of section 4 of that Act;

(iii) any other gratuity received by an employee **on his retirement or on his becoming incapacitated prior to such retirement or on termination of his employment, or any gratuity received by his widow, children or dependants on his death, to the extent it does not, in either case, exceed one-half month's salary for each year of completed service, calculated on the basis of the average salary for the ten months immediately preceding the month in which any such event occurs, subject to such limit as the Central Government may, by notification in the Official Gazette, specify in this behalf having regard to the limit applicable in this behalf to the employees of that Government ."**

As per Section 4 of the Payment of Gratuity Act, 1972, gratuity shall be payable to an employee on the termination of his employment after he has rendered continuous service for not less than five years;

-- on his superannuation, or

--on his retirement or resignation, or

-- on his death or disablement due to accident or disease.

An expatriate who has already rendered five years of service reserves the right to claim gratuity from the Indian employer at the time of termination.

3. (a) Rs. 13,50,000

Reason: As per Rule 28 of CGST Rules, the methods of valuation of transactions between related persons and between distinct persons, in the sequence in which they are to be applied, are as follows:

(a) the open market value of such supply;

(b) if open market value is not available, the value of supply of goods or services of like kind and quality;

(c) if value cannot be determined under the above methods, it must be worked out based on the cost of the supply plus 10% mark-up [Rule 30] or by other reasonable means, in that sequence [Rule 31].

If the goods are intended to be supplied as such by the recipient

Value = 90% of the price charged for the supply of goods of like kind and quality by the recipient to his unrelated customer.

However, it is not mandatory for the supplier to adopt this method of valuation. He can opt to value his goods in accordance with the valuation methods prescribed in clause (a), (b) or (c) above.

Thus, as per above Rule, no open market value of goods is available. The value of supply of goods or services of like kind and quality is not available as Glaxosd sold defect lot to its customer. The third option of cost plus mark-up also does not work out as no information is available.

The branch sells the goods to the retail customers as it is , then the value shall be 90% of the price charged for the supply of goods of like kind and quality by the recipient to his unrelated customer=15 (price charged to retail customers by branch * 1,00,000 pieces * 90% = Rs. 13,50,000

4. (d) 25th May, 2019

Reason: As per Section 14 of CGST Act, the timing of

two of the three markers (supply, invoice, payment) determines the time of supply. If any two of them occur before the change in rate of tax, the time of supply will fall in the period prior to change in rate of tax i.e., old rate will be applicable. However, if any two of them occur after the change in rate of tax, the time of supply will fall in the period after the change in rate of tax i.e., new rate will be applicable.

Date of crediting of payment in bank account to be the "date of receipt of payment" if such crediting takes place after 4 working days of change in rate of tax

Thus, applying the above provision,

- Issuance of invoice happened on 15th May, 2019

- Supply of goods -21st May, 2019

- Receipt of payment: 25th May, 2019

The rate of tax changed on 20th May, 2019. Since two events i.e. supply of goods and receipt of payment took place after the date of change in tax rate, the time of supply will be the 25th May, 2019 i.e. after the date of change in tax rate.

5. (b) Glaxosd Ltd.

Reason: Services provided by Police or security agencies of Government to PSU/private business entities are not exempt from GST.

Such services are taxable supplies and the recipients are required to pay the tax under reverse charge mechanism on the amount of consideration paid to Government for such supply of services. In this case, services of providing security by the police personnel are not exempt. As the services are provided by Government, Glaxosd Ltd. is liable to pay the tax on the consideration paid, albeit under reverse charge mechanism.

Part B

6. Rule 29 of CGST Rules dealing with principal and agent is applicable for value of supply of goods between the principal and agent. However, Mcleod (agent) rendered services to Glaxosd Ltd. (being the principal).

Thus, the value of supply can be determined as per Rule 30 or Rule 31.

As per Rule 30, If the value of a supply of goods and/or services cannot be worked out by the foregoing methods, its value will be 110% of the cost of production/ manufacture/ acquisition of such goods or cost of provision of such services

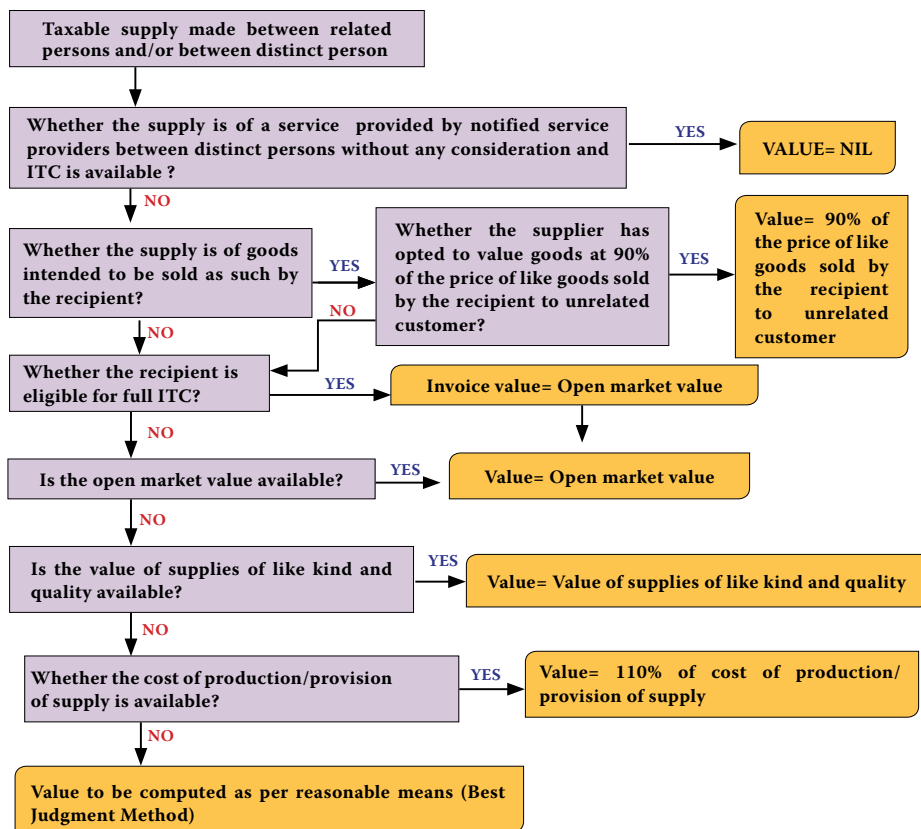
So, the value of supply as per Rule 30 is calculated as under:

Price charged by Mcleod	Rs. 25,00,000
Cost of services =Selling Price/140*100	Rs. 17,85,714.3
As per Rule 30, value of supply =110% of cost	Rs. 19,64,285.7

The value of supply as per Rule 31, the residual method consists of determination of value by using reasonable means consistent with the principles and general provisions of Section 15 and these Rules.

As per Rule 31 (diagrammatic representation of which is stated below), it shall be open market value in case of services rendered by Mcleod.)

MULTIDISCIPLINARY CASE STUDY ||



7. As per Section 12(4) of CGST Act, time of supply of vouchers exchangeable for goods and services is stated as under:

(a) Supply of goods is identifiable at the time of issue of voucher

→ Date of issue of the voucher

(b) Other cases

→ Date of redemption of the voucher

Since the supply of goods is not identifiable at the time of issue of voucher (as Jain Sweets sell various products), date of redemption of voucher is the time of supply.

For the month of August, the tax needs to be paid by 20th September, 2019.

No GST on advances received for supply of goods: In case of supply of goods by a registered person (excluding composition supplier), GST is to be paid on the outward supply of goods on the date of issue of invoice or the last date on which invoice ought to have been issued in terms of section 31 [Notification No. 66/2017 CT dated 15.11.2017].

Thus, no GST shall be paid at the time of receipt of advance. Since goods will be delivered by end of February, invoice shall be issued by Glaxosd Ltd. in the month of February and GST shall be paid on or before 20th March, 2020.

8. IIMs provide various long duration programs (1 year or more) for which they award diploma/ degree certificate duly recommended by Board of Governors as per the power vested in them under the IIM Act, 2017. Therefore, it is clarified that services provided by Indian Institutes of Managements to their students- in all such long duration programs (one year or

more) are exempt from levy of GST. Thus, services rendered by providing post graduate and master courses are exempt.

IIMs also provide various short duration/ short term programs (less than 1 year) for which they award participation certificate to the executives/ professionals as they are considered as “participants” of the said programmes. These participation certificates are not any qualification recognized by law. Such participants are also not considered as students of IIMs. Services provided by IIMs as an educational institution to such participants are not exempt from GST. Such short duration executive programs attract standard rate of GST @ 18% (CGST 9% + SGST 9%) [Circular No. 82/01/2019 GST dated 01.01.2019]. The services provided through Diploma course attracts GST, thus the value of services is Rs. 1,05,00,000.

If the catering service is one of the services provided by an educational institution to its students, faculty and staff and the said educational institution is covered by the definition of ‘educational institution’ as given above, then the same is exempt. Thus, the canteen services run by in-house team of IIMs are exempt.

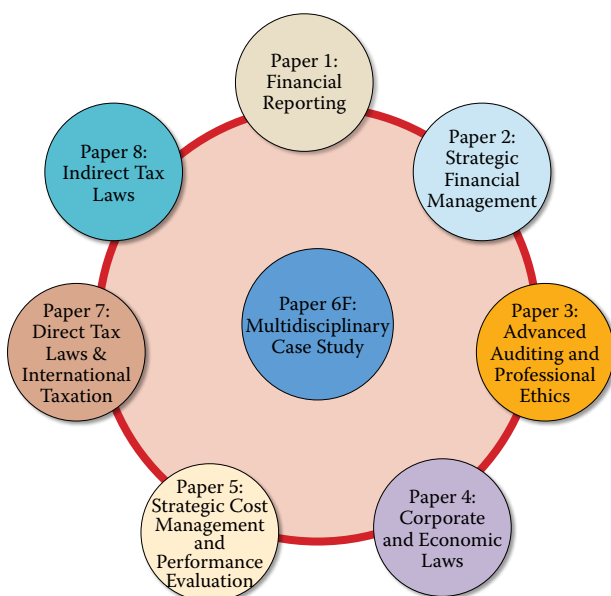
If the catering services, i.e., supply of food or drink in a mess or canteen, are provided by anyone other than the educational institution, i.e. the institution outsources the catering activity to an outside contractor, then it is a supply of service to the concerned educational institution by such outside caterer and attracts GST. The billing of Rs. 2,00,000 from Jagdishan Foods is taxable under the Act.

Thus, the value of taxable supply by IIM is Rs. 1,05,00,000 and the value of taxable supply by Jagdishan Foods is Rs. 2,00,000.

MULTIDISCIPLINARY CASE STUDY ||

CA FINAL (NEW) - PAPER 6F - MULTIDISCIPLINARY CASE STUDY

Students electing this Paper 6F Multidisciplinary Case Study are advised to refer the study material of the core subjects at the Final (New) level. Students need to keep in mind that this paper involves application of all the core papers, thus, conceptual understanding of each and every topic is required in detail to answer the questions in an efficient and effective manner.



Standards/ Guidance Notes/ Legislative Amendments etc. applicable for above-mentioned core papers would also be applicable as it is to the Paper 6F Multidisciplinary Case Study.

The question paper of this subject would contain 5 case studies of 25 marks each, out of which student has to attempt any 4.

In each case study carrying 25 marks, MCQs would be for 10 marks and descriptive questions involving computation/analysis/ interpretation would be for 15 marks in the ratio of 40:60 between MCQs and descriptive questions.

Thus, while choosing which case studies to attempt, student may first go through all the case studies at one glance and then decide which of the four case studies out of five he/ she has prepared well with maximum topics coverage.

Students must divide their four hours between four case studies to be answered meticulously. Once the case studies have been opted, give them a comprehensive reading while attempting the same. Try to note down the topics covered and then refer the same from the reference material.

Two illustrative case studies have been provided below for practice purpose. Students are suggested to solve the same in examination condition and check for the answers only after attempting both the case studies.

CASE STUDY 1

Shaurya Limited is the company having its registered and corporate office at New Delhi. It is specialised in manufacturing machinery products and is looking to expand its operations across the nation. 60% of the Shaurya Limited's shares are held by the Government of India and rest by other investors. The company is also in the process of negotiations with other companies to take over their business for strategic advantage.

Since the company has been in existence for more than 10 years, the board resolution was passed to make political contributions amounting to Rs. 10,00,000 for the year ending March 31st, 2020. However, the average net profit of company for immediately preceding 3 years is Rs.8,00,000 only. The management of company is concerned regarding the maximum amount of political contributions to be made considering the relevant provisions of laws being in force.

Since the timeline to continue the audit for existing auditors has come to an end. So, at the meeting held of its Board of Directors, it was decided to unanimously appoint M/s ABC as the auditors of company for next five years.

This is the first time that Shaurya limited would be applying Ind AS for the preparation of its financials for the current financial year 2019-2020. Ind AS mandates that an entity shall present three Balance Sheets as at: (a) the end of the current period; (b) the end of the preceding period; and (c) the beginning of the preceding period, in its first-time adoption of Ind AS. During this process, the company is also required to present the opening Ind AS Balance Sheet as at the date of transition. Accordingly, following is the Balance Sheet prepared as per earlier GAAP as at the beginning of the preceding period along with the additional information:

Balance Sheet as at 31st March, 2018 (All figures are in '000, unless otherwise specified)

Particulars	Amount (Rs.)
EQUITY AND LIABILITIES	
(1) Shareholders' Funds	
(a) Share Capital	10,00,000
(b) Reserves & Surplus	25,00,000
(2) Non-Current Liabilities	
(a) Long Term Borrowings	4,50,000
(b) Long Term Provisions	3,50,000
(c) Deferred tax liabilities	3,50,000
(3) Current Liabilities	
(a) Trade Payables	22,00,000
(b) Other Current Liabilities	4,50,000
(c) Short Term Provisions	12,00,000
TOTAL	85,00,000
ASSETS	
(1) Non Current Assets	
(a) Property, Plant & Equipment (net)	20,00,000
(b) Intangible assets	2,00,000
(c) Goodwill	1,00,000
(d) Non-current Investments	5,00,000
(e) Long Term Loans and Advances	1,50,000
(f) Other Non Current Assets	2,00,000
(2) Current Assets	
(a) Current Investments	18,00,000
(b) Inventories	12,50,000
(c) Trade Receivables	9,00,000
(d) Cash and Bank Balances	10,00,000
(e) Other Current Assets	4,00,000
TOTAL	85,00,000

Additional Information:

- Other current liabilities include Rs. 3,90,000 liabilities to be paid in cash such as expense payable, salary payable etc. and Rs. 60,000 are statutory government dues.
- Long term loans and advances include Rs. 40,000 loan and the remaining amount consists Advance to staff of Rs. 1,10,000.
- Other non-current assets of Rs. 2,00,000 consists Capital advances to suppliers.
- Other current assets include Rs. 3,50,000 current assets receivable in cash and Prepaid expenses of Rs. 50,000.
- Short term provisions include Dividend payable including DDT of Rs. 2,00,000. The dividend payable had been as a result of board meeting wherein the declaration of dividend for financial year 2017-2018 was made. However, it is subject to approval of shareholders in the annual general meeting.

Chief Financial Officer of Shaurya Limited has also presented the following information against corresponding relevant items in the Balance Sheet:

- Property, Plant & Equipment consists a class of assets as office buildings whose carrying amount is Rs. 10,00,000. However, the fair value of said office building as on the date of transition is estimated to be Rs. 5,00,000. Company wants to follow revaluation model as its accounting policy in respect of its property, plant and equipment for the first annual Ind AS financial statements.
- The fair value of Intangible Assets as on the date of transition is estimated to be Rs. 2,50,000. However, the management is reluctant to incorporate the fair value changes in books of account although auditor does not agree to the same.
- Shaurya Ltd. had acquired 80% shares in a company, Excel private limited few years ago thereby acquiring the control in it at that time. Shaurya Ltd. recognised goodwill as per erstwhile accounting standards by accounting the excess of consideration paid over the net assets acquired at the date of acquisition. Fair value exercise was not done at the time of acquisition. Now auditors insist the company that fair value exercise must be done with retrospective effect as on the date of transition.
- Trade receivables include an amount of Rs. 20,000 as provision for doubtful debts measured in accordance with previous GAAP. Now as per latest estimates, the provision needs to be revised to Rs. 25,000.
- Six years ago, company had given a loan of Rs. 1,00,000 to an entity for the term of 10 years. Transaction costs were incurred separately for this loan. The loan carries an interest rate of 7% p.a. and it was carried at cost in its initial recognition. The principal amount is to be repaid in equal instalments over the period of ten years at the year end. Interest is also payable at each year end. The fair value of loan as on the date of transition is Rs. 50,000 as against the carrying amount of loan which at present amounts Rs. 40,000. However, Ind AS 109 mandates to charge the interest expense as per effective interest method after the adjustment of transaction costs. Management says it is tedious task in the given case to apply the effective interest rate changes with retrospective effect and hence is reluctant to apply the same retrospectively in its first-time adoption.
- In the long-term borrowings, Rs. 4,50,000 of component is due towards the State Government. Interest is payable on the government loan at 4% p.a., however the prevailing rate in the market at present is 8% p.a. The fair market value of loan stands at Rs. 4,20,000 as on the relevant date.
- Under Previous GAAP, the mutual funds were measured

at cost or market value, whichever is lower. Under Ind AS, the Company has designated these investments at fair value through profit or loss. The value of mutual funds as per previous GAAP is Rs. 2,00,000 as included in 'current investments'. However, the fair value of mutual funds as on the date of transition is Rs. 2,30,000.

- Ignore separate calculation of deferred tax on above adjustments. Assume the net deferred tax income to be Rs. 50,000 on account of Ind AS transition adjustments.

During the briefing with internal audit head of Shaurya Limited, internal auditor has put an observation that a contractor, M/s Ghanshyam & Brothers, has been providing the services to Shaurya Limited since the beginning of the year. M/s Ghanshyam & Brothers does billing to Shaurya Limited's corporate office each month at Rs. 50,000 (exc. GST). From the invoice particulars, it is found that M/s Ghanshyam & Brothers is situated at 203, Shastri colony, Ghaziabad, Uttar Pradesh and having PAN no. APNFG0000Z. The total invoice amount comes to Rs. 59,000 incorporating GST @ 18%. Meanwhile, company deducts tax deduction at source (TDS) of M/s Ghanshyam & Brothers each month amounting to Rs. 500 on the amount of Rs. 50,000 and not on Rs. 59,000. Accountant is worried that he should have been deducting TDS on Rs. 59,000 as its non-compliance would require the company to pay interest on late payment of TDS/ Short deduction.

There is another service provider, Amit Shukla who as a professional had assisted the company for Ind AS adjustments. Amit Shukla billed Rs. 10,00,000 to the company on 16th January, 2020. Company booked the said invoice in its books with the date as mentioned in invoice and deducted the TDS accordingly. However, company has deposited the due TDS amount on 30th April, 2020.

QUESTIONS

Part A- Multiple Choice Questions

1. Appointment of Shaurya Limited's statutory auditors at annual general meeting is not valid since:
 - (a) Prior approval of Central Government has not been taken.
 - (b) Prior approval of Comptroller and Auditor General of India has not been taken.
 - (c) Appointment should be valid for 1 year only.
 - (d) Comptroller and Auditor General of India can only appoint the auditors.
2. Calculate the monthly amount of political contribution Shaurya Limited can make to political party for the year ending 31st March, 2020.
 - (a) Rs. 10,00,000
 - (b) Rs. 8,00,000
 - (c) Nil
 - (d) No Limit
3. Calculate the amount of TDS to be deducted by Shaurya Limited against the monthly invoice of M/s Ghanshyam & Brothers.
 - (a) Rs. 1,180
 - (b) Rs. 1,000
 - (c) Rs. 500
 - (d) Rs. 590
4. Calculate the interest on late payment of TDS Shaurya Limited is required to pay and deposit to the account of Central Government in the case of Amit Shukla.
 - (a) Rs. 5,000
 - (b) Rs. 7,500
 - (c) Rs. 6,000
 - (d) Rs. 4,000

MULTIDISCIPLINARY CASE STUDY

5. The place of supply and tax leviable in case of services provided by M/s Ghanshyam & Brothers to Shaurya Limited is-
- Delhi, CGST & SGST
 - Delhi, IGST
 - Uttar Pradesh, CGST & SGST
 - Uttar Pradesh, IGST

Part B- Descriptive Questions

6. - Provide summary introduction in short of the relevant Ind AS, which is required for preparation of Shaurya Limited's opening Balance Sheet as on the date of transition.
- Prepare transition date Balance Sheet of Shaurya Limited as per Indian Accounting Standards, according to the format prescribed in Division II - Ind AS Schedule III to the Companies Act, 2013.
- Show necessary explanation for each of the items presented by chief financial officer in the form of notes, which may or may not require the adjustment as on the date of transition.

CASE STUDY 2

M/s Bishon Rainwear has bought a new office premises at Bandra Kurla Complex. He made the furniture for the office through an architect. Following are the bills which M/s Bishon Rainwear has paid for the furniture made at the new office in the month of April, 2020:

Nature of bills	Amount (in Rs.)	GST Amount
Purchase of spare parts	2,50,000	Rs. 45,000
Purchase of accessories	10,00,000	Rs. 1,80,000
Purchase of wood for furniture, tiles	15,00,000	Rs. 2,70,000

In the month of May, 2020, the amount of input tax credit as per GST portal is Rs. 23,539 (CGST) and Rs. 23,539 (SGST). The total input tax credit claimed as per the accounting software of M/s Bishon Rainwear is Rs. 25,164 (CGST) and 25,164 (SGST). The credit (Rs. 1,624-inclusive of CGST AND SGST) pertaining to supplier by the name "Shah Zipper" is not reflected in the GST portal.

M/s Bishon Rainwear has capitalised the above furniture costs in his books of accounts.

M/s Bishon Rainwear has an employee Mr. Tony who left his job in the month of April, 2020 and left India for good. He shifted to France. He has invested in the shares of listed companies. During the FY 2020-2021, he earned dividend of Rs. 10,00,000 from the investment in the listed shares of Indian companies.

M/s Bishon Rainwear has started a start up by the name "Franky Cranky Ltd." in the year 2018. It is an eligible start-up as per section 80-IAC. During the financial year 2018-19, it incurred a loss of Rs. 100 crores. During FY 2019-20, it incurred a loss of Rs. 50 crore.

M/s Bishon Rainwear projects the profits/loss from the start-up as under:

FY	FY 2020-2021	FY 2021-2022	FY 2022-2023	FY 2023-2024	FY 2024-2025	FY 2025-2026	FY 2026-2027	FY 2027-2028	FY 2028-2029	FY 2029-2030
Amount of profit or (loss)	50 crore	150 crore	200 crore	400 crore	800 crore	100 crore	100 crore	200 crore	250 crore	50 crore

Mr. Tony's friend, Mr. Raghav stays in Spain since last 5 years. Before leaving India, he had investments in India. He came to India on 2nd February, 2020 and stayed in India for 75 days. The particulars of his income for P.Y.2019-20 are as follows:

Nature of Income	Amount (Rs.)
Interest Income from Indian company on rupee denominated bonds issued during December 2018	10,00,000
Rental Income form property situated in India	20,00,000
Interest payable by a unit located in an IFSC in respect of monies borrowed on 1st October, 2019	5,00,000
Salary from Spain	10,00,000
Interest on money standing to his credit in NRE account	1,00,000

Mr. Arnav, who is cousin of Mr. Raghav is a Person of Indian Origin as his father was born in India. Mr. Raghav has foreign passport only. He was born in Spain and also stays in Spain. During FY 2019-20, Arnav did not visit India. He stays in Country X, but is not taxed in Country X also as the number of days stay in Country X is less as required to be a resident of Country X. During FY 2019-20, he did not come to India. He has following income from India:

Sr. No.	Nature of income	Amount (Rs.)
1	Interest Income from fixed deposits with Indian companies	5,00,000
2.	Salary income in Spain	10,00,000
3.	Rental Income from Indian Property	20,00,000

M/s Bishon Rainwear has a hospital by the name "Kaifee Hospital". The services provided by hospital are stated as under:

- Providing rooms to patients
- In-house canteen to patients and their relatives
- Calling senior and expert doctors from India's best hospitals.
- Pathology services

During the month of April, 2020, the hospital billed as under:

Sr. No.	Nature of services	Amount (Rs.)
1	Rent of Rooms	10,00,000
2	In-house canteen to patients	5,00,000
3	Canteen services to relatives of patients	7,00,000
4.	Pathology	20,00,000
5.	Cost of senior and expert doctors	15,00,000
6.	Cost of in-house doctors and nurses	10,00,000

M/s Mcleod approached Kaifee Hospital to display the advertising banner of its clients who deals in medicines at a price of Rs. 2,00,000 per month. Further, Kaifee hospital is also proposing to get independent physiotherapist on board to serve its patients. The physiotherapist shall charge a monthly fee of Rs. 1,50,000.

QUESTIONS

Part A- Multiple Choice Questions

1. What is the amount of ITC that can be taken by M/s Bishon Rainwear for the month of April, 2020?
 - (a) Rs. 45,000
 - (b) Rs. 4,95,000
 - (c) Rs. 1,80,000
 - (d) 0
2. State which year's profit should be taken into consideration for maximising the utilisation of deduction available under the Act.
 - (a) FY 2022-23 to FY 2024-25
 - (b) FY 2020-21 to FY 2022-23
 - (c) FY 2025-26 to FY 2027-28
 - (d) FY 2027-28 to FY 2029-30
3. What is the residential status of Mr. Raghav for A.Y.2020-21?
 - (a) Resident but not ordinarily resident
 - (b) Resident and ordinary resident
 - (c) Non resident
 - (d) None of the above
4. What is the value of service provided by Kaifee Hospital which is chargeable to GST?
 - (a) Rs. 67,00,000
 - (b) Rs. 45,00,000
 - (c) Rs. 7,00,000
 - (d) Rs. 22,00,000
5. What is the value of supply chargeable to GST in respect of advertising banner and putting physiotherapist on board for one month?
 - (a) Rs. 3,50,000
 - (b) Rs. 2,00,000
 - (c) Rs. 1,50,000
 - (d) Nil

Part B- Descriptive Questions

6. What is the amount of input tax credit that can be taken for the month of May, 2020 by M/s Bishon Rainwear?
7. What is the income chargeable to tax in the hands of Mr. Raghav during FY 2019-20 as per Income-tax Act, 1961?
8. What is the income chargeable to tax in the hands of Mr. Arnab as per Income-tax Act, 1961?

ANSWERS

CASE STUDY 1

Part A

1. (d) Comptroller and Auditor General of India can only appoint the auditors.
Reason: In case of subsequent auditor for existing government companies, the Comptroller & Auditor General shall appoint the auditor within a period of 180 days from the commencement of the financial year and the auditor so appointed shall hold his position till the conclusion of the Annual General Meeting. [Reference-section 139(5)]
 Note: Shaurya Limited is a Government company.

2. (c) Nil

Reason: Section 2(45) of Companies Act, 2013 states, "Government company" means any company in which not less than fifty-one per cent of the paid-up share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government company.

Accordingly, Shaurya Limited is a Government company. Section 182 of Companies Act, 2013 states, notwithstanding anything contained in any other provision of this Act, a company, other than a Government company and a company which has been in existence for less than three financial years, may contribute any amount directly or indirectly to any political party.

Hence as per section 182, a government company is prohibited to make any political contribution.

3. (b) Rs. 1,000

Reason:

- TDS is required to be deducted on the amount excluding GST i.e. on Rs. 50,000
- The fourth character of PAN represents the status of the PAN holder; PAN in case of M/s Ghanshyam & Brothers is APNFG0000Z. It implies that status of M/s Ghanshyam & Brothers as per Income-tax Act is of 'Firm'.

However, the TDS has been deducted by considering M/s Ghanshyam & Brothers as an Individual (Rs. 500) which is wrong as per section 194C of Income-tax Act.

194C states that following amount of TDS is to be deducted:

- one per cent where the payment is being made or credit is being given to an individual or a Hindu undivided family;
- two per cent where the payment is being made or credit is being given to a person other than an individual or a Hindu undivided family (Rs. 1,000 in this case).

4. (c) Rs. 6,000

Reason: Under Section 201(1A) for late deposit of TDS after deduction, you have to pay interest. Interest is at the rate of 1.5% per month from the date at which TDS was deducted to the actual date of deposit. Interest is to be calculated on a monthly basis and not based on the number of days i.e. part of a month is considered as a full month.

Interest on late payment of TDS

$$= \text{Rs. } 10,00,000 \times 10\% (194J) \times 1.5\% \times 4 \text{ months} \\ = \text{Rs. } 6,000$$

5. (b) Delhi, IGST

Reason: If the supply is intra-state supply, tax shall be paid as CGST+SGST and if the Supply is inter-state supply, tax shall be paid as IGST.

Place of supply of services is the location of the service recipient (Delhi in this case). Since supplier M/s Ghanshyam & Brothers is located in the state of Uttar Pradesh, thus IGST should have been levied.

Part B

6. Ind AS 101 prescribes the accounting principles for first-time adoption of Ind AS. It lays down various 'transition'

MULTIDISCIPLINARY CASE STUDY

requirements when a company adopts Ind AS for the first time, i.e., a move from Accounting Standards (Indian GAAP) to Ind AS. Conceptually, the accounting under Ind AS should be applied retrospectively at the time of transition to Ind AS. However, to ease the process of transition, Ind AS 101 has given certain exemptions from retrospective application of Ind AS.

An entity shall prepare and present an opening Ind AS Balance Sheet at the date of transition to Ind AS. This is also called transition date Balance Sheet. This is the starting point for its accounting in accordance with Ind AS.

An entity shall use the same accounting policies in its opening Ind AS Balance Sheet and throughout all periods presented in its first Ind AS financial statements. Those accounting policies shall comply with each Ind AS effective at the end of its first Ind AS reporting period, except as specified in Ind AS 101.

An entity shall, in its opening Ind AS Balance Sheet:

- recognise all assets and liabilities whose recognition is required by Ind ASs;
- not recognise items as assets or liabilities if Ind ASs do not permit such recognition;
- reclassify items that it recognised in accordance with previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with Ind AS; and
- apply Ind AS in measuring all recognised assets and liabilities.

The accounting policies in the transition date (opening) Ind AS Balance Sheet may differ from those that it used for the same date using previous GAAP. The resulting adjustments arise from events and transactions before the date of transition to Ind AS, which shall be recognised directly in retained earnings (or, if appropriate, another category of equity) at the date of transition to Ind AS.

This Ind AS establishes two categories of exceptions to the principle that an entity's opening Ind AS Balance Sheet shall comply with each Ind AS:

- Ind AS 101 prohibits retrospective application of some specific aspects of other Ind AS.
- Ind AS 101 grants voluntary exemptions from some specific requirements of other Ind AS.

Accordingly, the transition date (opening) Ind AS Balance Sheet of Shaurya Limited on the basis of above lines would be prepared as under:

IND-AS BALANCE SHEET

As at 1st April, 2018

(All figures are in '000, unless otherwise specified)

Particulars	Previous GAAP (Rs.)	Transitional Ind AS adjustments (Rs.)	Opening Ind AS Balance Sheet (Rs.)
ASSETS			
Non-Current Assets			
Property, Plant and Equipment (Note-1)	20,00,000	5,00,000	25,00,000
Goodwill (Note-2)	1,00,000	-	1,00,000
Other Intangible Assets (Note-3)	2,00,000	-	2,00,000
Financial assets:			
Investment	5,00,000	-	5,00,000

Particulars	Previous GAAP (Rs.)	Transitional Ind AS adjustments (Rs.)	Opening Ind AS Balance Sheet (Rs.)
Loans (Note-4)	40,000	10,000	50,000
Other financial assets	1,10,000	-	1,10,000
Other non-current assets	2,00,000	-	2,00,000
Current Assets			
Inventories	12,50,000	-	12,50,000
Financial assets			
Investments (Note-5)	18,00,000	30,000	18,30,000
Trade receivables (Note-6)	9,00,000	-	9,00,000
Cash and cash equivalents/ Bank	10,00,000	-	10,00,000
Other financial assets	3,50,000	-	3,50,000
Other current assets	50,000	-	50,000
TOTAL ASSETS	85,00,000	5,40,000	90,40,000
EQUITY AND LIABILITIES			
Equity			
Equity share capital	10,00,000	-	10,00,000
Other equity	25,00,000	7,90,000	32,90,000
Non-Current Liabilities			
Financial liabilities			
Borrowings (Note-7)	4,50,000	-	4,50,000
Provisions	3,50,000	-	3,50,000
Deferred tax liabilities (Net)	3,50,000	(50,000)	3,00,000
Current Liabilities			
Financial liabilities			
Trade payables	22,00,000	-	22,00,000
Other financial liabilities	3,90,000	-	3,90,000
Other current liabilities	60,000	-	60,000
Provisions (Note-8)	12,00,000	(2,00,000)	10,00,000
TOTAL EQUITY AND LIABILITIES	85,00,000	5,40,000	90,40,000

OTHER EQUITY

Particulars	Retained Earnings (Rs.)	Fair value reserve (Rs.)	Total (Rs.)
As at 31 st March, 2018	27,90,000 (W.N.1)	5,00,000	32,90,000

Working Note 1:

Retained earnings balance:	Amount (Rs.)
Balance as per Earlier GAAP	25,00,000
Transitional adjustment due to loan's fair value	10,000
Transitional adjustment due to increase in mutual fund's fair value	30,000
Transitional adjustment due to decrease in deferred tax liability	50,000
Transitional adjustment due to decrease in provisions (dividend)	2,00,000
Total	27,90,000

Disclosure forming part of financial statements:

Proposed dividend on equity shares is subject to the approval of the shareholders of the company at the annual general meeting and should not be recognized as liability as at the Balance Sheet date.

Note 1: Property, Plant & Equipment:

As per para D5 of Ind AS 101, an entity may elect to measure an item of property, plant and equipment at the date of transition to Ind ASs at its fair value and use that fair value as its deemed cost at that date.

Note 2: Goodwill:

Ind AS 103 mandatorily requires measuring the assets and liabilities of the acquiree at its fair value as on the date of acquisition. However, a first-time adopter may elect to not apply the provisions of Ind AS 103 with retrospective effect that occurred prior to the date of transition to Ind AS.

Hence, company can continue to carry the goodwill in its books of account as per the previous GAAP.

Note 3: Intangible Assets:

Para D7 read with D6 of Ind AS 101 states that a first-time adopter may elect to use a previous GAAP revaluation at, or before, the date of transition to Ind ASs as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to:

- (a) Fair value; or
- (b) Cost or depreciated cost in accordance with Ind ASs, adjusted to reflect, for example, changes in a general or specific price index.

However, there is a requirement that Intangible assets must meet the definition and recognition criteria as per Ind AS 38.

Hence, company can avail the exemption given in Ind AS 101 as on the date of transition to use the carrying value as per previous GAAP.

Note 4: Loan:

Para B8C of Ind AS 101 states that if it is impracticable (as defined in Ind AS 8) for an entity to apply retrospectively the effective interest method in Ind AS 109, the fair value of the financial asset or the financial liability at the date of transition to Ind ASs shall be the new gross carrying amount of that financial asset or the new amortised cost of that financial liability at the date of transition to Ind ASs.

Accordingly, Rs. 50,000 would be the gross carrying amount of loan and difference of

Rs. 10,000 (Rs. 50,000 – Rs. 40,000) would be adjusted to retained earnings.

Note 5: Mutual Funds:

Para 29 of Ind AS 101 states that an entity is permitted to designate a previously recognised financial asset as a financial asset measured at fair value through profit or loss in accordance with paragraph D19A. The entity shall disclose the fair value of financial assets so designated at the date of designation and their classification and carrying amount in the previous financial statements.

D19 states that an entity may designate a financial asset as measured at fair value through profit or loss in accordance with Ind AS 109 on the basis of the facts and circumstances that exist at the date of transition to Ind ASs.

Note 6: Trade receivables:

Para 14 of Ind AS 101 states that an entity's estimates in accordance with Ind ASs at the date of transition to Ind ASs shall be consistent with estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.

Para 15 of Ind AS 101 further states, an entity may receive information after the date of transition to Ind ASs about estimates that it had made under previous GAAP. In accordance with paragraph 14, an entity shall treat the receipt of that information in the same way as non-adjusting events after the reporting period in accordance with Ind AS 10, Events after the Reporting Period.

The entity shall not reflect that new information in its opening Ind AS Balance Sheet (unless the estimates need adjustment for any differences in accounting policies or there is objective evidence that the estimates were in error). Instead, the entity shall reflect that new information in profit or loss (or, if appropriate, other comprehensive income) for the year ended 31st March, 2019.

Note 7: Government Grant:

Para 10A of Ind AS 20 states that the benefit of a government loan at a below-market rate of interest is treated as a government grant. The loan shall be recognised and measured in accordance with Ind AS 109, Financial Instruments. The benefit of the below-market rate of interest shall be measured as the difference between the initial carrying value of the loan determined in accordance with Ind AS 109, and the proceeds received. The benefit is accounted for in accordance with this Standard.

However, Para B10 of Ind AS 101 states, a first-time adopter shall classify all government loans received as a financial liability or an equity instrument in accordance with Ind AS 32, Financial Instruments: Presentation. Except as permitted by paragraph B11, a first-time adopter shall apply the requirements in Ind AS 109, Financial Instruments, and Ind AS 20, Accounting for Government Grants and Disclosure of Government Assistance, prospectively to government loans existing at the date of transition to Ind ASs and shall not recognise the corresponding benefit of the government loan at a below-market rate of interest as a government grant. Consequently, if a first-time adopter did not, under its previous GAAP, recognise and measure a government loan at a below-market rate of interest on a basis consistent with Ind AS requirements, it shall use its previous GAAP carrying amount of the loan at the date of transition to Ind ASs as the carrying amount of the loan in the opening Ind AS Balance Sheet. An entity shall apply Ind AS 109 to the measurement of such loans after the date of transition to Ind ASs.

Note 8: Dividend

Since dividend should be deducted from retained earnings during the year when it has been declared and approved. Accordingly, the provision declared for preceding year should be reversed (to rectify the wrong entry). Retained earnings would increase proportionately due to such adjustment.

CASE STUDY 2

Part A

1. (d) 0

Reason: As per clause d of section 17(5) of CGST Act, input tax credit(ITC) is not allowed on goods and or services received by a taxable person for construction of an immovable property (other than plant and machinery) on his own account even though such goods and or services are used in course of furtherance of business. Thus, no input tax credit shall be available. Since the cost of furniture is capitalised, ITC will not be available.

2. (a) FY 2022-23 to FY 2024-25

Reason: As per Section 80IAC of Income-tax Act, 1961, the deduction under the said section 80-IAC shall be available to an eligible start-up for a period of three consecutive assessment years out of seven years beginning from the year in which it is incorporated.

It is best to select the profits for FY 2022-23 to FY 2024-25 as in the earlier years, the profits are getting reduced due to brought forward losses of earlier years.

3. (c) Non resident

Reason: Since he has stayed in India only for 59 days during P.Y.2019-20, he is non-resident in India for A.Y.2020-21.

4. (c) Rs. 7,00,000

Reason: Rent of rooms provided to in-patients in hospitals is exempt [Circular No. 27/01/2018 GST dated 04.01.2018].

It is clarified by CBIC that services provided by such senior doctors/ consultants/ technicians, whether employees or not, are healthcare services which are exempt from GST [Circular No. 32/06/2018 GST dated 12.02.2018].

Health care services provided by the clinical establishments will include food supplied to the patients; but such food may be prepared by the canteens run by the hospitals or may be outsourced by the hospitals from outdoor caterers.

Food supplied to the in-patients as advised by the doctor/ nutritionists is a part of composite supply of healthcare and not separately taxable.

Other supplies of food by a hospital to patients (not admitted) or their attendants or visitors are taxable [Circular No. 32/06/2018 GST dated 12.02.2018]

Thus, apart from canteen services to relatives of patients, all the other services provided by Kaifee Hospital are exempt from GST.

5. (b) Rs. 2,00,000

Reason: Supply of services other than healthcare services such as renting of shops, auditoriums in the premises of the clinical establishment, display of advertisements etc. will be subject to GST.

Paramedics are trained health care professionals, for example, nursing staff, physiotherapists, technicians, lab assistants etc. Services provided by them in a clinical establishment would be in the capacity of employee and not provided in independent capacity and will thus be considered as services by such clinical establishment. Similar services in independent capacity are also exempted.

Thus, only consideration received from advertising of Rs. 2,00,000 shall be chargeable to GST.

Part B

6. In order to claim the input tax credit, following steps may be considered: a) Download total credits appearing in GSTR 2A up to date; b) Exclude (1) credits already taken up to previous month's GSTR 3B; c) Exclude (2) 'ineligible credits' to arrive at 'total available credits' for the month; d) Exclude (3) 'available but deferred' credits, that is, where other conditions of Section 16(2) are not yet satisfied; e) Now, remaining balance will be 'eligible credits for the month'; and f) Identify total credits as per books and avail this in GSTR 3B so much that does not exceed 10 percent of above and include in GSTR 3B for the month. Credits appearing in GSTR 2A only means that Suppliers have uploaded tax invoice in GSTR 1 but the other conditions in Section 16(2) still need to be satisfied before credit can be availed by the Recipient. The taxpayer will be provisionally eligible to avail credit in respect of 'unmatched' 10 per cent which must be re-examined next month so that unmatched do not remain unmatched forever.

Applying the above steps, input tax credit to be taken for the month of May, 2020 is calculated as under:

Calculation for the month of May	CGST	SGST
total credit as per accounting software	25,164	25,164
Less: Credit pertaining to Shah Zipper for the month of May	1,624	1,624
Balance[A]	23,540	23,540
Credit upto 10%[B]	2,354	2,354
Net credit can be taken[A+B]	25,894	25,894
Since this is in excess of total credit of Rs. 25,164, full credit of Rs. 25, 164 will be taken		

Thus, the net credit that can be taken for the month of May, 2020 is Rs. 25,164 [CGST] plus Rs. 25,164 [SGST].

7. Mr. Raghav is a non-resident since he has stayed in India only for 59 days during the P.Y.2019-20.

Thus, the taxability of the income for FY 2019-20 is computed as under:

Nature of Income	Amount in Rs.	Taxability
Interest Income from Indian company on rupee denominated bonds issued during December, 2018	10,00,000	Exempt u/s 10(4C)
Rental Income from property situated in India	20,00,000	Taxable as per slab rate
Interest payable by a unit located in an IFSC in respect of monies borrowed on 1 st October, 2019	5,00,000	Exempt u/s 10(15)(ix)
Salary from Spain	10,00,000	Not Taxable in the hands of a non-resident, since it is from a source outside India
Interest on money standing to his credit in NRE A/c	1,00,000	Not taxable as per section 10(4)(ii)

Thus, the taxable income is computed as under:

Income from House Property	Amount in Rs.	Amount in Rs.
Annual Value	20,00,000	14,00,000
Less: Deduction u/s 24(a)	6,00,000	
Net Income from House Property		
Income from Other Sources		
Interest on money standing to his credit in NRE A/c	Exempt	
Interest payable by a unit located in an IFSC in respect of monies borrowed on 1st October, 2019	Exempt	
Interest Income from Indian company on rupee denominated bonds issued during December, 2019	Exempt	-
Gross Total Income		14,00,000

8. Arnav is a non-resident since he has not visited India during the P.Y.2019-20.
Thus, the items of income chargeable to tax as per Income-tax Act, 1961 is as under:

Sr. No.	Nature of income	Rs
1	Indian Interest Income	5,00,000
2	Rental Income from Indian Property	20,00,000

Computation of income is as under:

Particulars	Amount (Rs.)	Amount (Rs.)
Income from House Property	20,00,000	14,00,000
Less: 30% Standard Deduction	6,00,000	
Net Income from House Property		
Income from Other Sources		
Indian Interest Income		5,00,000
Gross Total Income		1,90,0000

Note – Salary income in Spain is not chargeable to tax in India, since it accrues and arises outside India and is also received outside India.

Indian Tea Sector **An Industry Analysis in Strategic Context**

Global Outlook¹



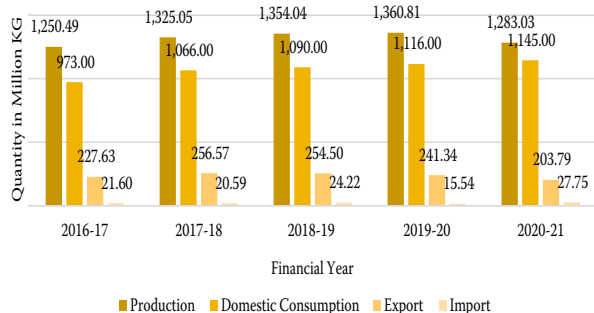
Tea is a much-loved popular beverage all around the world. It is grown in 36 countries, the major tea producing and exporting countries being India, China, Kenya, and Sri Lanka. Together they account for 81% of the world's tea production and 72% of the

world's exports. Per capita consumption of tea varies widely among countries. As per statistics, the per capita consumption in 2018-20 was highest in Turkey (3.20 kg) followed by Libya (2.64 kg), Ireland (2.10 kg), Morocco (2.09 kg), Hong Kong (1.65 kg), United Kingdom (1.61 kg) and India (0.83 kg). The per capita consumption in India is lower due to its huge population size. India accounts for 19.50% of global tea consumption and almost 82% of the total production of tea in India is consumed within the country. This shows that domestic demand for tea is very strong.

Domestic Trends

Tea contributes significantly to the National Agricultural Income and overall Gross Domestic Product of India. It employs around 1.2 million people and contributes to sizeable foreign exchange earnings. Tea is cultivated in 15 Indian States with major producers being Assam, West Bengal, Tamil Nadu, and Kerala. India produces around 1,300 million kgs of tea annually². Major bulk of tea production is from the Northeast India particularly Assam and West Bengal.

Production, Domestic Consumption, Export and Import of Tea 2016 to 2020-21



Tea Processing

Tea plants (botanical name *Camellia Sinensis*) are grown on well drained fertile-acidic soil on high lands. Tea plants are propagated from seed and cuttings. Within three years the plants ready for harvest. If left undisturbed these plants can grow up to 16 meters. However, they are trimmed and pruned to waist height for ease of plucking³. Tea is derived from tea leaves. Black, Green, Oolong, White and Pu-erh are the different types of tea

produced. Categories of tea are distinguished by the processing they undergo.

Harvesting of tea in different seasons is known as flush that give different variety of tea each season. First / spring flush, second/ monsoon flush and autumn flush are the different harvesting seasons. Green tea leaves are plucked from the tea plants and transformed into "made tea" which is used by the end user to make the beverage. Antioxidants, anti-inflammatory and detoxification properties have given renown to tea as a beverage with health benefits. Global Hot Tea industry is estimated to be around USD 45-50 billion⁴. Black tea remains the largest segment, while non-black varieties are also gaining popularity due to their health benefits.

Producers include plantation companies and small green leaf growers⁵. Many of them operate processing centres where tea is dried, fermented, and cut. In cases where the producer does not have processing centres of their own, the tea leaves are sold to bought leaf factories⁶. Processed tea is then sold to tea companies, which consist of blenders / packers. The tea companies then blend, flavour, and pack the processed tea into tea packets. These tea packets are sold in the market through wholesalers and retailers.

Some tea companies integrate plantation activities with other processes that are involved in the blending, packing, and marketing of tea such that they can exercise control over the different activities in supply chain of the tea industry. The cost structure of these integrated plantation companies includes plantation related costs (labour, agro-chemicals, estate development and maintenance of plantations where tea is grown), various manufacturing-related expenses and marketing costs.

Scheme of Supply Chain⁷

A common scheme of supply chain may be as follows:



Producers: Tea plantation owners who grow tea leaves (plantation companies and small green leaf growers)



Processing centres: Drying, fermenting, and cutting of tea leaves is done here. Most producers own processing centres, typically located within the tea plantation estate. (processing activities can also be done by the 'bought leaf factories' who convert tea leaves procured from producers into processed tea)



Trade between producers and tea companies (buyers): Tea leaves (processed tea) are sold to tea companies (blenders / packers) primarily through auctions, facilitated through brokers. (brokers communicate information about demand and supply and thereby can indirectly determine the price of tea)



Tea companies (packers/ blenders): Tea leaves (processed tea) bought from various auctions are then blended together, packed and marketed by tea companies. Hence, they are also called packers or blenders.



Wholesale and Retail dealers: Brings the tea packages to the market to be sold to the final customer.



Consumers: Tea is a global beverage, widely consumed both domestically in tea producing countries as well as international markets.

Do You Know?

Tea industry in India is regulated by the Tea Act, 1953. The Tea Board of India (TBI) constituted by the Government of India (GOI) to performs various regulatory, research and development and marketing functions. Few of the functions include:

- (i) Regulate the production and cultivation of tea in India. Tea growers are registered with the Board and are issued licenses to carry out activities like cultivation, manufacturing, sale, and export of tea.
- (ii) Monitoring of the tea auction system where bulk tea is sold.
- (iii) Improve the quality of tea, promote and assist in research in the field.
- (iv) Regulate the sale and export of tea.
- (v) Look after the working conditions and pay of workers.

Cost Structure⁸

The tea industry has been facing difficult times in the recent years. On one hand, tea prices have stagnated. On the other hand, tea industry is a fixed cost intensive industry. India has the highest cost of production among major tea producing countries in the world. Productivity of tea plantation determines the cost of production. Unproductive old tea bushes are a major reason for lower productivity, resulting in higher cost of production. The cost of production of tea can be segregated into:

- (i) Cost of green leaf: Includes materials, wages and other costs related to the cultivation of tea.
- (ii) Cost of conversion of green leaf to made tea:
 - Processing cost (power and fuel, repair and maintenance of machinery, depreciation of machinery, factory wages etc.).
 - Welfare cost (housing, medical, sanitation, ration, firewood etc. provided to workers).



- Other cost (lease rent, rates, travelling expenses, tea cess, green leaf cess, electricity, water tax, license and selling and distribution expenses and head office expenses).

Cost of production is linked to the productivity factors of different resources like land, plant, labour, machinery, and materials used for the cultivation and production process. For proper planning to reduce the cost of production, it is essential to collect data/information regarding various cost components of production and analysis of the same.

For long term sustainability of the industry, higher tea prices that can sufficiently cover the cost of production along with a reasonable profit margin would be required. Tea is a labour-intensive industry. There is a shortage of plantation workers due to many of them migrating to other jobs. To combat shortage of labour and to reduce cost of production, mechanization is being gradually adopted by the industry⁹.

Ways to improve profitability¹⁰

As per a report by ASSOCHAM on the tea industry, suggestions for improving profitability in the long term include:

- (i) Increase exports (value and volume): Tea consumption has traditionally been restricted few markets. Exports need to work on expanding their export base by entering new markets and promoting tea consumption there. Improving the quality of tea supplied to traditional markets can help to provide a basis for increasing the average export price. Exports in value added forms like tea bags / packets can also help to support average prices.
- (ii) Increase domestic consumption: Increased marketing efforts will be needed to spread awareness about tea, different variety and quality etc. Per capital consumption should be increased from the current level of 0.8 kg.
- (iii) Control of supply and quality of tea: Avoid oversupply of tea which can suppress prices. Better tea garden (plantation) practices can improve the quality of tea produced.
- (iv) Meeting changing consumer preferences: Health and wellness aspects of tea need to be promoted since current consumption practices are focussed on these aspects. Green tea, herbal tea and other healthy beverages can be promoted in order to meet customer preferences. There is also a preference tea to be available in value added forms like packets and tea bags.

With this strategic perspective in mind, the following are few case studies drafted about the tea industry:

Refresh Tea: This Case Study looks into the integration of a plantation company with other processes within the supply chain to enhance business control. It includes strategies such as exploring new markets through the acquisition of controlling stake in foreign company, implementing customer-centric initiatives like selling tea in the form of tea bags for improved end-user connection. The case study also explores the application of the theory of constraints (TOC) to address bottleneck resources, particularly the available hours at the blending machine. Additionally, it delves into the comprehension of transfer price methodologies.

Prime Tea 1: This Case Study explores the influence of the Just-In-Time production system on the availability of tea packages in the market. It also explores into the application of target costing to enhance profitability, customer profitability analysis, pricing strategy, and the implications of notification no. 12/2017 CT(R) dated 28.06.2017 related to GST.

Prime Tea 2: This Case Study investigates into strategies for enlarging its customer base in the domestic market by restructuring distribution channels, facilitating direct sales to small grocers or local shops. It involves customer profitability analysis, compliance with the Foreign Exchange Management (Overseas Investment) Rules, 2022 concerning the acquisition of a plantation company in a neighbouring country, the use of forward contracts and interest rate swaps.

Note- The Case Studies presented herein include more than the required number of questions, offering students the opportunity to practice a diverse range of concepts.

¹Source: Report of the CAG on 'Role of Tea Board India in Development of Tea in India' (2023), p.6
²Source: Report of the CAG on 'Role of Tea Board India in Development of Tea in India' (2023), p.7-8
³Source: Report of the CAG on Role of Tea Board India in Development of Tea in India (2023), p.3
⁴Source: Tata Consumer Products Limited, Integrated Annual Report (2022-23), p.192
⁵Tea growers having land holding of their plantation up to 10.12 hectare (25 acres) are considered small tea growers
⁶Bought-leaf factories are units that buy these tea leaves and convert them into the processed tea
⁷This basic supply chain is designed to assist students to understand the industry in Indian scenario only
⁸Source: Report of the CAG on Role of Tea Board India in Development of Tea in India (2023), p.80
⁹Source: Report of the CAG on Role of Tea Board India in Development of Tea in India (2023), p.82
¹⁰Source: Tea industry at the crossroads (ASSOCHAM), p.17

Case Study-1

About Case Study

 Industry	Tea- Plantation, Drying, Fermenting, and Cutting
 Subjects	Strategic Cost Management, Financial Reporting, Auditing, Direct Tax
 Topics	Porter's Five Forces, Control of the Supply Chain via Horizontal or Vertical Integration, Ind (AS) 41, SA540, Mendelow's Matrix, Value Proposition, Theory of Constraints, Transfer Pricing, Agriculture Income



Refresh Tea Ltd.

Refresh Tea Ltd. (RTL) was established in 1935 and headquartered in Kolkata. The company owns several plantations in North-East India (Assam and West Bengal) and South India (Kerala, Tamil Nadu, and Karnataka). It started out as a producer of tea leaves. They have their own processing centre within their plantation estates (or tea gardens) to dry, ferment, and cut the tea leaves. The company would then auction the leaves to traders, who in turn would sell them to tea companies (downstream supply chain) in order to be blended, packed, and resold to the customer. RTL continued to be a producer of tea leaves until the mid-1980s, until which time it only auctioned the tea leaves to the traders.

Over the decades, the popularity of tea as a beverage increased manifold due to clever and attractive marketing campaigns. Marketed as a health drink that could provide relief for ailments like cold, flu or body ache, tea as a beverage slowly became popular across the country. Tea has both an organized branded (pre-packaged) market as well as unorganized unbranded market (loose lot sale). Different versions of brewing and making tea were practiced, and this concocted a success story of exponential proportion.

Increasing popularity of the beverage prompted RTL to expand the scope of its business. It wanted to continue its plantation

business, but now it also wanted to expand its business to include the blending, packaging, and marketing of tea. RTL would increase the production of tea leaves in its plantations using both its existing estates as well by acquiring newer tea estates to increase production capability. All tea leaves will be processed further (dried, fermented, and cut) at the processing centres within its plantations. The management of RTL decided that it would from this point, also start blending, packaging, and marketing its own tea. For this, it built and gained ownership of the necessary factory resources and infrastructure for blending, packaging, and marketing its tea. Production resources and infrastructure were owned and controlled by RTL. This packaged tea will be sold directly to wholesalers and retailer dealers who would in turn sell it to the final customer.

When RTL decided to become a full-fledged tea company by the mid-1980s, the market was saturated with many sellers. Most of them bought tea leaves from traders at various auctions, blended, packaged, and marketed the tea. For these other suppliers, it took approximately 80 days from the time the tea leaf was plucked to the time the consumer purchased it. They catered to consumers from all strata of society. Premium tea dominated the branded market, while people who could not afford it were satisfied with the unbranded loose tea that could be bought as per their individual requirements. RTL decided to establish itself in the branded market. Unbranded loose tea was perceived to be of lesser quality as compared to branded pre-packaged tea and therefore could not command much price in the market.

RTL conducted detailed market research and found that consumers from different regions had different taste preferences. For example, consumers in Bihar and Jharkhand preferred tea leaf while consumers in Maharashtra and Gujarat preferred tea dust. RTL therefore created different brands that catered to different markets (in terms of taste preference - leaf or dust tea) as well as different price bands (economy or premium). The quality of RTL's pre-packaged branded tea was kept higher than the unbranded tea sold in loose lots, and at the same time, the price of its packaged tea was kept slightly lower than the other premium varieties available in the market. Thus, RTL decided to place itself in the middle of this market spectrum in terms of quality and cost. So, it sold premium brand leaf tea as well as economy brand leaf tea in Bihar and Jharkhand, while it sold

premium dust tea and economy dust tea in Maharashtra and Gujarat. As part of its marketing strategy, it created a separate brand for each target customer audience so that the quality and price could be easily recognized by the end user. RTL further aimed to deliver the tea to the final customer within 20 days from the time the tea leaf was plucked from its gardens.

The new vision statement of RTL was then reframed as *“to be the most admired tea company across the globe.”*

The new mission statement of RTL was then reframed as *“to enhance customer experience by making tea a global beverage of choice. Understand and influence tastes and preferences by bringing unique, quality, affordable tea to the discerning palate of customers.”*

Today, in 2023, the total Indian tea market is estimated to be ₹34,400 crore, with branded businesses constituting approximately 74% of the total market value. The global tea market is estimated to be \$45-50 billion, with the main demand coming from the black tea segment. RTL has emerged as the market leader, commanding 60% of the domestic Indian tea market. It is now a listed company at BSE and NSE stock exchanges. Demand in other segments like green tea, fruit & herbal, decaf, and speciality tea among others is also picking up. Taking note of this new trend, RTL conducted market research and a survey done of the entire beverage industry to gather market intelligence and emerging customer choices. The findings reveal that consumers are becoming more health conscious in their choices. In the past 2 years, demand for fruit juices, coconut water, almond milk, and milk shakes has increased. According to the study, the shift towards healthier beverage choices like fruit juices, coconut water, almond milk, and milkshakes is projected to grow and encompass at least 8% of the beverage market within the next three years.

Tea King Plc. (TKP) is a UK based company that produces tea bags. Small sachets of tea (tea bags) are dipped into hot water in order to brew conveniently within a cup. The sachets can be conveniently disposed of after use. Tea bags are hugely popular across the globe, primarily due to the convenience of use and disposal. “Anywhere-Anytime” is a highly recognized tagline for TKP’s tea bags. The company has a net worth almost three times that of RTL. TKP has a deep market presence in the United Kingdom and the United States of America, as well as a few other European countries where tea is relished as a beverage. Despite its huge global presence and scale, the ownership of TKP has changed hands frequently every few years. This is because the profitability of the business is constantly under pressure due to the high input costs of tea, driven by inflationary conditions. TKP imports tea leaves (its raw material) from various countries, and the cost of imports has become more expensive over the years.

RTL has recently gained the opportunity to own a controlling stake in TKP. This is a prestigious development for RTL, as it has been trying to increase its global footprint, particularly in the UK and USA. The advantage the company has that most of the previous owners of TKP did not have, is that RTL has better control over the supply of raw materials. India is one of the major tea producing countries. RTL has been in the plantation business since its inception. Hence, RTL is much better positioned to scale up tea leaf production to meet TKP’s raw material requirements

in a cost-effective way, thereby countering any inflationary pressure. However, since the size of the deal is much bigger than even RTL’s net worth, it has to resort to taking significant amount of debt to finance the deal. The deal has the approval of the majority shareholders, and other regulatory approvals are in place.

In the dynamic field of tea production, external factors such as unpredictable weather conditions can severely affect operations. Recognizing the importance of proactive risk management, RTL has implemented a comprehensive strategy to mitigate potential disruptions and protect its plantations specifically in northeastern region. This includes ensuring adequate insurance coverage, positioning RTL to effectively navigate the uncertainties associated with cyclones and adverse weather events. RTL’s financial statements are prepared in accordance with Indian Accounting Standards (Ind AS) notified under the Companies Act, 2013.

Scenario-1

The induction program for new hires is underway. They are being introduced to the history of tea in India as well as how RTL grew to be a leading player in this market. One of the new inductees asks:

“What is the rationale behind RTL’s decision in the mid-1980s to expand its operations into a saturated market? It could have maintained the status quo as a plantation company producing tea leaves. Why did it have to get into the blending, packaging, and marketing business as well? Also, how did RTL manage to become a market leader despite the competition?”

Required

You are being the Deputy Manager (Finance & Strategy) at RTL, have been requested to provide your explanation behind the rationale behind this business decision taken in the mid-1980s. Also, based on the information in the case study, ASSESS the company’s success in a competitive market.

Answer

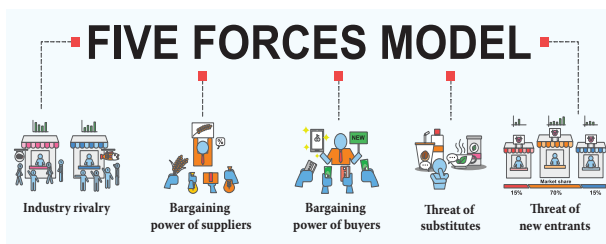
In a competitive environment, a business must craft its strategies not just to survive but also to sustain itself. RTL started out as a tea leaf producer, owning plantation tea estates to grow tea. While it had control over the production, it did not have as much control over the price at the auction. If you refer to scheme of Supply Chain for Tea, it is the brokers who had more influence over the auction price as they had more complete information about both the supply and demand for tea. Hence, the revenue generation flexibility for RTL was being limited by the influence of brokers, who acted as the middlemen for the plantation owners (tea growers) and the tea companies (tea blenders and marketers). Over the decades, the popularity of tea as a beverage increased the competition. Recognizing this change, the management of RTL had **to study the external environment** and understand how it could determine its strategy in order to survive and thrive within this competitive business. RTL became agile and responsive to change. This resilience made it competitive and became the primary reason for its success in the competitive market.



Concept Insight

The study of the external environment requires the study of the remote environment and operating environment of the industry including the competitive environment. To analyse the operating environment of an industry, it is important to consider all the factors that affect profitability as well as the competitive position of business organisations within it. These factors can be grouped into elements such as customers, competitors (existing as well as potential entrants), suppliers, advocacy groups, regulations, regulatory groups, and many other elements such as industry life cycle, supplier's suppliers, and buyer's buyers, etc. Basically, it considers the wider picture through factors that are capable to decide the growth trajectory in addition to future profitability. Intensity of industry competition can be understood using Michael Porter's five forces model.

Porter's five forces helped RTL to identify where power lied in business situation. This was useful both in understanding the strength of RTL's current competitive position and the strength of a position that RTL might consider entering.



The five forces that were enumerated by this model are given below:

Threat of new entrants: Tea as a beverage was gaining popularity, so demand growth was increasing at an exponential pace. In turn, this made the *industry attractive* for new players to enter. This meant that *competition in the market was likely to increase* across the value segments (including the production of tea leaves) within the tea industry. RTL was an incumbent in this sector, as it already owned many plantations for producing tea leaves.

To Counter Competition, the management expanded its scale of operations. It increased the production of tea leaves (the raw material source) and branched out into allied processes within the industry value chain like blending, packaging, and marketing. It also owned and controlled its resources. This increase in *scale of operations* gave it a competitive advantage that not many new entrants may have had.

Bargaining power of suppliers: As mentioned in the case, many of the sellers in the saturated tea market bought tea leaves from traders at various auctions, blended, packaged, and marketed the tea. These brokers at auctions could influence the price of tea since they had information on both the demand and supply sides of the business. RTL was already a supplier of tea leaves (the raw material) and had wanted to branch out further in the industry value chain by expanding its operations. Moreover, it wanted to reduce the operating cycle by delivering good quality tea to the customers within 20 days. As part of its brand strategy, RTL also wanted to bring variety to its product offerings in terms

of both quality (premium vs. economy) and type (leaf vs. dust). *Uninterrupted supply of appropriate quality tea leaves is a critical requirement to ensure both a quick operating cycle and ability to produce a variety of tea catering to different brand requirements.*

Therefore, it increased the scale of its production of tea leaves (raw materials) by increasing production in existing plantations as well as acquiring newer plantations. Ownership of these plantations gave the company *better control over the supply of tea leaves*. Unlike other sellers in the market, it *did not depend on auctions* to procure tea leaves. All this helped it to gain control over the supply of its tea leaf requirements. Reduced dependency on auctions or other suppliers also contributed to its success.

Bargaining power of buyers: RTL entered a market that was both saturated and highly competitive. When RTL entered the market, there was a premium segment and an economy segment. *The presence of many suppliers indicates that buyers had a choice to switch between different tea offerings; therefore, there was no preference for a specific brand. In order to build a loyal customer base, RTL had to differentiate itself from other tea offerings.*

RTL redefined itself with as a customer centric business model. *The quality of tea was kept higher than in the unbranded category by reducing the operating cycle and ensuring that the tea reaches the customer in its freshest form. At the same time, the price of its tea was kept lower as compared to other premium tea in the market.* Its multi brand strategy, based on different quality and price expectations, helped it to connect with the different sets of customers, each with unique tastes and preferences. Each brand had a unique identity that the customer could easily understand and know what to expect from the product. This multi brand strategy established an important connection with the end user, helping it build a loyal customer base.

Threat of substitutes: Until the recent year, *there was no immediate threat of substitute.*

Note- The recent market research and study of the beverage industry reveal that RTL needs to consider healthier options like fruit juice, coconut water, almond milk and milk shakes as possible substitutes for tea. These healthy drinks may constitute approximately 8% of the total beverage market in 3 years. *RTL has to consider this as a rising threat of substitutes and strategize accordingly.*

Rivalry among existing firms: Rivalry was addressed by RTL by changing its scope and scale of business operations so that it could exercise better control over different processes in the value chain. Having *better control over supply side of business while having the resources to remain agile to the requirements of the demand side of business helped RTL become a leader in the market despite the competition.*

Overall, RTL used its multi brand strategy, based on different quality and price expectations, to help build a product differentiation strategy. By expanding its operations into other processes in the value chain like blending, packing, and marketing, *the company could study about the variety and change in taste and preferences of customers.* This gave the company *more credible information about the demand side of the business.* The company could segment the market based on certain criteria so that customer demand could be catered to by addressing their unique needs. This customer centric business model for RTL helped it identify differentiating factors that can help it beat competition.


Scenario-2

At RTL's Darjeeling plantation site, manufacturing process commences with the plucking of tea leaves from the plantation. Once the tea leaves are harvested, they are transported to the internal processing centres to continue the manufacturing process.

The local accountant at the site is currently preparing site's financials in accordance with Indian Accounting Standards (Ind AS) under your supervision.

Required

She has raised the following questions –

- (i) Whether these plucked tea leaves are agriculture produce as per Ind AS 41 or not?
- (ii) How should such plucked tea leaves be initially measured?
- (iii) What will be subsequent measurement of such tea leaves in line with Ind AS 41 and Ind AS 2? [VERB- APPLY]

Answer

- (i) Paragraph 3 of Ind AS 41, Agriculture states that:

Ind AS 41 is applied to agricultural produce, which is the harvested produce of the entity's biological assets, at the point of harvest. Thereafter, Ind AS 2, 'Inventories' or another applicable Standard is applied. Accordingly, Ind AS 41 does not deal with the processing of agricultural produce after harvest; for example, the processing of grapes into wine by a vintner who has grown the grapes. While such processing may be a logical and natural extension of agricultural activity, and the events taking place may bear some similarity to biological transformation, such processing is not included within the definition of agricultural activity in Ind AS 41.

In the given case, RTL produces tea by processing tea leaves after they are plucked from tea plants, i.e., after they are harvested. Accordingly, any processing of harvested agricultural produce (processing of tea leaves into tea) will not be within the scope of Ind AS 41 as per aforementioned paragraph 3 of Ind AS 41.

Paragraph 5 of Ind AS 41, 'Agriculture' defines agricultural produce:

As per the standard as the harvested product of the entity's biological assets.

A biological asset is a living animal or plant.

Based on above definitions, at the point of harvest, the plucked leaves are the harvested product of tea plants which are the biological assets of RTL, hence such plucked tea leaves are agricultural produce as per Ind AS 41.

- (ii) Paragraph 13 of Ind AS 41 states that:

Agricultural produce harvested from an entity's biological assets shall be measured at its fair value less costs to sell at the point of harvest. Such measurement is the cost at that date when applying Ind AS 2 'Inventories' or another applicable Standard.

Therefore, in line with paragraph 13 of Ind AS 41, the fair value less costs to sell of the plucked leaves at the point of harvest would be the cost of such plucked leaves at the date of applying Ind AS 2.

- (iii) Subsequently, such plucked tea leaves will be measured as inventory as per the accounting principles of Ind AS 2, 'Inventories'.


Scenario-3

In the process of preparing the financial statements for the financial year ending on 31.03.2023, the management of RTL has made several accounting estimates and affirmed to the auditor that all necessary accounting estimates have been recognised, measured, and disclosed in the financial statements are in accordance with the applicable financial reporting framework. However, in the course of the audit, auditor has observed some changed circumstances giving rise to the need for an accounting estimate.

Required

ENUMERATE some circumstances, change of which would prompt inquiries from the management of RTL.

Answer

As per SA 540, "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures", inquiries of management about changes in circumstances may include, for example, inquiries about whether:

- The entity has engaged in new types of transactions that may give rise to accounting estimates.
- Terms of transactions that gave rise to accounting estimates have changed.
- Accounting policies relating to accounting estimates have changed, as a result of changes to the requirements of the applicable financial reporting framework or otherwise.
- Regulatory or other changes outside the control of management have occurred that may require management to revise, or make new, accounting estimates.
- New conditions or events have occurred that may give rise to the need for new or revised accounting estimates.

During the audit, the auditor may identify transactions, events and conditions that give rise to the need for accounting estimates that management failed to identify. SA 315 deals with circumstances where the auditor identifies risks of material misstatement that management failed to identify, including determining whether there is a significant deficiency in internal control with regard to the entity's risk assessment processes.


MCQ-1

Which of the following statement is true regarding the current expansion plan of RTL (acquisition of TKP) and the expansion of RTL in the mid-1980s?

- (a) Current expansion plan of RTL (acquisition of TKP) is horizontal integration, while expansion in the mid-1980s is vertical integration
- (b) Current expansion plan of RTL (acquisition of TKP) is vertical integration, while expansion in the mid-1980s is horizontal integration
- (c) Current expansion plan of RTL (acquisition of TKP) and the expansion in the mid-1980s are both vertical integration
- (d) Current expansion plan of RTL (acquisition of TKP) and the expansion in the mid-1980s are both horizontal integration

Answer

The correct answer is - (a) Current expansion plan of RTL (acquisition of TKP) is horizontal integration, while expansion in the mid-1980s is vertical integration.

Reason

TKP is in the same business as RTL. There is a difference, TKP produces tea bags while RTL produces tea packages. However, both belong to the same industry, catering to different requirements within the tea market. The acquisition of TKP will help RTL grow in size and revenue by diversifying into new markets with newer products of tea. Therefore, this is a horizontal integration.

The expansion of RTL in the mid-1980s to include other processes in the value chain like blending, packing, and marketing is a vertical integration. RTL, at that point in time, was only in the plantation business. As expanded into other activities in order to get better control of the supply chain, RTL gained control over additional processes in the production of tea as well as the cycle time to deliver to customers. This helped to penetrate the existing tea market in India. This is vertical integration.

MCQ-2

The regulatory authorities in India have to assess whether there is any breach of the anti-competition laws. Which type of stakeholder will the regulatory authorities be classified as using Mendelow's Matrix?

- (a) The regulatory authority is a marginal player with low interest and low power
- (b) The regulatory authority is a key player with high interest and high power
- (c) The regulatory authority is an influencer with low interest and high power
- (d) The regulatory authority is an affected player with high interest and low power

Answer

The correct answer is- (c) the regulatory authority is an influencer with low interest and high power.

Reason

The authorities have a low interest in whether the acquisition is successful or not. However, they have a high power since if there is any indication that this acquisition can give RTL unfair advantage to stifle competition, they can refuse to approve the acquisition deal or may take action against the business. Hence, enough information should be provided to keep them satisfied in order to not face any adverse action.

MCQ-3

TKP has used the tag line "Anywhere-Anytime" to market its tea bags. With reference to the value proposition map, please match the following -

Particulars	Element of the value proposition map
a. Brewing tea	i. Customer Profile: Gain
b. Customer health	ii. Value Map: Gain Creator
c. Green tea	iii. Value Map: Pain Reliever
d. Tea bag	iv. Customer Profile: Pain

Options

- (a) a- i, b- ii, c- iii, and d- iv
- (b) a- i, b- iv, c- iii, and d- ii
- (c) a- iv, b- i, c- iii, and d- ii
- (d) a- iv, b- i, c- ii, and d- iii

Answer: The correct answer is- (d) a- iv, b- i, c- ii, and d- iii.

Reason:

Brewing tea is a pain that the customer faces; Customer Profile: Pain.

Customer Health is a gain or aspiration for the customer; Customer Profile: Gain.

Green tea addresses the customer's aspiration for good health; Value Map: Gain Creator.

Tea Bag brings the convenience of brewing tea anywhere at anytime; Value Map: Pain Reliever.

MCQ-4

The blending machine at Nagaon (Assam) Factory blends tea leaf varieties produced in the plantations of RTL. Due to increased seasonal demand during the monsoon, the production of tea increases in this factory for the months of May, June, and July. Due to this, the availability of time on the blending machine is limited during these months. There is no immediate plan to increase the blending machine capacity since this is a seasonal variation in demand, and hence the constraint is short term in nature. At the same time, the production manager at Nagaon Factory wants to determine the order and quantity of tea blend to produce in order to maximize profits. The selling price and cost per kg., as well as bottleneck production details are as below:

Particulars	Blend 1	Blend 2	Blend 3
Selling price (in ₹)	500	600	800
Material and other variable cost (in ₹)	300	400	500
Time required at the blending machine (minutes); Bottleneck resource time	20	30	40

The factory cost is ₹5 per minute. The manager wants to rank the blends based on the throughput accounting ratio. This will be used to plan the production schedule for the months when blending time is a bottleneck constraint.

Which of the following statements is true?

- (a) Ranking based on throughput accounting: Rank 1 – Blend 1, Rank 2 – Blend 2, and Rank 3 – Blend 3
- (b) Ranking based on throughput accounting: Rank 1 – Blend 1, Rank 2 – Blend 3, and Rank 3 – Blend 2
- (c) Ranking based on throughput accounting: Rank 1 – Blend 2, Rank 2 – Blend 1, and Rank 3 – Blend 2
- (d) Ranking based on throughput accounting: Rank 1 – Blend 3, Rank 2 – Blend 2, and Rank 3 – Blend 1

Answer

The correct answer is (b) Ranking based on throughput accounting: Rank 1 – Blend 1, Rank 2 – Blend 3, and Rank 3 – Blend 2.

Reason

The calculation is as below:

Particulars	Blend 1	Blend 2	Blend 3
Selling Price (in ₹)	500	600	800
Less: Material and Other Variable Cost (in ₹)	300	400	500
Throughput Contribution (in ₹)	200	200	300
Time Required at the blending machine (minutes)	20	30	40
Contribution per minute (in ₹)	10.00	6.66..	7.50
Factory Cost <i>per minute</i> (in ₹)	5	5	5
Throughput Accounting Ratio (TA Ratio = Contribution <i>per minute</i> / Factory Cost <i>per minute</i>)	2.00	1.33..	1.50
Ranking as per TA ratio	I	III	II

MCQ-5

RTL has divisions like plantation, processing, blending, packaging, etc. The popularity of tea has increased the demand for tea leaves in the market. Many tea companies do not own any plantations of their own. They purchase the tea leaf directly from the tea auctions. RTL uses only the tea leaf produced within its own plantations in order to have control over the quality and price of different tea blends. The tea leaves, once plucked, are transferred to the processing units within the plantations. The company has a transfer pricing policy for any internal transfer within the divisions. Plantations are producing at their full capacity. Brokers from the external market are offering the plantation division a price of ₹200 per kg. of plucked tea leaves, while the marginal cost of production has been determined at ₹170 per kg. The net marginal price (selling price – marginal cost) at the processing division is ₹210 per kg., while the price at which the processing centre can purchase tea leaves (procurement price of similar quality) from other plantation suppliers is ₹205 per kg. Note, selling price for the processing division is actually the transfer price it charges the blending division for each kg. of processed tea.

The managers of each unit have their performance assessed based on the surplus each division generates. Which of the following transfer pricing range will bring goal congruence between the plantation division and the processing division?

- Minimum ₹170 per kg. – maximum ₹210 per kg. of tea leaves
- Minimum ₹200 per kg. – maximum ₹210 per kg. of tea leaves
- Minimum ₹200 per kg. – maximum ₹205 per kg. of tea leaves
- Minimum ₹170 per kg. – maximum ₹205 per kg. of tea leaves

Answer

The correct answer is- (c). Transfer price range for tea leaves should be minimum ₹200 per kg. – maximum ₹205 per kg. of tea leaves.

Reason

The plantation division is operating at full capacity, with an external demand for its tea leaves at ₹200 per kg. Hence,

although its marginal cost is only ₹170 per kg., it should charge the opportunity cost of ₹30 per kg. that it would have earned had it otherwise sold in the external market. For the processing division, tea leaves can be bought externally at ₹205 per kg. Hence, although its net marginal revenue is ₹210 per kg., that it can afford to pay upto ₹210 per kg. and still remain profitable, the division will be unwilling to pay beyond ₹205 per kg. (external procurement price). Hence, the transfer price range that can promote goal congruence will be minimum ₹200 per kg. – maximum ₹205 per kg. of tea leaves.

The ideal transfer price should be ₹200 per kg. which will give the plantation division the normal profit it would have otherwise earned from external sales, while the processing unit can procure it at a much lower cost than the external buy-in price. The transfer price will be negotiated by the managers of the respective division; hence, the final price within the above range will depend on the bargaining skills of each manager.

MCQ-6

In August'2023, RTL's tea estate in Jellalnagar, Karimganj district, received ₹10,00,000/- as compensation from an insurance company for severe damage to green leaves caused by a hailstorm. A trainee accountant (tax) at the Head Office believes that the entire receipt under the insurance policy, pertaining to damage caused by the hailstorm to tea leaves, will be assessable as income from other sources. Evaluate this view.

- The accountant's view is correct; the entire compensation is assessable as income from other sources.
- The accountant's view is incorrect; no part of the compensation consists of manufacturing income, and it cannot be apportioned under rule 8 between manufacturing income and agricultural income. Therefore, income will be agricultural income.
- The accountant's view is incorrect; only a portion of the compensation is assessable as business income.
- The accountant's view is incorrect; the entire income would be treated as business income.

Answer

Option B is correct.

Reason



Compensation received from an insurance company for damage caused by hailstorm to the green leaf is fully agricultural income and no part of such compensation consists of manufacturing income. Therefore, cannot be apportioned under rule 8 between manufacturing income and agricultural income.

Concept Insight

Vertical integration is a competitive strategy wherein an organisation takes complete control over one or more stages in the production or distribution of a product. It can involve integrating with units that supply raw materials (backward integration) or with the distribution channels that carry its products to the end-consumers (forward integration). On the other hand, *horizontal integration* is another competitive strategy employed by organisations. Horizontal integration takes place when an organisation acquires a competing business.

Case Study-2

About Case Study

 Industry	Tea- Blending and Packaging
 Subjects	Strategic Cost Management, Indirect Tax Laws, Corporate and Economic Laws, Auditing
 Topics	Just in Time, Customer Profitability Analysis, Startup, Target Costing, Pricing Strategy, Notification No. 12/2017 CT(R) dated 28.06.2017, Schedule 1 Transactions - FEMA 1999, Internal Control Questionnaire

 **Prime Tea Private Limited-1**

Prime Tea Private Limited (PTPL) was established in 1938, headquartered in Kolkata. The company is privately owned by the Triboovandas family members, who have been in the tea business for the past 3 generations. Mr. Bhushan Triboovandas started out as a broker in the Siliguri Auction Centre. In due course, he started a tea blending and packaging company, PTPL in Kolkata. Tea leaves are blended and packed at its production facilities and sold further to tea distributors. Tea distributors in turn sell the packages to other smaller wholesalers or large retail outlets. Retail chains across India stock tea packages blended by PTPL.

In smaller cities and towns, where there is no presence of proper distributors, PTPL has local sales agents that it hires on contract to sell tea to small grocery stores and other local shops. Goods are sent to these local agents on consignment. Tea packages have a long shelf life and can be stored up to a year if stored in appropriate conditions. PTPL commands a moderate 8% market share in terms of sales in the Indian Market.

PTPL has been a profitable business for most of the years of its existence. The past many years have seen significant inflationary trends in the economy. Like many other companies, PTPL too has been enduring the increase in tea leaf price, which is the primary raw material. To combat reducing profit margins due to inflation, it has concocted a uniform blend that it sells under the brand name “A1 Tea”. The blend is prepared by mixing few popular tea flavours into one. This concoction was done with the help of an expert tea sommelier a decade back. PTPL has used same composition over the last many years. The tea that PTPL prepares under the “A1 Tea” is of the black tea variety, which is the most popular tea variety consumed in India.

The Indian marketplace is crowded with many tea companies like PTPL. In retail outlets and grocery stores shelves stocking tea beverage have many brands stocked together. There is nothing much to differentiate PTPL’s “A1 Tea” brand from the rest. Brands have to fight to gain visibility among customers and this is done using attractive packaging, increasing advertisement

spend, etc. Hence, customers are more price sensitive rather than conscious about quality of tea.

Today, in 2023 the total Indian Tea market is estimated to be ₹34,400 crore with branded business constituting approximately 74% of the total market value. The global tea market is estimated to be \$45-50 billion with the main demand coming from the Black Tea segment. Demand in other segments like Green Tea, Fruit & Herbal, Decaf, Speciality among others is also picking up. Despite optimistic prospects, the management at PTPL observes stagnation in tea sales rather than growth.

Currently, PTPL supplies tea to 300 distributors across India. An investigation into this revealed that many of the distributors are also distributors for competitors of PTPL. The investigation further revealed that in the past 3 years, many times PTPL has delayed the delivery of orders to these distributors. When distributors run out of “A1 Tea” packages, they place an order with the company for stocking up their inventory. Meanwhile, orders from retail outlets and smaller distributors keep coming in, which need to be met by the distributors on time. Hence, if the packages of “A1 Tea” are not replenished in time, distributors instead sell packages of another rival company to meet the order demand on time. The retail outlets and smaller distributors (who are customers of the distributors) are largely indifferent to which brand of tea. As mentioned in the paragraph above, this is because there is not much to differentiate “A1 Tea” from the rest of the brands of similar variety.

A further investigation for the reason for delays in meeting restocking requests of distributors was undertaken. The delayed sales delivery is costing the company in the form of lost opportunity sales. The study of this problem reveals that PTPL has been following Just in Time (JIT) production in its production facilities. This was implemented around 3 years back by the production manager who had wanted a lean production system. Accordingly, the tea blending process happens only when a distributor places an order for tea packages with PTPL. A typical order size would be 50,000 packages a month from each distributor. In a month at least 200 distributors place orders with PTPL.

The raw material in the form of tea leaves is stocked in advance by buying tea from various auctions. Since “A1 Tea” is a blend of popular tea flavours, it requires a mix of tea leaves providing those different flavours. It was found that these different types of tea leaves had different growing, cultivation cycle and were grown in different plantations spread across India. Hence, while stocking up for raw materials, it does happen many times that a particular type of tea leaf is unavailable at that auction centre. In such cases, the tea leaf has to be sourced from some other auction centre or sometimes directly from the plantation. These delays increase the lead time for procurement for tea leaves. The purchase manager at PTPL has not taken any initiative to resolve the problem and reduce the lead time for procurement. Hence, because the entire raw material of the required varieties of tea leaves are always not readily available, it has many times happened that there have been delays in the production of the blended tea. Since the production is JIT system based, PTPL

does not have buffer stock of blended tea (finished product) from which it could try to meet the order requirements at least partially. This is the primary reason for delays in sales delivery, which has resulted in the distributors preferring to sell rival tea brands.

Mr. Kumar, son of Bhushan Triboovandas is the CEO of PTPL. Last month, he called the senior management of the company to understand the reason for stagnating sales. This month, there was a follow up meeting where the findings of the investigations detailed above, were presented to him. On presentation of the findings, an argument ensued between the sales, production and procurement managers defending their department and function.

Sally, the sales manager: *“I am facing the brunt of this problem. It is already very difficult to sell “A1 Tea” as it does not enjoy very high visibility due to which the end user customer is indifferent to the brand and its quality. Distributors also do not get any additional incentive to sell “A1 Tea” since the profit margin they derive is just the same from any other brand. While I am trying my best to promote and sell our tea, I am not given sufficient support by Pam from our production department. Others too need to do their job well in order to sustain sales. Is that not the least I can expect?”*

Pam, the production manager: *“My hands are tied, we have best in class blending machines that can blend tea in huge quantities on very short notice. The short turnaround time for sales delivery was considered while implementing the JIT production system 3 years back. This is the reason why we had these high-performance machines installed in the first place. I just need a phone call from Sally and my machines are ready to do the job. My department cannot be blamed for delays if the requisite raw materials are not available. Procurement is Sam’s responsibility; she should be made accountable for this.”*

Sam, the procurement manager: *“It is unfair to lay the entire blame on me. I have no information about what the production is going to be during the month. I need at least 1-month advance notice if not more, to ensure that raw material supply is uninterrupted. Perhaps my colleagues here have forgotten that tea leaves are agricultural produce that cannot be grown on the drop of a hat. I need time to get the varieties of leaves from different auction locations across India to our storage facility here in our plant. Certain varieties are available only for few seasons, hence procuring them during off seasonal months is very difficult. While JIT production may work fine for blending, JIT procurement is impossible for tea leaves. I need advance notice of raw material requirements. Without this information, I cannot ensure their supply.”*

Mr. Kumar says *“Right from my father’s days, all departments had complete understanding of each other’s requirements. We have never felt the need to have information systems in place. All that was required was a phone call between the managers for the business to be done. Of-course, over the years we have grown in scale. However, this has led to gaps in passing on information. How can we resolve this?”*

Scenario-1

Anticipating heated arguments, Mr. Kumar on behalf of PTPL, has hired you as a management consultant to guide the company on ways to improve its sales and increase its market share. Your priority is to resolve the issue of delayed sales delivery to the tea distributors. Reduction in instances of lost sales opportunities will dramatically improve the sales for PTPL and grow its market share.

Required

Write a brief note addressed to the senior management, ADVISE critical points that need to be attended to in order to resolve this issue.

Answer

Let me begin with Mr. Kumar’s observation that there are no information systems in place despite the company growing in scale over the years. As correctly pointed out, there are gaps in passing on information which has resulted in delays and thereby lost sales opportunities.

JIT production system works will work well only when PTPL can anticipate the demand patterns of distributors for “A1 Tea”. It is of paramount importance therefore, that the sales forecast be as accurate as possible. This role will primarily be driven by Sally, the sales manager. She has to study the demand patterns, interact with distributors to understand the market and customer needs. Once, the sales order trend is understood, Sally has to prepare a monthly plan for expected sales. This can be drawn in anticipation for the entire year. This plan will then give the company an idea about the output required to be produced to meet the distributor’s demand in its entirety and on time.

The production manager, Pam has implemented the JIT production system 3 years back. The problem of delays in meeting sales orders also began around that same period. This provides a reasonable ground to conclude that the lost sales opportunities could be linked to the type of production system followed at the production centre. If production has to happen seamlessly, the raw material should be available on demand. Hence, there is a requirement for information to flow from sales to production and to procurement departments. Sally has to share the sales plan with both Pam and Sam, the production and procurement managers respectively. When the expected annual output needed is known, production and purchasing can align their functions accordingly.

Pam, the production manager has to then co-ordinate with Sam the procurement manager and discuss the production schedule. Any specific requirements have to be discussed, for example the requisite grade of tea leaves, any other technical aspect that needs attention. If a JIT production system is to be followed, there may not be much time for quality check of the raw material input or to look into certain technical specifications at the last moment. Any misunderstanding or lack of information will lead to delays in production and the system will not be Just in Time at all.

Coming to raw material procurement, the raw material tea leaves have to be adequately stocked up. Being an agricultural produce, a JIT procurement system may not always be feasible. Moreover, different varieties of tea have to be procured from different

auctions in different geographical locations. All this *increases the lead time for procurement of tea leaves* (the raw material for blended tea). However, the sales, production and purchase manager have to co-ordinate to ensure that there are no delays in availability of raw material for immediate production. Tea leaves are procured at auctions from across India. Sam has to ensure that there is always adequate stock of the required varieties of tea leaves based on the likely production schedule shared by Pam. Sam *can even consider the possibility of having buffer stock* in order to meet any rush requirements. These off-course would be *subject to the available storage space, cost of storage and any resultant loss or waste on storage*.

Further the production manager can consider the possibility of “**making to stock**” instead of using “JIT which is making to order”. It is mentioned that packaged tea has a *long shelf life*, if stored in appropriate conditions. Also, procurement of tea leaves requires lead time and co-ordination between the company and brokers at auctions or sometimes even with tea plantations when the variety is unavailable. Company can explore the possibility of having *long term contracts with brokers or plantations* for its tea leaf requirements. Due to long lead times required for procurement, it *makes sense to stock up the raw material*. At the same time, since the finished product has a long shelf life, it may make sense to stock up the finished product as well. This can give company a buffer to provide for any rush orders from distributors or even provide for errors in its sales forecasting. This can be the support that Sally is looking from both Pam and Sam.

As a final remark, there must have been a rationale for implementing the JIT production system 3 years back. It is definitely useful as cost savings can be achieved from lower storage space requirements, improving labour efficiency, reduction of wastage etc. Hence, before management take a decision on whether to continue JIT production or revert back to “make to stock” production system, it is necessary to understand why the production system was changed to the current JIT system in the first place. Depending on the nature of business, the cost effectiveness, management may choose the system that will have least disruptions in order to meet demand within the tea industry.



Scenario-2

PTPL extends a “net 30” day credit to its distributors (customers). The 30-day credit period begins from the time of dispatch of goods from PTPL’s warehouse. Invoices are generated and posted to the distributors. On an average it takes 3 days after dispatch to generate the invoice and a further 3 days for the post to reach the distributors. So, totally the distributor gets the invoice 6 days after dispatch. There have also been instances of the invoice being misplaced or not being received at all. In such cases, PTPL resends the invoice, which again requires few more days to reach the distributor.

Only 30% of the accounts receivable is collected within 30 days. On an average, the accounts receivable collection period is 50 days. PTPL does not charge any interest for this delay since it wanted to maintain good relations with the distributors. Bad debts account for almost 10% of the accounts receivable.

Required

You have been requested to ADVISE ways to reduce the collection period from the current average of 50 days to 30 days without creating any acrimony with distributors.

Answer

PTPL is using a manual method for dispatching invoices to its distributors (customers). The distributor is made aware of the amount payable 6 days after dispatch of goods. This is almost 20% of the credit period (6 days out of 30 days). So, the distributor gets 24 days to arrange for the payment on the due date. The following steps can help to improve the collection of accounts receivable on due date and help to reduce bad debts:

- (i) Revisit the credit period extended: If only 30% of the accounts receivable is collected within 30 days, it implies that the balance 70% delay the payment / settlement. PTPL has to assess whether the credit period of 30 days is reasonable and *in line with industry standards*. If the credit period is longer than 30 days, then PTPL may need to at least temporarily adjust to the industry norm for settlement with distributors. If the credit period is 30 days or lesser, then PTPL should develop an understanding with the distributors that emphasises that the payment has to be made within due date of 30 days.
- (ii) Better distributor relations: For PTPL to be able to dictate terms to distributors, it must *first ensure that the distributor’s requirements are met on time*. Hence, PTPL has to ensure that it delivers the goods on time, it has the capability of restocking whenever requested by the distributor. The other improvement can be by *automating the invoicing*, it can be generated and sent electronically as soon as the goods are dispatched to the distributor. This way there is sufficient information about the amount to be settled, giving distributor ample time to arrange for funds.
- (iii) Credit analysis of distributors: PTPL has to analyze which distributors cause delay in payments or default in payments. Credit should be extended only to *credit worthy distributors*.
- (iv) Ensure multiple channels of settlement: PTPL should *provide various channels through which settlements can be conducted*, including electronic transfers, and other banking channels such as cheques or drafts. Electronic mode of settlement ensures that the funds are received instantaneously. At times when the distributor is constrained by one method, PTPL should be in a position to offer alternate settlement methods.
- (v) Offer discounts on early settlements: To encourage early receipt of funds, PTPL can offer a small discount if the funds are remitted before due date. For example, PTPL can offer 1/10 net 30 deal. If a distributor settles the entire amount due within 10 days, a discount of 1% can be availed. Beyond 10 days until 30 days, no discount can be availed but there will be no penalty or interest either. Beyond 30 days, there can be an interest or penalty charged.


Scenario-3

'If we recoup the entire accounts receivable, that is there are no bad debts, it also means that we are profitable. It also means that each and every customer contributes towards this profit.'

– Mr. Kumar

Required

Critically ANALYZE this statement and ILLUSTRATE whether it is always true.

Answer

Recouping entire accounts receivable, with zero bad debts is indeed an ideal situation. Simply put, the company has managed to recover the entire sales that it has made to its distributors. However, it does not imply that the company is profitable. A quick example would be a case where 1 kg. tea package costs ₹300 to manufacture while due to intense competition, the company is forced to sell it at ₹250. The net loss incurred in this sale is ₹50, this would be so despite the entire amount outstanding of ₹250 is received. This refutes the first statement that *'If we recoup the entire accounts receivable, that is there are no bad debts, it also means that we are profitable.'* The above example shows that this need not always be true.

Coming to the second assertion that *'if the bad debts are nil, it also means that each and every customer contributes towards profitability.'* Again, this need not always be true.

Note: Let us take the example below for the purpose of better understanding.

Let us say PTPL has only 2 customers (here distributors). Details of sales and cost of generating these sales are given below –

Particulars	Distributor A (₹)	Distributor B (₹)	Total (₹)
Sales	10,000	30,000	40,000
Less: Cost of Goods Sold	5,000	15,000	20,000
Cost of sales visits (specifically traced to customer based on actual sales visits) A: 1 visit × ₹500 per visit B: 10 visits × ₹500 per visit	500	5,000	5,500
Sales order processing cost (allocated based on number of orders) A: 1 order × ₹500 per order B: 10 orders × ₹500 per order	500	5,000	5,500
General administrative cost (based on number of hours of support lent to each customer)	1,000	2,000	3,000
Profitability	3,000	3,000	6,000

From the above example, it can be seen that each distributor contributes the same profit of ₹3,000 each to PTPL. However, Distributor A is lot more profitable (profit margin is 30% of sales) as compared to Distributor B (profit margin is 10% of sales). Hence, the profitability of each customer is not the same. It could very well be that there may be loss making customers, the loss is absorbed by the profits generated from other customers. Hence, even if the entire outstanding amount is recouped, it does not mean that each and every customer contributes towards profitability.

The type of detailed customer wise profit analysis done above is called Customer Account Profitability. By attributing revenue and costs to each of the customers, their individual contribution towards the profit margin of the company can be calculated. Costs will vary since the amount of support each customer needs from the company may be different. In the above example, Distributor B needed more sales visits as compared to Distributor A. The number of sales visits were 10 times more, but that yielded revenue only 3 times more than Distributor A. Reasons for this have to be understood. There may be underlying problems with the sales arrangement with the customer or PTPL can perhaps improve some business process that can reduce the number of sale visits.

PTPL should analyze its customer base and identify the profitable customers and the unprofitable ones. Expand business with profitable ones. Either turn around the unprofitable ones by reducing costs or increasing sales else cease to do business with them.


MCQ- 1

Giving the case study scenario, which pricing strategy do you think that PTPL is following for its "A1 Tea" brand?

- Cost plus markup pricing
- Target rate of return
- Perceived value pricing
- Going rate pricing

Answer

The correct answer is (d) going rate pricing.

Reason

Going rate pricing is a competition-based pricing where the company sets the price based on the market price for the product. The market is highly competitive. Hence, it is given that customers are more price sensitive and indifferent between different brands. So, going rate price would be the best pricing for PTPL to follow.


MCQ- 2

Below is the cost structure for producing of 1 kg of "A1 Tea":

Direct material cost	₹200
Direct labour cost (20 minutes, costing ₹300 per hour)	₹100
Overhead cost	₹50
Total cost	₹350

In addition, 1 kg of “A1 Tea” also requires 0.6 kg of other material which costs ₹80 per kg, with 4% substandard quality which cannot be used in production of tea.

PTPL sells 1 kg of “A1 Tea” for ₹400. PTPL wishes to earn 10% profit margin on the same. Is the target cost being met?

- (a) No, the total estimated cost is ₹400 per kg while target cost is ₹360 per kg.
- (b) Yes, the total estimated cost is ₹350 per kg while target cost is ₹400 per kg.
- (c) Yes, the total estimated cost is ₹350 per kg while target cost is ₹360 per kg.
- (d) Yes, the total estimated cost is ₹400 per kg while target cost is also ₹400 per kg.

Answer

The correct answer is (a) No, the total estimated cost is ₹400 per kg while target cost is ₹360 per kg.

Reason

The total estimated cost is:

Direct material cost	₹200
Direct labour cost (20 minutes, costing ₹300 per hour)	₹100
Overhead cost	₹50
Other material (0.6 kg. / 96% × ₹80 per kg.)	₹50
Total estimated cost (per kg.)	₹400

The target cost if the company wishes to earn 10% of revenue as profit is ₹360 per kg. Selling price ₹400 per kg less profit margin ₹40 per kg = ₹360 per kg.

 **MCQ- 3**

Rani is a tea sommelier who has recently graduated from university and holds a professional certified tea sommelier degree. Few months back, she started 2 outlets by the name “Queen Tea” in Kolkata which serves gourmet tea specially crafted by her. Business has been profitable and has gained traction in terms of revenue and customers. Rani envisions that she can revolutionize the tea industry by influencing the taste preference of tea consumers.

Her specially crafted tea is authentic, unique in flavour that can be appreciated by real tea enthusiasts. India’s economy has space even for niche tea enthusiast who are willing to pay a premium for a good cup of tea beverage. However, Rani is facing many issues running the business-like access to extra finance, networking, how to market her product etc. Whom should she approach to find proper guidance, finance, and support?

- (a) An incubator
- (b) An accelerator
- (c) A start up
- (d) An intrapreneur

Answer

The correct answer is (b) an accelerator.

Reason

Accelerators can accelerate growth by removing some of the risk and uncertainty involved; through a short-term program usually for start-ups that already have a Market Viable Product (MVP), which in Rani’s case is her specially crafted gourmet tea. She can get guidance on how to scale up business, have access to business mentorship and guidance that can improve profitability, get industry connections etc. An accelerator generally gets an equity stake in the startup that joins its program. This gives proper motivation to provide proper guidance to the startup founder.

 **MCQ- 4**

In order to drive up sales, PTPL started offering a teacup free for every 1 kg of “A1 Tea” bought per order. This would be an example of:

- (a) Awareness
- (b) Promotion
- (c) Subscription
- (d) Cross subsidization

Answer

The correct answer is (b) Promotion.

Reason

A low-cost product, teacup in this case, is offered for free in for the purchase of 1 kg of “A1 Tea”.

 **MCQ-5**

An employee of PTPL visited Guwahati to purchase tea leaves from an auction at Guwahati Tea Auction Centre and had stayed in the hotel located in Guwahati, Assam. At the time of checkout from hotel, the invoice was issued for an amount equivalent to ₹1,00,000. The hotel issued invoice in the name of PTPL and GST was charged at the rate of 14% CGST and 14% SGST on total invoice amount of ₹1,00,000. Out of such amount, the amount recoverable from the employee towards non-official stay by PTPL was ₹50,000.

Whether input tax credit is available on the GST paid by PTPL on the invoice amounting to ₹1,00,000 to the hotel located in Guwahati, Assam, for stay of the employee? If yes, please specify the amount of input tax credit available.

- (a) Yes, ₹14,000 as CGST and ₹14,000 as SGST
- (b) Yes, ₹28,000 as IGST
- (c) No input tax credit is available
- (d) Yes, ₹7,000 as CGST and ₹7,000 as SGST

Answer

The correct answer is (c), no input tax credit is available.

Reason

ITC of GST paid on hotel accommodation is not available as CGST/SGST of one State cannot be utilized for discharging of CGST/SGST liability of another State.

 **MCQ-6**

PTPL entered into a contract with Nayan Distributors, Siliguri for supply of 1 tonne of “A1 Tea”. It sent the said consignment to the distributor and paid loading and unloading charges of ₹20,000.

Which of the following statements is correct under the GST law?

- (a) "A1 Tea" is an agricultural produce. Loading and unloading of "A1 Tea" is exempt from GST.
- (b) "A1 Tea" is an agricultural produce. Loading and unloading of "A1 Tea" is liable to GST.
- (c) "A1 Tea" is not an agricultural produce. Loading and unloading of "A1 Tea" is liable to GST.
- (d) "A1 Tea" is not an agricultural produce. Loading and unloading of "A1 Tea" is exempt from GST.

Answer

The correct answer is (c) – "A1 Tea" is not an agricultural produce. Loading and unloading of "A1 Tea" is liable to GST.

Reason

Item (e) of Entry 54 of *Notification No. 12/2017 CT(R) dated 28.06.2017* exempts loading, unloading, packing, storage or warehousing of agricultural produce. In this regard, it may be noted that "A1 Tea" is a blended tea prepared by mixing popular tea flavours into one. Different tea flavours are processed products - dried, fermented, and cut tea leaves. Thus, "A1 Tea" is not an "agricultural produce" and thus, loading of the same is not eligible for exemption under entry 54.

 **MCQ-7**

PTPL recently came across a new export opportunity, involving the export of tea to Country 'N' via the Rupee State Credit Route. However, the person who will execute the trade is based out of Country 'N' and would charge a commission of 20%. The CFO informed the CEO that we cannot enter into this trade as the remittance of commission on the Rupee State Credit Route is not allowed.

Considering the given legal position of the execution of the trade through the payment of commission on export under Rupee State Credit Route, comment on correctness of advice of CFO on such remittance of commission in the light of the Foreign Exchange Management Act, 1999.

- (a) Yes, the CFO is correct. No commission can be paid on exports through the Rupee State Credit Route. Hence, we cannot export the tea.
- (b) No, the CFO is incorrect. Commission up to 20% can be paid on exports through the Rupee State Credit Route. Hence, we can export the tea and remit the commission to the agent.
- (c) No, the CFO is incorrect. Although commission cannot be paid on exports through the Rupee State Credit Route, however commission up to 10% of invoice value of export can be paid on tea and tobacco. Here, still cannot export the tea because commission only up to 10% is allowed.
- (d) No, the CFO is incorrect. Although commission cannot be paid on exports through the Rupee State Credit Route, up to 20% commission can be paid on tea and tobacco. Hence, we can export the tea and remit the commission to the agent.

Answer

Correct Answer is (c).

Reason

In accordance with Foreign Exchange Management Act, 1999, Schedule 1, transactions for which drawal of foreign exchange is prohibited includes payment of commission on exports under Rupee State Credit Route, except commission up to 10% of invoice value of exports of tea and tobacco.

 **MCQ-8**

The management of PTPL has developed a strong internal control in its accounting system in such a way that the work of one person is reviewed by another. Since no individual employee is allowed to handle a task alone from the beginning to the end, the chances of early detection of frauds and errors are high. To facilitate the accumulation of the information necessary for the proper review and evaluation of internal controls, PTPL's auditor framed an internal control questionnaire to obtain an understanding of internal financial control relevant to the audit in order to design audit procedures that are appropriate. Which of the following questions relates to the procurement of tea leaves.

- i. Is there a procedure in place to match received tea leaves with corresponding invoices?
- ii. Is there a procedure of monitoring broad customer preferences worldwide?
- iii. Are provisions for bad debts made based on a systematic assessment of the collectability of outstanding receivables?
- iv. Is there a designated authority responsible for approving tea leaf procurements?
- v. Is there a confirmation process, such as signed delivery receipts, to validate successful deliveries?

Options

- (a) Only (i)
- (b) (i) and (iv)
- (c) (i), (ii) and (iv)
- (d) (ii), (iii) and (v)

Answer

Correct Answer is (b)- (i) and (iv).

Reason

In the internal control questionnaire developed by PTPL's auditor, it is noted that question (ii) is primarily focused on study of consumer behaviour or demand pattern rather than directly addressing internal control measures. Meanwhile, question (iii) pertains to internal controls associated with receivables, and question (v) specifically addresses internal control aspects related to the dispatch of tea.

Note: Case Study 3 (The Prime Tea 2) will be hosted on BoS Knowledge Portal separately.

Case Study-3

About Case Study	
Industry	Tea- Blending and Packaging
Subjects	Strategic Cost Management, Advanced Financial Management, Corporate and Economic Laws
Topics	Business Model: Change in Distribution Channel, Customer Profitability Analysis, Forward Contract, Foreign Exchange Management (Overseas Investment) Rules 2022, Interest Rate Swap, Porter's Five Forces



Prime Tea Private Limited-2

Prime Tea Private Limited (PTPL) was established in 1938, headquartered in Kolkata. The company is privately owned by the Triboovandas family members, who have been in the tea business for the past 3 generations. Shri Bhushan Triboovandas started out as a broker in the Siliguri Auction centre. In due course, he started a tea blending and packaging company, PTPL in Kolkata. Tea leaves are blended and packed at its production facilities and sold further to tea distributors. Tea distributors in turn sell the packages to other smaller wholesalers or large retail outlets. Retail chains across India stock tea packages blended by PTPL.

In smaller cities and towns, where there is no presence of proper distributors, PTPL has local sales agents that it hires on contract to sell tea to small grocery stores and other local shops (SGSs). Goods are sent to these local agents on consignment. Tea packages have a long shelf life and can be stored up to a year if stored in appropriate conditions. PTPL commands a moderate 8% market share in terms of sales in the Indian Market.

PTPL has been a profitable business for most of the years of its existence. The past many years have seen significant inflationary trends in the economy. Like many other companies, PTPL too has been enduring the increase in tea leaf price, which is the primary raw material. To combat reducing profit margins due to inflation, it has concocted a uniform blend that it sells under the brand name "A1 Tea". The blend is prepared by mixing few popular tea flavours into one. This concoction was done with the help of an expert tea sommelier a decade back. PTPL has used this same composition over the last many years. The tea that PTPL prepares under the "A1 Tea" is of the black tea variety, which is the most popular tea variety consumed in India.

The Indian marketplace is crowded with many tea companies like PTPL. In retail outlets and grocery stores shelves stocking tea beverage have many brands stocked together. There is nothing much to differentiate PTPL's "A1 Tea" brand from the rest. Brands have to fight to gain visibility among customers and this is done using attractive packaging, increasing advertisement spend etc. Hence, customers are more price sensitive rather than conscious about quality of tea.

Today, in 2023 the total Indian Tea market is estimated to be ₹34,400 crore with branded business constituting approximately 74% of the total market value. The global tea market is estimated to range between \$45-50 billion, with primary demand stemming from the Black Tea segment. There is a growing interest in other segments such as Green Tea, Fruit & Herbal, Decaf, Speciality, among others. Despite optimistic prospects, the management at PTPL observes stagnation in tea sales rather than growth.

Mr. Kumar, son of Bhushan Triboovandas is the CEO of PTPL. Last month, he called the senior management of the company to understand the reason for stagnating sales. This month, there was a follow up meeting where the findings of the investigations detailed above, were presented to him. Anticipating heated arguments, Mr. Kumar on behalf of PTPL, has hired you as a consultant to guide the company on ways to improve its sales and increase its market share. He wants to focus on the smaller market segment, which is the sales in smaller towns and cities that are handled by contract based local sales agents. Local agents need to travel on an average 60 kms a day meeting SGSs who are willing to stock tea. It was found that local sales agents were doing business with only 25% of the SGSs within their area of operation.

When you along with Sally, the sales manager, met the local sales agents here is what they had to say: "A1 Tea" has a good taste and has reasonable preference among customers. There are not too many companies selling tea in our areas, hence choice is lesser, therefore competition is also lesser. PTPL can establish a good market presence here. However, we need to travel on an average 60 kms just to make a sales call. PTPL pays us 2% commission for each package of "A1 Tea" sold to the local grocer. This hardly covers the expenses we incur on travel. Instead, we call up once a month to check if the store needs fresh supplies. This will at least save the travel cost. Only then it is viable to sell "A1 Tea" here. Otherwise, the company has to increase the commission rate to at least 8% to make it worth the travel we need to undertake."



Scenario-1

It has now been two weeks since you have started working on the assignment. Various discussions have been made with different levels of management and operational staff. Various business models have been discussed with Mr. Kumar. Eventually, after many iterations, the senior management agrees that distribution channel will be changed. The current system of consignment sales will be discontinued. The proposal is explained below:

PTPL wishes to adopt a new distribution channel, that will be to deliver "A1 Tea" directly to the SGSs in smaller towns. Each SGS can login to the specially designed portal and place an order for "A1 Tea" directly with PTPL. Depending on the average demand by the end user PTPL has decided to offer its tea packages in 1/2 kg. pack, 1 kg. pack and 2 kgs. pack. Against each type of package, the local store (SGS) can choose the quantity required. Once received, PTPL will then process the order, bundle the entire order into one package that will be delivered to the local store within 3 days of order. The local store has to settle the entire amount due electronically through bank transfer or digital payment systems like UPI, digital wallet etc. while placing the order. In order to increase the popularity of "A1 Tea" among the end use consumers, it is suggested to offer teacups along with the tea packages. Advertising and promotional activities like free tea tasting stalls in popular spots where people get together (like parks, shopping centres, railways stations, bus stops) will be undertaken.

By increasing its market reach, sales from this expansion plan are expected to contribute up to 15% of PTPL's total revenue. This is substantially more than the current contribution of 1% of total revenue.

PTPL has a policy agreement with the grocers (SGSs), that "A1 Tea" packages cannot be opened and sold in loose. This is so in order to maintain the quality of tea. Quality of loose tea will not be the same as that sold in airtight packages. Lower quality will affect customer perception of "A1 Tea". This can negatively impact PTPL's brand value.

SGSs can provide feedback and register complaints with PTPL either through the portal or by calling up the service department that is going to be set up for this purpose.

A meeting has been set up to discuss this proposed plan. As the management consultant, you are the lead presenter of the plan. The question answer session is now open. Below is a sample of few of the questions that you had to answer during the meeting. You are requested to provide your detailed comments and answers to these.

Required

What is the rationale behind adopting the new distribution channel of doing business directly with SGSSs? ANALYSE.

Answer

Doing business directly with SGSSs through the new distribution channel brings PTPL much closer to SGSSs. These stores are potential point of sale of tea to the end user. PTPL has so far relied on local sales agents to connect with these SGSSs. However, the agents are not motivated enough to drive sales. It was found that local sales agents were doing business with only 25% of the SGSSs within their area of operation. The margins of the company are already squeezed due to inflationary pressures. In this background, agents are already demanding a fourfold increase in commission from 2% to 8%. However, given their current performance, it might not be in PTPL's interest to use their services since it's not at all effective. There is no assurance of better service by paying this extra cost. By directly interacting with the stores/ shops, PTPL will have a direct channel of communication and can get complete and proper feedback directly from them. It is far more effective to use the specially designed portal as a channel (way) to reach out to them since the target segment is geographically spread out over a larger area. The dedicated customer service department can gather information that will help the company improve its operations and resolve customer complaints in a much quicker and more effective manner. Hence, given the geographical spread of the target customer segment, lack of effective support from consignment agents, inflationary cost trends that hike up costs, better connect with the market etc., it makes good business sense to follow the newer distribution channel of directly selling to SGSSs.

Required

One of the suggestions given was that packaging tea into smaller packets increases the cost. Packaging is not really adding value to the company. Instead of having smaller packages, why not have one large 5kg "A1 Tea" package? EVALUATE.

Answer

A business should eliminate non-value-added activities in order to improve margins. This is especially true in times of inflation. However, while eliminating these activities, the company has to make sure that it is not disrupting any other area or impacting value. As per the suggestion, with the view to reduce packaging material cost, if it decides to sell "A1 Tea" in 5 kg packets instead of packets of smaller quantities, this will have repercussions on the value that PTPL wishes to offer. *Its value proposition is to "Increase the availability of "A1 Tea" in small cities and towns where the choice of tea is limited".* The eventual market segment that is going to benefit from this value is the retail customers, primarily households in smaller towns. Their requirements will be for smaller quantities of tea rather than bulk requirements of 5kg at one go.

In this case, increasing package size to save on packaging cost will adversely impact sales since SGSSs can sell tea only in small quantities to their end-user retail customers. Big packets selling bulky 5 kg tea will rather hurt sales and harm the value that PTPL wants to deliver. So, care should be taken while eliminating non-value-added services.

This suggestion can be considered only if the grocers agree that there will be equal, if not more, demand for 5kg bulk packages by the end user. SGSSs are a link that helps PTPL to understand the pulse of the market. An end user will be attracted to bulk purchases only if substantial discounts are provided. Hence, while saving on packaging

costs, the net sales revenue per kg of tea reduces. If this is at all a plausible proposition, these points must be kept in mind as they impact profitability.

Note- PTPL has an agreement with the grocers that tea packages cannot be opened, and that tea cannot be sold in open loose lots. Hence, end users can buy "A1 Tea" only in packages.

 **Scenario-2**

PTPL has successfully adopted and executed the plan in a phased manner. The company can now directly sell its tea to the SGSSs based on their online orders. A significant increase in the volume of sales through this revenue channel is anticipated. The company now wants to develop an MIS report that gives detailed information about the sales order volume and profitability. The MIS aims to have the information captured at state level, regional level right down to customer level. The company policies under this plan include:

- (1) Discount of 5% is given on selling price if each order size is cumulatively more than 50 kgs. The order can comprise of any combination of ½ kg. pack, 1 kg. pack and 2 kgs. pack.
- (2) PTPL delivers the order to the SGS. At the same time, it offers flexibility to the SGSSs to arrange for their own transport. In case the SGS arranges for its transport, further discount of 8% is given on the selling price of each tea pack.
- (3) Selling price of tea is ₹300 per kg. Therefore, 1 kg. package sells at ₹300 each, 2 kgs. package sells at ₹600 each and ½ kg. package sells at ₹150 each.
- (4) Variable cost per kg. is ₹200 per kg.
- (5) Order processing costs are ₹2,000 per order.
- (6) Delivery costs, where PTPL is arranging for delivery ₹3,000 per delivery.
- (7) Delivery will be within 3 days of placing the order. If there is a rush order, typically delivery within a single day, the cost of delivery would be ₹5,000 per delivery.

Below is an extract of the MIS for the town of Palani, Tamil Nadu. It has 3 SGSSs: Customer A, Customer B and Customer C.

Particulars	Customer A	Customer B	Customer C
Total sales in a month (kgs.)	250	400	1,020
Number of orders	2	2	15
Number of deliveries – normal	2	-	10
Number of deliveries – rush	-	-	5

Order quantity is the same for each order placed by each customer.

Required

Provide a critical ANALYSIS of the difference in profitability of each customer.

Answer

Each of the customers places an order above 50 kgs. per order. Customer A's order size is 125 kgs. per order (250 kgs. / 2 orders), Customer B's order size is 200 kgs. (400 kgs. / 2 orders) and Customer C's order size is approximately 68 kgs. (1,020 kgs. / 15 orders). Therefore, all of them can avail the 5% quantity discount. This amounts to ₹15 per kg. (5% of ₹300 per kg.). Delivery discount of 8% further reduction can be given only to Customer B, since this is the only customer that arranges for its own delivery. This amounts to further reduction of ₹24 per kg. (8% of ₹300 per kg.). The individual customer profitability can be calculated as below:

Particulars	Customer A	Customer B	Customer C
Selling Price per kg.	300	300	300
Less: Quantity Discount - 5% of selling price	15	15	15
Less: Delivery Discount - 8% of selling price	---	24	---
Net Selling Price (₹)	285	261	285
Less: Variable Cost per kg. (₹)	200	200	200
Contribution per kg. (₹)	85	61	85
Total Sales in a month (kgs.)	250	400	1,020
Total Contribution (₹)	21,250	24,400	86,700
Less: Overheads (₹)			
Delivery Cost	6,000	---	30,000
Ordering Cost	4,000	4,000	30,000
Extra Cost - rush delivery	---	---	25,000
Profit per Customer (₹)	11,250	20,400	1,700

Analysis

It can be seen that Customer B is the most profitable, followed by Customer A. Customer C is the least profitable. In terms of quantum, Customer A buys the least, however the number of orders are just 2. Hence, the fixed order cost of ₹2,000 per order is absorbed over a larger order size. This is true with regards to Customer B also since a larger order size absorbs the fixed order cost of ₹2,000 per order. It can be noticed that out of the 15 orders relating to Customer C, 5 orders are rush orders requiring delivery within a single day. The cost of these rush order delivery is much higher at ₹5,000 per delivery. Therefore, despite being the largest customer among the three, Customer C is the least profitable. PTPL can seek to pass on the rush delivery cost to the customer instead of bearing it entirely. Since rush order deliveries are 1/3 of the total orders placed by Customer C, PTPL can seek to have an understanding with the customer and try to find a way to reduce this. Charging for rush deliveries will deter the customers from placing unnecessary and unreasonable requests. This will help to improve profitability derived from the customer.

Customer B is extended an additional discount of ₹24 per kg. (8% of selling price) since the customer arranges for their own delivery. The normal delivery cost to Palani is ₹3,000 per delivery. Customer B orders 400 kgs. in a month by placing 2 orders. Hence, if PTPL had shipped the goods, it could have done it at ₹15 per kg. (₹3,000 × 2 orders = ₹6,000 spread over 400 kgs.). Instead, due its pricing policy it is incurring an extra cost of ₹9 per kg. for the orders by Customer B. Here, PTPL can either reduce the discount to 5% of selling price (₹15 / ₹300) or discontinue this policy and arrange for delivery of goods to Customer B.

It can hence be concluded that volume of sales alone does not guarantee higher profits as in the case of Customer C. Similarly, faulty pricing policies can also hurt profitability, as in the case of Customer B.

Scenario 3

Work is underway to adopt the new distribution channel of doing business directly with SGSSs. It might take upto 2 years to completely implement this plan. The Board of Directors of PTPL have been working on expanding the plant capacity to meet the requirements of the current expansion plan. A set of 10 machines need to be bought for this project. The gestation period would be 2 years, whereas the machines have to be ordered and imported from USA. After this period, the cash flow will start increasing gradually over 15 years. Overall, the expansion project is expected to generate positive cash flows. For this, PTPL will have to settle an import bill for \$1,30,000. There are two options:

(i) Pay immediately by availing overdraft facility. Currently it has clean overdraft limit and bank charges 14 percent per annum for availing the same facility.

(ii) Pay after three months with interest @ 7 percent per annum and cover position in forward market.

The exchange rates in the market are as follows:

Spot rate (₹/\$): 82.19/ 82.21

3-Months forward rate (₹/\$): 82.98/ 83.01

Required

PTPL seeks your ADVISE on the option to be chosen to hedge the foreign exchange risk.

Answer

If PTPL pays now, it will have to buy US\$ in Spot Market by availing overdraft facility. Accordingly, the outflow under this option will be:

	₹
Amount required to purchase \$1,30,000 [$\$1,30,000 \times ₹82.21$]	1,06,87,300
Add: Overdraft Interest for 3 months @14% p.a.	3,74,056
	1,10,61,356

If PTPL makes payment after 3 months, then, it will have to pay interest for 3 months @7% p.a. and then to buy \$ in forward market. The outflow under this option will be as follows:

	\$
Amount of Bill	1,30,000
Add: Interest for 3 months @7% p.a.	2,275
	1,32,275

Amount to be paid in Indian Rupee after 3 months under the forward purchase contract - ₹1,09,80,148 ($\text{US}\$1,32,275 \times ₹83.01$).

Advise: Since outflow of cash is least in (ii) option, hence, it should be opted for.

MCQ-1

PTPL has given another consulting assignment to you to have an in-depth industry analysis to understand PTPL's current position within the industry, understanding the value chain, identifying prospects for growth, future scenario etc. This would give the company a correct and fair view about the feasibility of its future acquisition plans. This study is being undertaken independently of the expansion plans mentioned in above in the case study, which also includes capital assets acquisition project of ~₹1 crore mentioned in previous section.

The study lasted a minimum of four months, and its findings were presented to the senior management. To summarize the findings of the study, it concluded that *"muted prices plus rising cost spells a stale brew for tea companies. The domestic market has saturated with penetration as high as 80% of the tea drinking population. There are few fragments like small town markets where there is potential for some growth. However, apart from this, there is limited growth potential for almost all companies within the industry including PTPL. The wages of workers have been revised in every three years. This is pertinent because tea industry is very cost intensive, with labour cost accounting for at least 60% of the cost of production. Industry margins are under pressure. PTPL's overall performance to remain a sustainable business will depend on its ability to sell at remunerative prices and manage costs efficiently."*

Given this bleak outlook, PTPL has reached a conclusion that it has reached a stage of maturity in this business, which of the following actions by the management will not be in the overall interests of the company?

- (a) Open company owned stores in major metros in order to sell "A1 Tea" to customers directly (Forward integration)
- (b) Introduce product lines selling economy, popular and premium grade tea by promoting tea in as an aspirational beverage for health or lifestyle choice
- (c) Acquire tea plantation estates if available at attractive rates (Backward Integration)
- (d) After appropriate due diligence in terms of business feasibility, acquire promising start ups which have the potential to disrupt the tea ecosystem

Answer

The correct answer will be (a) Open company owned stores in major metros in order to sell A1 Tea to customers directly (Forward integration).

Reason

PTPL has reached a stage of maturity in the business. The industry study mentions that the market is already saturated with penetration levels as high as 80%. Only limited scope for market growth exists like that in small towns and cities. Hence, opening company owned stores in major metros in order to sell "A1 Tea" directly to customers will not be in the overall interests of the company.

MCQ-2

PTPL chooses to pursue vertical integration by acquiring the tea plantation of a neighbouring country, 'SL'. Due to the recent economic crisis in 'SL', it is straddled with high unemployment rates. The famed tea industry in 'SL' is also reeling under the crisis. Many plantation companies are going bankrupt. PTPL decides to explore acquisitions in this market, where acquisitions of tea estates producing high quality tea leaves may be available at reasonable rates. It opts to invest in SL's 200-acre plantation. CFO has identified an investment opportunity and feels confident that it will be approved by the board. The board generally favours acquiring distressed assets if any in neighbouring countries, as this provides supply chain benefits. Approximately a year ago, PTPL acquired a Testing & Research Laboratory in a neighbouring country 'NP' exclusively for tea-related research.

The Chief Legal Officer cautions against moving forward with the fresh investment, emphasizing its non-Indian company nature. Nevertheless, the CFO argues that the investment is viable, citing laboratory acquisition in country 'NP' where no approval was required. The Chief Legal Officer, however, presents the following information:

Particulars	Amount ₹ Crore
PTPL's Equity Investment - >51% in Testing & Research Laboratory	1,100
Bank Guarantee provided to NP's Banks on behalf of Testing & Research Laboratory	1,600
SL's Based Company Proposed Investment Value	750
Net Worth of PTPL	1,100
Bonus Shares capitalised through Retained Earnings	250

Assess the CFO's assertion regarding PTPL's ability to proceed with the investment in SL's 200-acre plantation.

- (a) The CFO is correct, that PTPL can make this investment as there are no restrictions imposed by the Indian Government.

- (b) The CFO is incorrect. However, if the investment value is reduced by ₹50 Crore, then PTPL can proceed with the proposed investment.
- (c) CFO is correct as Chief Law Officer is not aware of recent amendments of FEMA which advocates ease of foreign investments by the Indian Companies.
- (d) The CFO is correct, and PTPL can proceed with the proposed investment. Even after this investment, PTPL still have a remaining foreign investment limit of ₹1,550 Crore.

Answer

The correct answer is B. The CFO is incorrect. However, if the investment value is reduced by ₹50 Crore, then PTPL can proceed with the proposed investment.

Reason

As per Schedule I, Part 3 of the Foreign Exchange Management (Overseas Investment) Rules 2022, (1) the total financial commitment made by an Indian entity in all the foreign entities taken together at the time of undertaking such commitment shall not exceed 400 percent of its net worth as on the date of the last audited balance sheet or as directed by the Reserve Bank, (2) The total financial commitment referred to in sub-paragraph (1) shall not include capitalisation of retained earnings for reckoning such limit but shall include -

- (i) utilisation of the amount raised by the issue of American Depository Receipts or Global Depository Receipts and stock-swap of such receipts; and
- (ii) utilisation of the proceeds from External Commercial Borrowings to the extent the corresponding pledge or creation of charge on assets to raise such borrowings has not already been reckoned towards the above limit.

Financial Commitment includes amount of Investment made by a Person Resident in India by way of Overseas Direct Investment, Debts other than Overseas Portfolio Investments and Non-Fund Based Liabilities. Bank Guarantee is one of the Non-Fund Based Liabilities.

Overseas Direct Investments includes investment by way of -

- (i) Acquisition of unlisted equity capital of a foreign entity or
- (ii) Subscription as a part of Memorandum of Association of foreign entity,
- (iii) Investment in $\geq 10\%$ of the paid-up equity share capital or
- (iv) Investment with control where investment is $<10\%$ of the paid-up equity share capital of listed foreign entity

The computations are as follows:

Particulars	Amount ₹ Crore
A. PTPL's Equity Investment - >51% in Testing & Research Laboratory	1,100
B. Bank Guarantee provided to NP's Banks on behalf of Testing & Research Laboratory	1,600
(i) Total Current Foreign Direct Investment (A+B)	2,700
C. Net Worth of PTPL	1,100
D. Bonus Component in the Net Worth of Company	250
(ii) Total Financial Commitment Allowed (C-D) $\times 400\%$	3,400
E. Possible Further Investment (ii) - (i)	700
F. SL's Based Company Proposed Investment Value	750
Reduction required in Investment Value (F-E)	50

MCQ-3

To fund the investment of ~\$85 million in SL's 200-acre plantation, PTPL plans to raise \$30 million through debt. With the intention of maintaining certainty in future interest payments, PTPL aims to secure a fixed interest rate. PTPL can borrow for one year at a fixed rate of 6% or at a floating rate of 2% above SOFR. Management of PTPL decides to enter into a swap arrangement with Company Tima. Company Tima also wishes to raise \$30 Million. To take advantage of any fall in interest rates Tima is interested in borrowing funds at Floating Rate. However, it can only borrow funds at fixed rate of 7% p.a. or at SOFR +4%, because of lower credit rating in comparison of PTPL.

What effective rate will each end up paying if both have agreed to enter into a Swap agreement and split the resultant gain equally.

- (a) PTPL: 7% and Tima: SOFR +2%
- (b) PTPL: 5.5% and Tima: SOFR +3.5%
- (c) PTPL: SOFR +2% and Tima: 7%
- (d) PTPL: SOFR +3.5% and Tima: 5.5%

Answer

The correct answer is (b)- PTPL: 5.5% and Tima: SOFR +3.5%.

Reason

There is bigger difference in the variable rate so to take advantage of this, Tima will borrow fixed and PTPL then has to borrow at a variable rate. Accordingly, Swap arrangement shall be carried out as follows:

Working

	Tima	PTPL	Difference
Fixed	7%	6%	1%
Floating	S + 4%	S + 2%	2%
Absolute Difference			1%
Split of gain equally	+0.5%	+0.5%	-1%
Net Interest	S + 3.5%	5.5%	

MCQ-4

As understood from the case study, that industry margins are under pressure due to prolonged high inflation. Survival of companies and future prospects of the tea industry's overall performance to remain a sustainable business will depend on its ability to sell at remunerative prices and manage costs efficiently.

Supply chain highlights the interdependency of each part of the chain. When managing a supply chain, a business may wish to ensure that the entire industry ecosystem (other entities) also remain sustainable. Entities should have sufficient cash and/or profits. Which of the following reasons explains the reason for this?

- (a) Sustainable business ensures that the business has sufficient information on all parts of its supply chain
- (b) Sustainable business ensures quality throughout the supply chain
- (c) Sustainable business ensures ongoing demand for the business's products for which continuous supply is also needed
- (d) Sustainable business ensures maximum collaboration throughout the supply chain

Answer

The correct answer is (c), sustainable business ensures ongoing demand for the business's products for which continuous supply is also needed.

Reason

Unless there is a demand for the product, the need for suppliers won't be required. Therefore, in order to survive, companies like PTPL need to earn money by charging remunerative prices. This means that need to recoup their costs and earn regular profits. At the same time, if the prices charged are very high, demand for the product will reduce. This will not sustain PTPL or companies like it.

The other way of improving margins is to cut costs. This is done by procuring material at low prices, paying low wages, using cheaper resources etc. However, unless the supplier finds it remunerative to sell, PTPL cannot procure its raw material. So, the supplier should also benefit from sale to PTPL. Similarly, very low wages will lead to attrition among workers, very cheap resources will lead to quality issues. Everyone does business to make profits and customers derive value at reasonable prices. Each link in the supply chain should ensure that the ecosystem benefits allowing for normal profits, sufficient cash resources to be earned. Otherwise, the industry will not sustain.

MCQ-5

PTPL is using Porter's Five Model to examine key aspects of tea industry and the impact that some of its strategic decisions can have on various forces. One of the points being considered is the decision to adopt the new distribution channel of directly reaching out to SGSs. This is a novel distribution system in the industry. Which of the following statements are true?

- (a) Risk of competitive rivalry has been lowered
- (b) Threat of substitute has been lowered
- (c) Threat of new entrants has been lowered
- (d) Bargaining power of suppliers has been lowered

Answer

The correct answer is (a) risk of competitive rivalry has been lowered.

Reason

Since this is a novel distribution system in the industry, PTPL has a first mover advantage over its rivals. This lowers the risk of competitive rivalry. Sustaining this advantage however depends on whether the rivals are able to replicate and better this new distribution channel.

Concept Insight

It is important to note that, it is possible for a firm to be mature while the industry it operates in remains dynamic or less mature. *The maturity of a firm and the maturity of an industry are distinct concepts.* While it is common for mature firms to operate in mature industries, it is entirely possible for a mature firm to exist in an industry that is still evolving or undergoing significant changes. This situation can arise for various reasons like where the firm may have found a niche within the industry where it dominates or specializes, allowing it to remain mature even as the broader industry evolves. Therefore, it's important for firms to continually assess their strategies and adapt to changes in the business environment, regardless of whether their industry is mature or experiencing growth. Flexibility, innovation, and strategic decision making are key factors in sustaining a mature firm's success over the long term.

7SCS (Sample Case Studies) of Paper 6F

PAPER 6F: MULTIDISCIPLINARY CASE STUDY

Case Study – 1

Raman Bal, a young IT engineer and an MBA with flair for writing started a small net based business of content writing in the year 2001 by the name - *Quality Contents*. Initially, his business focused on website copywriting and business blog writing. Riding the wave of sourcing work from India by western countries, his business grew quite rapidly.

Raman Bal was also able to easily establish his business on account of high quality original content produced by him. He produced contents that scored high in the subject matter; he would extensively study a subject and write content that was directed to the target readers. With increase in business he gradually engaged freelancers and shared a part of his revenue as compensation to them.

However, he continued to do editing himself before delivering contents to the clients. With the increase in the business his focus shifted from writing contents himself to have a team to write content. He personally monitored them to ensure quality. In the year 2006 he had a team of twenty persons who were working with him on regular basis. Out of these twenty persons eight were assigned responsibility to coordinate with the clients and content writers and four worked on checking quality. Remaining persons looked after other sundry matters in business. There are also good number of external experts who were available on the basis of need. The business benefited through its unique network organization structure that comprised of separate small expert groups in each subject area. These individuals were not on regular payroll and were compensated according to their contribution. The structure helped the company define short term goals and deploy manpower when an assignment was initiated.

In the year 2008, the global economic environment went into recessionary phase. The overall business environment became quite difficult and many businesses found it tough to survive. However, recession had little impact on the business of Raman Bal. His major

customers were in United States and European countries. Half of his sales were to the customers in United States.

He also helped the clients during recession by providing free designs. He engaged seven designers and delivered contents in attractive designs. He would normally design the contents free of cost as an additional service. Sometimes when a complex design was requested by the client, he would charge a nominal price to cover cost. This became a huge selling point for his business as foreign clients found it really cheap to get the content designed from the same organisation. It also saved them time and hardship of getting the matter designed separately. Raman Bal also got assignments that were highly technical in nature and required services of outside experts.

In the year 2008-09 his total annual turnover increased to Rs 7 crores with a profit of Rs 3.15 crores. His portfolio of activities also increased to the following:

- Marketing emails and letters
- Brochures, pamphlets, fliers
- Press Releases
- Creating miscellaneous corporate communications
- Preparation of marketing presentations.
- Writing Case studies
- Creation of White papers
- Research / Industry / Market report writing

His business grew further. In April, 2011 his business was incorporated as a private limited company with the name *Quality e-Contents India (P) Ltd.* The authorized share capital was kept as Rs 80 crores consisting of 8 crore shares of Rs 10 each. Out of which shares worth 11 crores were subscribed by seven of his friends. His previous business was valued at 30 crores by an independent valuer –Delhi based firm of Chartered Accountants. He was issued shares for the same amount. A Japanese venture Capital Firm Japan

Offshore Venture invested a sum of 2 million dollar into the company. (\$ 1=Rs 65).

Raman Bal became the Managing Director of the company. To manage the affairs of the company, different divisions were created as operations, marketing, finance and human resources. The biggest department was operations that Raman decided to handle himself. Under him he recruited a general physician, a Chartered Accountant and an engineer to look after different technical areas. The assignments were often in the areas of medicine, finance or related to engineering. The total employee strength increased to 125. At this time Raman Bal also proposed to constitute the following committees that was kept pending:

- A. Audit Committee
- B. Stakeholders Relationship Committee
- C. Corporate Social Responsibility Committee

The following is the financial performance of the company in last five years.

Particulars	2016-17	2015-16	2014-15	2013-14	2012-13
Net Sales (Rs Crores)	22	25	29	27	17
EBITDA (Rs Crores)	13	14	15	10	9
Net Profit (Rs Crores)	9	10	11	6	4

Raman Bal was very positive about his business and wanted to expand it further. He also desired to enter into the business of printing. With existing client base he felt that he can easily achieve success by exporting printed material to the foreign clients. He called a meeting of senior company executives in May, 2017 to consider expansion into printing business. The following is the excerpt of discussion:

Raman Bal

Our company has been growing steadily. Copywriting and creation of designs have given us significant growth. Now it is time for next leap. Let us install a state of Art printing press.

The Japanese venture capitalist has agreed to make further investments in the company. They have assured another 2 million dollars. They are also ready to put in more if we convert Quality e-Contents India (P) Ltd to a public company listed in major bourses in country. It is time for us to make a killing.

Shridhar, Head Finance

Printing is totally a new area for the company. In Delhi and in adjoining cities there are several printing presses. We can take printing assignment. However, instead of creating our own infrastructure, we may test the concept by outsourcing it to outside printing presses. This way we will reduce risk.

Raman Bal

We should not be pessimistic and kill the idea as soon as it is floated. Let us analyse it and if this group feels to drop the idea we can drop it. I have no objections. My average revenue per client will increase to five times. I already have an industrial plot in Noida. The same can be transferred at the market rate.

Shridhar, Head Finance

I never tried to reject the idea. I wanted to suggest a conscious approach on account of the homework that I have done. Handing a printing press would be an altogether new experience for the company. It is a capital intensive project. The project requires huge capital and running expenses. At least 20 crores for a basic setup is required. A single sheet fed four colour offset machine of a reputed brand will cost us upward of rupees 2.5 crores. I am talking about a second hand machine and not a new machine which will be at least 7 to 8 crores. If we go for faster web offsets or increase the paper size the rates would be still more. Then we also need other infrastructure. We need to install pre-press and post press units. The company will need machines such as computer to plate machine, folding machines, perfect binders, etc.

Sulekha, Head – Marketing

There is nobody to handle such infrastructure in the company.

Vikrant, Head – Operations

It would be totally new experience for all of us. We should install a new machine. I am sure venture capitalist will agree for more investments. I started my career in a pre-press department of a large press and have worked there for five years.

Sulekha, Head – Marketing

We also need to consider environmental issues. Recently, a lot of factories have been given notices to close their operations. We need to have a macro view of the matter. There is also new environmental policy of Government.

Raman Bal

Any project needs to be considered from all angles. I agree we need to consider the environment and the government policies on its safeguard.

Shridhar, Head Finance

As an option we may also consider acquisition of a firm located in Gurgaon. They have all the infrastructure for pre-press and post-press work. They have existing clients for such kind of work in Gurgaon. We can buy our own machinery and install in its premises that has ample space.

Raman Bal

My focus is not on Indian clients. I know the firm and it has obsolete machines.

Raman Bal was able to convince all the members of group on purchase of new machine and installation of other infrastructure. The same was also approved by the board later which sanctioned an outlay of thirty crores. They also decided to increase the Share Capital and invite Japanese venture Capitalist to invest more in the company.

The company also decided to import two new printing machines. One of the machine was imported from *Iceberg* in Germany. A contract was made with *Iceberg* on CIF basis. However, on account of delayed implementation of the contract on part of the *Quality e-Contents India (P) Ltd* and increase in the prices, *Iceberg* refused to supply the machine at

the price decided earlier. There were detailed discussions between the two parties. As a result of several negotiations, the parties agreed for a negotiated price payable as follows:

Particulars	Contract Price (€)	Changed Price (€)	Negotiated Price (€)
<i>CIF Value</i>	7,50,000	7,80,000	7,60,000
<i>Air Freight*</i>	10000	10000	10000
<i>Insurance</i>	3750	3900	3800

**Air freight includes include loading, unloading and handling charges associated with the delivery of the imported goods to the place of importation.*

Further there were vendor inspection charges (not required for making the machine ready for shipment) amounting to € 7500. There was also commission payable to local agent of the exporter at the rate of one per cent of FOB in local currency. The Inter-bank rate 1 € = Rs. 105. The other particulars relating to rate of duties and date of filing of bill of entry etc. are as follows:

Date of bill of entry	Basic customs duty	Exchange rate in Rs. (notified by CBEC)
18.09.2017	10%	102
Date of arrival of aircraft	Basic custom duty	Exchange rate in Rs. (notified by CBEC)
15.09.2017	15%	98

The machine was not liable to GST compensation cess. Rate of integrated tax is 18%.

QUESTIONS

Multiple Choice (2 Marks each).

1. The factor which are largely considered in outsourcing decisions is/are :
 - (a) Quality of Suppliers
 - (b) Reliability of Suppliers
 - (c) Design Secrecy
 - (d) All of them

2. Company shall directly or indirectly give loan or guarantee to any person/other body corporate —
 - (a) not exceeding 60 % of Paid up share capital and free reserves or 100% of its free reserves and securities premium account, whichever is more
 - (b) Exceeding 60% of paid up share capital , free reserves and securities premium account or 100% of its free reserves and securities premium account, whichever is less
 - (c) exceeding 60% of its paid-up share capital, free reserves and securities premium account or 100% of its free reserves and securities premium account, whichever is more
 - (d) not exceeding 60% of its paid-up share capital, free reserves and securities premium account or one hundred per cent. of its free reserves and securities premium account, whichever is more

3. As per the provisions of the Companies Act, 2013, the Board of Directors of the company wants to contribute to charitable funds for the year 2017-18. What is the maximum amount of contribution that the company can make without prior permission from the company in general meeting:
 - (a) 0.4 crores

- (b) 0.5 crores
 - (c) 1.4 crores
 - (d) 1.5 crores.
4. Suppose the Quality –e content (Pvt) Ltd wants to get merged with the any other company. Who amongst the following are eligible to raise objections to the scheme of compromise and arrangement:
- (a) Persons holding less than 10% of shareholding or having debt amounting less than 5% of the total outstanding debt as per the latest audited financial statement
 - (b) Persons holding less than 10% of shareholding or having debt amounting 5% of the total outstanding debt as per the latest audited financial statement
 - (c) persons holding in 10% of shareholding or having debt amounting less 5% of the total outstanding debt as per the latest audited financial statement.
 - (d) persons holding 10% or more of shareholding or having debt amounting 5% of the total outstanding debt as per the latest audited financial statement.
5. As per the requirement of the Companies Act, 2013, which companies do not require the holding of at least one meeting of the Board of Directors to be conducted in each half of a calendar year with ninety days gap between the two meetings :
- (a) private company
 - (b) Private start-up company
 - (c) Both the company
 - (d) None of the above

6. Import and export under the Foreign Trade Policy without _____ number is not permitted unless specifically exempted.
- (a) IEC
 - (b) GSTN
 - (c) PAN
 - (d) All of the above
7. Mr. X has imported certain goods from Singapore. He intends to clear the goods from the customs station for home consumption. The vessel containing the goods arrives at customs station on 05.07.20XX. 06.07.20XX is a public holiday. Mr. X has not filed the bill of entry till the time the vessel arrived at the customs station. Mr. X can file the bill of entry latest by:
- (a) 05.07.20XX
 - (b) 06.07.20XX
 - (c) 07.07.20XX
 - (d) 08.07.20XX
8. Which of the following expenses is not includible in the assessable value of the imported goods?
- (a) Cost of the packing incurred by buyer but not included in the price paid for the imported goods.
 - (b) Royalty related to imported goods required to be paid as consideration of sale.
 - (c) Cost of transport to the place of importation
 - (d) Buying commission paid by the buyer but not included in the price paid for the imported goods

9. Who is/are related persons in terms of customs valuation rules for imported goods?
- (a) Members of the same family.
 - (b) One person indirectly controlling the other person.
 - (c) Employer and employee.
 - (d) All of the above
10. For export goods, the relevant rate of exchange for the purpose of conversion of the value of export goods is the rate prevalent on the date of:
- i. Filing shipping bill
 - ii. Filing bill of export
 - iii. Filing bill of entry
 - iv. Let export order
- Identify the correct option
- (a) (i) and (ii)
 - (b) (i) and (iv)
 - (c) (i), (ii) and (iv)
 - (d) (iii)

Descriptive/Numerical

11. (a) Give your views on the approach of Raman Bal to diversify to printing business? **(4 Marks)**
- (b) Sulekha has been asked to prepare an environmental report under the government's new environmental policy. Identify factors of environmental costs to be included in environmental report. **(6 Marks)**

12. In the given case study, suppose the company earns huge profits and falls within the purview of section 135 of the Companies Act, 2013 and has to necessarily constitute the Corporate Social Responsibility Committee. Mr. Raman Bal now seeks your advise on the following issues based on the provisions of the Companies Act, 2013.
- i. If Company finalised any project under its CSR initiatives which require funds @ 5 % of average net profit of the company for last three financial years. Will such excess expense be counted in subsequent financial years as a part of CSR expenditure?
 - ii. Assuming that if the company has already expanded its business in and outside India by opening its branches. If the branches located in India had not earned any profit since 2013 -2014, whether the provisions of the CSR will be applicable for 2016 -2017.
 - iii. Suppose if during the year 2016-17, the company has so far spent CSR expenses to the tune of 1.10 percent of the average net profits of the company made during the three preceding immediately financial years. Will there be any consequences that require special attention. **(10 Marks)**
13. The company seeks your advice for computing the applicable import duties/taxes on the machine imported from Iceberg Germany.
- The company also desires to know whether it can avail input tax credit of such duties/taxes paid by it?
- Further, the company seeks your assistance in optimizing the tax cost on the import of second machinery to be purchased next month. Suggest methods/ways, if any, by which the tax cost on the import of second machinery can be reduced/minimized. **(10 Marks)**

Multiple Choice

1. Answer (d)

Outsourcing decision is depending upon the quality, reliability, and relationships with suppliers. Further, design secrecy is also important for a publishing house due to copyright issue.

2. Answer (d)

As per section 186(2), no company shall directly or indirectly —

- (a) give any loan to any person or other body corporate;
- (b) give any guarantee or provide security in connection with a loan to any other body corporate or person; and
- (c) acquire by way of subscription, purchase or otherwise, the securities of any other body corporate,

exceeding sixty per cent. of its paid-up share capital, free reserves and securities premium account or one hundred per cent. of its free reserves and securities premium account, whichever is more.

3. Answer (b)

Five per cent of 9+10+11 crores.

Section 181: The Board of Directors of a company may contribute to bona fide charitable and other funds:

4. Answer (d)

As per the proviso to Section 230(4) of the Companies Act, 2013, objection can be raised only by persons holding 10% or more of shareholding or having debt amounting 5% of the total outstanding debt as per the latest audited financial statement.

5. Answer- (a)

As per section 173(5) of the Companies Act, 2013, a One Person Company, small company, dormant company and a private company (if such private company is a start-up) shall be deemed to have complied with the provisions of this section if at least one meeting of the Board of Directors has been conducted in each half of a calendar year and the gap between the two meetings is not less than ninety days. (Inclusion of Private start up company was made vide notification 13th June 2017 by MCA)

6. Answer (a)

Foreign Trade Policy requires an importer/exporter to compulsorily have Import Export Code for import/export.

7. Answer (c)

According to section 46(3) of the Customs Act, 1962, the importer should present the bill of entry before the end of the next day following the day (excluding holidays) on which the aircraft/vessel/vehicle carrying the goods arrives at a customs station at which such goods are to be cleared for home consumption or warehousing.

8. Answer (d)

Buying commission is not includible in the assessable value of the imported goods in terms of rule 10(1)(a)(i) of the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007.

9. Answer (d)

Members of the same family, one person indirectly controlling the other person, employer and employee are all related persons in terms of clauses (viii), (v), (iii) respectively under rule 2(2) of the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007.

10. Answer (a)

As per third proviso to section 14 of the Customs Act, 1962, for export goods, the conversion in value shall be done with reference to the rate of exchange prevalent on the date of filing shipping bill (vessel or aircraft) or bill of export (vehicle) under section 50.

11. (a) Raman Bal is an ambitious person and wishes to diversify into an related area of content creation. To some extent the experience of the organization in creating designed contents precludes the printing work and a diversification into printing can be a natural extension. Moreover, the existing customer base can be developed as customer of new business. Thus the organization can make synergistical gains by entering into printing work.

At the same time the company is taking significant risk as the printing press would be a different kind of work that would require different skill sets. The company needs to make huge capital expenditure. As there is significant competition, the alternative of testing waters by outsourcing printing work could have been a viable alternative at least during the initial years. This way risk could have been reduced. Moreover, a new team with different skillsets would be required to manage the new business. There can be manpower challenges as the organization has no experience in the work related to printing press.

- (b) The categories of costs would be as follows:
- ◆ Environmental Prevention Costs– Those costs associated with preventing adverse environmental impacts. Examples include
 - Evaluating and picking pollution control equipment
 - Site and feasibility studies
 - Investment in protective equipment
 - ◆ Environmental Appraisal Costs– The cost of activities executed to determine whether products, process and activities are in compliance with environmental standards, policies and laws. Examples include
 - Regulatory compliances
 - Performing contamination tests
 - ◆ Environmental Internal Failure Costs – Costs incurred from activities that have been produced but not discharged into the environment. Examples include

- Recycling scrap
- Disposing toxic material i.e. printing ink
- ◆ Environmental External Failure Costs – Costs incurred on activities performed after discharging waste into the environment. These costs have adverse impact on the organisation's reputation. Examples include
 - Cleaning up
 - Restoration

12. As per section 135 of the Companies Act, 2013 for the applicability of the provisions of Corporate Social Responsibility to the Company following are the requirements:

- ◆ Every company having net worth of rupees five hundred crore or more, or
- ◆ turnover of rupees one thousand crore or more or
- ◆ a net profit of rupees five crore or more

during any financial year shall constitute a Corporate Social Responsibility Committee and the Board of every such company shall ensure that the company spends, in every financial year, at least two per cent. of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its CSR Policy, provided that the company shall give preference to the local area and areas around it where it operates, for spending the amount earmarked for Corporate Social Responsibility activities.

It is further provided that if the company fails to spend such amount, the Board shall, in its report made under clause (0) of sub-section (3) of section 134, specify the reasons for not spending the amount.

The definition of net profits under Rule 2(f) of the Companies (CSR Policy) Rules, 2014 means the net profit of a company as per its Financial Statement prepared in accordance with the applicable provisions of the Act, but does not include the following namely:-

- (a) Any profit arising from any overseas branch or branch of the company, whether operated as a separate company or otherwise; and
- (b) Any dividend received from other companies in India which are covered and complying with the provisions of section 135 of the Act.

According to the above provisions, following are the answers to the above issues-

- (1) In terms of Section 135(5) of the Companies Act, 2013, the Board of every company to which section 135 is applicable, shall ensure that the company spends, in every Financial year at least 2 per cent of average net profits of the company made during the three immediately preceding financial years, in pursuance of its CSR policy. There is no provision for carry forward of excess expenditure to the next year(s). The words used in the section are 'at least'. Therefore, any expenditure over 2% would be considered as voluntary higher spending.
 - (2) Where all the branches located in India have not earned any profit since 2013-14 onward, meaning thereby all the net profits being earned by the Company pertains to the overseas branches. As provided in the definition of net profit, under the CSR Rules, it does not include the net profit earned by the overseas branch(s); therefore, the provisions of CSR for incurring expenses during the Financial Year 2016-17 are not applicable.
 - (3) In the light of the facts of the question and the related legal provisions, it is clear that though the company has spent 1.10 per cent of the average net profits of the Company made during the three preceding immediately financial years, which is not statutorily required for the Company to spend and as such there is no violation of the provisions of the Companies Act.
13. The customs duties/taxes payable on imported goods is computed in accordance with the provisions prescribed under Customs Act, 1962 read with Customs Valuation (Determination of Value of Imported Goods) Rules, 2007. Accordingly, the applicable customs duties/taxes are computed as under:

Computation of total custom duty/tax payable

Particulars	Amount (€)
CIF value (negotiated price) [Note-1]	7,60,000
Less: Air freight	10,000
Less: Insurance	<u>3,800</u>
FOB value	7,46,200
Add: Vendor inspection charges [Note-2]	Nil

Freight [Note-3]	10,000
Insurance [Note-4]	<u>3,800</u>
	7,60,000
Exchange rate is ₹ 102 per € [Note-5]	
	₹
Value in rupees	7,75,20,000
Add: Commission payable to local agent [1% of FOB value] [Note-6] = (€7,46,200 × ₹ 102) × 1%	7,61,124
Total (Assessable Value)	7,82,81,124
Add: Basic custom duty @ 10% (rounded off) [Note-7] [A]	78,28,112
EC and SHEC (3% of ₹ 78,28,112) [rounded off] [B]	2,34,843
Value for levying integrated tax	8,63,44,079
Integrated tax leviable under section 3(7) of Customs Tariff Act, 1975 @ 18% (rounded off) [Note 8] [C]	1,55,41,934
Total customs duty/tax payable [A]+[B]+[C]	2,36,04,889

Notes:

- As per section 14 of the Customs Act, 1962, the value of the imported goods is the transaction value, which means the price actually paid or payable for the goods. In this case, since the contract was re-negotiated and the importer paid the re-negotiated price, the transaction value would be such re-negotiated price and not the contract price.
- Only the payments actually made as a condition of sale of the imported goods by the buyer to the seller are includible in the assessable value under rule 10(1)(e) of the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007 [Customs Valuation Rules]. Charges of vendor inspection on the goods carried out by foreign supplier on his own and not required for making the goods ready for shipment, are not includible in the assessable value of the imported goods [Bombay Dyeing & Mfg. v. CC 1997 (90) ELT 276 (SC)].

3. Actual amount incurred towards freight will be considered since air freight is not more than 20% of customs FOB value [Fifth proviso to rule 10(2) of the Customs Valuation Rules].
4. Actual insurance charges paid are includible in the assessable value as per rule 10(2)(b) of the Customs Valuation Rules.
5. Rate of exchange notified by CBEC on the date of filing of bill of entry will be considered as per third proviso to section 14 of the Customs Act, 1962.
6. Commission paid to local agent of the exporter (since it is not buying commission) is includible in the assessable value [Rule 10(1)(a)(i) of the Customs Valuation Rules].
7. As per proviso to section 15 of the Customs Act, 1962, rate of duty will be the rate in force on the date of presentation of bill of entry or on the date of arrival of the aircraft, whichever is later.
8. Integrated tax leviable under section 3(7) of the Customs Tariff Act, 1975 is levied on the sum total of the assessable value of the imported goods, customs duties and applicable education cess and secondary and higher education cess.

Input tax credit of import duties/taxes paid on import of goods

Goods and Service Tax (GST) Laws enable a supplier to avail credit of input tax charged on supply of goods and services used in the course or furtherance of business to be set off against the GST leviable on output supplies. Basic customs duty and education cesses leviable thereon do not fall within the scope of input tax as defined under section 2(62) of CGST Act. However, integrated tax charged on import of goods is input tax in terms of sub-clause (a) of section 2(62). Therefore, integrated tax amounting to ₹ 1,55,41,934 paid on import of the machinery will be available as input tax credit to the company.

The company cannot avail credit of basic customs duty and education cesses leviable thereon.

Tax optimization on second machinery

Since Quality e-Contents India (P) Ltd intends to export the designed and printed material to its foreign clients, it can avail the benefits extended to exporters under Foreign Trade Policy (FTP). Exports are promoted through various promotional schemes offered under FTP. The principle is that goods and services should be exported and not taxes. Hence, the taxes on

exports are either exempted or adjusted or refunded on both outputs and inputs, through schemes of Duty Exemption, Duty Refund (Drawbacks and Rebates).

Capital goods can be imported at NIL duty for the purpose of exports under Exports Promotion Capital Goods Scheme (EPCG). EPCG permits exporters to import capital goods for pre-production, production and post-production at zero customs duty or procure them indigenously without paying duty in the prescribed manner. In return, exporter is under an obligation to fulfill the export obligation (EO).

Import under EPCG scheme shall be subject to an export obligation equivalent to 6 times of duty saved on capital goods to be fulfilled in 6 years reckoned from the date of issue of authorization. Import of capital goods shall be subject to 'Actual User' condition till export obligation is completed. After export obligation is completed, capital goods can be sold or transferred.

There is one more scheme under FTP through which import duty on capital goods can be neutralised namely, Post Export EPCG Duty Credit Scrip(s). Under this scheme, capital goods can be imported on full payment of applicable duties in cash. Later, basic customs duty paid on Capital Goods is remitted in the form of freely transferable duty credit scrip(s). Duty remission shall be in proportion to the EO fulfilled. These Duty Credit Scrip(s) can be utilized in the similar manner as the scrips issued under reward schemes can be utilised.

Thus, Quality e-Contents India (P) Ltd can import the second machinery under EPCG scheme or Post Export EPCG Duty Credit Scrip scheme to neutralise the import duties.

PAPER 6F: MULTIDISCIPLINARY CASE STUDY

Case Study – 3

REVENUE RECOGNITION AND AUDITORS' REPORTING

➤ Background of the Company

ABC Ltd. (hereinafter referred as ABC) is engaged in two types of business activities:

- Advertisement business – The business of providing services in respect to advertisement, publicity and promotion of products of other companies.
- Manufacturing business – The business is to manufacture plastic containers which have multi-utility. These containers are mainly used in kitchen for storage, microwave, etc.

ABC is a phase II company as per the notification issued by MCA dated 16 February 2015 and is required to comply with (Indian Accounting Standards) Rules, 2015 in preparation of its financial statements for the year ended 31 March 2018.

XYZ Ltd. has appointed ABC as its advertising agency on a non-exclusive basis subject to terms and conditions contained therein.

ABC generates approx. 99% of its revenue from XYZ Ltd. Each year the company enters into an agreement with XYZ which is effective from calendar year January to December and is renewed every year.

ABC hires other companies (third party vendors) to provide advertising services to XYZ. The charges for the third party vendors are paid by the ABC and not XYZ. The Company's gross cash inflows from XYZ include the expenses paid to the third party vendors. Thus, the Company charges XYZ for two items – one, charges paid to the third party vendors and two, its commission/service fee.

The relevant terms and conditions of the agreement entered into between ABC and XYZ Ltd. are as follows:

- Notwithstanding anything contrary in this Agreement, nothing herein shall be construed as authorising ABC to act, register, or otherwise represent itself as an Agent of XYZ. The relationship between XYZ and ABC shall be on a principal to principal basis only.
- ABC shall be responsible for creating/conceptualizing the advertisement content, preparation of advertisement and publicity materials including artwork and designing for print advertising, photographs, transparencies, slides, cinematography films, television films, sound recordings, audio-visuals, editing, printing of positives, bromides & CD for releasing advertisement in newspapers, magazines, etc. (hereinafter collectively referred to as "Work"). It may also be noted that the company is responsible for incurring costs for execution of the entire contract initially. Thereafter, it would add its commission/service fee on such costs and would raise an invoice on XYZ.

The above clauses have been inserted into the agreement due to the peculiar nature of the business and the amount of expenditure involved. The involvement of XYZ is essential since it involves crucial decisions which may impact the business and image of XYZ. For example, it is essential to take approval from XYZ while deciding the actor who should be involved in the advertisement, the media company which should be further involved in rendering of services. The above clauses seem protective in nature.

In practice, the auditor has also informed that the initial price negotiations, etc. with third party vendors are carried out by the company. XYZ approves the price and the third party for execution of the work for which the company is responsible. Getting the work executed remains the responsibility of the company.

It may also be noted that the ABC would be entitled for advance payments only if the quotations submitted by the company have been accepted by XYZ.

- ABC shall act through the media agency and media partners designated by XYZ, for placement and release of advertisements in all media, including but not limited to newspapers, magazines, films, cinema slides, outdoor and transport media, radio, television, internet, satellite/ cable TV, television sponsored programs, direct mailers, brochures, booklet, annual reports, calendars, diaries, presentation items, etc. (hereinafter collectively referred to as "Media").

- ABC shall obtain written approval from XYZ's authorized personnel before executing the Services. ABC shall execute the Services assigned to it based on the specific written approval received from XYZ's authorized personnel and on the terms and conditions/specifications/format, indicated therein. If there is no such specific written approval, a letter duly signed and issued by XYZ's authorized personnel and/or minutes of the meeting duly signed by both Parties to the effect that the Services had been assigned by XYZ to ABC, would construe the prior approval for the purposes of this Clause.
- ABC shall also obtain the prior written approval of XYZ whenever a third party is engaged by ABC to render any part of the Services as contemplated under this Agreement.
- ABC shall submit invoices to XYZ for claiming the consideration and should be accompanied/supported by relevant third-party invoice & challans.
- XYZ shall make advance payment to ABC, provided the quotation submitted by ABC is acceptable to XYZ, in the following manner:
 - i) if the film production/still photo shoot is performed outside India, 75% of the production cost excluding travel, boarding & lodging, agency commission and taxes.
 - ii) If the Film production/still photo shoot is performed within India, 50% of the production cost, excluding travel, boarding & lodging, agency commission and taxes
- ABC shall involve XYZ in all negotiations with third parties for the Services under this Agreement.
- In case the undisputed portion of the bills remains unpaid beyond the due date by XYZ, ABC is entitled to claim interest at the rate of ten (10%) interest per annum on the outstanding undisputed portion of the bills beyond the stipulated credit period. Further, in case of film production, if the cost exceeds as to what was estimated and agreed with XYZ, the company would be liable to bear the differential costs and make

payments to third parties. Similarly, in case of flex printing, display, sports marketing and events, the company is responsible to bear the variability in the costs, though in practice this situation does not arise.

- ABC shall be entitled to get reimbursement from XYZ for the payment made by it to a third party for any part of the Services rendered by the third party pursuant to this Agreement, on submission of original bills raised by such third party. However, XYZ shall have no liability to a third party if it has paid the amount to ABC raised by the third party.

➤ The various activities from which the Company earns its revenue are summarized below -

- **Promotion of products**

This activity consists of the following –

- 1) **Film Production**

This relates to the expenses incurred on developing the advertisement film. An estimate is being entered into with XYZ on the basis of days of shoot and other incidental expenditure. Company then hires a sub vendor to perform the activity. Vendor then carries out the work as per the specification from ABC. Vendor submit the bills to ABC and after adding the commission as per agreement on the total cost incurred ABC raises the invoice on XYZ.

- 2) **Retainership Fees**

The Company has a studio in its office for designing the advertisements and carrying out various other activities. As per the contract, Company charges a fixed amount from XYZ every month for the studio.

- 3) **Printing of brochure**

This is the commission that the Company gets on Printing of Brochures, Banner, Dangler, Poster, Leaflets and show room display kit. Printing activity will be carried out by third party vendor appointed by XYZ under the

recommendation of ABC. Vendor invoices are not received by the company in this case.

Revenue recognition for promotional activities followed by ABC are given below:

Activity	Revenue elements	Cost
Film Production	Vendor bill + Commission	Vendor bill
Retainership Fees	Monthly fixed billing	No direct cost
Printing of brochure	Only commission	No direct cost

- **Outdoor activity**

This activity consists of the following –

1) Flex Printing

The design for hoarding to be printed is selected by XYZ. ABC then selects a vendor for the printing of the flex. After the flex is printed and delivered, vendor raises the bills on ABC and after receiving the vendors bill ABC adds its commission fixed as per agreement and raises the invoice on XYZ.

2) Mounting

The printed flex is then mounted at the selected display area by another vendor. Once the flex is mounted, vendor raises the bills on ABC and after receiving the vendors' bill, ABC raises the invoice on XYZ.

3) Display

With the consent of XYZ, ABC fixes the place for display of the hoardings and accordingly vendor raises monthly bills on ABC. ABC further adds its commission fixed as per agreement and raises the invoice on XYZ.

Revenue recognition for outdoor activities followed by ABC are given below:

Activity	Revenue	Cost
Flex Printing	Vendor bill + Commission	Vendor bill
Mounting	Vendor bills	Vendor bills

	(No commission)	
Display	Vendor bill + Commission	Vendor bills

- **Advertisement activity**

This activity consists of the following –

- 1) **Media Commission**

This is the commission that the Company gets on the commercial that is run or printed on TV or newspaper respectively. Vendors' invoices are not received by the company in this case, and are directly billed to XYZ. Company receive details in excel sheet on monthly basis containing total cost incurred by XYZ and commission income accrued for ABC.

- 2) **Online Revenue**

Commission income on the ads run on various websites like Google, Yahoo etc.

Revenue recognition for advertisement activities followed by ABC are given below:

Activity	Revenue	Cost
Media Commission	Only commission	No direct cost
Online Revenue	Vendor bill + Commission	Vendor bills

- **Sports marketing and events**

ABC organises various events on behalf of XYZ at the time of car launch or otherwise. An estimate is entered into between ABC and XYZ and the activity is decided as well as the area where the events are to be put up. ABC then sub contracts the same to various vendors. The vendors then carry out the work as per the specification from ABC. And after carrying out the work submits the bills which ABC verifies and raises a manual invoice on XYZ by charging the commission as per agreement on the total cost incurred.

Revenue recognition for sports marketing and other events organized by ABC are given below:

Activity	Revenue	Cost
Events	Vendor bill + Commission	Vendor Bill

Audit of financial statements for the year ended 31 March 2018

ABC prepared its financial statements for the year ended 31 March 2018 as required by Section 129 of the Companies Act, 2013. While carrying out the audit of the financial statements, the statutory auditors appointed under Section 139 of the Companies Act, 2013 had a detailed discussion with the CFO of the company on the accounting treatment for the various activities described above and the revenue recognised from such activities.

The issue discussed is whether the company should account for the revenue from the specified sources on a gross basis (i.e. commission/service fee plus charges paid to the third parties) or on a net basis (i.e. commission/service fee received) as its revenue.

Audit report issues

In addition to the above, while carrying out the audit of ABC, the auditors noted that certain expenses for the services is recorded by the Company under the head contractual manpower charges.

During the audit, the auditors observed that a few invoices for such expenses appeared similar. The explanation provided by management for this similarity was that the rates agreed to with different parties is the same and this was corroborated by the contract terms with these parties.

As a matter of professional skepticism, the auditors decided to increase the extent of the audit procedures in respect of these parties and other vendors of the Company.

The auditors carried out inquiries and obtained addresses of the parties to ascertain the genuineness of such transactions. They also visited few parties basis the address mentioned on their invoices. They noted that three out of the four parties were employees of the Company and the fourth one was a third party.

When the auditors discussed this matter with the management, they confirmed that three of their contractors are also employees of the Company. and that the Company has been following this practice since the earlier years.

To corroborate management's version and to verify the adequacy of this expenditure, the engagement team performed the following procedures:

- Verified the contractor agreement entered by the Company with the four parties identified by the statutory auditors
- Verified that the monthly invoices raised are based on rates as per the agreement with these parties
- Reconciled the quantity mentioned in the invoice with the production quantity as per excise records
- Verified that payment made to the above parties was through the bank by scrutinizing the bank statements of the Company.
- Verified the bank statements of the parties made available to the auditors for review by management to verify the receipt of payment in their respective accounts.
- Verified that TDS has been deducted on the above payments (verified Form 16A as well).
- Verified from the Income tax web site that the PAN number against which TDS has been deducted belongs to these parties only.
- Verified that the address as per PAN is same as per employees records of the Company for three employees.
- Verified that the address as per bank statement is same as that of mentioned in employees records of the Company for three employees.
- Asked management to provide the auditors with relevant records that can substantiate the movement of contract workers in and out of the factory premises and any other

information available with management to support the appropriateness/ adequacy of this expenditure.

- Enquired from management regarding its liability in respect of statutory dues payable for the contractual manpower operating from its premises.

Audit Observations – Communication to those charged with governance as required by SA 260

- Management mentioned the audit team that they do not maintain updated records that can validate the movement of workers in and out of the factory premises. The engagement team also observed that there is no internal control mechanism in place for tracking the attendance of workers at various locations on daily basis.
- Sufficient and appropriate evidence was not available to substantiate the actual work carried out by the contractual manpower and its trail in the entire production process.
- Management does not possess sufficient information in respect of the status of statutory dues (PF, ESI etc.) payable by the contractor in respect of such labour and consequently on whether there is any obligation on part of the Company to discharge these dues.

QUESTIONS

Multiple Choice (2 marks each)

1. Who is the primary obligor in the current arrangement?
 - (a) ABC Ltd.
 - (b) XYZ Ltd.
 - (c) Vendor or third parties.
 - (d) Both ABC Ltd. and XYZ Ltd.

2. The factor which indicate that a company is acting as a principal in transaction include:
- (a) The customer understands that the company is acting as the primary obligor in the arrangement
 - (b) The company has inventory risk
 - (c) The company has or assumes the credit risk associated with the transaction.
 - (d) All of the above
3. Under Ind AS 18, an indicator that an entity is acting as an agent is that it performs services for compensation or a commission or a fee basis, which is fixed in terms of either an amount of currency or a percentage of the value of the underlying goods or services provided by the principal. Given the current facts, what is the consideration to which ABC is entitled to receive from XYZ:
- (a) Cost plus commission for various services
 - (b) Fixed amount on a monthly basis
 - (c) Commission and reimbursement from XYZ for payment made by ABC to third party for any part of the services rendered by third party to XYZ.
 - (d) All of the above.
4. Who is responsible for credit risk in this arrangement?
- (a) ABC Ltd.
 - (b) XYZ Ltd.
 - (c) Vendor or third parties.
 - (d) Both ABC Ltd. and XYZ Ltd.
5. ABC's auditors are required to report as to whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls. Due to absence of internal control mechanism in place to for track the attendance of workers at various locations on daily basis, the reporting implications may be as below:

- (a) Give a detailed note in the financial statements stating about absence of internal control and there is need for improvement
 - (b) Qualify the audit report in accordance with Standards on Auditing
 - (c) Qualify the separate report on internal financial report
 - (d) Qualify both the audit report and report on internal financial report.
6. What are the reporting obligations of the auditor in case it is unable to obtain sufficient appropriate audit evidence?
- (a) The auditor should carry out alternate audit procedure to obtain sufficient appropriate audit evidence
 - (b) The audit report should be qualified under SA 705, Modifications to the Opinion in the Independent Auditor's Report.
 - (c) The audit report should include an Emphasis of matter paragraph under SA 706, Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report
 - (d) Both (a) and (b) above
7. If the entity is collecting the consideration on behalf of the third party (i.e., as an agent for the third party), the entity measures revenue :
- (a) at the gross amount it collects from the customer excluding taxes collected on behalf of government
 - (b) at the net amount it retains on its own account
 - (c) at the net amount it retains on its own account (the consideration received less the amount paid to the third party and to government, if any)
 - (d) at the gross amount it collects from the customer excluding taxes collected on behalf of government and also recognizing all the expenses incurred on gross basis
8. If the auditor has identified a fraud or has obtained information that indicates that a fraud may exist, the auditor should communicate these matters to.

- (a) the management
 - (b) those charged with governance such as audit committee or oversight committee
 - (c) central government subject to thresholds prescribed in the rules
 - (d) All of the above
9. Excise duty will be applicable from April 01, 2017 till June 30, 2017 for ABC and GST will be applicable for the period from July 1, 2017. How should revenue be presented by ABC in financial statements for the year ended March 31, 2018?
- (a) Revenue for the period prior to the applicability of GST should be shown as net of excise duty and that post GST becoming applicable should be shown as gross of GST.
 - (b) Revenue for the period prior to the applicability of GST should be shown as gross of excise duty and that post GST becoming applicable should be shown as net of GST.
 - (c) Revenue for the period prior to the applicability of GST and that post GST becoming applicable should be shown as gross of excise duty and GST.
 - (d) Revenue for the period prior to the applicability of GST and that post GST becoming applicable should be shown as net of excise duty and GST.
10. If, as a result of a misstatement resulting from fraud or suspected fraud, the auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit, the auditor should:
- (a) Determine the professional and legal responsibilities applicable in the circumstances, including whether there is a requirement for the auditor to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities;
 - (b) Consider whether it is appropriate to withdraw from the engagement, where withdrawal from the engagement is legally permitted

- (c) Seek a legal advice depending on the facts and circumstances
- (d) All of the above.

Descriptive/Numerical

11. As per the given facts, ABC Ltd. is providing advertisement services to XYZ Ltd., one of its primary customer. ABC has entered into an agreement with XYZ which is effective from calendar year January to December and is renewed every year. Determine whether ABC Ltd. is acting as a principal or an agent in this arrangement and whether the presentation of revenue from the below mentioned activities should be made on gross basis (cost plus commission) or net basis.

- Film Production
- Flex Printing
- Display
- Online Revenue
- Sports marketing and events

Identify factors for your determination by referring to the guidance given in the standard and the terms of the arrangement. **(10 Marks)**

12. If you are the auditors of ABC, then how would you address the matter related to similar invoices for expenses incurred on contractual manpower charges in the conduct of the statutory audit? Also evaluate the implications for the auditor's inability to obtain insufficient appropriate audit evidence on the auditor's report required to be issued under Companies Act, 2013 in case the ? Whether there will be any impact on the previous year numbers considering that management has been following the same practice since earlier years and this issue has not been highlighted by the auditors in earlier audit reports. The auditors are continuing auditors for the past four years.

Elaborate by including your audit approach, audit procedures and reporting implications by giving references of auditing standards. **(10 Marks)**

13. The auditor is also required to report auditors' report whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls. Identify the control weaknesses in the internal controls in case of ABC and explain how should the auditor address this matter while issuing the auditor's report under Section 143(3)(i) of the Companies Act, 2013?

Further, also evaluate, whether any reporting is required to be made to the Central Government under Section 143(12) of the Companies Act, 2013? If yes, identify the steps for such reporting and how should the auditor address this in the audit report. **(10 Marks)**

ELECTIVE PAPER 6F – MULTIDISCIPLINARY CASE STUDY

SUGGESTED SOLUTION – CASE STUDY 3

Multiple Choice

1. Answer (a)
2. Answer (d)
3. Answer (d)
4. Answer (a)
5. Answer (d)
6. Answer (d)
7. Answer (c)
8. Answer (d)
9. Answer (b)
10. Answer (d)

Descriptive / Numerical

11. (1) The issue is whether the company should account for the revenue from the specified sources on a gross basis (i.e. commission/service fee plus charges paid to the third party) or on a net basis (i.e. commission/service fee received) as its revenue. The query relates to the services provided such as film production, flex printing, display, and sports marketing and events. The company is entitled for various kinds of fees in the following manner:
- Cost plus commission (at an agreed rate)
 - Fixed amount on a monthly basis
 - Commission.

Technical literature

- (2) The issue is to evaluate whether the company is acting as a principal or an agent of XYZ for the services of the third party vendors. This issue is particularly important from revenue recognition

angle. If an entity acts as a principal in its service contracts, it earns revenue from the rendering of services and records revenue equal to the amount charged/chargeable from customers (gross presentation). If it acts as an agent, it earns revenue in the form of a commission or fee from its principal, who is the real service provider. Revenue recorded by an agent is limited to the commission or fee that it earns (net presentation).

Ind AS 18 defines revenue as, "Revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants."

Under Ind AS 18 also provides that:

"8 Revenue includes only the gross inflows of economic benefits received and receivable by the entity on its **own account**. Amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes are not economic benefits which flow to the entity and do not result in increases in equity. Therefore, they are excluded from revenue. Similarly, in an agency relationship, the gross inflows of economic benefits include amounts collected on behalf of the principal and which do not result in increases in equity for the entity. The amounts collected on behalf of the principal are not revenue. Instead, revenue is the amount of commission." [Emphasis added]

Indicators that an entity is acting as a principal include that it:

- has primary responsibility for providing the goods and services to the customer or for fulfilling the order;
- has inventory risk before or after the customer order, during shipping or on return;
- has discretion in establishing prices (directly or indirectly); and
- bears the customer's credit risk for the amount receivable from the customer.

An indicator that an entity is acting as an agent is that it performs services for compensation on a commission or fee basis, which is fixed in terms of either an amount of currency or a percentage of the value of the underlying goods or services provided by the principal.

Principal vs agent

3. On the basis of the combined reading of the clauses of the agreement and the literature, the following points emerge:

- The company is responsible for creating the entire content and releasing advertisements in newspapers and magazines. The agreement has been entered into between company and XYZ and hence, for XYZ, the primary obligor is the company.
 - The risk of inventories does not arise since production begins on request to product of an advertiser.
 - The pricing for the work carried out by the company including the work done by the third parties (to which work has been sub-contracted by the company) and it is agreed/accepted by XYZ. The media agencies (third party vendors) are chosen by the company and XYZ provides its acceptance.
 - The credit risk lies with the company to the extent there is a variability in the cost incurred on rendering of services. Further, the company is liable to make the payments to third parties which are involved in execution of work.
4. The mere fact that the company is entitled to cost plus commission in various cases and the company needs acceptance from XYZ while involving third parties, etc. does not make the company an agent of XYZ. Thus, based on our understanding of the agreement between the company and XYZ, it indicates that the company provides complete advertising, publicity and promotional services to XYZ on its own account and that it is acting in its own capacity and not as an agent of XYZ. The above facts indicate that the company bears the risks and rewards of a principal in the transaction and has the overall responsibility for the work performed, i.e. the company is the primary obligor for providing the services to XYZ. The other companies (third party vendors) are acting as a sub-contractor to the company. Further, as per the agreement, the credit risk lies with the company. Thus, in revenue (commission/service fee and related costs paid to the 3rd party vendors) should be recorded on a gross basis.
12. As part of the current year audit, the auditors has not been able to obtain the required documentary evidence regarding the payment to four contractors for handling of materials, cleaning, packaging etc, payment of certain statutory dues related to contracted labour and salaries and wages.
1. The auditors should carry out procedures as required by SA 500, Audit evidence to the extent possible on the concerned matters to obtain the required audit evidence. Paragraph 6 of SA 500 states as below:
- “6. The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.”*

Audit evidence is necessary to support the auditor's opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from other sources such as previous audits (provided the auditor has determined whether changes have occurred since the previous audit that may affect its relevance to the current audit) or a firm's quality control procedures for client acceptance and continuance. In addition to other sources inside and outside the entity, the entity's accounting records are an important source of audit evidence. Also, information that may be used as audit evidence may have been prepared using the work of a management's expert. Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions. In addition, in some cases the absence of information (for example, management's refusal to provide a requested representation) is used by the auditor, and therefore, also constitutes audit evidence.

Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence. Audit procedures to obtain audit evidence can include inspection, observation, confirmation, recalculation, reperformance and analytical procedures, often in some combination, in addition to inquiry. Although inquiry may provide important audit evidence, and may even produce evidence of a misstatement, inquiry alone ordinarily does not provide sufficient audit evidence of the absence of a material misstatement at the assertion level, nor of the operating effectiveness of controls.

2. The auditors should also involve forensic team to:
 - perform additional procedures in respect of the four contractors and other vendors of the company and
 - perform a high level fraud risk assessment for salaries and wages at one of the company's plants in Noida.

3. SA 240, The Auditor's Responsibilities Relating to Fraud states in Para 12, 13, 35 and 37 as below:

"12. In accordance with SA 200, the auditor shall maintain an attitude of professional skepticism throughout the audit, recognising the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance."

"13. Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine. If conditions identified during the audit cause the auditor to believe that a document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, the auditor shall investigate further."

“35. When the auditor identifies a misstatement, the auditor shall evaluate whether such a misstatement is indicative of fraud. If there is such an indication, the auditor shall evaluate the implications of the misstatement in relation to other aspects of the audit, particularly the reliability of management representations, recognizing that an instance of fraud is unlikely to be an isolated occurrence.”

“37. When the auditor confirms that, or is unable to conclude whether, the financial statements are materially misstated as a result of fraud the auditor shall evaluate the implications for the audit. (Ref: Para. A52)”

“A52. SA 450, “Evaluation of Misstatements Identified during the Audit”, and SA 700, “The Independent Auditor’s Report on General Purpose Financial Statements”, establish requirements and provide guidance on the evaluation and disposition of misstatements and the effect on the auditor’s opinion in the auditor’s report.”

Thus, SA 240 requires an auditor to refer to SA 700 for determining the reporting obligations.

4. SA 700, Forming an Opinion and Reporting on Financial Statements, which is applicable for audits of financial year upto 31 March 2018 state in its para 16 and 17 as below:

“16. The auditor shall express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

17. If the auditor:

- (a) concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
- (b) is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement, the auditor shall modify the opinion in the auditor’s report in accordance with SA 705.”

5. SA 705, Modifications to the Opinion in the Independent Auditor’s Report, which is applicable for audits of financial year upto 31 March 2018 state in its para 7 as below:

“Qualified Opinion

7. The auditor shall express a qualified opinion when:

- (a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or
- (b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.”

The table below illustrates how the auditor’s judgment about the nature of the matter giving rise to the modification, and the pervasiveness of its effects or possible effects on the financial statements, affects the type of opinion to be expressed.

<i>Nature of matter giving rise to modification</i>	<i>Auditor’s judgment about the materiality and Pervasiveness of the effects or possible effects on the financial statements</i>	
	<i>Material but not pervasive</i>	<i>Material and pervasive</i>
Financial statements are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

The term ‘pervasive’ referred to above is not defined in SA 700. However, SA 705, Modification to the Opinion in the Independent Auditor’s report defines pervasive as under:

“(a) Pervasive – A term used, in the context of misstatements, to describe the effects on the financial statements of misstatements or the possible effects on the financial statements of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasive effects on the financial statements are those that, in the auditor’s judgment:

- (i) Are not confined to specific elements, accounts or items of the financial statements; If so confined, represent or could represent a substantial proportion of the financial statements; or*
- (iii) In relation to disclosures, are fundamental to users’ understanding of the financial statements.”*

The team should assess the impact of the adjustments discussed below to determine whether the impact is pervasive.

6. Reference needs to be also made to SA 710, Comparatives. As per paragraph 12 of the standard
- “12. If the auditor obtains audit evidence that a material misstatement exists in the prior period financial statements on which an unmodified opinion has been previously issued, the auditor shall verify whether the misstatement has been dealt with as required under the applicable financial reporting framework and, if that is not the case, the auditor shall express a qualified opinion or an adverse opinion in the auditor’s report on the current period financial statements, modified with respect to the corresponding figures included therein.”*

Contractual manpower/job work charges

From the given facts, it seems that the auditors have not been able to obtain the required audit evidence to establish the linkage with the output of the contracted labour and the validity and appropriateness of the payments and whether the arrangements can be in potential non-compliance with the requirement to pay certain statutory dues.

The auditors should consider the available facts and information to determine whether the current case is one where:

- (a) there are strong indicators of fraud and that there is a high risk of the related expense being largely overstated or
- (b) the overstatement of the related expense is expected to be limited in its impact though it would still be material or
- (c) there are definite internal controls weaknesses, particularly relating to proper documentation, attendance monitoring etc. but the related expense is not overstated to a material extent.

In reaching the above decision, the auditor should consider the results of all audit and forensic procedures including analytical review.

While this is a judgement which the auditor has to make on the basis of their detailed knowledge of the facts and circumstances, if the situation is that of 7(b), a qualification would be called for both with regard to the expense items and the contingent liability for the impact of the matter on the statutory dues.

The auditors should also strongly advise the management about the weaknesses in controls which need to be addressed, the need for further investigation in the matter and that immediate rectification measures. As per the team, while they have not carried out specific procedures on comparatives, but since the arrangements are the same as in the previous years, it is of the view that the matter raises an issue even for the previous year’s figures. Thus, to this extent, the audit opinion on the comparative figures will also have to be modified.

13. Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 (“the 2013 Act” or “the Act”) requires the auditors’ report to state whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls.

The auditor's objective in an audit of internal financial controls is to express an opinion on the effectiveness of the company's internal financial controls and the procedures in respect thereof are carried out along with an audit of the financial statements. Because a company's internal controls cannot be considered effective if one or more material weakness exists, to form a basis for expressing an opinion, the auditor must plan and perform the audit to obtain sufficient appropriate evidence to obtain reasonable assurance about whether material weakness exists as of the date specified in management's assessment. A material weakness in internal financial controls may exist even when the financial statements are not materially misstated.

The Company did not have an appropriate internal control system for authorization and validity of expenses which could potentially result in the Company recognising inappropriate expenses in the books of account.

Therefore the auditor should modify its report on internal financial controls under Section 143(3)(i) of the Companies Act, 2013.

Further, Section 143(12) of Companies Act, 2013 states as below:

Under sec 143(12) of the *Companies Act, 2013*, if an auditor of a company, in the course of the performance of his duties as auditor, has reason to believe that an offence involving fraud is being or has been committed against the company by officers or employees of the company, he shall immediately report the matter to the Central Government within such time and in such manner as may be prescribed.

With regard to the above, rule 13 of the Companies (Audit and Auditors) Rules, 2014 provides that in case the auditor has sufficient reason to believe that an offence involving fraud, is being or has been committed against the company by officers or employees of the company, he shall report the matter to the central government immediately but not later than sixty days of his knowledge and after following the procedure indicated herein below:

- (i) auditor shall forward his report to the Board or the Audit Committee, as the case may be, immediately after he comes to knowledge of the fraud, seeking their reply or observations within forty-five days
- (ii) on receipt of such reply or observations the auditor shall forward his report and the reply or observations of the Board or the Audit Committee along with his comments (on such reply or observations of the Board or the Audit Committee) to the Central Government within fifteen days of receipt of such reply or observations.

- (iii) in case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of forty-five days, he shall forward his report to the Central Government along with a note containing the details of his report that was earlier forwarded to the Board or the Audit Committee for which he failed to receive any reply or observations within the stipulated time
- (iv) the report needs to be sent to the Secretary, MCA in a sealed cover by registered post with acknowledgement due or by speed post followed by an e-mail confirmation.
- (v) the report should be on the letter head of the auditor containing postal address, e-mail address and contact details and be signed by the auditor with his seal and his membership number
- (vi) the report shall be in the form of a statements as specified in Form ADT-4.

Rule 13 of the Companies (Audit and Auditors) Rules, 2014 has been amended by the Companies (Audit and Auditors) Amendment Rules, 2015 issued in December 2015. The amended provisions require inter alia:

- Reporting by statutory auditor to central government only for frauds which involve/expected to involve individually an amount of INR 1 crore or above
- In case of fraud involving lesser than the above amount, statutory auditor to report matter to the audit committee/board of company instead of central government but not later than two days of his knowledge of the fraud and he shall report the matter specifying the following:
 - Nature of fraud with description;
 - Approximate amount involved and
 - Parties involved.

Therefore, if the amount of fraud is expected to involve an amount of INR 1 crore or above, the auditor should report to Central Government as prescribed. However, if the amount involved is less than INR 1 crore, then auditor should report to the board or audit committee.

Further, it may be noted that Paragraph 4 of SA 240 states and clarifies that the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. In the context of the 2013 Act, this position is reiterated in Section 134(5) which states that the Board report shall include a responsibility statement, inter alia, that the directors had taken proper and sufficient care for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities. Based on the above, it may be considered that Section 143(12) envisages the auditor to report to the management and thereafter the Central Government an offence involving fraud/suspected fraud against the company by its officers or employees only if he is the first person to identify/note such instance in the course of performance of his duties as an auditor.

Case Study – 4

“Tea is not a mere commodity. It is a heritage based on values and culture full of sentiments and commitments.”

Legend has it that tea was discovered by the great Chinese Emperor Shen Nung, more than four and a half thousand years ago. The story says that a leaf from a wild tea bush accidentally fell into a pot of boiling water, while the Emperor rested under a tree, the leaf then infused its goodness; and the rest, as we know, is history!

TOTAL TEA Limited is engaged in the business of tea plantation for over 40 years. It is engaged in the cultivation, processing and sale of bulk teas. The company produces high quality tea from estates in Assam and West Bengal. Its quality benchmarks and industry practices are among the best in the world; and it will continue to strengthen its operations to live up to its legacy and brand reputation.

TOTAL TEA Limited follows the tenets of a good corporate citizen, providing equal opportunity to all employees, in a safe and healthy working environment, ensuring social and economic development to sustain and improve quality of life. It is committed to safeguarding the environment by adopting an eco-friendly, transparent and participatory approach in all activities, whilst ensuring that the best quality of tea is produced.

CREDIBLE CERTIFICATIONS

Food Safety Management System (ISO 22000)

Fairtrade Certified

Rainforest Alliance Certified

Hazard Analysis Critical Control Point (HACCP)

Ethical Tea Partnership (ETP)

Company’s widespread plantations, meticulous processes, honed art and science of blending, sustainable environmental practices and community initiatives have enabled it to reinforce its industry leadership across the country.

Company has tea estates, blending units and marketing offices across strategic locations. Company’s discerning customers are spread across the country. It continues to leverage its robust marketing and delivery mechanisms to grow its global prominence and brand reputation.

BRAND

The Company markets its teas under the name of various tea estates, known as ‘**Tea Only**’. Hence, these ‘Tea Only’ have evolved into individual bulk tea brands, with a strong customer following in each of their preferred markets.

Budget

Total Tea Ltd. manufactures two brands of tea namely Tea Only- Super and Tea Only Normal by blending of four grades of tea leaves as raw material in the following proportion:

Raw Material	Product Super	Product Normal
Grade A	70%	-
Grade B	30%	-

Grade C	-	40%
Grade D	-	60%

During the month of May 2017. It is expected that 200 tons of brand Super and 80 tons of brand Normal will be sold. Actual and budgeted inventories for the month of May 2017 are as follows:

	Actual inventories on 1 st May, quantity in Tons	Budgeted inventories on 31 st May, quantity in Tons
Grade A	40	50
Grade B	25	56
Grade C	150	250.90
Grade D	60	40.50
Product Super	40	20
Product Normal	20	15

Purchased tea leaves are seasoned and then held in stock or issued for production. During seasoning, they lost 15% of their initial weight.

TECHNOLOGY

The Company has invested in cutting-edge technologies to manufacture quality products and achieve high manufacturing efficiency through energy conservation and environmentally safe processes.

VALUE-ADDITION

The Company has in-house blending capacities, which control leaf mixture, liquor and aroma in a consistent manner in the final product to address wide-ranging customer needs.

QUALITY

The Company meticulously ensures that its teas comply with globally benchmarked quality standards, so that only the best products leave its factories.

PROCESSES

The Company has instituted operational discipline across gardens through the creation of a documented manual (standard operating procedures) to reduce arbitrary interventions, ensure process consistency and enhance knowledge sharing.

MARKETING

We have increased the proportion of tea marketed directly through strategic and private contracts in national and international markets. The result is higher realisations and better safeguards against cyclical market trends.

Finance and Accounts

The company's Profit & Loss Account for the year ended 31st March, 2018 shows a net profit of Rs. 550 lacs after debiting or crediting the following amounts:

- (a) Depreciation Rs. 40 lacs.
- (b) Interest amounting to Rs. 2 lacs on term loan from a bank for purchase of machinery for one of its tea factories.
- (c) Repairs to factory building amounting to Rs. 15 lacs for which a sum of Rs. 10 lacs was withdrawn from

Tea Deposit Account maintained with National Bank for Agricultural and Rural Development (NABARD) as per relevant section of the Income-tax Act.

- (d) Profit from sale of green tea leaves plucked in own gardens Rs. 20 lacs.
- (e) Rs. 5 lacs on account of stamp duty and registration fees for the issue of bonus shares.
- (f) Rs. 10 lacs, being sales tax dues of earlier years determined during the year on disposal of appeals by the appellate authority, for which the company has furnished a bank guarantee to the Commercial Tax Authority.
- (g) Rs. 5 lacs written off as bad in respect of a trade debt transferred from Saraswati Tea Limited in previous year 2008-09 pursuant to a scheme of amalgamation approved by the jurisdictional High Court.
- (h) Rs. 2 lacs contributed to Employees Welfare Trust.
- (i) Interest on inter-corporate deposit Rs. 1 lac and Rs. 1.50 lacs for February, 2018 and March, 2018 respectively, for which tax deducted at source was paid to the Central Government in June, 2018.

Following additional information is furnished by the management:

- (i) Depreciation as per Income Tax Rules, 1962 Rs. 55 lacs.
- (ii) One financial institution converted arrears of interest of Rs. 10 lacs into a new loan in financial year 2015-16, which is repayable in five annual installments. The company has paid Rs. 2 lacs towards the installment due for the financial year 2017-18 in February, 2018.
- (iii) A sum of Rs. 250 lacs deposited in NABARD on 15th June, 2018 as per the relevant section of the Income Tax Act.

The Company has provided the following particulars relating to tea sold by it to More Tea Pvt. Ltd.

Particulars	Rs.
List price of the Tea (exclusive of taxes and discounts)	50,000
Tax levied by Municipal Authority on the sale of such tea	5,000
CGST and SGST chargeable on the tea	10,440
Packing charges (not included in price above)	1,000

The Company received Rs. 2,000 as a subsidy from a NGO on sale of such Tea. The Price of Rs. 50,000 of the tea is after considering such subsidy.

Total Tea Ltd. offers 2% discount on the list price of the tea which is recorded in the invoice for the goods.

1. Ayushman Medical Centre, a clinical establishment, has provided the following information:

S. No.	Particulars	Rs. (excluding GST if applicable)
(i)	Consultancy charges paid to doctors	10,00,000
(ii)	Food supplied to in-patients as advised by the dietician of the Ayushman Medical Centre	5,00,000
(iii)	Food supplied to attendants of the in-patients	2,50,000
(iv)	Alternative medical treatments by way of Naturopathy. Such therapy is a recognized system of medicine in terms of section 2(h) of Clinical Establishments Act, 2010	3,50,000

(v)	Reiki healing treatments. Such therapy is not a recognized system of medicine in terms of section 2(h) of Clinical Establishments Act, 2010	5,00,000
(vi)	Preservation of stem cells by Ayushman Medical Centre's cord blood bank	90,000

You are required to compute the value of taxable supply of Ayushman Medical Centre, if any, in the light of relevant GST provisions

- (a) Nil
- (b) 2690000
- (c) 750000
- (d) 1250000
2. Kesar Maharaj, a registered supplier, gave a classical dance performance in an auditorium. The consideration charged for the said performance is Rs. 1,60,000. Such performance is not for promotion of any product/services. Rate of CGST and SGST on such services is 9% each. Assuming the services supplied by him to be intra-State supplies, which of the following statements are true?
- (a) GST liability of Kesar Maharaj is Nil as services provided by him are exempt.
- (b) Kesar Maharaj is liable to pay CGST and SGST of Rs. 14,400 and Rs.14,400 respectively
- (c) Kesar Maharaj is liable to pay CGST and SGST of Rs. 900 and Rs.900 respectively
- (d) None of the above
3. Which of the statement(s) is/are not correct?
- (1) A person having aggregate turnover of Rs. 18,00,000 in a financial year can take voluntary registration. The person has business operations in Uttar Pradesh and Jammu and Kashmir.
- (2) A person having aggregate turnover of Rs. 18,00,000 in a financial year can take voluntary registration. The person has business operations in Uttar Pradesh and Assam.
- (3) A person having aggregate turnover of Rs. 18,00,000 can take voluntary registration. The person is an agriculturist having operations in Uttar Pradesh and Jammu and Kashmir.
- (4) A person having aggregate turnover of Rs. 18,00,000 can take voluntary registration. The person is an agriculturist having operations in Uttar Pradesh and Assam.
- (a) (1)
- (b) (2), (4).
- (c) (2), (3), and (4)
- (d) (3) and (4)
4. Which of the option is correct?
- (a) Supplies to EOU's can be made without payment of tax under bond/LUT
- (b) Supplies to EOU's are zero rated.
- (c) Both (a) and (b) are correct
- (d) None of the above

5. Mr. X of Agra, Uttar Pradesh purchased goods from Mr. Y of Mumbai, Maharashtra. While the goods were being packed in Mumbai godown of Mr. Y, Mr. X got an order from Mr. K of Bangalore, Karnataka for the said goods. Mr. X agreed to supply the said goods to Mr. K and asked Mr. Y to deliver the goods to Mr. K at Bangalore.

What is/are the place of supply(ies) in this case?

- (a) Agra
 (b) Agra, Bangalore
 (c) Bangalore
 (d) Mumbai
6. Division S sells one of its products to division T in the same group. The product cost consists of Rs.40 for materials, Rs.15 for direct labour, Rs.2.50 for variable overhead and Rs.27.50 for fixed overhead. S division sets its profit margin equal to 20% of the variable cost. What is the ideal transfer price if S is operating at full capacity?
- (a) 96.5
 (b) 57.5
 (c) 85.0
 (d) 69.0
7. Company has an obsolete machine that are carried in factory at a total cost of 26,200. If this machine are upgraded at a total cost of Rs.12,600, it can be sold for Rs.22,800. As an alternative, the machine can be sold in its present condition for Rs.11,200. The sunk cost in this situation is:
- (a) 26,200
 (b) 12,600
 (c) 22,800
 (d) 11,200
8. Company has two divisions, K and L. Each division is currently considering the following separate projects:

Particulars	Division K	Division L
Capital Required for the project	Rs. 16.3 million	Rs.11.1 million
Sales Generated by project	Rs. 7.2 million	Rs.4.4 million
Operating Profit Margin	15%	12%
Cost of Capital	5%	5%
Current ROI	7.5%	4.5%

If RI is used as the basis for the investment decision, which Division(s) would choose to invest in the project?

- (a) Division K only
 (b) Division L only
 (c) Both Division K and Division L
 (d) Neither Division K nor Division L

9. Company has fixed its targets for the next year as follows:
- (1) Gaining a score of 5·3 or above on customer satisfaction surveys
 - (2) Increasing the number of chargeable hours handled by consultants to 7·1 per day
 - (3) Reducing departmental expenditure by 10%

Which of the above targets assesses economy, efficiency and effectiveness?

Economy Efficiency Effectiveness

- (a) 1 3 2
 - (b) 2 1 3
 - (c) 3 2 1
10. Which ONE of the following factors could explain a favourable direct material usage variance?
- (a) Poorer Management of Materials
 - (b) Lower Quality Material
 - (c) The company had reduced training of production workers as part of a cost reduction exercise.
 - (d) Better Management of Materials **(10 x 2 = 20 Marks)**
11. Compute total income of the company for the Assessment Year 2018-19 stating the reasons for each item. Ignore provisions relating to Minimum Alternate Tax. **(12 Marks)**
12. Determine the value of taxable supply made by Total Tea Ltd to More Tea Ltd. **(6 Marks)**
13. Calculate the following in respect of Budget :
- (i) The Production Budget for the month of May 2017 (in quantity) **(5 Marks)**
 - (ii) the Raw Material Purchase Budget for May 2017 (in quantity) **(7 Marks)**

ELECTIVE PAPER 6F – MULTIDISCIPLINARY CASE STUDY

SUGGESTED SOLUTION – CASE STUDY 4

Multiple Choice

Answer 1 (c)

Answer 2 (b)

Answer 3 (c)

Answer 4 (d)

Answer 5 (b)

Answer 6 (a)

Answer 7 (a)

Answer 8 (a)

Answer 9 (c)

Answer 10 (d)

Answer 11

Total Tea Limited

COMPUTATION OF TOTAL INCOME FOR ASSESSMENT YEAR 2018-19

		(Rs. In Lakh)
	Net profit as per profit and loss account	550
Add:	Depreciation debited to profit and loss account	40
Less:	Depreciation as per section 32	(-) 55
Add:	Interest on term loan for purchase of machinery [It is assumed that interest pertains to the period after the machinery is put to use and interest is paid during the previous year or till the due date of submission of return of income; since already debited to profit and loss account, no adjustment is required]	Nil
Add:	Repairs to factory building [Rs. 15 lakhs being revenue in nature eligible for deduction, however, expenditure of Rs. 10 lakhs met out of withdrawal from NABARD is not eligible for deduction]	10
Less:	Profit from sale of green tea leaves plugged in own gardens credited to profit and loss account [It is exempt from tax under section 10(1) and is assessable as agricultural income. It is from pure agricultural operations and no processing is involved].	(-)20
Add:	Expenditure incurred for issue of bonus shares [It is revenue expenditure and deductible under section 37, no adjustment is required CIT v. General Insurance Corpn. (Sc)]	Nil

Add:	Sales tax due for which the company has furnished bank guarantee [It is not treated as actual payment and not deductible as per section 43B]	10
Add:	Bad debts of predecessor written off by the assessee is eligible for deduction [No adjustment is required - CIT v. T. Veerabhadra Rao (SC)]	Nil
Add:	Payment to employees welfare trust [Not eligible for deduction as per section 40 A(9)]	2
Add:	Interest on inter-corporate deposit relating to February 2018 and March 2018 is eligible for deduction since TDS is deposited before the due date of submission of return of income	Nil
Less:	Arrears of interest converted into loan paid by the company during the previous year is eligible for deduction on actual payment basis	(-)2
	Total	535.00
Less:	Deduction under section 33AB (40 of Rs. 535 lakh or amount deposited being Rs.250 lakh, whichever is lower)	(-)214
	Balance	321.00
	Taxable income (40% of Rs. 321 lakh)	128.40
	Agricultural income (60% of Rs. 321 lakh)	192.60

Answer 12

Particulars	Rs.
List price of the goods (exclusive of taxes and discounts)	50,000
Tax levied by Municipal Authority on the sale of such goods [includible in the value as per section 15(2)(a)]	5,000
CGST and SGST chargeable on the goods [Not includible in the value as per section 15(2)(a)]	
Packing charges [includible in the value as per section 15(2)(c)]	1,000
Subsidy received from a non-Government body [Since subsidy is received from a non-government body, the same is included in the value in terms of section 15(2)(e)]	2,000
Total	58,000
Less: Discount @ 2% on Rs.50,000 [Since discount is known at the time of supply, it is deductible from the value in terms of section 15(3)(a)]	1,000
Value of taxable supply	57,000

Answer: 13

(i) Production Budget May'17 (tons)

Particulars	Super	Normal
Expected Sales	200	80
Add: Budgeted Inventory (31 st May)	20	15
Total Requirements	220	95
Less: Actual Inventory (1 st May)	40	20
Required Production	180	75

(ii) **Materials Purchase Budget May'17 (tons)**

Particulars	Grade A	Grade B	Grade C	Grade D
Requirement for Production	126.00 (180 × 70%)	54.00 (180 × 30%)	30.00 (75 × 40%)	45.00 (75 × 60%)
Add: Budgeted Inventory (31 st May)	50.00	56.00	250.90	40.50
Total Requirements	176.00	110.00	280.90	85.50
Less: Actual Inventory (1 st May)	40.00	25.00	150.00	60.00
Quantity to be purchased	136.00	85.00	130.90	25.50
Add: Lose of Weight* (Seasoning)	24.00	15.00	23.10	4.50
Quantity to be purchased (Gross)	160.00	100.00	154.00	30.00

(*) Quantity to be purchased × 15% / 85%

PAPER – 6F: MULTIDISCIPLINARY CASE STUDY

Case Study 5

Ludhiana, Punjab is famous industrial hub for manufacturing industrial goods, machine parts, auto parts, household appliances, hosiery, and apparels. PQR Ltd. is a manufacturing company based in Ludhiana manufacturing chain drives. Sanjiv Pahuja is the Managing Director of the company.

The chain drives manufactured by the company are used by various industries and are used in hydraulic lifts, overhead hoists, conveyer belts, etc. Ludhiana is also a major hub for manufacturing bicycles. The product of the company is procured by leading bicycle manufactures in the country. Bicycles and its parts using chain drives manufactured by PQR Ltd. are sold not only within the country but are exported all across the world. Having expertise in the business, the company is often engaged as consultants for installation of conveyor belts and other systems in manufacturing and automated movements of various materials. Thus, PQR Ltd. has both manufacturing and service revenue streams.

PQR Ltd. has deployed the following applications for its business activities:

Application Name	Purpose
QWERTY	Allows employees to fill and submit time sheets
ASDF	Financial accounting and reporting (has an interface with PQRT)
PQRT	Cost Accounting and reporting (has an interface with ASDF). This was provided free of cost along with ASDF application.
CRT	Internal knowledge repository
VMS	Internal share point portal used for utilities such as leave management, storing policies and procedures of PQR Ltd., creating email signatures, meeting room booking and cab booking system etc.
SWIPE	Logs employee swipe in / swipe out data

Sanjiv Pahuja is also coordinating implementation of Ind AS in the PQR Ltd. The company falls under phase 2 of IND AS implementation. Following are details of the financials (in Rs. Crores):

Revenue (including royalty income from patent registered in India)	1000
Direct expenses (including expense related to patent registered in India)	550
Depreciation as per books of accounts	100
Interest expense	50
Actuarial Gains	30
Advance tax	50
Expense relatable to patent chargeable to tax u/s 115BBF	50
Income relatable to patent chargeable to tax u/s 115BBF	75
Depreciation as per Income Tax	75

After promulgation of Goods and Service Tax, Sanjiv Pahuja is very apprehensive of its impact on the business. He is disturbed by the news reports and the general grapevine that have raised several challenges in the implementation of Goods and Service Tax. Highly concerned, the company appointed XYZ Co. Chartered Accountants to prepare Risk Control Table and ascertain the impact of GST on the processes followed.

XYZ Co. is leading firm of Chartered Accountants in Chandigarh rendering services to several big corporates in Punjab and Haryana. After a long discussion between the Managing Director of PQR Ltd. and XYZ Co. the firm of Chartered Accountants was asked to identify and suggest new controls which PQR Ltd. should design and implement due to GST implementation.

The Chartered Accountants deployed a team to study the existing processes within the company. Extensive interviews were also conducted of senior managerial personnel in the company.

It was noted that the PQR Ltd. uses 'WSM' ERP for accounting, financial reporting and inventory management. Below are the notes prepared during process understanding discussions held with respective team members of PQR Ltd.:

Purchase to pay process

1. Vendor creation process

Procurement team maintains list of vendors along with the agreed prices in WSM system. In case of better prices being available, the procurement team sends an initial requirement list to the prospective vendor. The initial requirements contain details such as government proofs and tax registrations. On receipt of the requirements from the vendor, the procurement team verifies the same to ensure validity of documents shared. Once the data requirements are fulfilled, the draft agreement is prepared by legal department and the proposal is shared for senior management approval.

Once approved, the vendor is added to the list of vendors in WSM application.

2. Purchase Requisition (PR) & Purchase Order (PO)

Individual employees and designated department heads can raise PR. The PR contains the item details and quantity. The PR is raised in IJK tool which has in – built workflow for PR processing. The PR is sent to supervisor of the requestor for business approval. Thereafter, it is transferred to procurement team for further processing. Procurement team verifies the requested items and approvals. Then it first checks whether any stock is available in house or at any other office location. If not, then it identifies appropriate vendor and raises PO in WSM application for the requested quantity and agreed amount.

3. Goods receipt & invoicing

- a. *In case of non-factory items:* On delivery of the requested item, requestor performs receipt by collecting the items and informing procurement team over email that requested items have been received. The invoice is separately sent to Finance for payment. A copy of the invoice is sent to Procurement for their records.
- b. *Goods receipt at factory / warehouse:* Designated personnel verifies the delivery challan against invoice and unloads the goods. The designated personnel informs the procurement team over email that requested items have been received. The invoice is separately sent to Finance for payment. A copy of the invoice is sent to Procurement for their records.

4. Payment

Finance checks the PO raised in WSM and matches the same with invoice received. On satisfactory verification of quantity and price, the invoice is approved and payment is released. There may also exist non – PO based expenses for which invoice is the only document. These are processed on invoice receipt and payment released by Finance. Procurement is not involved in these expenses.

5. Reconciliations & Reporting

On monthly basis, the Finance team files returns and makes payment of VAT, CST, Excise and Service Tax.

Order to cash process

1. Customer creation

Directors and above designated personnel send requests to Receivables team. Receivables team obtains the required government proofs and tax registrations from the prospective customer. These documents are vetted by the Receivables team and they provide their approval. On receiving Receivables approval, the customer agreement is prepared by legal department in consultation with the Director who raised the customer request. The agreement is then sent for BOD review and upon approval, shared with the customer for their signatures and approval. Once approved and signed, the customer is added to the list of customers in WSM application.

2. Customer Invoicing

- a. *Services: For those customers where billing is based on time and motion basis, the invoices are raised as per the frequency mentioned in the customer agreement. The amount is based on the hours charged which is recorded in the timesheet and appears as work in progress (WIP) amount. Timesheets are recorded in the WSM ERP. There is an approval workflow built into WSM ERP for reviewing and approving timesheets. Where billing is based on milestones or fixed price, the invoice is raised as per the frequency in the agreement. The amount is based on the percentage of completion (POC). The invoices are generally due in 30 days after receipt.*
- b. *Manufacturing: Sales Order (SO) is created in WSM against the PO received from customer. Designated personnel at the factory / warehouse review the order and ascertain whether stock exists for immediate shipment or production is required. If not in stock, indent is created for the production. Once produced / stock ready, quality checks are performed and invoice is generated at factory / warehouse from WSM ERP. Goods are then shipped along with the invoice. Invoice once generated in the WSM system cannot be changed.*

3. Accounts Receivable

The Receivables team uses the WSM application to extract the Debtors Ageing Report. This report is used to track outstanding dues and send email reminders. The receivables are divided into buckets of 30 days, 60 days, 90 days, 180 days and 360 and above days.

4. Reconciliations & Reporting

On monthly basis, the Finance team files returns makes payment of VAT, CST, Excise and Service Tax after considering the taxes paid on inputs.

QUESTIONS

A. Multiple Choice Questions (2 Marks each).

1. In the Risk Control Table of PQR Ltd., controls should be firstly classified into:
 - i. Preventive
 - ii. Detective
 - iii. Manual
 - iv. Automated
 - v. Entity Level
 - vi. Corrective

(a) i, iii & v

- (b) iii, iv & v
 - (c) i, ii & iii
 - (d) i, ii & vi
2. Which of the following statements are true?
- i. Control risk is the sum audit risk and detection risk.
 - ii. As per SA 402, there can be a Type 1 or Type 2 report.
 - iii. Maker checker control (segregation of duties) is a compensating control.
3. Which of the following statements are false?
- i. Detective controls provide greater audit comfort than preventive controls
 - ii. Automated controls can be preventive or detective in nature
 - iii. Statutory auditor can help management prepare Risk Control Table
 - iv. Control Deficiencies are required to be reported on the face of the audit report
- (a) i, ii & iii
 - (b) i, ii & iv
 - (c) i, iii & iv
 - (d) ii, iii & iv
4. Goods and Service Tax is:
- (a) Source based tax on consumption of goods and services
 - (b) Destination based tax only on sale of goods and services
 - (c) Destination based tax on consumption of goods and services
 - (d) Source based tax on supply of goods and services
5. PQR Ltd. undertook following transactions in October 2017:
- 1. Purchase of Raw material – Rs. 1,00,000 (excluding GST) from trader based in Punjab
 - 2. Local Sales of goods – Rs. 60,000 (excluding GST)
 - 3. Sale of goods to Andaman & Nicobar – Rs. 60,000 (excluding GST)
- Assume rates to be 9% (CGST, SGST, UTGST & IGST). The net tax payable in cash by PQR Ltd. is:
- (a) CGST – Rs.1,800 & UTGST – Rs.1,800
 - (b) CGST – Rs. 3,600
 - (c) IGST – 3,600
 - (d) UTGST – Rs. 5,400
6. Following are the GST amounts paid on purchase transactions of PQR Ltd. for the month of October 2017.
- i: Ball bearings from job worker – Rs. 5,000

- ii: Metal purchases from dealer following composition scheme – Rs. 10,000
- iii. Fixed Assets – Rs. 50,000 (The GST amount has been capitalized in the Gross Block of PQR)
- iv. Consumables from unregistered dealer – Rs. 1,000

The GST credit of PQR Ltd. for the month of October 2017 is:

- (a) 5,000
- (b) 15,000
- (c) 66,000
- (d) 16,000

7. PQR Ltd. has agreed to provide consultancy services to ABC Ltd. Following are the clauses related to billing.
- i. ABC Ltd. incurs the conveyance charges for PQR Ltd. staff who visit ABC Ltd. for providing the services. These expenses are liability of PQR Ltd. however these are not included in the sale value.
 - ii. PQR Ltd. will charge interest @ 2%p.a. for any delayed payments
 - iii. PQR Ltd. receives special subsidy from a non-Government body on consultancy given to specific industries. ABC Ltd. falls under these industries and hence PQR Ltd is entitled to receive subsidy on services provided to ABC Ltd.

Which of the above items will be included in calculating value of taxable supply?

- (a) i & ii
- (b) i & iii
- (c) ii & iii
- (d) i, ii and (iii)

8. Read the following statements:

- i. In case PQR Ltd. supplies exempted goods or services or both, it is required to issue a bill of supply instead of a tax invoice
- ii. In case PQR Ltd fails to pay creditors' dues within 6 months, the input tax credit claimed on these purchases will become ineligible.
- iii. In case PQR Ltd. receives an advance towards goods to be supplied, tax will not be payable on receipt of such advance. Turnover of PQR Ltd. in the preceding financial year is 1 crore.

Which of the above statement are true?

- (a) i & ii
- (b) i & iii
- (c) ii & iii
- (d) i, ii and (iii)

9. PQR Ltd. has entered into agreement with XYZ Ltd. which manufactures bicycles. The highlights of the agreement are as follows:

- PQR Ltd. to provide 1000 chain drives on monthly basis.

- PQR Ltd. to incur the freight, packing and insurance charges during each supply of chain drives.
- PQR Ltd. to provide servicing of the drives every fortnight.
- Payment for the servicing activity carried out during a month to be released at the end of the month.
- PQR Ltd. to assist XYZ Ltd. with maintenance of conveyor belts on quarterly basis and installation of new assembly lines as and when required.
- Payment for maintenance of conveyor belts to be released on quarterly basis after the maintenance activity is carried out.
- Terms of payment for installation of new assembly lines to be finalised as and when the requirement thereof arises.

The agreement is entered into for a period of one year.

Which of the above statement(s) is/are true?

- i. The agreement involves a composite supply of goods (chain drives) and services (freight, packing and insurance) wherein the supply of chain drives is the principal supply.
 - ii. The agreement involves a mixed supply of goods (chain drives) and services (freight, packing and insurance).
 - iii. The agreement involves continuous supply of services wherein servicing is carried out of the chain drives.
 - iv. The agreement involves mixed supply wherein the individual supplies are supply of chain drives, supply of servicing activity, supply of maintenance service and supply of installation service.
- (a) (i), (iii)
 - (b) (ii) and (iii)
 - (c) (iv)
 - (d) (i), (ii) and (iii)

10. For the applications relevant for audit, which of the areas are required to be tested by the statutory auditors?
- (a) Change management
 - (b) Change Management & Logical Access
 - (c) Change Management, Logical Access & Backup Procedures
 - (d) Change Management, Logical Access, Backup Procedures & Cyber Security

B. Descriptive/Numerical Questions

11. (a) Identify the existing risk at each stage, at different levels and control procedures in the given format of Risk Control Table for :
- (i) purchase to pay process
 - (ii) order to cash process.

Area	Risk	Control	Preventive / Detective	Manual / Automated / Entity Level

8 Marks

(b) Identify changes required in process and controls due to implementation of GST.

7 Marks

12. Which applications that are deployed by PQR Ltd for business activities are relevant for the audit? Give reasons.

5 Marks

13. Calculate Total Comprehensive Income and evaluate whether MAT is applicable. Transition amount need not be calculated. Ignore MAT on transition amount.

10 Marks

PAPER – 6F: MULTIDISCIPLINARY CASE STUDY

SUGGESTED ANSWERS / HINTS

Case Study 5

A. Multiple Choice Questions

Answer 1

(d)

Answer 2

(ii)

Answer 3

(c)

Answer 4

(c)

Answer 5

(a)

Answer 6

(a)

Answer 7

(d)

Answer 8

(d)

Answer 9

(a)

Answer 10

(c)

Answer 11

(a) (i) Risk Control Table for Purchase to Pay process:

Area	Risk	Control	Preventive / Detective	Manual / Automated / Entity Level
Vendor Creation	Unauthorized vendor creation	On receipt of the requirements from the vendor, the procurement team verifies the same to ensure validity of documents shared.	Preventive	Manual
Vendor Creation	Unauthorized vendor creation	Once the data requirements are fulfilled, the draft agreement is prepared by legal department and	Detective	Manual

		the proposal is shared for senior management approval.		
PR & PO creation	Unauthorized PRs	The PR is raised in IJK tool which has in – built workflow for PR processing. The PR is sent to supervisor of the requestor for business approval.	Preventive	Automated
Goods receipt	Under / over receiving	On delivery of the requested item, requester performs receipt by collecting the items and informing procurement team over email that requested items have been received.	Preventive	Manual
Goods receipt	Under / over receiving	Designated personnel verify the delivery challan against invoice and unload the goods.	Preventive	Manual
Payment	Over / under payment	Finance checks the PO raised in WSM and matches the same with invoice received. On satisfactory verification of quantity and price, the invoice is approved and payment is released.	Preventive	Manual

(ii) **Risk Control Table for Order to Cash process:**

Area	Risk	Control	Preventive / Detective	Manual / Automated / Entity Level
Customer Creation	Unauthorized customer creation	Directors and above designated personnel send requests to Receivables team. Receivables team obtains the required government proofs and tax registrations from the prospective customer. These documents are vetted by the Receivables team and they provide their approval.	Preventive	Manual
Customer Creation	Unauthorized customer creation	The agreement is then sent for BOD review and upon approval, shared with the customer for their signatures and approval. Once approved and signed, the customer is added to the list of customers in WSM application.	Detective	Manual

Customer Invoicing Services –	Inaccurate revenue recognition	The amount is based on the billable hours charged which is recorded in the timesheet and appears as work in progress (WIP) amount. Timesheets are recorded in the WSM ERP. There is an approval workflow built into WSM ERP for reviewing and approving timesheets.	Preventive	Automated
Customer Invoicing – Manufacturing	Sales returns due to bad quality	Quality checks are performed and invoice is generated at factory / warehouse from WSM ERP.	Detective	Manual
Customer Invoicing	Inaccurate revenue recognition	Invoice once generated in the WSM system cannot be changed.	Preventive	Automated
Accounts Receivable	Bad debts	The Receivables team uses the WSM application to extract the Debtors Ageing Report.	Detective	Automated

(b) Changes required in process and controls due to GST:

Area	Process Change	New Control
Vendor Creation	<p>a. Check for the status of proposed vendor and highlight in case of composition and un-registered vendors. In these cases, PQR Ltd. will not receive input tax credit of the tax paid. Hence these will need to be highlighted and discussed with tax / legal team before accepting.</p> <p>b. Obtain and record the 'rating' of the prospective vendor. In case of 'blacklisted vendors' discuss the same with management and decide (Section 149 of the CGST Act, 2017).</p>	Procurement team should maintain a checklist highlighting the items to be reviewed for vendor creation and should record sign off and completion of check list items against every new vendor request.
PR & PO	<p>a. In the given case PO is raised separately by the Procurement team i.e., the data from the PR does not flow into the PO. Hence PQR Ltd. may consider incorporating controls in the WSM application around creation of PO to ensure that PO cannot be raised without HSN.</p>	PO cannot be raised without HSN.
Goods receipt - In case of non-factory items & factory items	<p>a. Currently, the receiving is outside the system and the receipt confirmation is only an email from the requestor. PQR Ltd. may consider incorporating the receiving functionality into WSM application so that matching with the PO and invoice can be performed.</p>	WSM application performs matching of PO-GRN-Invoice.

Purchase invoices and Payment	<ul style="list-style-type: none"> a. IGST and customs duty is charged on imports. Same to be checked by Finance during review of invoices. b. Bill of Supply should be asked from vendors in case of non-taxable purchases (Section 31(3)(c) of the CGST Act, 2017). c. Invoices to be checked for tax payable under reverse charge d. Invoices of unregistered suppliers to be identified as in this case, PQR Ltd. will have to issue a tax invoice in terms of section 31(3)(f) of the CGST Act, 2017. e. While making payment of invoices liable to be taxed under reverse charge, payment voucher will have to be issued at the time of making payment to the vendor. 	Manual review of invoices
Reconciliation	<ul style="list-style-type: none"> a. Second proviso to Section 16(2)(d) of the CGST Act, 2017: In case of non-payment to supplier for 6 months, the input tax credit will be added to the tax liability. Hence, check required on outstanding vendor payments. 	Prepare and review Creditor Ageing Report to identify dues approaching 6 months.
Customer Creation	Obtain and record the 'rating' of the prospective customer. In case of 'blacklisted customers' discuss the same with management and decide (Section 149 of the CGST Act, 2017).	Finance team should maintain a checklist highlighting the items to be reviewed for customer creation and should record sign off and completion of check list items against every new customer request.
Customer Invoicing	<ul style="list-style-type: none"> a. Revisit customer agreements to review the bill to & ship to clauses. These will decide the place of supply and in turn determine the nature of tax namely, CGST+SGST or IGST to be applied on a transaction. b. In case of continuous supply of services and continuous supply of goods, time limits for issuing invoices need to be reviewed in terms of section 31(4) and section 31(5) of the CGST Act, 2017. c. The invoices issued should be in accordance with the time limits and other provisions prescribed under section 31 of the CGST Act, 2017 read with rule 46 of the CGST Rules, 2017. 	NA

Answer 12

Application Name	Audit relevancy	Reason
QWERTY	Yes	Time sheets contain working hours charged by employees based on which customer billing is performed. Hence this application is required to be included.
ASDF	Yes	Used for book keeping and financial reporting, hence has direct impact on the audit and has to be included.
PQRT	Yes	Since PQR Ltd. is also having manufacturing, it need to keep cost records.
CRT	No	No impact on financial data and hence not in scope. It is used for operational purposes.
VMS	Depends	Audit team should further check whether any financially relevant data is stored or generated by VMS.
SWIPE	No	Swipe data does not have financial impact. It is used for operational purposes.

Answer 13

A - Statement of Profit and Loss:

Particulars	Amount (Rs. In crores)	Amount (Rs. In crores)
Revenue		1000
Production Expenses	550	
Depreciation	100	
Interest	<u>50</u>	<u>(700)</u>
Profit before tax		300
Current tax (Working Note: 1)		(112.48)
Deferred Tax Asset created on account of difference in depreciation (Working Note: 2)		<u>8.65</u>
Profit after tax		196.17
Other Comprehensive Income:		
Items that will not be re-classified:		
Actuarial Gain		30
Income tax relating to items that will not be re-classified (Working Note: 3)		<u>(10.38)</u>
Total Comprehensive income		<u>215.79</u>

Working Note 1 (a): Computation of Total Income as per the normal provisions of the Income-tax Act, 1961:

Particulars	Amount (Rs. In crores)	Amount (Rs. In crores)
Profit Before Tax		300
Add:		
Depreciation as per books of account	100	

Expense related to patent u/s 115BBF	<u>50</u>	<u>150</u>
		450
Less:		
Depreciation as per Income-tax Rules, 1962	75	
Income chargeable u/s 115BBF	<u>75</u>	<u>(150)</u>
Total income [excluding income chargeable to tax u/s 115BBF]		<u>300</u>

Computation of Tax liability as per the normal provisions of the Income-tax Act, 1961:

Particulars	Rs. in crores
Tax payable	
On Income chargeable to tax u/s 115BBF 10% of Rs. 75 crores	7.50
On other income of Rs.300 crores @ 30%	<u>90.00</u>
	97.50
Add: Surcharge@12%	<u>11.70</u>
	109.20
Add: Education cess and SHEC@3%	<u>3.28</u>
Total tax liability	<u>112.48</u>

Working Note: 1 (b): MAT calculation:

Particulars	Amount (Rs. In crores)	Amount (Rs. In crores)
Net profit as per the statement of profit and loss		300
Add: Depreciation as per books of account	100	
Expense related to patent u/s 115BBF	50	
Actuarial Gains	<u>30</u>	<u>180</u>
		480
Less: Depreciation as per books of account	100	
Income chargeable u/s 115BBF	75	<u>(175)</u>
Book Profit		305

Computation of Minimum Alternate Tax (MAT) liability:

Particulars	Rs. in crores
Tax payable	
On Income chargeable to tax u/s 115BBF (10% of Rs. 75 crores)	7.50
On book profit of Rs.305 crores @ 18.5%	<u>56.43</u>
	63.93
Add: Surcharge@12%	<u>7.67</u>
	71.60
Add: Education cess and SHEC@3%	<u>2.15</u>
MAT liability	<u>73.74</u>

Since the tax liability under the normal provisions of the Income-tax Act, 1961 is higher than the MAT liability, the total tax liability would be Rs.112.48 crores. Advance tax of Rs.50 crores has to be deducted to arrive at the net tax liability of Rs.72.48 crores.

Working Note 2:

$$\text{DTA} = \text{Rs. } 100 \text{ crore} - \text{Rs. } 75 \text{ crore} = \text{Rs. } 25 \text{ crore} \times 34.61\% = \text{Rs. } 8.65 \text{ crore}$$

Working Note 3:

$$\text{Rs. } 30 \text{ crore} \times 34.61\% = \text{Rs. } 10.38 \text{ crore}$$

PAPER – 6F: MULTIDISCIPLINARY CASE STUDY

Case Study 6

Josch, a young IITian and an MBA with inclination towards writing started a small net based business of content writing in the year 2001 by the name – ‘21st Century Content’. Initially, his business focused on website copywriting and business blog writing. Riding the wave of sourcing work from India by western countries, his business grew quite rapidly.

Josch was also able to easily establish his business on account of high quality original content produced by him. He produced contents that scored high in the subject matter; he would extensively study a subject and write content that was directed to the target readers. With increase in business he gradually engaged freelancers and shared a part of his revenue as compensation to them.

However, he continued to do editing himself before delivering contents to the clients. With the increase in the business his focus shifted from writing contents himself to have a team to write content. He personally monitored them to ensure quality. In the year 2006 he had a team of twenty persons who were working with him on regular basis. Out of these twenty persons eight were assigned responsibility to coordinate with the clients and content writers and four worked on checking quality. Remaining persons looked after other sundry matters in business. There are also good number of external experts who were available on the basis of need. The business benefited through its unique network organization structure that comprised of separate small expert groups in each subject area. These individuals were not on regular payroll and were compensated according to their contribution. The structure helped the company define short term goals and deploy manpower when an assignment was initiated.

In the year 2008, the global economic environment went into recessionary phase. The overall business environment became quite difficult and many businesses found it tough to survive. However, recession had little impact on the business of Josch. His major customers were in United States and European countries. Half of his sales were to the customers in United States.

He also helped the clients during recession by providing free designs. He engaged seven designers and delivered contents in attractive designs. He would normally design the contents free of cost as an additional service. Sometimes when a complex design was requested by the client, he would charge a nominal price to cover cost. This became a huge selling point for his business as foreign clients found it really cheap to get the content designed from the same organisation. It also saved them time and hardship of getting the matter designed separately. Josch also got assignments that were highly technical in nature and required services of outside experts.

In the year 2008-09 his total annual turnover increased to Rs 7 crores with a profit of Rs 3.15 crores. His portfolio of activities also increased to the following:

- Marketing emails and letters

- Brochures, pamphlets, fliers
- Press Releases
- Creating miscellaneous corporate communications
- Preparation of marketing presentations.
- Writing Case studies
- Creation of White papers
- Research / Industry / Market report writing

His business grew further. In April, 2011 his business was incorporated as a private limited company with the name *Quality e-Contents India (P) Ltd.* The authorized share capital was kept as Rs. 80 crores consisting of 8 crore shares of Rs. 10 each. Out of which shares worth 11 crores were subscribed by seven of his friends. His previous business was valued at 30 crores by an independent valuer –Delhi based firm of Chartered Accountants. He was issued shares for the same amount. A Japanese venture Capital Firm Japan Offshore Venture invested a sum of 2 million dollar into the company. (\$ 1=Rs 65).

Josch became the Managing Director of the company. Articles of Association of the Company prescribe the maximum number of directors as 9. To manage the affairs of the company, different divisions were created as operations, marketing, finance and human resources. The biggest department was operations that Josch decided to handle himself. Under him he recruited a general physician, a Chartered Accountant and an engineer to look after different technical areas. The assignments were often in the areas of medicine, finance or related to engineering. The total employee strength increased to 125. At this time Josch also proposed to constitute the following committees that was kept pending:

- Audit Committee
- Stakeholders Relationship Committee
- Corporate Social Responsibility Committee

The following is the financial performance of the company in last five years.

Particulars	2016-17	2015-16	2014-15	2013-14	2012-13
Net Sales (Rs. Crores)	44	50	58	54	34
EBITDA (Rs. Crores)	26	28	30	20	18
Net Profit (Rs. Crores)	18	20	22	12	8

Josch was very positive about his business and wanted to expand it further. He also desired to enter into the business of printing. With existing client base he felt that he can easily achieve success by

exporting printed material to the foreign clients. He called a meeting of senior company executives in May, 2017 to consider expansion into printing business. The following is the excerpt of discussion:

Josch

Our company has been growing steadily. Copywriting and creation of designs have given us significant growth. Now it is time for next leap. Let us install a state of Art printing press. The Japanese venture capitalist has agreed to make further investments in the company. They have assured another 2 million dollars. They are also ready to put in more if we convert Quality e-Contents India (P) Ltd to a public company listed in major bourses in country. It is time for us to make a killing.

Laxman, Head Finance

Printing is totally a new area for the company. In Delhi and in adjoining cities there are several printing presses. We can take printing assignment. However, instead of creating our own infrastructure, we may test the concept by outsourcing it to outside printing presses. This way we will reduce risk.

Josch

We should not be pessimistic and kill the idea as soon as it is floated. Let us analyse it and if this group feels to drop the idea we can drop it. I have no objections. My average revenue per client will increase to five times. I already have an industrial plot in Noida. The same can be transferred at the market rate.

Laxman, Head Finance

I never tried to reject the idea. I wanted to suggest a conscious approach on account of the homework that I have done. Handing a printing press would be an altogether new experience for the company. It is a capital intensive project. The project requires huge capital and running expenses. At least 20 crores for a basic setup is required. A single sheet fed four colour offset machine of a reputed brand will cost us upward of rupees 2.5 crores. I am talking about a second hand machine and not a new machine which will be at least 7 to 8 crores. If we go for faster web offsets or increase the paper size the rates would be still more. Then we also need other infrastructure. We need to install pre-press and post press units. The company will need machines such as computer to plate machine, folding machines, perfect binders, etc.

Namira, Head – Marketing

There is nobody to handle such infrastructure in the company.

Rajnish Bhargav, Head – Operations

It would be totally new experience for all of us. We should install a new machine. I am sure venture capitalist will agree for more investments. I started my career in a pre-press department of a large press and have worked there for five years.

Namira, Head – Marketing

We also need to consider environmental issues. Recently, a lot of factories have been given notices to close their operations. We need to have a macro view of the matter. There is also new environmental policy of Government.

Josch

Any project needs to be considered from all angles. I agree we need to consider the environment and the government policies on its safeguard.

Laxman, Head Finance

As an option we may also consider acquisition of a firm located in Gurgaon. They have all the infrastructure for pre-press and post-press work. They have existing clients for such kind of work in Gurgaon. We can buy our own machinery and install in its premises that has ample space.

Josch

My focus is not on Indian clients. I know the firm and it has obsolete machines.

Josch was able to convince all the members of group on purchase of new machine and installation of other infrastructure. The same was also approved by the board later which sanctioned an outlay of thirty crores. They also decided to increase the Share Capital and invite Japanese venture Capitalist to invest more in the company.

The company also decided to import two new printing machines. One of the machine was imported from *Iceberg* in Germany. A contract was made with *Iceberg* on CIF basis. However, on account of delayed implementation of the contract on part of the *Quality e-Contents India (P) Ltd* and increase in the prices, *Iceberg* refused to supply the machine at the price decided earlier. There were detailed discussions between the two parties. As a result of several negotiations, the parties agreed for a negotiated price payable as follows:

Particulars	Contract Price (€)	Changed Price (€)	Negotiated Price (€)
<i>CIF Value</i>	3,70,000	3,90,000	3,80,000
<i>Air Freight*</i>	5000	5000	5000
<i>Insurance</i>	1850	2000	1900

**Air freight includes include loading, unloading and handling charges associated with the delivery of the imported goods to the place of importation.*

Further there were vendor inspection charges (not required for making the machine ready for shipment) amounting to € 5000. There was also commission payable to local agent of the exporter at the rate of one per cent of FOB in local currency. The Inter-bank rate 1 € = Rs. 104. The other particulars relating to rate of duties and date of filing of bill of entry etc. are as follows:

Date of bill of entry	Basic customs duty	Exchange rate in Rs. (notified by CBEC)
22.01.2018	15%	102

Date of arrival of aircraft	Basic custom duty	Exchange rate in Rs. (notified by CBEC)
25.01.2018	10%	100

The machine was not liable to GST compensation cess. Rate of integrated tax is 18%.

A. Multiple Choice Questions (2 Marks each).

- The company of Mr. Josch wanted to appoint Mr. Rajesh Thakker (an eminent fashion designer) as additional director. However, Mr. Rajesh Thakker was not having the Director Identification number (DIN). Thus, he applied for DIN. In how many days does Mr. Rajesh Thakker has to intimate his Director Identification Number to the company?
 - within 15 days from the receipt of DIN
 - within 30 days from the receipt of DIN
 - within 1 month from the receipt of DIN
 - None of the above
- As per the provisions of the Companies Act, 2013, the Board of Directors of the company wants to contribute to charitable funds for the year 2017-18. What is the maximum amount of contribution that the company can make without prior permission from the company in general meeting:
 - 0.8 crores
 - 1.0 crores
 - 2.4 crores
 - 3.0 crores.
- Company shall directly or indirectly give loan or guarantee to any person/other body corporate—
 - not exceeding 60 % of Paid up share capital and free reserves or 100%. of its free reserves and securities premium account, whichever is more
 - Exceeding 60% of paid up share capital, free reserves and securities premium account or 100% of its free reserves and securities premium account, whichever is less
 - exceeding 60% of its paid-up share capital, free reserves and securities premium account or 100% of its free reserves and securities premium account, whichever is more
 - not exceeding 60% of its paid-up share capital, free reserves and securities premium account or one hundred per cent. of its free reserves and securities premium account, whichever is more

4. Suppose the Quality-e content (Pvt.) Ltd. wants to get merged with the any other company. Who amongst the following are eligible to raise objections to the scheme of compromise and arrangement:
- (a) Persons holding less than 10% of shareholding or having debt amounting less than 5% of the total outstanding debt as per the latest audited financial statement
 - (b) Persons holding less than 10% of shareholding or having debt amounting 5% of the total outstanding debt as per the latest audited financial statement
 - (c) persons holding in 10% of shareholding or having debt amounting less 5% of the total outstanding debt as per the latest audited financial statement.
 - (d) persons holding 10% or more of shareholding or having debt amounting 5% of the total outstanding debt as per the latest audited financial statement.
5. As per the requirement of the Companies Act, 2013, which companies do not require the holding of at least one meeting of the Board of Directors to be conducted in each half of a calendar year with ninety days gap between the two meetings :
- (a) private company
 - (b) Private start-up company
 - (c) Both the company
 - (d) None of the above
6. Import and export under the Foreign Trade Policy without _____ number is not permitted unless specifically exempted.
- (a) IEC
 - (b) GSTN
 - (c) PAN
 - (d) All of the above
7. Mr. Z has imported certain goods from Singapore. He intends to clear the goods from the customs station for home consumption. The vessel containing the goods arrives at customs station on 05.10.20XX. 06.10.20XX is a public holiday. Mr. Z has not filed the bill of entry till the time the vessel arrived at the customs station. Mr. Z can file the bill of entry latest by:
- (a) 05.10.20XX
 - (b) 06.10.20XX
 - (c) 07.10.20XX
 - (d) 08.10.20XX

8. Which of the following statements are true in case of supply of goods by a Special Economic Zone (SEZ) unit to a unit in Domestic Tariff Area (DTA)?
- (1) No customs duty is leviable on the goods removed from SEZ to DTA.
 - (2) Goods removed from SEZ to DTA are leviable to customs duties, including anti-dumping, countervailing and safeguard duties under the Customs Tariff Act, 1975, as leviable on goods when imported into India.
 - (3) Goods removed from SEZ to DTA are leviable to customs duties, as leviable on goods when imported into India. However, anti-dumping, countervailing and safeguard duties cannot be imposed on such goods.
 - (4) The liability to pay the customs duties, as applicable, is on the SEZ unit.
 - (5) The liability to pay the customs duties, as applicable, is on the DTA unit.
- (a) (1)
 - (b) (2) and (4)
 - (c) (2) and (5)
 - (d) (3) and (5)
9. Who is/are related persons in terms of customs valuation rules for imported goods?
- (a) Members of the same family.
 - (b) One person indirectly controlling the other person.
 - (c) Employer and employee.
 - (d) All of the above
10. For export goods, the relevant rate of exchange for the purpose of conversion of the value of export goods is the rate prevalent on the date of:
- i. Filing shipping bill
 - ii. Filing bill of export
 - iii. Filing bill of entry
 - iv. Let export order
- Identify the correct option
- (a) (i) and (ii)
 - (b) (i) and (iv)
 - (c) (i), (ii) and (iv)

(d) (iii)

B. Descriptive/Numerical Questions

11. (i) In this case the Articles of association of the Company has prescribed the maximum number of directors as 9. Suppose, the Board of Directors of the company proposes to increase the number of Directors to 15. Advise, whether Board of Directors can do so? **(5 Marks)**
- (ii) Mr. Josch, the director of the company goes abroad for a period of more than 3 months and an alternate director 'Mr. Neeraj' has been appointed in his place. During the period of his absence, a board meeting was called. In this connection, with reference to the provisions of the Companies Act, 2013, advise whom should the notice of Board meeting be served whether to Mr. Josch or to Mr. Neeraj? **(5 Marks)**
12. (a) Give your views on the approach of Josch to diversify to printing business? **(4 Marks)**
- (b) Namira has been asked to prepare an environmental report under the government's new environmental policy. Identify factors of environmental costs to be included in environmental report. **(6 Marks)**
13. The company seeks your advice for computing the applicable import duties/taxes on the machine imported from Iceberg Germany.
- The company also desires to know whether it can avail input tax credit of such duties/taxes paid by it?
- Further, the company seeks your assistance in optimizing the tax cost on the import of second machinery to be purchased next month. Suggest methods/ways, if any, by which the tax cost on the import of second machinery can be reduced/minimized. **(10 Marks)**

PAPER – 6F: MULTIDISCIPLINARY CASE STUDY

SUGGESTED ANSWERS / HINTS

Case Study 6

A. Multiple Choice Questions

Answer 1

(c)

Answer 2

(d)

Answer 3.

(d)

Answer 4.

(d)

Answer 5.

(a)

Answer 6.

(a)

Answer 7.

(c)

Answer 8.

(c)

Answer 9.

(d)

Answer 10.

(a)

B. Descriptive/Numerical

- 11 (i) Under section 149(1) of the Companies Act, 2013, every company shall have a Board of Directors consisting of individuals as directors and shall have a minimum number of 3 directors in the case of a public company, 2 directors in the case of a private company, and one director in the case of a One Person Company. The maximum number of directors shall be 15.

The proviso to section 149(1) states that a company may appoint more than 15 directors after passing a special resolution.

From the provisions of section 149 (1) as above, though the minimum number of directors may vary depending on whether the company is a public company, private or a one person company, the maximum number of directors is the same for all types at 15 directors.

Hence, in the question above, the maximum permissible limit is 15 directors. Thus, the Board of Directors of can increase the number by simply appointing the additional 6 directors at the general meetings of the company after following the prescribed procedure and conditions. However, if the number of directors was proposed to have been increased beyond 15 directors, such authority must be obtained from the members through a special resolution and only after that approval, new directors could be appointed.

- (ii) According to Section 161(2) of the Companies Act, 2013, the Board of Directors of a company may, if so authorised by its articles or by a resolution passed by the company in general meeting, appoint a person, not being a person holding any alternate directorship for any other director in the company, to act as an alternate director for a director during his absence for a period of not less than three months from India.

According to section 173(3), a meeting of the Board may be called by giving atleast a 7 days' notice in writing to every director to his registered address with the company and such notice shall be sent by hand delivery or by post or by electronic means.

There is no legal precedence whether the notice of the meeting is to be sent to the original director or the alternate director. But as matter of prudence the notice of the meeting may be served to both the alternate director as well as the original director who is for the time being outside India.

12. (a) Josch is an ambitious person and wishes to diversify into an related area of content creation. To some extent the experience of the organization in creating designed contents precludes the printing work and a diversification into printing can be a natural extension. Moreover, the existing customer base can be developed as customer of new business. Thus the organization can make synergistical gains by entering into printing work.

At the same time the company is taking significant risk as the printing press would be a different kind of work that would require different skill sets. The company needs to make huge capital expenditure. As there is significant competition, the alternative of testing waters by outsourcing printing work could have been a viable alternative at least during the initial years. This way risk could have been reduced. Moreover, a new team with different skillsets would be required to manage the new business. There can be manpower challenges as the organization has no experience in the work related to printing press.

- (b) The categories of costs would be as follows:

- ◆ Environmental Prevention Costs– Those costs associated with preventing adverse environmental impacts. Examples include
 - Evaluating and picking pollution control equipment
 - Site and feasibility studies
 - Investment in protective equipment
- ◆ Environmental Appraisal Costs– The cost of activities executed to determine whether products, process and activities are in compliance with environmental standards, policies and laws. Examples include
 - Regulatory compliances
 - Performing contamination tests
- ◆ Environmental Internal Failure Costs – Costs incurred from activities that have been produced but not discharged into the environment. Examples include

- Recycling scrap
 - Disposing toxic material i.e. printing ink
- ◆ Environmental External Failure Costs – Costs incurred on activities performed after discharging waste into the environment. These costs have adverse impact on the organisation's reputation. Examples include
- Cleaning up
 - Restoration
13. The customs duties/taxes payable on imported goods is computed in accordance with the provisions prescribed under Customs Act, 1962 read with Customs Valuation (Determination of Value of Imported Goods) Rules, 2007. Accordingly, the applicable customs duties/taxes are computed as under:

Computation of total custom duty/tax payable

Particulars	Amount (€)
CIF value (negotiated price) [Note-1]	3,80,000
Less: Air freight	5,000
Less: Insurance	<u>1,900</u>
FOB value	3,73,100
Add: Vendor inspection charges [Note-2]	Nil
Freight [Note-3]	5,000
Insurance [Note-4]	<u>1,900</u>
	3,80,000
Exchange rate is Rs. 102 per € [Note-5]	
	Rs.
Value in rupees	3,87,60,000
Add: Commission payable to local agent [1% of FOB value] [Note-6] = (€3,73,100 × Rs. 102) × 1%	3,80,562
Total (Assessable Value)	3,91,40,562
Add: Basic custom duty @ 10% (rounded off) [Note-7] [A]	39,14,056
EC and SHEC (3% of Rs. 39,14,056) [rounded off] [B]	1,17,422
Value for levying integrated tax	4,31,72,040
Integrated tax leviable under section 3(7) of Customs Tariff Act, 1975 @ 18% (rounded off) [Note 8] [C]	77,70,967
Total customs duty/tax payable [A]+[B]+[C]	1,18,02,445

Notes:

1. As per section 14 of the Customs Act, 1962, the value of the imported goods is the transaction value, which means the price actually paid or payable for the goods. In this case, since the contract was re-negotiated and the importer paid the re-negotiated price, the transaction value would be such re-negotiated price and not the contract price.
2. Only the payments actually made as a condition of sale of the imported goods by the buyer to the seller are includible in the assessable value under rule 10(1)(e) of the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007 [Customs Valuation Rules]. Charges of

vendor inspection on the goods carried out by foreign supplier on his own and not required for making the goods ready for shipment, are not includible in the assessable value of the imported goods [Bombay Dyeing & Mfg. v. CC 1997 (90) ELT 276 (SC)].

3. Actual amount incurred towards freight will be considered since air freight is not more than 20% of customs FOB value [Fifth proviso to rule 10(2) of the Customs Valuation Rules].
4. Actual insurance charges paid are includible in the assessable value as per rule 10(2)(b) of the Customs Valuation Rules.
5. Rate of exchange notified by CBEC on the date of filing of bill of entry will be considered as per third proviso to section 14 of the Customs Act, 1962.
6. Commission paid to local agent of the exporter (since it is not buying commission) is includible in the assessable value [Rule 10(1)(a)(i) of the Customs Valuation Rules].
7. As per proviso to section 15 of the Customs Act, 1962, rate of duty will be the rate in force on the date of presentation of bill of entry or on the date of arrival of the aircraft, whichever is later.
8. Integrated tax leviable under section 3(7) of the Customs Tariff Act, 1975 is levied on the sum total of the assessable value of the imported goods, customs duties and applicable education cess and secondary and higher education cess.

Input tax credit of import duties/taxes paid on import of goods

Goods and Service Tax (GST) Laws enable a supplier to avail credit of input tax charged on supply of goods and services used in the course or furtherance of business to be set off against the GST leviable on output supplies. Basic customs duty and education cesses leviable thereon do not fall within the scope of input tax as defined under section 2(62) of CGST Act. However, integrated tax charged on import of goods is input tax in terms of sub-clause (a) of section 2(62). Therefore, integrated tax amounting to Rs. 1,55,41,934 paid on import of the machinery will be available as input tax credit to the company.

The company cannot avail credit of basic customs duty and education cesses leviable thereon.

Tax optimization on second machinery

Since Quality e-Contents India (P) Ltd intends to export the designed and printed material to its foreign clients, it can avail the benefits extended to exporters under Foreign Trade Policy (FTP). Exports are promoted through various promotional schemes offered under FTP. The principle is that goods and services should be exported and not taxes. Hence, the taxes on exports are either exempted or adjusted or refunded on both outputs and inputs, through schemes of Duty Exemption, Duty Refund (Drawbacks and Rebates).

Capital goods can be imported at NIL duty for the purpose of exports under Exports Promotion Capital Goods Scheme (EPCG). EPCG permits exporters to import capital goods for pre-production, production and post-production at zero customs duty or procure them indigenously without paying duty in the prescribed manner. In return, exporter is under an obligation to fulfill the export obligation (EO).

Import under EPCG scheme shall be subject to an export obligation equivalent to 6 times of duty saved on capital goods to be fulfilled in 6 years reckoned from the date of issue of authorization. Import of capital goods shall be subject to 'Actual User' condition till export obligation is completed. After export obligation is completed, capital goods can be sold or transferred.

There is one more scheme under FTP through which import duty on capital goods can be neutralised namely, Post Export EPCG Duty Credit Scrip(s). Under this scheme, capital goods can be imported on full payment of applicable duties in cash. Later, basic customs duty paid on Capital Goods is remitted in the form of freely transferable duty credit scrip(s). Duty remission shall be in proportion to the EO

fulfilled. These Duty Credit Scrip(s) can be utilized in the similar manner as the scrips issued under reward schemes can be utilised.

Thus, Quality e-Contents India (P) Ltd can import the second machinery under EPCG scheme or Post Export EPCG Duty Credit Scrip scheme to neutralise the import duties.

PAPER – 6F: MULTIDISCIPLINARY CASE STUDY

Case Study 7

SZ Ltd. is a company listed at Bombay Stock Exchange. Company is engaged in manufacturing and selling of Cars. Company was established in the year 2000. Since its establishment till March 2018, company has a strong track record and achieved its targets in consistent manner.

SZ Ltd felt that automatic transmission was the need of the hour for India. There were numerous constraints in offering this feature in small and price sensitive cars. Nevertheless, it made all efforts to offer a cost-engineered product to fulfil customer expectations. This path-breaking technology enhanced convenience for Indian consumers. Traditional auto transmissions are not only expensive to own, but have a high running cost as well. AGS technology overcame both these disadvantages.

At the core of SZ's strategy is the desire to meet customer expectations and delight them with exciting products, features and technology relevant to market conditions. During the year 2017-18, there was continued progress on product development. The Company was able to launch 3 new vehicles, all in new segments, pioneering new technologies and a disciplined focus on cost efficiency.

In hindsight, the decision to develop a state-of-the-art R&D centre in India, taken in 2012, has proved to be a pivotal step in augmenting the Company's capability in vehicle design and development. It would help SZ Ltd meet the specific needs of Indian customers. The Karnal centre is now an integrated facility with different test tracks, requisite testing and safety labs, which help the Company conceptualise, design and develop new products and upgrade the existing portfolio at a faster pace.

The R&D centre is also helping the company test and validate products to meet newer regulations. While India will move to new safety and emission regulations over the next two to three years, two of the company's models are already certified and approved for advanced vehicle safety regulations, ahead of the deadline.

With regard to production, the situation became challenging due to limited capacity on the one hand and the popularity of certain models on the other. To meet unserved demand, the Company needed to manufacture beyond planned capacity. Through various innovations at the shop-floor and strong team work, the Company could achieve a production volume beyond the combined production capacity of Nagpur and Pune plants.

SZ Ltd owned eight different units for manufacturing of cars. Due to labour problems the company closed down two units and in this process incurred an expenditure of Rs. 15 Lakhs on additional wages which was debited to Statement of profit or loss.

SZ suffered a grievous loss when Mr. G passed away in May this year. He had joined the Board in September 2007 and was the Audit Committee Chairman since then. His depth of knowledge, wisdom and commitment to the Company was a source of huge strength to the entire Board. Mr. B has replaced him as Chairman of the Audit Committee.

Company's Articles empower the Board of Directors to appoint additional director. The Board of Directors, therefore, appointed Mr. K as the additional director. It may, however, be pointed out that earlier, the proposal to appoint Mr. K, as a director on the Company's Board was rejected by the members at the company's Annual General Meeting. His wealth of experience and knowledge would be of immense benefit to the Company.

Mr. A is one of the directors of the company. He intends to construct a residential building for his own use. The cost of construction is estimated at Rs. 1.50 Crores, which Mr. A proposes to finance partly from his own sources to the tune of Rs. 60 lacs and the balance Rs. 90 lacs from housing loan to be obtained from a housing finance company. For the purpose of obtaining the loan, he has approached the housing finance company which has in principle agreed to grant the loan, but has put a condition. The condition put by the housing finance company is that the Company SZ Ltd. of which Mr. A is a director should provide the guarantee for repayment of the loan and interest as per the terms of the proposed agreement for granting the loan to Mr. A.

The total revenue is Rs 5000 Lakhs as against 4500 Lakhs and 4000 Lakhs in the immediately preceding previous year showing an increase of 11 percent in the current year. Sale of vehicles in the domestic market was 1015 units as compared to 925 units in the previous year showing an increase of 10 percent.

A calendar of meetings is prepared and circulated in advance to the Directors. During the year, five board meetings were held, the details of which are given in the Corporate Governance Report.

The Company was awarded the highest financial credit rating of AAA on its bank facilities by CRISIL. The rating underscores the financial strength of the Company in terms of the highest safety with regard to timely fulfillment of its financial obligations.

The Company was awarded ISO/IEC 27001:2005 certification by STQC Directorate (Standardization, Testing and Quality Certificate), Ministry of Communications and Information Technology, Government of India after re-assessment. In 2015, the certification has been upgraded to 27001: 2013.

Provision for warranty is made for all vehicles sold on scientific and reliable basis for replacement of some spares, free of cost. The statistical data indicates that without such warranty, no customer is prepared to buy a vehicle.

2017-18 is in many ways an important year for the Company. The implementation of the GST started from the 1st of July and it expected it to be a game changer for Indian industry and the economy. The company hired a team of professionals for the purpose to guide it on the matters concerned with the GST.

The Company's outward taxable supplies in the month of October,2017 (a tax period) are :

Particulars	(Rs. In Lakhs)
Intra-State supply of Cars	400
Inter-State supply of Cars	150

It has also furnished the following information in respect of purchases made by it in that tax period:

Particulars	(Rs. In Lakhs)
Intra-State purchases of Spare parts	150
Inter-State purchases of spare parts	25

ITC with the company at the beginning of the tax period:

Particulars	(Rs. In Lakhs)
CGST	15
SGST	15
IGST	35

Note:

- (i) Rate of CGST, SGST and IGST to be 9%, 9% and 18% respectively.
- (ii) Both inward and outward supplies are exclusive of taxes, wherever applicable.
- (iii) All the conditions necessary for availing the ITC have been fulfilled.

The net profit of the company as per Statement of Profit and loss for the year ending 31-3-2018 is Rs. 150 lakhs after debiting or crediting the following:

- (i) One time licence fee of Rs. 20 lakhs paid to TEESLA INC., a foreign company for obtaining know how on 20.07.2017.
- (ii) Dividend of Rs. 12 lakhs received from ALFA INC., a foreign company in which the company holds 32% of equity share capital of the company. Rs. 50,000 was also expended on earning this income.
- (iii) The company had provided an amount of Rs. 25 Lakhs being sum estimated as payable to workers based on agreement to be entered with the workers union towards periodical wage revision once in 3 years. The provision is based on a fair estimation on wage and reasonable certainty revision.
- (iv) Company used railway platforms for advertising different models of cars by way of hoardings, banners etc. and the company is likely to make payment in the month of June, 2018 Rs. 5 Lakhs

Also, Payments due to railways for use of the assets for transportation of cars during F.Y 2017-18, the company is likely to make the payment in the month of December 2018 Rs. 2 lakhs.

- (v) Contributions made to an approved research association used for the purpose of research in social science or statistical research under section 35(1)(iii) Rs. 5 Lakh.

- (vi) Depreciation charged to the statement of profit and loss account Rs.20 lakhs.
- (vii) The opening and closing stock for the year were Rs. 90 lakhs and Rs. 68 lakhs, respectively. They were overvalued by 10%.
- (viii) Payment of Rs. 8,000, Rs. 9,000 Rs. 9,000 and Rs. 4,000 by cash on 15th September, 2018 by four separate vouchers to a contractor who carried out work at office premises.
- (ix) Legal fees incurred in defending title of factory premises of the company Rs. 3 lakhs.
- (x) Profit of Rs. 3 lakhs from hedging contracts entered into for meeting out the loss in foreign currency payment towards an imported machinery purchased from Germany for Rs. 90 lakhs, which was installed on 20.12.2017.
- (xi) The company, during the year, employed 100 new workers in the factory which was 15% of the existing work force employed on the last day during the earlier year. It paid Rs. 15 lakhs as additional wages. The workmen were employed from 01.05.2017.
- (xii) Profit on sale of land Rs. 20 lakhs.
- (xiii) Rs. 6 lakhs paid to H Ltd. towards feasibility study conducted for examining proposals for technological advancement relating to existing business; however, the project was abandoned without creating a new assets.

Additional Information:

- (a) Normal depreciation allowable as per the Income-tax Act, 1961 Rs. 22 lakhs.
- (b) Additional depreciation on plant and machinery imported and installed during December 2017 has not been considered while calculating depreciation as per the Income-tax Act, 1961 as above. The company is not eligible for any deduction under section 35AD of the Income-tax Act, 1961.
- (c) The land said during the year for Rs.70 lakhs (Guideline value as per stamp valuation authority Rs. 60 lakhs) was purchased by the company during F.Y. 2013-14. This was the only land available with the company as on 01.04.2017.
- (d) Cost inflation index F.Y. 2013-14: 220, F.Y. 2017-18: 272.
- (e) TDS on receipts as reflected in Form No. 26 AS is Rs 500000
- (f) Advance Tax paid by the company is as under :

15-06-2017	750000
15-09-2017	1500000
15-12-2017	1500000
15-03-2018	900000

QUESTIONS

A. Multiple Choice Questions (2 Marks each).

1. A taxable person received goods in his factory on 01-12-2017. Tax invoice for said goods has been issued on 15-12-2017. He took the Input Tax Credit pertaining to said goods as his supplier uploaded this invoice in his GSTR 1. The supplier has paid the tax to the Government. In which of the following circumstances, the taxable person is required to reverse the Input Tax Credit?
 - (a) If the taxable person does not make payment to supplier on or before 13-6-2018.
 - (b) If the taxable person does not make payment to supplier on or before 15-6-2018.
 - (c) If the taxable person does not make payment to supplier on or before 01-6-2017.
 - (d) He is not required to reverse the input tax credit as supplier has paid tax to the Government.

2. A taxable person has made following supplies in January, 2018 – Sales within the State – Rs. 2,00,000. Exports out of India– Rs. 60,000. Supplies to SEZ located within the State – Rs. 40,000. He intends to clear goods under Letter of Undertaking (LUT) wherever permissible. The input tax credit available to him during January, 2018 – IGST – Nil. CGST – Rs.10,000. SGST – Rs.20,000. There is no opening balance in his electronic cash ledger or electronic credit ledger. Tax rates are – SGST – 9%, CGST – 9%, IGST – 18%. How much amount is payable by him in cash?
 - (a) CGST – Rs.8,000, SGST – Nil
 - (b) CGST – Rs.11,600, SGST – Rs.1,600
 - (c) CGST – Rs. 8,000, SGST – Nil, IGST – Rs.5,200
 - (d) CGST – Rs.8,000, SGST – Nil, IGST – Rs.16,000

3. A taxable person has following liability for February, 2018: Tax payable on supplies made by him – IGST – Rs. 30,000. Tax payable on advocate services under reverse charge– CGST – Rs.5,000; SGST – Rs.5,000. Opening balance in his electronic credit ledger is as follows IGST – Rs.20,000, SGST – Rs.6,000, CGST – Rs.6,000- How much amount is payable by him in electronic cash ledger?
 - (a) IGST – Rs.10,000, SGST – Rs.5,000, CGST – Rs.5,000
 - (b) IGST – Nil, SGST – Rs.5,000, CGST – Rs.5,000
 - (c) IGST – Rs.8,000 – SGST – Nil, CGST - Nil
 - (d) IGST – Rs.10,000 – SGST – Nil, CGST - Nil

4. Which of the following statements are true for a zero-rated supply, but not for an exempt supply?
- (1) Entire value chain of the supply is exempt from GST, i.e. no tax is payable on the outward supplies and input supplies are also tax free.
 - (2) Credit of input tax needs to be reversed and no tax is payable on the outward supplies.
 - (3) Normal tax invoice needs to be issued.
 - (4) Instead of a tax invoice, bill of supply needs to be issued
 - (5) No tax is payable on outward supplies.
- (a) (1) and (3)
 - (b) (2), (3) and (5)
 - (c) (2), (4) and (5)
 - (d) (1) and (4)
5. Details of supplies of a taxable person in the month of January, 2018 are as follows - Alcoholic liquor for human consumption of value of Rs. 1,50,000. Value of architect services supplied by him in Jamnagar, Gujarat is Rs.2,00,000. Securities of face value of Rs. 1,00,000 sold for Rs. 95,000. What is the value of 'exempted supply' for purpose of section 17(2) of the CGST Act, 2017 [proportionate reversal of ITC]?
- (a) 1,50,000
 - (b) 2,50,000
 - (c) 2,45,000
 - (d) 1,50,950
6. The general annual report on the working and administration of the Companies Act, prepared by the Central Government shall be laid before the parliament within –
- (a) one year of the close of the year to which the reports relates
 - (b) Six months from the date of the closing of financial year.
 - (c) Six month of the close of the year to which the reports relates
 - (d) Nine months from the date of the closing of financial year.
7. No ITC shall be admissible in respect of which of the following Goods-
- (a) Electrical Transformers used in the factory
 - (b) Moulds & Dies used in the factory
 - (c) Pollution Control Equipment used in the factory
 - (d) Goods used for setting up Telecommunication towers.

8. Opening WDV of Block as on 1-4-2017 -10,00,000
 (15% -Rate of depreciation)
 (Asset F acquired on 31-7-2017 - 2,00,000
 All Asset sol on 31-12-2017 for - 18,00,000
 What would be WDV as on 01-04-2018
 (a) - 6,00,000
 (b) 6,00,000
 (c) Nil
 (d) None of the above
9. After appointment of a Director, it was discovered that his appointment was invalid. Acts done by such Director up to the date of discovery of default shall be:
 (a) Valid
 (b) Void-ab-initio
 (c) Illegal
 (d) To be ratified by the general meeting
10. Out of the following, under what circumstances a director shall not vacate his office?
 (a) He becomes disqualified by an order of a court or the Tribunal
 (b) he absents himself from three consecutive meetings of the board
 (c) he fails to attend all the meeting of board for consecutive period of 12 months with or without seeking leave of absence of Board
 (d) he is removed in pursuance of the provisions of the Companies Act, 2013.

B. Descriptive/Numerical Questions

11. Compute the Company's income under the head Profits and Gains of Business or Profession. ((giving reasons for treatment of each item) Ignore MAT provisions. **(10 Marks)**
12. Compute the total income and tax payable by SZ Ltd. for the A.Y. 2018-19. **(5 Marks)**
13. Compute the net GST payable by the company during the tax period. Make suitable assumptions as required. **(5 Marks)**
14. Applying the provisions of the Companies Act, 2013, answer the following:
 (i) Whether Mr. K's appointment as additional director by the Board of Directors is valid?
 (ii) Whether the Company's Annual General Meeting can appoint Mr. K as the additional director when the proposal to appoint comes before the meeting for the first time?

- (iii) In case the AGM of the company is not held within the stipulated time, decide whether Mr. K who was appointed by the Board as additional director, for the first time, can continue to act as a director? **(5 Marks)**
15. Advise Mr A, Director of the Company SZ Ltd, on the matter with reference to the provisions of the Companies Act, 2013, whether guarantee given by the company would be allowed? **(5 Marks)**

PAPER – 6F: MULTIDISCIPLINARY CASE STUDY

SUGGESTED ANSWERS / HINTS

Case Study 7

A. Multiple Choice Questions

Answer 1

(a)

Answer 2

(a)

Answer 3

(b)

Answer 4

(a)

Answer 5

(d)

Answer 6

(a)

Answer 7

(d)

Answer 8

(c)

Answer 9

(a)

Answer 10

(b)

B. Descriptive/Numerical

Answer 11

Computation of Income under the head Profit and gains of business and profession of SZ Ltd. for the A.Y. 2018-19

	Particulars	Amount (Rs.)
I	Profit and gains of business and profession	
	Net profit as per Profit and Loss Account	1,50,00,000
	Add: Items debited but to be considered separately or to be disallowed	
	Licence fee for obtaining know how Rs. 20,00,000 less depreciation thereon of Rs. 5,00,000	15,00,000

	<p>[know how is in the nature of an intangible asset eligible for depreciation @25%. Since one-time licence fees of Rs. 20 lakh paid to a foreign company for obtaining franchise has been debited to profit and loss account, the same to be added back].</p> <p>Depreciation @25% has to be provided in respect of the intangible asset, since it has been used for more than 180 days during the previous year]</p>	
	<p>Payment to H. Ltd. for feasibility study</p> <p>[Payment towards feasibility study conducted for examining proposals for technological advancement relating to the existing business, where the project was abandoned without creating a new asset, is allowable as revenue expenditure [as per the Delhi High Court ruling in CIT v Priya Village Roadshows Ltd. (2011) 332 ITR 594]. Therefore, Rs. 6 lakhs paid towards feasibility study would be an allowable expenditure. Since such expenditure has already been debited to profit and loss account, no further adjustment is required].</p>	Nil
	<p>Provision for wages payable to workers</p> <p>[There has been wage revision every three years. Since the provision is based on a fair estimation of wages and reasonable certainty revision, the same can be recognized for the purpose of Income computation. As the provision has been debited to profit and loss account, no adjustment is required while computing business income.]</p>	Nil
	<p>Payment due to railways for use of railway assets</p> <p>[As per section 43B, sum payable to Indian Railways for use of railway assets is allowable as deduction in the year in which the liability to pay such sum is incurred, only if payment is made on or before the due date of filing of return.</p> <p>Since the payment of Rs.2 lakhs is likely to be made in December, 2018 i.e., after the due date of filing return of income, the same would be disallowed in the P.Y. 2017-18.</p> <p>Since such payment is debited to the profit and loss account, the same has to be added back.</p> <p>Such payment of Rs 5 lakhs is likely to be made in June, 2018 i.e before the due date of filing the return of income, the same would be allowed in the P.Y. 2017-18.]</p>	2,00,000
	<p>Depreciation debited in books of accounts</p>	20,00,000
	<p>Over-valuation of opening and closing stock [Rs. 22 lakhs x 10/110].</p> <p>[The amount by which stock is over-valued has to be added for computing business income. Rs. 22 lakhs (Rs. 90 lakhs, being the opening stock less Rs. 68 lakhs, being the closing stock) being the difference between opening and closing stock, has to be adjusted to remove the effect of over-valuation].</p>	2,00,000
	<p>Cash payments to a contractor for office work (Rs. 8,000 + Rs. 9,000 + Rs.9,000 + Rs. 4,000)</p> <p>[As per section 40A(3), cash payments exceeding Rs.10,000 in a day to a person is disallowed,</p> <p>Hence, Cash payment of Rs. 8,000, Rs. 9,000, Rs. 9,000 and Rs. 4,000 to a contractor for office work is disallowed, since the aggregate cash payments to him in a day in respect of an expenditure exceeds the limit of Rs. 10,000.]</p>	30,000

	Legal fees [Legal fees incurred in defending title to factory premises is a revenue expenditure incurred for the purpose of business and is, therefore, allowable as deduction (Dalmia Jain & Co. Ltd. v. CIT (1971) 81 ITR 754 SC)] Since the legal fees is already debited to profit and loss account, no further adjustment is required]		NIL
			1,89,30,000
	Less: Items credited to statement of profit and loss, but not includible in business income	Amount (Rs.)	
	Dividend received from foreign company less expenditure incurred to earn dividend (Rs. 12,00,000 - Rs. 50,000) [Dividend of Rs. 12 lakhs received from foreign company is to be taxed under the head "Income from other sources" . Since the same has been credited to profit and loss account, it has to be deducted while computing business income. Consequently, expenditure of Rs. 50,000 relating to the same which has been debited to profit and loss account has to be added back. In effect, the net amount of RS. 11,50,000 has to be deducted].	11,50,000	
	Profit from hedging contract [Hedging contract is entered into for safeguarding against any loss that may arise due to currency fluctuation. The profit from such contract entered into for meeting loss in foreign currency payments towards imported machinery has to be adjusted against the cost of plant and machinery. Since such amount has been credited to profit and loss account, the same has to be deducted].	3,00,000	
	Profit on sale of land [Chargeable to tax under the head 'Capital Gains']	20,00,000	34,50,000
			1,54,80,000
	Less: Expenditure to be allowed		
	Contribution to approved research association for social science or statistical research [Contribution to approved research association for social science or statistical research qualifies for deduction @ 100% under section 35(1)(iii). Since 100% of contribution has already been debited to the statement of profit and loss, therefore, no adjustment is required].	Nil	
	Depreciation as per Income-tax Act, 1961 [Since there is a reduction in the cost of plant and machinery on account of hedging profit of Rs.3,00,000, the excess depreciation on Rs. 3,00,000 has to be added back to depreciation given as per Income tax Act, 1961. Hence, Rs. 22,00,000 – Rs. 22,500 (Rs. 3,00,000 x 7.5%.	21,77,500	

	being 50% of 15% since the machinery is put to use for less than 180 days.		
	Additional depreciation on plant and machinery [Since plant and machinery was purchased on 20.12.2017, it was put to use for less than 180 days during the year. Hence, additional depreciation is to be restricted to 10% (i.e. 50% of 20%) of Rs. 87 lakhs, being actual cost of new plant & machinery after adjusting profit from hedging contract. Balance additional depreciation of Rs. 8.7 lakhs can be claimed in the next year i.e. A.Y. 2019-20]	8,70,000	
			30,47,500
	Profits and gains from business and profession		1,24,32,500

Answer 12

Computation of Total Income of SZ Ltd. for the A.Y. 2018-19

	Profits and gains from business and profession		1,24,32,500
	Capital Gains		
	Full value of consideration [The provisions of section 50C would not be attracted as the stamp duty value is less than the actual consideration].	70,00,000	
	Less: Indexed cost of acquisition [Rs.50,00,000 x 272/220]	60,81,818	
	Long-term capital gain		8,18,182
	Income from Other Sources Dividend received from foreign company [As per section 115BBD, dividend received by an Indian company from a foreign company in which it holds 26% or more in nominal value of the equity share capital of the company, would be subject to a concessional tax rate of 15%. This rate of 15% would be applied on gross dividend, in the sense, that no expenditure would be allowable in respect of such dividend. Therefore, dividend of Rs. 12 lakhs received from a foreign company, in which it holds 32% in nominal value of equity share capital, would be subject to tax @ 15%. No deduction is allowable in respect of Rs. 50,000 expended on earning this income.]		12,00,000
	Gross Total Income		1,44,50,682
	Less: Deductions under Chapter VI-A		
	Deduction under section 80JJAA [SZ Ltd. is eligible for deduction under section 80JJAA since it is subject to tax audit under section 44AB for A.Y. 2018-19 (as its total turnover exceed Rs. 1 crore) and it has employed additional employees during the P.Y. 2017-18. Additional wages is Rs. 15 lakhs.		
	Deduction under section 80JJAA = 30% of Rs. 15 lakhs)		4,50,000
	Total Income		1,40,00,682
	Total Income (rounded off)		1,40,00,680

Computation of tax payable of SZ Ltd. for the A.Y. 2018-19

Particulars	Amount (Rs.)
Tax @ 15% on dividend from specified foreign company of Rs. 12,00,000	1,80,000
Tax @ 20% under section 112 on long term capital gain of Rs. 8,18,180	1,63,636
Tax @ 25% on the balance total income of Rs. 1,19,82,500	29,95,625
	33,39,261
Add: Surcharge @ 7% (Since total income > Rs. 1 crore but < Rs. 10 crore)	2,33,758
	35,73,010
Add: Education cess @ 2%	71,460
Secondary and higher education cess @1%	35,730
Total tax liability	36,80,200
Total tax liability (rounded off)	36,80,200
Advance tax and TDS	51,50,000
Refund due	14,69,800

Note: Since the question mention that total revenue for the Previous year 2015-16 is Rs. 40 crores. The applicable rate of tax in A.Y. 2018-19 should be 25%.

Answer 13

Computation of GST payable by SZ Ltd. on outward supplies.

S. No.	Particulars	Rs (in Lakhs)	GST (Rs. In Lakhs)
(i)	Intra-State supply of cars		
	CGST @ 9% on Rs.400		36
	SGST @ 9% on Rs. 400		36
(ii)	Inter-State supply of cars		
	IGST @ 18% on Rs. 150		27
	Total GST payable		99

Computation of total ITC

Particulars	CGST @ 9% (Rs. In lakhs)	SGST @ 9% (Rs. In lakhs)	IGST @ 18% (Rs. In lakhs)
Opening ITC	15	15	35
Add: ITC on Intra-State purchases of spare parts valuing Rs. 150 lakhs	13.5	13.5	Nil
Add: ITC on Inter-State purchases of spare parts valuing Rs. 25 lakhs	Nil	Nil	4.5
Total ITC	28.5	28.5	39.5

Computation of GST payable from cash ledger

Particulars	CGST @ 9% (Rs. In lakhs)	SGST @ 9% (Rs. In lakhs)	IGST @ 18% (Rs. In lakhs)
GST payable	36	36	27
Less: ITC	28.5 - CGST	28.5 SGST	27-IGST
	7.5 -IGST	5 - IGST	
Net GST payable	Nil	2.5	Nil

Note: ITC of IGST has been used to pay IGST, CGST and SGST in that order.

Answer 14

This is based on the provisions of the Companies Act, 2013 as contained under section 161 (1) according to which:

- (A) The Articles of a company may confer upon its Board of Directors the power to appoint any person as an additional director at any time.
- (B) A person, who fails to get appointed as a director in a general meeting of the company cannot be appointed as an additional director in the same company.
- (C) Additional director shall hold office up to the date of the next AGM or the last date on which the AGM should have been held, whichever is earlier.

In the given situation, the answers to sub-questions are:

- (i) The appointment of Mr. K as additional director by the Board of Directors is not valid because before appointing him as an additional director, the proposal to appoint Mr. K as a director on the Company's Board was rejected by the members at the company's Annual General Meeting.
- (ii) The power to appoint additional directors vests with the Board of Directors and not with the members of the company. The only condition is that the Board must be conferred such power by the articles of the company. Therefore, in the present case, the company's Annual General Meeting cannot appoint Mr. K as the additional director when the proposal to appoint comes before the meeting for the first time because the company's Articles empower the Board of Directors to appoint additional director.
- (iii) In case the AGM of the SZ Ltd is not held within the stipulated time, Mr. K. cannot continue as additional director, since he can hold the office of directorship only up to the date of the next annual general meeting or the last date on which the annual general meeting should have been held, whichever is earlier. Such an additional director shall vacate his office latest on the date on which the annual general meeting ought to have been held under Section 96 of the Companies Act, 2013. He cannot continue in the office on the ground that the meeting was not held or could not be called within the time prescribed.

Answer 15

According to section 185 of the Companies Act, 2013, no company shall, directly or indirectly, advance any loan, including any loan represented by a book debt, to any of its directors or to any other person in whom the director is interested or give any guarantee or provide any security in connection with any loan taken by him or such other person.

Thus, guarantee by Company SZ Ltd. of which Mr. A is a director, for repayment of the loan and interest as per the terms of the proposed agreement is not allowed.

Further, If any loan is advanced or a guarantee or security is given or provided in contravention of the above provisions, the company shall be punishable with fine which shall not be less than five lakh rupees but which may extend to twenty-five lakh rupees, and the director or the other person to whom any loan is advanced or guarantee or security is given or provided in connection with any loan taken by him or the other person, shall be punishable with imprisonment which may extend to 6 months or with fine which shall not be less than five lakh rupees but which may extend to twenty-five lakh rupees, or with both.

SCS (15 Sample case studies)

CASE STUDY 1

CA. M has a flourishing practice spanning in areas of auditing, taxation (both direct as well as indirect), consultancy (particularly in foreign exchange laws) in Chennai. His clients include many HNIs (High net worth individuals) apart from corporates and non-corporates.

One day, one of his HNI clients, Mr. P, called him to inquire about tweaking of certain rules pertaining to taxation on redemption of mutual fund investments. He had heard that redemption for certain types of mutual fund investments is now going to attract increased income tax payouts. He had also heard news of the same on BTBC news channel but was unable to comprehend it lucidly. There was no clarity to him whether changes have been made in income tax law or in rules framed by SEBI.

Rely Consultancy, an AMFI registered mutual fund distributor through which MF investments were made, was continuously forwarding messages received from AMFI (Association of Mutual Funds in India) to his mobile. The messages were, at the best, cryptic and required investors to be in touch with their Chartered Accountants/tax consultants.

Mr. P had an impressive investment portfolio of around ₹ 50 crores in various mutual funds and any changes in income tax payouts pertaining to it could affect his ROI adversely. Under stress, he sought for an immediate appointment with CA M. Armed with summary of investments made in mutual funds, he came to CA's office and sought his much-needed advice. The summary of mutual fund investments as on 31st March, 2023 looked as under: -

S.No.	Type of fund in which money invested	Date of Investment	Amount invested (in ₹ crores)
1	MTL Low Duration Fund	3/4/2020	10
2	Bon India Low Duration Fund	12/12/2020	15
3	ABD New Green Energy Fund	2/12/2022	15
4	SBA Life Arbitrage Fund	8/11/2021	10

Besides, he had also invested ₹ 5 lacs in a liquid fund. Since amount invested was small, he was not bothered about the same.

He also informed to CA M that funds stated at 1 and 2 are debt funds and funds stated at 3 and 4 are equity funds. He further informs that these debt funds have invested 30% of their proceeds in equity shares of domestic companies and equity funds have invested 70% of their proceeds

in equity shares of domestic companies. The investment pattern of funds is going to remain unchanged in coming years too. He was planning to redeem his entire mutual fund investment portfolio in month of October 2023 tentatively depending upon suitable market conditions.

Their discussion also veered towards returns from debt funds. Debt funds invest predominantly in government and high-grade corporate bonds. Mr. P was of the view that interest rates in economy are likely to go up in few months' times keeping in view broad macroeconomic indicators.

The discussion stretched a bit and it came out that he plans to buy a villa in Goa. He is already 65 and wants to spend quality time in scenic beauty of Goa. In fact, it transpires that he is going to make an advance payment of ₹ 1.00 crore to owner of villa, Mr. Christopher, an Indian citizen who is non-resident. The non-resident owner of villa had acquired this ancestral property through registered will of his late father. The total consideration to be paid to Mr. Christopher amounts to ₹ 5 crores (including advance payment of ₹ 1 crores).

In fact, it is also one of the reasons for planned redemption of MF investments in current financial year. He enquires from CA M regarding any precautions to be taken/legal requirements to be complied with at the time of entering such transaction. Mr. P also discusses the matter with said Mr. Christopher over phone who happens to be in India at that time for a short visit. He, in turn, also enquires from CA M regarding investment avenues, if any available to non-residents like purchase of other house/investments in NHAI bonds, under taxation laws to save capital gains tax and other requirements pertaining to filing of income tax return. It also transpires that India does not have any DTAA with the country of which Mr. Christopher is a resident.

Mr. Christopher plans to repatriate proposed sale proceeds of villa to the country in which he is resident. He does not know about modalities of the same and inquires from CA M in this matter.

I. Multiple Choice Questions

1. Mr. P has invested ₹ 10 crores in SBA Life Arbitrage fund. Which of the following statements is most appropriate about arbitrage funds?
 - (a) Such funds tend to provide better returns than equity. However, they have lower volatility in comparison to equity. Besides, they seek to capitalize on price differential between spot and futures market. Expense ratios in arbitrage funds are likely to be lower as compared to liquid funds.
 - (b) Such funds tend to provide better returns than debt instruments. However, they have higher volatility in comparison to equity. Besides, they seek to capitalize on

- price differential between spot and futures market. Expense ratios in arbitrage funds are likely to be higher as compared to liquid funds.
- (c) Such funds tend to provide better returns than debt instruments. However, they have lower volatility in comparison to equity. Besides, they seek to capitalize on price differential between spot and futures market. Expense ratios in arbitrage funds are likely to be higher as compared to liquid funds.
- (d) Such funds tend to provide better returns than equity. Therefore, they have higher volatility in comparison to equity. Besides, they do not seek to capitalize on price differential between spot and futures market. Expense ratios in arbitrage funds are likely to be lower as compared to liquid funds.
2. Mr. P is of the view that interest rates in economy are likely to rise. What likely impact it would have on NAV of debt fund? (Ignore other factors like duration of bonds etc.)
- (a) It is likely to lead to fall in NAV of debt fund.
- (b) It is likely to lead to rise in NAV of debt fund.
- (c) NAV of debt fund is likely to remain at past level.
- (d) NAV of debt fund is not affected by movement in interest rate.
3. As regards proposed purchase of villa in Goa from Mr. Christopher is concerned, which of the following statements is likely to be correct as regards deduction of tax at source (TDS) is concerned? Assume he does not have any other taxable income in India except capital gain from proposed sale of villa. Ignore surcharge and cess.
- (a) Mr. P is required to obtain TAN. TDS is required to be deducted @ 1% of ₹ 5 crores. Entire TDS can be deducted at time of/before registration of title deed.
- (b) It is not mandatory for Mr. P to obtain TAN. TDS is mandatorily required to be deducted @ 20% on ₹ 5 crores. However, TDS would be deducted at time of making advance payment as well as at time of making balance payment.
- (c) It is not mandatory for Mr. P to obtain TAN. An application can be made to Assessing Officer for determining capital gains on which tax is to be deducted. In that case, TDS would be deducted at lower rate after determination of capital gains by AO in the international wing. If lower deduction certificate is not available, TDS would be deducted at maximum marginal rate of 30% on ₹ 5 crores. However,

TDS would be deducted at the time of making advance payment as well as at time of making balance payment.

- (d) Mr. P is required to obtain TAN. An application can be made to Assessing Officer for determining capital gains on which tax is to be deducted. In that case, TDS would be deducted at lower rate after determination of capital gains by AO in the international wing. If lower deduction certificate is not available, TDS would be deducted at 20% on ₹ 5 crores. However, TDS would be deducted at the time of making advance payment as well as at time of making balance payment.
4. As regards Mr. Christopher's enquiry regarding purchase of another residential property in India and investment in bonds of NHAI (National Highways Authority of India) and filing of income tax return, which of following statements is most appropriate? (Ignore issue of refund arising on account of TDS deduction for return filing.)
- (a) Non-residents can make above said investments to save capital gains tax. However, after making investments, if he has no taxable income, there is no legal obligation to file income tax return.
- (b) Non-residents can make above said investments to save capital gains tax. However, if his total income before giving effect to deduction against such investments exceeds basic exemption limit, there is legal obligation to file income tax return.
- (c) Non-residents cannot make above investments to save capital gains tax. Such investments can be made by residents only to save capital gains tax. Therefore, question of obligation of filing of return would become superfluous as he would be compulsorily required to file income tax return showing taxable income from sale of villa.
- (d) Non-residents can make investments by purchase of another residential property in India but cannot make investments in bonds of NHAI which can be subscribed by residents only. Therefore, filing of return would depend upon whether he has taxable income left after investing in residential house property.
5. Mr. Christopher plans to repatriate from India sale proceeds of villa. Which of the following statements is most appropriate in this regard?
- (a) Proceeds up to USD 250000 can be repatriated in a financial year by using Liberalised Remittance Scheme (LRS) as it is a capital account transaction falling under the scheme.

- (b) Proceeds up to USD 250000 can be repatriated in a calendar year by using Liberalised Remittance Scheme (LRS) as it is a capital account transaction falling under the scheme.
- (c) Proceeds can be repatriated using NRO account subject to certain restrictions in a financial year.
- (d) Proceeds up to USD 200000 can be repatriated in a financial year by using Liberalised Remittance Scheme (LRS) as it is a capital account transaction falling under the scheme.

II. Descriptive Questions

- 6. Since Mr. P wants to redeem his entire portfolio in month of October 2023, what should be the advice of CA. M to him regarding income tax implications of such redemption? (Do not calculate income tax liability in each case. Just describe manner of taxation and rates. Ignore surcharge and cess). What further advice he should offer regarding news heard on TV/messages received on mobile?
- 7. Mr. P has also plan to invest further amount of ₹10 crores in MTL Low Duration Fund and Bon India Low Duration Fund taken together in FY 2023-24. What are tax implications on redemption of above investment after holding it for more than 3 years down the line? (Assume that tax law as applicable in FY 2023-24 remains unchanged at time of redemption).
- 8. Mr. Christopher, a non-resident, is planning to sell his villa in Goa. Examine validity of transaction w.r.t FEMA, 1999.

ANSWERS TO THE CASE STUDY 1

I. Answers to the Multiple Choice Questions

- 1. (c) Arbitrage funds provide better returns than debt instruments as they work on the principle of capitalizing price differential between spot and futures market. Equities are riskiest and obviously have high rate of returns. However, arbitrage funds have lower volatility as compared to equity.

Typically, expense ratios in arbitrage funds are likely to be higher as compared to liquid funds. Since arbitrage funds would carry large number of trades to capitalize price differential between different markets, expense ratios tend to be higher as

compared to liquid funds. Liquid funds invest in highly liquid money market instruments and debt securities of short tenure which are normally held till maturity resulting in lower expenses.

2. (a) Debt funds invest in government bonds/securities, high grade corporate bonds etc. There is inverse relationship between market value of bond and interest rates. As interest rate goes up, market value of bond falls and vice-versa. In economic conditions of rising interest rates, people would be unwilling to buy bonds carrying lower interest rates issued previously. Therefore, price of bond falls exhorting people to buy such bonds which were issued at a lower coupon rate. It, in turn, leads to fall in NAV.
3. (d) Tax on purchase of immovable property from non-resident owner is deducted u/s 195 of Income Tax Act, 1961 where the deductor is required to obtain TAN. There is no DTAA agreement with overseas country in which Mr. Christopher is residing. TDS would be deducted @ 20% on ₹ 5 crores. However, application can be made to AO u/s 195(2) or 197 for determination of capital gains on which tax is to be deducted. In that case, tax would be deducted at lower rate. Tax is deducted u/s 195 at the time of credit of such income to the account of payee or at the time of payment, whichever is earlier. Therefore, TDS deduction is required at time of paying advance as well as at the time of making balance payment.
4. (b) Non-residents can make investments by purchasing another residential property u/s 54 and/or by purchasing bonds of NHAI in accordance with provisions of section 54EC. There is no bar in these sections for investments to be made by Non-residents.

Under Section 139 of Income Tax Act, every person, if his total income without giving effect to the provisions of section 54 or section 54B or section 54D or section 54EC or section 54F or section 54G or section 54GA or Chapter VI-A exceeded the maximum amount which is not chargeable to income-tax, shall, on or before the due date, furnish a return of his income. Therefore, there is a legal obligation to file the return when total income before giving effect to deduction u/s 54 & 54EC exceeds basic exemption limit.

5. (c) Liberalised Remittance Scheme is available for resident individuals only. Sale proceeds of villa would be repatriated by non-resident Mr. Christopher using NRO account subject to certain restrictions in accordance with relevant regulations/circulars i.e. USD 1 million per financial year.

II. Answers to the Descriptive Questions

6. MTL Low Duration Fund and Bon India Low Duration Fund are debt funds. However, in case of MTL Low Duration Fund, holding period would likely to be more than 36 months. It would qualify as a long-term capital asset by virtue of provisions of 2(29AA) and 2(42A) of Income tax act. Therefore, long term capital gain would arise on redemption of units of this fund. Indexation benefit would be available and long-term capital gain would be taxable @ 20% u/s 112 of Income-tax Act, 1961.

In case of Bon India Low Duration Fund (another debt fund), holding period would likely to be less than 36 months. Therefore, short term capital gains would arise on redemption of units of this fund. Short-term capital gain would arise on redemption of these units taxable at normal rates of tax applicable to Mr. P. There is no special rate for short term capital gain on debt funds.

ADB New Energy Green Fund is an equity-oriented fund as it has invested more than 65% of its proceeds in equity shares of domestic companies. Short-term capital gains would arise due to redemption of units of this Fund in month of October 2023 as holding period would be less than 12 months in accordance with provisions of section 2(42A) of Income-tax Act. Such short-term capital gains of equity-oriented funds would be taxable @15% u/s 111A of Income-tax Act, 1961.

SBA Life Arbitrage Fund is also an equity-oriented fund just like ADB New Energy Green Fund. However, long term capital gains would arise on redemption of units of this fund as holding period would be more than 12 months. Such long-term capital gains would be taxable @10% u/s 112 A of Income-tax Act, 1961 exceeding ₹ 1 lakh.

CA M should inform Mr. P that there is no change in taxation pertaining to redemption of his investment portfolio as it stood on 31st March, 2023 and these would continue to be taxed as discussed above. The news/messages received by him are applicable to investments made on or after 1st April, 2023.

7. Both MTL Low Duration Fund and Bon India Low Duration Fund have invested 30% of their proceeds in equity shares of domestic companies. Finance Act, 2023 has introduced **new section 50AA** which states that capital gains arising on redemption of units of a Specified Mutual Fund which has been acquired on or after 1st April, 2023 shall deemed to be arising from transfer of a short-term capital asset. Specified Mutual Fund is a mutual fund which invests not more than 35% of its total proceeds in the equity shares of domestic companies.

Therefore, if Mr. P redeems his proposed investment even holding it for a period of more than 3 years down the line, indexation benefit would not be available to Mr. P and such income would be deemed as short-term capital gains and it would be taxable in accordance with slab rates applicable to him.

8. As per section 6(5) of the FEMA, 1999, a person resident outside India may hold, own, transfer or invest in Indian currency, security or any immovable property situated in India if such currency, security or property was acquired, held or owned by such person when he was resident in India or inherited from a person who was resident in India.

In the given case, villa at Goa was an ancestral property and was obtained through registered will of his father, who was an Indian resident. Sale of villa by a non-resident owner, is a valid transaction.

CASE STUDY 2

An article singing paeans for India's space-tech start-ups appeared in "The New York Times" recently. The article underlined that India has become home to many such start-ups. It pointed out that space technology is fulfilling smaller-scale and commercial purposes like helping farmers in timely insurance of their crops. Space technology is also helping commercial fishing fleets in tracking their catch by sending images back to Earth. Satellites are bringing phone signals to country's remotest corners and are helping in operation of solar farms far away from India's megacities. It's also one of India's most sought-after sectors for venture capital investors.

Start-ups are mushrooming in different sectors of India's economy as varied as education, health, agriculture, fintech, clean energy, electric vehicles, bio technology, waste management, food processing and even drones. *Economic Survey for year 2022-23* highlights that by capitalising on the digital infrastructure support, India has also emerged as one of the world's most vibrant destinations for start-up ecosystems. Start-ups are being envisioned as the spine of new India. In fact, India is home to world's third largest start-up eco system.

GrowFine is an ed-tech start-up incorporated as a private company in April 2023. The founders of start-up believe that some benefits are available to start-ups under income tax law. However, they are unaware about nitty-gritty of the same as they are from engineering and management backgrounds. The company had launched its products in year 2023-24 itself and had a turnover of ₹ 20 crores. It is recognized by DPIIT (Department for Promotion of Industry and Internal Trade under Ministry of Commerce and Industry) and holds a certificate of eligible business and is recognized as a technology driven start-up by competent authority.

GrowFine has issued shares to certain investors who are familiar with founders of this ed-tech start-up during year 2023-24. They believe in the business idea of founders of the company and have decided to invest money out of their own resources. These investors are wedded to idea of providing quality affordable education to all and promoting standards of education in the country. In this way, their ideological belief stands aligned with mission of founders of start-up.

The start-up GrowFine has issued equity shares having face value of ₹ 10/-per share to these individuals @ ₹ 50/-per share during year 2023-24. The fair market value of equity shares of start-up as on valuation date is ₹ 11/-per share. The existing paid up share capital of company is ₹ 1.50 crores. The company has not issued shares at premium anytime in past.

GrowFine is still in nascent stages. However, it has already launched its products and has entered a segment of the market. The market has a considerable potential for company's

business to grow. Start-ups not only need finance but they also require favourable and conducive eco system to grow. It includes not only hand holding at time of germination of a business idea but also policy measures having a legislative backing. In India, relaxations and benefits have been provided to start-ups under various laws like under Income tax Act,1961 and Companies Act,2013.

GrowFine needs talented and skilled employees for its business. However, the company is not in a position to pay high cash salaries to attract and retain employees. It is, therefore, considering route of employee stock option plans (ESOPs). Employee stock option plans provide a chance to employees to become shareholders in the company and also be benefitted by its future growth. The company plans to draft an ESOP scheme containing matters relating to grant of option, vesting period and manner of determining exercise price among others. The company is approaching many talented persons for assuming various senior roles in its organizational set-up. One such senior person, Mr. X, has shown interest in joining the company. However, he is sceptical regarding income tax implications pertaining to ESOPs. He has a doubt that it may lead to withholding of tax by start-up impacting his immediate “in-hand” salary.

GrowFine is planning to merge another start-up company engaged in similar line of activity to increase its size, revenue and scalability. However, founders of the company are clueless regarding modalities of the same under relevant laws.

Valuation of start-ups is often required for bringing in investments. The value of a start-up is dependent upon its future growth prospects. It is also quite likely that such a business idea has never been tested before. It only lies in realms of future. Another problem in start-up valuation is totally new or non-comparable business products and strategies. Start-ups also depend upon many rounds of funding. GrowFine may also approach another set of investors in further rounds of funding.

I. Multiple Choice Questions

1. From the description given in case study relating to finance brought by individuals from their own resources and whose belief in promoting affordable education to all in the country and also improving its standards is aligned with mission of founders, which type of financing for a start-up is being referred to?
 - (a) Bootstrapping
 - (b) Venture capital financing

- (c) Funding by angel investors
 - (d) Factoring
2. The founders of GrowFine believe that some benefits are available to start-ups. Considering the description provided in case study, which of the following statements is in accordance with provisions of income tax law?
- (a) Company is eligible to deduction @ 75% of its profits from eligible business for any 5 consecutive assessment years out of 10 years beginning from the year in which start-up is incorporated. Further, certificate of eligible business in this regard is provided by Inter-Ministerial Board for Certification.
 - (b) Company is eligible to deduction @ 100% of its profits from eligible business for any 3 consecutive assessment years out of 10 years beginning from the year in which start-up is incorporated. Further, certificate of eligible business in this regard is provided by Inter-Ministerial Board for Certification.
 - (c) Company is eligible to deduction @ 75% of its profits from eligible business for any 5 consecutive assessment years out of 10 years beginning from the year in which start-up is incorporated. Further, certificate of eligible business in this regard is provided by CBDT.
 - (d) Company is eligible to deduction @ 100% of its profits from eligible business for any 3 consecutive years out of 10 years beginning from the year in which start-up is incorporated. Further, certificate of eligible business in this regard is provided by CBDT.
3. As regards doubt of Mr. X regarding withholding tax in relation to ESOPs is concerned, which of the following statements is most appropriate?
- (a) Income tax would be withheld at rates in force when option is exercised and shares are allotted to Mr. X.
 - (b) The company is an eligible start-up holding certificate of eligible business. Income tax would not be withheld when option is exercised and shares are allotted to Mr. X as such transactions are exempted from withholding tax in case of eligible start-ups.
 - (c) The company is an eligible start-up holding certificate of eligible business. However, such start-up is allowed to defer withholding tax when option is

exercised and shares are allotted to Mr. X. It is deducted in required manner after expiry of certain timelines and/ or happening of certain events.

- (d) Income tax would be withheld when option is granted. Such withholding tax would be deducted at the rates in force at time option is granted to Mr. X.
4. The start-up is planning merger with another start-up engaged in similar activities. Which of the following statements is in line with provisions of law regarding proposed merger of these start-ups?
- (a) It requires filing of proposed scheme with NCLT and final order in respect of merger is made by NCLT after following a detailed procedure.
- (b) It involves giving notice of proposed scheme to Registrar and Official Liquidators and approval of scheme by both the companies. After approval of scheme by creditors, the scheme is approved by Registrar of Companies.
- (c) It involves giving notice of proposed scheme to Registrar and Official Liquidators and approval of scheme by both the companies. After approval of scheme by creditors, the scheme is filed with Regional Director, Registrar and Official Liquidators. The scheme is finally registered by Regional Director.
- (d) It requires filing of proposed scheme with NCLT and final order in respect of merger is made by NCLT after following a fast-track procedure.
5. Which of the following is not a factor to be considered for valuing a start-up like GrowFine?
- (a) Past performance indicators
- (b) Educational background of founders
- (c) Uniqueness of product launched by start-up
- (d) Traction

II. Descriptive Questions

6. GrowFine has issued equity shares to individuals having face value of ₹10/-per share at a price of ₹ 50/-per share. What are income tax implications for the same for GrowFine? What is such tax commonly and popularly known as? Under which circumstances can GrowFine claim exemption from such a tax?

7. Start-up GrowFine is also planning to approach other investors to fund its business requirements. What specific points shall be considered while carrying out due diligence of such start-up for picking up an equity interest by a prospective investor?

ANSWERS TO THE CASE STUDY 2

I. Answers to the Multiple Choice Questions

1. (c) Angel investors typically use their own money. Often, they are among an entrepreneur's family and friends. They generally invest in small-start-ups and are attached to the idea of the business floated by start-up. However, venture capitalists take care of pooled money from other investors and place them in a strategically managed fund. Bootstrapping is an attempt to build the company from personal finances or from operating revenues of the company. Factoring is a method of bootstrapping.
2. (b) Under section 80-IAC (1) of Income tax act, 1961, where the gross total income of an assessee, being an eligible start-up, includes any profits and gains derived from eligible business, there shall, in accordance with and subject to the provisions of this section, be allowed, in computing the total income of the assessee, a deduction of an amount equal to one hundred per cent of the profits and gains derived from such business for three consecutive assessment years.
- (2) The deduction may at the option of the assessee, be claimed by him for any three consecutive assessment years out of ten years beginning from the year in which the eligible start-up is incorporated.
- Further, explanation to section 80-IAC also defines eligible start-up which fulfils the following conditions namely: -
- (a) it is incorporated on or after the 1st day of April, 2016 but before the 1st day of April, 2024
- (b) the total turnover of its business does not exceed one hundred crore rupees in the previous year relevant to the assessment year for which deduction under sub-section (1) is claimed and

- (c) it holds a certificate of eligible business from the Inter-Ministerial Board of Certification as notified in the Official Gazette by the Central Government
3. (c) Under section 192(1C), a person, being an eligible start-up referred to in section 80-IAC, responsible for paying any income to the assessee being perquisite of the nature specified in sub clause (vi) of sub-section (2) of section 17 in any previous year relevant to the assessment year, shall deduct or pay, as the case may be, tax on such income within fourteen days—
- (i) after the expiry of forty-eight months from the end of the relevant assessment year or
- (ii) from the date of the sale of such specified security or sweat equity share by the assessee or
- (iii) from the date of the assessee ceasing to be the employee of the person
- whichever is the earliest, on the basis of rates in force for the financial year in which the said specified security or sweat equity share is allotted or transferred.
- Therefore, section 192(1C) provides for deferment of withholding tax in case of eligible start-ups.
4. (c) In case of merger between small companies/ start-ups, fast track procedure for merger has been prescribed under section 233 of Companies Act, 2013. It does not require filing of application with NCLT. The notices are to be given to registrar, official liquidator and Central Govt (powers delegated to Regional Director). After considering objections of registrar and official liquidator, the scheme is finally registered by Regional Director.
5. (a) In valuation of a start-up like GrowFine, there is no historical data on basis of which future projections can be drawn. Valuation of a start-up entirely rests on its future growth potential. The assessments of future growth are dependent upon competence and drive of persons running the business.

II. Answers to the Descriptive Questions

6. Under clause (vii) of Sub-section 2 of Section 56 of Income Tax Act, where a company, not being a company in which the public are substantially interested, receives, in any previous year, from any person, any consideration for issue of shares that exceeds the face value of such shares, the aggregate consideration received for such shares as

exceeds the fair market value of the shares is chargeable to income tax under head **“Income from other sources”**. Amount received by company which is in excess of fair market value of shares shall be taxable under the head “Income from Other Sources.” This tax is commonly and popularly called as **“Angel tax”**.

However, this clause shall not apply where the consideration for issue of shares is received—

- (i) by a venture capital undertaking from a venture capital company or a venture capital fund or a specified fund; or
- (ii) by a company from a class or classes of persons as may be notified by the Central Government in this behalf.

Accordingly, the Central Government has, vide Notification No. 30/2023 dated 24.5.23 notified that the provisions of section 56(2)(viib) of Income-tax Act shall not apply to consideration received by a company for issue of shares that exceeds the face value of such shares, if the said consideration has been received from any person, by a company which fulfils the following conditions specified in para 4 of notification number GSR 127(E) dated 19.2.2019 issued by Ministry of Commerce and Industry in the Department for Promotion of Industry and Internal Trade (DPIIT).

- (i) it has been recognised by DPIIT under this notification or as per any earlier notification on the subject
- (ii) Aggregate amount of paid- up share capital and share premium of the startup after issue or proposed issue of share, if any, does not exceed, twenty five crore rupees.
- (iii) It has not invested in any of the following assets, —
 - (a) Building or land appurtenant thereto, being a residential house, other than that used by the Startup for the purposes of renting or held by it as stock-in-trade, in the ordinary course of business
 - (b) land or building, or both, not being a residential house, other than that occupied by the Startup for its business or used by it for purposes of renting or held by it as stock-in trade, in the ordinary course of business
 - (c) loans and advances, other than loans or advances extended in the ordinary course of business by the Startup where the lending of money is substantial part of its business

- (d) capital contribution made to any other entity
- (e) shares and securities
- (f) a motor vehicle, aircraft, yacht or any other mode of transport, the actual cost of which exceeds ten lakh rupees, other than that held by the Startup for the purpose of plying, hiring, leasing or as stock-in-trade, in the ordinary course of business
- (g) jewellery other than that held by the Startup as stock-in-trade in the ordinary course of business
- (h) any other asset, whether in the nature of capital asset or otherwise, of the nature specified in section 56(2)(vii)(d) (iv) to (ix) of the Act.

It has been further provided that the startup should not invest in any of the above assets for the period of seven years from the end of the latest financial year in which shares are issued at premium.

A start-up fulfilling above conditions has to file a form with DIPP which is forwarded by it to CBDT. By fulfilling above conditions and taking advantage of above notification, start-up can claim exemption from paying angel tax.

7. A prospective investor shall carry out due diligence before picking up equity interest in a start-up. Background of the promoters and credentials would be looked into. It is necessary to verify start-up's claims regarding future growth and numbers. The prospective investor should be convinced about business model of start-up and type of service provided by it. The start-up should be differentiated to meet specific customer needs or to solve a unique customer problem. Besides, start-up should show potential to scale up in near future in accordance with a suitable business plan.

The prospective investor would also look for market size and likely obtainable market share and macroeconomic drivers for the market. The extent of competition in the market in this segment also needs to be looked at. Nonetheless, investor would also be looking for exit avenues. The investor would also be taking into account the fact whether a start-up is showcasing potential future acquirers or alliance partners. It is a valuable parameter for the investor. Subsequent rounds of fundings and acquisitions all are examples of exit options.

CASE STUDY 3

FST Limited is engaged in the business of manufacturing and export of ready-made garments like T-shirts, skirts, tops and similar casual wear. CA T is statutory auditor of the company and also provides tax consultancy services. He also handles matters pertaining to direct and indirect taxes of the company. On a Monday morning, he had gone to the company's office located in NOIDA for participating in a pre-arranged meeting with certain key directors of the company on some matters. The said location also houses company's manufacturing facilities.

Barely had the meeting started, a team of three officers from Income Tax department descended upon the company's premises to conduct TDS survey under Income Tax Act, 1961. After completing the necessary formalities, they asked for financial statements for last three years and evidence of TDS returns filed during those periods. Thereafter, they took control of the systems of the company containing its books of accounts. Meanwhile, directors of the company requested CA T to stay there and help them out in this situation.

After perusing company's accounts books, documentary evidence including bills for few hours, the team summarized following points/ purported lapses by the company in the matter of TDS deduction and incidental issues: -

(i) It was pointed out that company has made payments during these years to Bharat Container Corporation Limited (BCCL), a government owned PSU. The said company operates container cargo services and its terminal is linked with rail lines to various gateway ports including one at JNPT, Nhava Sheva, Mumbai.

FST Limited sends its export bound cargo utilizing above PSU's services. On going through bills raised by BCCL on FST Limited, it was observed that these pertained to charges levied by BCCL for handling containers, road transportation charges and railway freight. The team has pointed out that tax has been short-deducted for above payments made to BCCL.

(ii) FST Limited has made payments during these years to certain companies providing clearing and forwarding services for carriage of goods. The team has pointed out that tax has been deducted on these payments at inappropriate rates leading to short-deduction of tax. The team insists that these payments are in the nature of brokerage and warrant tax deduction rate of 5%.

(iii) FST Limited had also recently participated in a fair in Mumbai in 2023-24 and had paid charges of Rs.5.00 lacs towards makeshift stall and use of furniture in an exhibition centre

owned by a company. The team had pointed out non-deduction of tax at source by FST Limited on the same.

(iv) During the survey, team also stumbled upon service bills of few clearing and forwarding agents. These agents were acting as shipping agents of non-resident ship owners. FST Limited had paid ocean freight to these shipping agents of non-resident shipping lines. The team had pointed out that tax has not been deducted on ocean freight paid to these shipping agents.

Before leaving, the team raised show-cause notice (SCN) relating to above issues.

Just when he was working on preparing a reply to above SCN after few days in his office, CA T received copy of a notice forwarded by the company. The said notice issued by Superintendent (Anti-Evasion), CGST Division informed that exporter company has been flagged as a "risky exporter" on the basis of risk analysis by DGARM (Directorate General of Analytics & Risk Management). The said notice contained a long list of documents to be submitted by the company including copies of GSTR-9, GSTR-3B, GSTR-1, reconciliations with ITC reflecting on portal, reconciliation of e-way bills issued with GSTR-1, financial statements of past years. The company is exporting goods on payment of IGST. Its export bound shipments attract GST @ 5%. Subsequently, a departmental team also visited premises of the company.

On going through documents submitted by the company and after conducting necessary verifications, team raised the following issues: -

- (A) The team pointed out that fabric which is main raw material for manufacturing of garments having taxable value of Rs.50.00 lacs attracting GST rate of 5% was destroyed in a fire in premises of the company during month of April 2023. The company had availed ITC of Rs.2.50 lacs in the month of April 2023.
- (B) The company has been availing services of a security service agency for providing it with security manpower. The company has paid amount of Rs.10.00 lacs to one such security service agency (a proprietorship concern) during year 2023-24 up to date of team's visit. It is insisted that company was required to pay GST on such services under reverse charge mechanism.
- (C) It has been pointed out that company has received duty credit scrips under foreign trade policy of the government by virtue of being in export trade. These duty credit scrips, in turn, have been sold by the company to third parties. Supply of such duty credit scrips are exempt from GST under notification no.35/2017-Central tax (Rate). The team points out that company is required to reverse ITC on common input services relating to such exempt supplies.

Assume that Income Tax Law for financial year 2023-24 (AY 2024-25) is applicable in situations involving past years. Ignore surcharges.

I. Multiple Choice Questions

1. Considering matter stated at [i] relating to short-deduction of tax from payments made to BCCL by survey team in their show-cause notice, which of the following statements is most appropriate in this regard?
 - (a) Tax was required to be deducted on handling charges and railway freight. However, no tax was required to be deducted on road transportation charges under relevant provisions of law.
 - (b) Tax was required to be deducted on road transportation charges and railway freight. However, no tax was required to be deducted on handling charges under relevant provisions of law.
 - (c) Tax was required to be deducted on handling charges, road transportation charges and railway freight. The issue raised in SCN is correct and company has short deducted tax from payments made to BCCL.
 - (d) Tax was required to be deducted on handling charges and road transportation charges. However, no tax was required to be deducted on railway freight under relevant provisions of law.

2. The survey team has raised the issue of application of inappropriate rate while deducting tax from payments made to certain companies providing clearing and forwarding services at JNPT, Nhava Sheva, Mumbai. Which of following statements is likely to be correct in this regard?
 - (a) Tax was required to be deducted @ 5%. FST Limited has deducted tax from payments made to companies providing clearing and forwarding services @ 1%. Hence, there is short deduction of tax @ 4% from payments made to these companies.
 - (b) Tax was required to be deducted @ 5%. FST Limited has deducted tax from payments made to companies providing clearing and forwarding services @ 2%. Hence, there is short deduction of tax @ 3% from payments made to these companies.
 - (c) Tax was required to be deducted @ 2% and not @ 5% as pointed out by team. The issue raised in SCN is not in accordance with law.

- (d) Tax was required to be deducted @ 5%. FST Limited has deducted tax from payments made to companies providing clearing and forwarding services @ 0.5%. Hence, there is short deduction of tax @ 4.5% from payments made to these companies.
3. It was pointed out in the SCN that FST Limited has failed to deduct tax at source on payment made to a company owning exhibition centre in Mumbai for a makeshift stall and use of furniture. Which of following statements is in accordance with law in this regard?
- (a) Tax was required to be deducted at source on payment made to the company owning exhibition centre. Such type of payment necessitates deduction of tax at source @ 2%.
- (b) Tax was required to be deducted at source on payment made to the company owning exhibition centre. Such type of payment necessitates deduction of tax at source @ 10%.
- (c) Tax was required to be deducted only for charges for use of makeshift stall @ 2% and for use of furniture @ 10%.
- (d) Tax was not required to be deducted on the type of payment discussed above. Therefore, issued raised in SCN is not in accordance with law.
4. As regards destruction of stock of raw material in a fire in the month of April 2023 is concerned, which statement is most appropriate?
- (a) Reversal of ITC of Rs.2.50 lacs by the company
- (b) Reducing output liability by Rs.2.50 lacs by the company
- (c) Increasing output liability by Rs.2.50 lacs by the company
- (d) The issue raised by the team is not in accordance with law.
5. The team has raised the issue of non-payment of GST on availing services of a security agency described in case study under reverse charge mechanism. Which of the following is true in this regard?
- (a) GST of Rs.0.50 lac was required to be paid under reverse charge and ITC of Rs.0.50 lac was required to be taken by the company in its monthly GSTR-3B.
- (b) GST of Rs.1.80 lac was required to be paid under reverse charge and ITC of Rs.1.80 lac was required to be taken by the company in its monthly GSTR-3B.

- (c) GST of Rs.0.50 lac was required to be paid under reverse charge but no credit of the same was required to be taken by the company in its monthly GSTR-3B.
- (d) GST of Rs.1.80 lac was required to be paid under reverse charge but no credit of the same was required to be taken by the company in its monthly GSTR-3B.

II. Descriptive Questions

- 6. The survey team has raised the matter regarding non-deduction of tax at source on ocean freight paid to shipping agents of non-resident foreign shipping companies in its show-cause notice. How can CA T defend the company while preparing reply to show cause notice as far as this issue is concerned? Quote relevant provisions of law (including notifications/circulars) on this subject matter.
- 7. The GST team has pointed out that the company is required to reverse the ITC on common input services relating to exempt supplies of duty credit scrips. What is your opinion on this issue considering relevant provisions of law?

ANSWERS TO THE CASE STUDY 3**I. Answers to the Multiple Choice Questions**

- 1. (d) Under provisions of section 194C of Income Tax Act, 1961, tax is required to be deducted at source in accordance with provisions of this section for carrying out any work. Explanation to Section 194C explains that work shall include carriage of goods or passengers by any mode of transport other than by railways. Therefore, transport charges by railways does not require deduction of tax at source. Handling charges are in nature of service contracts and require deduction of tax at source under section 194C.
- 2. (c) The team has pointed out that tax has been deducted on payments made to certain companies providing clearing and forwarding services at inappropriate rates leading to short-deduction of tax. The team insists that these payments are in nature of brokerage and warrant tax deduction rate of 5%. However, team's view point is not in accordance with law. The expenses incurred are not in nature of brokerage. Explanation to section 194H provides that "commission or brokerage" includes any payment received or receivable, directly or indirectly, by a person acting on behalf of another person for services rendered (not being professional services) or for any services in the course of buying or selling of

goods or in relation to any transaction relating to any asset, valuable article or thing, not being securities.

However, in the given situation, services are being rendered by companies as forwarders and for facilitating their movement and carriage from port to the country of destination. Brokerage is normally associated with payment in nature of buying or selling of goods or in relation to any transaction relating to any asset. Further, circular no.715 dated 8.8.1995 issued by CBDT states that "*as regards payment to clearing and forwarding agent for carriage of goods, the same shall be subject to tax deduction at source under section 194C of Income Tax Act.*"

3. (b) Under provisions of section 194- I of Income Tax Act, 1961, any person, not being an individual or a Hindu undivided family, who is responsible for paying to a resident any income by way of rent, shall, at the time of credit of such income to the account of the payee or at the time of payment thereof in cash or by the issue of a cheque or draft or by any other mode, whichever is earlier, deduct income-tax thereon at the rate of—
- (i) two per cent for the use of any machinery or plant or equipment; and
 - (ii) ten per cent for the use of any land or building (including factory building) or land appurtenant to a building (including factory building) or furniture or fittings

Provided that no deduction shall be made under this section where the amount of such income or, as the case may be, the aggregate of the amounts of such income credited or paid or likely to be credited or paid during the financial year by the aforesaid person to the account of, or to, the payee, does not exceed two hundred and forty thousand rupees.

The company has made payment of Rs.5.00 lacs for use of building and furniture which is more than threshold limit of section 194- I. It attracts TDS @ 10% as provided for under section 194- I.

4. (a) Section 17(5)(h) of CGST Act, 2017 states that input tax credit shall not be available in respect of goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples. Since raw material having taxable value of Rs.50.00 lac has been destroyed in fire, ITC on same amounting to Rs.2.50 lac needs to be reversed by the company.

5. (b) Security services provided by a person other than a body corporate to a registered person located in taxable territory are liable to GST under reverse charge mechanism under notification number 29/2018 -Central Tax (Rate) dated 31.12.2018. Since FST Limited has availed services provided by way of supply of security personnel from a proprietary firm, it has to pay GST under reverse charge mechanism.

Further, GST rate for services i.e. 18% is applicable to such services under reverse charge mechanism and company needs to take ITC in respect of same.

II. Answers to the Descriptive Questions

6. In the given situation, FST Limited has made payment of ocean freight to agents of non-resident foreign shipping companies.

Section 194C states that any person responsible for paying any sum to any resident for carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract between the contractor and a specified person shall, at the time of credit of such sum to the account of the contractor or at the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, whichever is earlier, deduct tax at source at specified rates. In accordance with provisions of section 194 C, work also includes carriage of goods and passengers by any mode of transport other than railways.

However, Board has issued circular no.723 dated 19.9.1995 in this regard relating to shipping business of non-residents. It states that section 172 deals with shipping business of non-residents. Section 172(1) provides that the mode of the levy and recovery of tax in the case of any ship, belonging to or chartered by a non-resident, which carries passengers, livestock, mail or goods shipped at a port in India. An analysis of the provisions of section 172 would show that these provisions have to be applied to every journey a ship, belonging to or chartered by a non-resident, undertakes from any port in India. Section 172 is a self-contained code for the levy and recovery of the tax, ship-wise, and journey wise, and requires the filing of the return within a maximum time of thirty days from the date of departure of the ship.

The provisions of section 172 are to apply, notwithstanding anything contained in other provisions of the Act. Therefore, in such cases, the provisions of sections 194C and 195 relating to tax deduction at source are not applicable. The recovery of tax is to be regulated, for a voyage undertaken from any port in India by a ship under the provisions of section 172.

Section 194C deals with work contracts including carriage of goods and passengers by any mode of transport other than railways. This section applies to payments made by a person to any "resident" (termed as contractor). It is clear from the section that the area of operation of TDS is confined to payments made to any "resident". On the other hand, section 172 operates in the area of computation of profits from shipping business of non-residents. Thus, there is no overlapping in the areas of operation of these sections.

It further states that there would, however, be cases where payments are made to shipping agents of non-resident ship-owners or charterers for carriage of passengers etc., shipped at a port in India. *Since, the agent acts on behalf of the non-resident ship-owner or charterer, he steps into the shoes of the principal. Accordingly, provisions of section 172 shall apply and those of sections 194C and 195 will not apply.*

Therefore, it is very much clear from above analysis that FST Limited was not required to deduct tax at source from payments on account of ocean freight to shipping agents of non-resident ship owners. CA T can defend the company by preparing reply to SCN on these lines.

7. Section 17(2) of CGST Act, 2017 states that where the goods or services or both are used by the registered person partly for effecting taxable supplies including zero-rated supplies under this Act or under the Integrated Goods and Services Tax Act and partly for effecting exempt supplies under the said Acts, the amount of credit shall be restricted to so much of the input tax as is attributable to the said taxable supplies including zero-rated supplies.

Further, section 17 (3) states that the value of exempt supply under sub-section (2) shall be such as may be prescribed, and shall include supplies on which the recipient is liable to pay tax on reverse charge basis, transactions in securities, sale of land and, subject to clause (b) of paragraph 5 of Schedule II, sale of building.

[Explanation.- For the purposes of this sub-section, the expression "value of exempt supply" shall not include the value of activities or transactions specified in Schedule III, except those specified in paragraph 5 of the said Schedule]

In this regard, Rule 42 of CGST Rules, 2017 prescribes manner of determination of input tax credit in respect of inputs and input services and reversal thereof where input or input services have been partly used for effecting taxable supplies including zero rated supplies and partly for effecting exempt supplies.

Further, Rule 43(1) of CGST Rules, 2017 prescribes manner of determination of input tax credit in respect of capital goods and reversal thereof in certain cases including where such ITC is partly used for effecting taxable supplies including zero rated supplies and partly for effecting exempt supplies.

Explanation 1 under this clause states that for the purposes of rule 42 and rule 43, aggregate value of exempt supplies shall exclude: -

- the value of services by way of accepting deposits, extending loans or advances in so far as the consideration is represented by way of interest or discount, except in case of a banking company or a financial institution including a non-banking financial company, engaged in supplying services by way of accepting deposits, extending loans or advances and
- the value of supply of services by way of transportation of goods by a vessel from the customs station of clearance in India to a place outside India.
- the value of supply of Duty Credit Scrips specified in the notification of the Government of India, Ministry of Finance, Department of Revenue **No. 35/2017-Central Tax (Rate)**, dated 13.10.2017.

Therefore, value of supply of duty credit scrips is excluded from aggregate value of exempt supplies determined under Rule 42 of CGST Rules, 2017. Since value of such supply is excluded while determining value of exempt supplies under Rule 42, no ITC is required to be reversed in respect of such exempt supply.

Case Study Digest (Paper 6F)

CASE STUDY 1

Para 1

Amiysam Ltd. is an unlisted public company, registered under GST, incorporated since 2011, with seven directors on its board, and is engaged in the manufacturing and selling of chemical products through its several units across the country. It also exports its chemical products to certain European & Middle East countries.

Visam (P) Ltd. (VPL) is another company engaged in manufacturing and selling of only one chemical product named, 'KOH'. Its 55% equity shares were recently acquired by Amiysam Ltd. during F.Y. 2022-23, due to which the paid-up capital of VPL increased from ₹ 8 crore to ₹ 12 crore.

For acquiring such shares, Amiysam Ltd. paid a cash consideration of ₹ 10 crore to VPL and the fair value of non-controlling interest on the date of acquisition of such shares of VPL was ₹ 3 crores. VPL had incurred a loss of ₹ 4 lakhs during F.Y. 2021-22 as per its Income Tax Return (ITR) which was brought forward by it.

Para 2

Thereafter, VPL appointed Mr. Divarkar, as its whole-time company secretary and Mr. Devraj as its managing director, respectively, which are also serving on the same positions in its holding company, Amiysam Ltd.

After being appointed as managing director in VPL, Mr. Devraj acquired its 1000 shares with face value of ₹ 100/share at issue price of ₹ 130/share whereas the fair market value of such shares was ₹ 115/ share.

On 25th August, 2022, VPL sold its two machineries to Mr. Devraj, wherein one machinery was sold in exchange of a vehicle of Mr. Devraj and the other machinery was sold for ₹ 1,20,000, respectively, the WDV of which at the time of sale was ₹ 90,000. However, such other machinery was reacquired by VPL on 10th September, 2022, at a cost of ₹ 1,40,000.

Para 3

The CFO of Amiysam Ltd., Mr. Diggpal, told Mr. Devraj that from F.Y. 2022-23 onwards, the financial statements of Amiysam Ltd. would be required to be prepared on consolidation basis as the company has acquired its first subsidiary, VPL, during F.Y. 2022-23.

However, Mr. Devraj told him that he is of the view that, there would be no requirement to do so as Amiysam Ltd. is an unlisted company and also all the members of the company would be

intimated in writing that for F.Y. 2022-23, the company will not be preparing consolidated financial statements and will only issue standalone financial statements for the said year.

Para 4

Mr. Praveen has been appointed as the engagement partner for conducting the audit of Amiysam Ltd. for F.Y. 2022-23 on behalf of Ved & Co. for the 3rd consecutive year.

For the current year's audit, Mr. Praveen planned to use the audit evidence from previous year's audit about the operating effectiveness of specific controls.

For that purpose, he decided to obtain audit evidence for the significant changes that may have occurred in those controls subsequent to the previous audit. After obtaining audit evidence on the same, Mr. Praveen concluded that there were certain factors that indicated there have been changes in the controls that would require retesting the controls during the current year's audit and reliance cannot be made on the audit evidence obtained in the previous audit about such controls.

Para 5

Mr. Devraj consulted Mr. Praveen on the issue of standalone financial statements by Amiysam Ltd. to which Mr. Praveen explained him the statutory requirements applicable in the case and accordingly, Mr. Devraj was compelled to change his decision.

Rao & Co. is another firm of Chartered Accountants, in which Mr. Praveen is having 22% profit sharing ratio. The management of VPL proposed Rao & Co. to provide internal audit services to VPL from F.Y. 2022-23 onwards. However, Mr. Praveen told the management that due to certain legal restrictions, Rao & Co. would not be able to provide internal audit services to VPL.

I. Multiple Choice Questions

1. With reference to the information given under Para 2, whether there was any statutory requirement for VPL to appoint a whole time Company Secretary (CS) and whether Mr. Divarkar was eligible to be appointed as its whole time Company Secretary?
 - (a) There is no requirement to appoint a Whole time CS in a Private limited company and also Mr. Divarkar was not eligible as he was already holding office as a whole time CS in one other company i.e. Amiysam Ltd.
 - (b) Yes, as its paid up capital had exceeded the prescribed limit and also Mr. Divarkar was eligible to be appointed as its whole time CS in VPL as it was the subsidiary company of Amiysam Ltd.

- (c) Yes, as its paid up capital had exceeded the prescribed limit. However, Mr. Divarkar was not eligible to be appointed as its whole time CS as he was already holding office as a whole time CS in one other company i.e. Amiysam Ltd.
- (d) No, as its paid up capital had not exceeded the prescribed limit. However, Mr. Divarkar was eligible to be appointed as its whole time CS as it was the subsidiary company of Amiysam Ltd.
2. With reference to the information given under Para 1, whether VPL would be allowed to set off the loss of ₹ 4 lakhs for P.Y. 2021-22 and what amount would be chargeable as its income in respect of its shares acquired by Mr. Devraj?
- (a) No, as there was change in its shareholding and an amount of ₹ 15,000 would be chargeable as its income under 'Income from Other Sources' in respect of shares acquired by Mr. Devraj.
- (b) Yes, as it became a subsidiary company and so it was exempted even though there was a change in its shareholding and an amount of ₹ 30,000 would be chargeable as its income in respect of shares acquired by Mr. Devraj.
- (c) Yes, as it became a subsidiary company and so it was exempted even though there was a change in its shareholding and an amount of ₹ 15,000 would be chargeable as its income in respect of shares acquired by Mr. Devraj.
- (d) No, as there was a change in its shareholding and no amount would be chargeable as its income in respect of shares acquired by Mr. Devraj as the FMV of shares was less than their issue price.
3. With reference to the information given under Para 2, what shall be considered as the cost of machinery reacquired by VPL from Mr. Devraj, for income tax purpose?
- (a) ₹ 1,40,000
- (b) ₹ 1,20,000
- (c) ₹ 90,000
- (d) ₹ 90,000 would be considered as cost and ₹ 50,000 would be allowed to be claimed as an expense under section 37 of the Income Tax Act, 1961.
4. With reference to the information given under Para 1, what shall be the value of goodwill for Amiysam Ltd. on acquisition of 55% shares of VPL as per fair value method if the value of VPL's identifiable net assets as per Ind AS 103 is ₹ 12 crore?
- (a) ₹ 5 crore

- (b) ₹ 1 crore
 - (c) There is no goodwill arising but there is a gain on bargain purchase of ₹ 1 crore
 - (d) ₹ 2 crore
5. With reference to the information given under Para 1, what shall be the value of goodwill for Amiysam Ltd. on acquisition of 55% shares of VPL as per proportionate share method if the value of VPL's identifiable net assets as per Ind AS 103 is ₹ 12 crore?
- (a) ₹ 7.4 crore
 - (b) ₹ 5 crore
 - (c) There is no goodwill arising but there is a gain on bargain purchase of ₹ 1 crore
 - (d) ₹ 3.4 crore

II. Descriptive Questions

6. (i) With reference to the information given under Para 2, explain the manner in which VPL would have appointed Mr Divarkar and Mr. Devraj, respectively?
- (ii) With reference to the information given under Para 3, explain what statutory requirements, Mr. Praveen would have explained to Mr. Devraj that would have made him change his contention?
7. With reference to the information given under Para 2, whether there were any restrictions for VPL to sale its machinery to Mr. Devraj in exchange of a vehicle and if yes, then what legal requirements would have been followed by it?
8. (i) With reference to the information given under Para 5, due to what legal restrictions, Rao & Co. would not be able to provide internal audit services to VPL?
- (ii) With reference to the information given under Para 4, what was the responsibility of Mr. Praveen in the given case with respect to his planning to use the audit evidence from the previous audit and whether it can be said that he has adhered to his responsibility?
- (iii) With reference to the information given under Para 4, due to presence of what type of factors, Mr. Praveen might have considered to retest the controls and not to rely upon the audit evidence obtained in the previous audit about such controls?

ANSWERS TO CASE STUDY 1**I. Answers to Multiple Choice Questions**

1. (b) Yes, as its paid up capital had exceeded the prescribed limit and also Mr. Divarkar was eligible to be appointed as its whole time CS in VPL as it was the subsidiary company of Amiysam Ltd.

Reason: Requirement of Company Secretary in certain other companies- Section 203 read with Rule 8 and Rule 8A of Companies (Appointment and Managerial Personnel) Rules 2014, as amended provides that every Listed company or Public company having paid up share capital INR 10 crore or more or every Private company having paid up share capital of INR 10 crore or more **shall have a Whole time Company Secretary.**

Bar on multiple appointments- A whole-time key managerial personnel shall not hold office in more than one company at the same time **except in its subsidiary company.** [Section 203 (3)]

2. (a) No, as there was change in its shareholding and an amount of ₹ 15,000 would be chargeable as its income under 'Income from Other Sources' in respect of shares acquired by Mr. Devraj.

Reason: As per Section 79 of the Income Tax Act, 1961, Notwithstanding anything contained in this Chapter, where a change in shareholding has taken place during the previous year in the case of a company, not being a company in which the public are substantially interested, no loss incurred in any year prior to the previous year shall be carried forward and set off against the income of the previous year, unless on the last day of the previous year, the shares of the company carrying not less than fifty-one per cent of the voting power were beneficially held by persons who beneficially held shares of the company carrying not less than fifty-one per cent of the voting power on the last day of the year or years in which the loss was incurred.

During P.Y. 2022-23, there was change in the shareholding of VPL by 51% as 55% of its shares were acquired by Amiysam Ltd. and this situation is not covered in exemption to Section 79, so, VPL would not be allowed to set off loss of ₹ 4 lakhs in P.Y. 2022-23 of P.Y.2021-22.

As per Section 56 (2)(viib) of the Income Tax Act, 1961, where a company, not being a company in which the public are substantially interested, receives, in any

previous year, from any person being a resident, any consideration for issue of shares that exceeds the face value of such shares, the aggregate consideration received for such shares as exceeds the fair market value of the shares shall be taxable under Income from other sources.

Mr. Devraj acquired 1000 shares of VPL with face value of ₹ 100/share at issue price of ₹ 130/share whereas the fair market value of such shares was ₹ 115/share. Accordingly, shares were issued at premium at a price greater than its FMV. So, the amount taxable would be 1000 shares * (130-115) = ₹ 15,000 in the hands of VPL under the head income from other sources.

3. (c) ₹ 90,000

Reason: As per Explanation 4 to section 43 of the Income Tax Act, 1961, of the Act-

Where any asset which had once belonged to the assessee and had been used by him for the purposes of his business or profession and thereafter ceased to be his property by reason of transfer or otherwise, is re-acquired by him, the actual cost to the assessee shall be—

- (i) the actual cost to him when he first acquired the asset as reduced by the amount of depreciation that would have been allowable to the assessee.
 - (ii) the actual price for which the asset is re-acquired by him,
- whichever is less.

The other machinery of VPL was sold for ₹ 1,20,000, respectively, the WDV of which at time of sale was ₹ 90,000. However, such other machinery was reacquired by VPL on 10th September, 2022, at a cost of ₹ 1,40,000.

Accordingly, the WDV of such machinery at the time of sale was ₹ 90,000 and reacquisition cost was ₹ 1,40,000

Thus, ₹ 90,000 shall be considered as the cost of machinery reacquired by VPL from Mr. Devraj, for income tax purpose and ₹ 50,000 would not be allowed to be claimed as expense.

4. (b) ₹ 1 crore

Reason:

Fair value method	(₹)' crore
Fair value of consideration transferred	10

Fair value of non-controlling interest	3
	13
Value of subsidiary's identifiable net assets as per Ind AS 103	(12)
Goodwill	1

5. (d) ₹ 3.4 crore

Reason:

Proportionate share method	(₹)' crore
Fair value of consideration transferred	10
Proportional share of non-controlling interest in the net identifiable assets of acquiree (12 x 45%)	5.4
	15.4
Value of subsidiary's identifiable net assets as per Ind AS 103	(12)
Goodwill	3.4

II. Answers to Descriptive Questions

6. (i) As per Section 203(2) of the Companies Act, 2013,

- Every whole-time key managerial personnel of a company shall be appointed by means of a resolution of the Board. The resolution shall contain the terms and conditions of the appointment including the remuneration.
- A whole-time key managerial personnel shall not hold office in more than one company at the same time **except in its subsidiary company**.

As per third proviso to Section 203(2) of the Companies Act, 2013, if a person is MD or manager in some other company, it is permissible for a company to appoint him as its managing director. The *modus operandi* is as under:

- The person so appointed or employed as managing director should be managing director or manager of one, and of not more than one, other company.
- Such appointment or employment is made or approved by Board resolution at a meeting of the Board with the consent of all the directors present at the meeting.
- Further, specific notice of such meeting, and of the resolution to be moved thereat has been given to all the directors then in India.

In the given instance, VPL would have appointed Mr. Divarkar, as its whole time company secretary by passing a board resolution that should have contained the terms and conditions of the appointment of Mr. Divarkar including his remuneration.

As Mr. Devraj is also holding office as managing director in Amiysam Ltd. , Visam Pvt Ltd. would have appointed him by passing a board resolution with the consent of all the directors present at the meeting and a specific notice of such meeting and the of the resolution to be moved would have been given to all the directors then in India.

It is presumed that Mr. Devraj is holding office as managing director/ manager of only Amiysam Ltd. apart from VPL.

- (ii) **Section 129(3) of the Companies Act, 2013**, has made the consolidation of financial statements mandatory. It states that where a company has one or more subsidiaries, it shall, in addition to the financial statements provided above (i.e. standalone financial statements), prepare consolidated financial statements of the company and of all the subsidiaries in the same form and manner as that of its own which shall also be laid before the annual general meeting of the company along with its financial statements under section 129 (2) .

Exemptions from preparation of CFS: As per Rule 6 of Companies (Accounts) Amendment Rules, 2016, preparation of CFS by a company is not required if it meets the following conditions:

- (i) it is a wholly-owned subsidiary, or is a partially-owned subsidiary of another company and all its other members, including those not otherwise entitled to vote, having been intimated in writing and for which the proof of delivery of such intimation is available with the company, do not object to the company not presenting consolidated financial statements;
- (ii) it is a company whose securities are not listed or are not in the process of listing on any stock exchange, whether in or outside India; and
- (iii) its ultimate or any intermediate holding company files consolidated financial statements with the Registrar which are in compliance with the applicable Accounting Standards.

In the given instance, Mr. Devraj contended that there would be no requirement to prepare CFS, as Amiysam Ltd. is an unlisted company and all the members of the company would be intimated in writing that the company will not prepare

consolidated financial statements and will only issue standalone financial statements for F.Y. 2022-23.

However, Mr. Praveen, the auditor of Amiysam Ltd. would have explained to Mr. Devraj the aforesaid provisions of the Companies Act, 2013, and told him that even though if it is presumed that the first two conditions as aforesaid might be satisfied by Amiysam Ltd. but still it is not having holding company of its own that would be preparing consolidated financial statements and filing the same with the Registrar and thus, the third condition would remain unsatisfied because of which it would be required to prepare consolidated financial statements.

7. According to Section 192(1) of the Companies Act, 2013, no company shall enter into an arrangement by which—

- (a) **a director of the company or its holding, subsidiary or associate company or a person connected with him acquires or is to acquire** assets for consideration other than cash, from the company; or
- (b) **the company acquires** or is to acquire assets for consideration other than cash, from such director or person so connected.

Relaxation of restriction: The above restriction shall be relaxed i.e. the company may enter into an arrangement involving non-cash transactions as stated above, if prior approval for such arrangement is accorded by a resolution of the company in general meeting.

Where the director or connected person is a director of its holding company, approval shall also be required to be obtained by passing a resolution in general meeting of the holding company.

Contents of notice issued for approval of resolution: The notice for approval of the resolution in general meeting issued by the company or holding company shall include the particulars of the arrangement. It shall also include the value of the assets involved in such arrangement duly calculated by a registered valuer.

In the given instance, VPL entered into a non-cash transaction with its managing director, Mr. Devraj by selling its machinery in exchange of a vehicle.

For doing so, VPL would have taken prior approval for such arrangement vide a resolution in its general meeting and also as Mr. Devraj is a director of its holding company, Amiysam Ltd., as well, prior approval would also have been taken by passing a resolution in the general meeting of Amiysam Ltd.

Further, the contents of notice of aforesaid meetings would have included the particulars of such arrangement between VPL and Mr. Devraj and the value of the assets involved in such arrangement duly calculated by a registered valuer.

8. (i) **Section 144 of the Companies Act, 2013**, prescribes certain services not to be rendered by the auditor. An auditor appointed under this Act shall provide to the company only such other services as are approved by the Board of Directors or the audit committee, as the case may be, but which shall not include any of the following services (whether such services are rendered directly or indirectly to the company or its holding company or subsidiary company), namely:
- (i) accounting and book-keeping services;
 - (ii) internal audit;
 - (iii) design and implementation of any financial information system;
 - (iv) actuarial services;
 - (v) investment advisory services;
 - (vi) investment banking services;
 - (vii) rendering of outsourced financial services;
 - (viii) management services; and
 - (ix) any other kind of services as may be prescribed.

Further, in case of auditor being an individual, either himself or through his relative or any other person connected or associated with such individual or through any other entity, whatsoever, in which such individual has significant influence or control, or whose name or trade mark or brand is used by such individual, shall be termed as rendering of services directly or indirectly by the auditor; and in case of auditor being a firm, either itself or through any of its partners or through its parent, subsidiary or associate entity or through any other entity, whatsoever, in which the firm or any partner of the firm has significant influence or control, or whose name or trade mark or brand is used by the firm or any of its partners, shall be termed as rendering of services directly or indirectly by the auditor.

In the given instance, Mr. Praveen is having significant influence in Rao & Co. by having a profit sharing ratio of more than 20% in the said firm and Mr. Praveen is also a partner in Ved & Co. which is the company auditor of Amiysam Ltd., the holding company of VPL.

Now, if Rao & Co. provides internal audit services to VPL, it will amount to indirect provision of a prohibited service by Ved & Co. to the subsidiary company of a company of which it is an auditor and therefore, Rao & Co. would not be able to provide internal audit services to VPL.

- (ii) **As per SA 330, 'The Auditor's Responses to Assessed Risks'**, if the auditor plans to use audit evidence from a previous audit about the operating effectiveness of specific controls, the auditor shall establish the continuing relevance of that evidence by obtaining audit evidence about whether significant changes in those controls have occurred subsequent to the previous audit. The auditor shall obtain this evidence by performing inquiry combined with observation or inspection, to confirm the understanding of those specific controls, and:
- (a) If there have been changes that affect the continuing relevance of the audit evidence from the previous audit, the auditor shall test the controls in the current audit.
 - (b) If there have not been such changes, the auditor shall test the controls at least once in every third audit, and shall test some controls each audit to avoid the possibility of testing all the controls on which the auditor intends to rely in a single audit period with no testing of controls in the subsequent two audit periods.

In the given instance, for the current year's audit, Mr. Praveen planned to use the audit evidence from the previous year's audit about the operating effectiveness of specific controls and accordingly, as required by SA 330, he obtained audit evidence for the significant changes that may have occurred in those controls subsequent to the previous audit on the basis of which he concluded that there were certain factors that indicated that there have been changes in the controls that would require retesting the controls during the current year's audit and reliance cannot be made on the audit evidence obtained in the previous audit about such controls.

Thus, on the basis of given facts, it appears that Mr. Praveen has adhered to his responsibility with respect to his planning to use the audit evidence from the previous audit about the operating effectiveness of specific controls, as per SA 330, as aforesaid.

- (iii) **As per SA 330, 'The Auditor's Responses to Assessed Risks'**, factors that may decrease the period for retesting a control, or result in not relying on audit evidence obtained in previous audits at all, include the following:

- A deficient control environment.
- Deficient monitoring of controls.
- A significant manual element to the relevant controls.
- Personnel changes that significantly affect the application of the control.
- Changing circumstances that indicate the need for changes in the control.
- Deficient general IT-controls.

Thus, due to presence of any of such aforesaid factors, Mr. Praveen might have considered to retest the controls and not to rely upon the audit evidence obtained in the previous audit about such controls.

CASE STUDY 2

M4 Home Private Limited incorporated in May 2022 having its registered office in New Delhi started construction of its premises building in NOIDA by using pre-fabricated structure common and prevalent in these times and building comprising about 1,00,000 square ft of covered area was ready to use by the end of July 2022 at a cost of ₹ 6.50 crores. The company also obtained GST registration in month of May 2022 in state of Uttar Pradesh.

The company had already ordered in advance import of certain textile machinery from South Korea at a cost of about ₹ 7.65 crore. However, due to COVID-19 induced restrictions, the machinery shipments had stuck at Mundra port in Gujarat. Further, indigenous previously used machinery at a cost of about ₹ 2.00 crores was also planned for installation. Considering nation-wide lockdown and consequent disruptions in logistics and supply chain, the company was able to bring imported as well as indigenous machinery to its premises in NOIDA only in 1st week of August 2022 and was able to kick start its commercial production of textile made-ups from 1st September 2022 only.

The made ups of company got a very good response in the overseas market of USA under *brand of M4* and the company had captured good chunk of export orders via *digital and online marketing platforms* beating its Chinese rivals resulting in export turnover of ₹ 50.00 crores during the year ended 31st March, 2023. The company had also credited duty drawback from customs authorities amounting to ₹ 2.00 crores in its statement of profit and loss for the same period. During the year ended 31st March, 2023, the company has also incurred research and development expenditure of ₹ 10.00 lakhs. The financial statements of the company reflected a net profit before tax amounting to ₹ 7.50 crores.

The finished products exported by the company carried a GST rate of 5% during year 2022-23. Further, during year ended 31st March, 2023, the company had availed input tax credit of ₹ 2.00 crore, the break-up of which is given as under: -

Eligible ITC on inputs	₹ 1.50 crores
Eligible ITC on capital goods	₹ 0.36 crores
Eligible ITC on services	₹ 0.14 crores

The company had exported its products on payment of *IGST* in accordance with provisions of GST law prevalent during year 2022-23. The company has also filed its periodical returns by stipulated due dates in accordance with provisions of law.

I. Multiple Choice Questions

1. As discussed above, the company is engaged in export on payment of IGST. Below are given certain assertions relating to preparation of invoice and related matters. Which of the following assertions regarding preparation of an invoice for export transaction is *MOST LIKELY* in conformity with relevant legal provisions?
 - (a) The company is legally bound to raise a tax invoice in Indian Rupees only for its products exported in accordance with relevant rules and foreign currency amount is to be converted into Indian Rupees in tax invoice by using RBI reference rate in relation to date of invoice.
 - (b) The company is legally bound to raise a tax invoice in Indian Rupees as well as commercial invoice in foreign currency in accordance with relevant rules and procedures governing such transactions. Further, foreign currency amount is to be converted into Indian Rupees in tax invoice by using exchange rate in accordance with exchange rate notification issued by CBIC relevant in relation to date of invoice.
 - (c) The company is legally bound to raise a tax invoice in Indian Rupees only for its products exported in accordance with relevant rules and foreign currency amount is to be converted into Indian Rupees in tax invoice by using TT buying rate in relation to date of invoice.
 - (d) The company is legally bound to raise a tax invoice in Indian Rupees as well as commercial invoice in foreign currency in accordance with relevant rules and procedures governing such transactions. Further, foreign currency amount is to be converted into Indian Rupees in tax invoice by using TT selling rate in relation to date of invoice.
2. Consider below given statements regarding tax liability of the said company under provisions contained in GST laws and rules made there under:

Statement I--- The overall IGST liability of the company pertaining to supplies in relation to export in 2022-23 was ₹ 2.50 crores and it was discharged by the company by availing ITC on inputs of ₹ 1.50 crores and balance of ₹ 1.00 crore was discharged by company in cash. After discharge of liability and filing of periodical returns consisting of GSTR- 3B and GSTR-1, the above said amount of ₹ 2.50 crore was refunded/refundable directly by customs in bank account of company.

Statement II--- The overall IGST liability of the company in 2021-22 pertaining to supplies in relation to export was ₹ 2.50 crores and it was discharged by the company by availing ITC on inputs of ₹ 1.50 crores, ITC on capital goods of ₹ 0.36 crore and ITC on services of ₹ 0.14

crores and balance of ₹ 0.50 crore was discharged by company in cash. After discharge of liability and filing of periodical returns consisting of GSTR- 3B and GSTR-1, the above said amount of ₹ 2.50 crore was refunded /refundable directly by customs in bank account of the company.

Statement III--- The overall IGST liability of the company in 2021-22 pertaining to supplies in relation to export was ₹ 2.50 crores and it was discharged by the company by availing ITC on inputs of ₹ 1.50 crores, ITC on capital goods of ₹ 0.36 crore and ITC on services of ₹ 0.14 crores and balance of ₹ 0.50 crore was discharged by company in cash. After discharge of liability and filing of periodical returns consisting of GSTR- 3B, GSTR-1, and GSTR-9, the above said amount of ₹ 2.50 crore was refunded/refundable directly by customs in bank account of the company.

Statement IV--- The overall IGST liability of the company in 2021-22 pertaining to supplies in relation to export was ₹ 2.50 crores and it was discharged by the company by availing ITC on inputs of ₹ 1.50 crores, ITC on capital goods of ₹ 0.36 crores and ITC on services of ₹ 0.14 crores and balance of ₹ 0.50 crore was discharged by company in cash. After discharge of liability and filing of periodical returns consisting of GSTR- 3B and GSTR-1, the above said ITC amounting to ₹ 2.00 crore was refunded/refundable directly by customs in bank account of the company.

- (a) Only Statement II is correct.
 - (b) Only Statement III is correct.
 - (c) Only Statement I is correct.
 - (d) Only Statement IV is correct.
3. The company had imported machinery worth ₹ 7.65 crores from South Korea. The said cost was CIF Mundra port. However, the company had incurred ₹ 2.36 lakhs as clearing charges paid to DK Services Private Limited (including ₹ 0.36 lakhs on account of IGST) for availing services for getting consignments cleared from port.

Further, company had also incurred ₹ 3.00 lakhs on account of freight paid to D Transport services (a proprietary concern). This proprietary concern is not registered taxpayer under GST and company has deposited IGST of ₹ 0.15 lakhs on account of reverse charge.

Further, company had paid ₹ 1.77 crore to building contractor company on account of services (including ₹ 27,00,000/- on account of IGST) during year 2022-23. In context of above, consider the following table of compliances under income tax law as well as under GST law:

<i>Nature of Compliances</i>	<i>Appropriate response of company in accordance with law</i>
[1] Deduction of TDS under income tax law and availing of eligible ITC under GST law	[i] TDS of ₹ 3,07,000/- is deducted on account of above three transactions and company is availing ITC of ₹ 51,000/- in respect of these transactions
[2] Deduction of TDS under income tax law and availing of eligible ITC under GST law	[ii] TDS of ₹ 2,30,250/- is deducted on account of above three transactions and company is availing ITC of ₹ 36,000/- in respect of these transactions
[3] Deduction of TDS under income tax law and availing of eligible ITC under GST law	[iii] TDS of ₹ 2,30,250/- is deducted on account of above three transactions and company is availing ITC of ₹ 27,51,000/- in respect of these transactions
[4] Deduction of TDS under income tax law and availing of eligible ITC under GST law	[iv] TDS of ₹ 3,07,000/- is deducted on account of above three transactions and company is availing ITC of ₹ 27,36,000/- in respect of these transactions

Which of the following forms appropriate response by the company in accordance with law?

- (a) Combination [1] and [i]
 - (b) Combination [2] and [ii]
 - (c) Combination [3] and [iii]
 - (d) Combination [4] and [iv]
4. The company is under statutory obligation to submit documentary evidence regarding proof of import of machinery. Which of the following statements is correct in this regard?
- (a) Bill of lading is appropriate documentary evidence regarding evidence of import of machinery and its copy is required to be submitted to jurisdictional office of GST by importer.
 - (b) Bill of Entry is appropriate documentary evidence regarding evidence of import of machinery and its copy is required to be submitted to jurisdictional office of GST by importer.
 - (c) Bill of lading is appropriate documentary evidence regarding evidence of import of machinery and its copy is required to be submitted to the concerned branch of bank through whom import transaction was channelised.

- (d) Bill of Entry is appropriate documentary evidence regarding evidence of import of machinery and its copy is required to be submitted to the concerned branch of bank through whom import transaction was channelised.
5. Under provisions of Companies Act, 2013, the books of accounts and records are required to be kept at registered office of the company. However, the manufacturing facilities of company are located in NOIDA in state of Uttar Pradesh. In light of above, advise recourse available to the company.
- (a) The company can keep books of accounts and records at NOIDA by filing form AOC-2 within 30 days of passing board resolution.
- (b) The company can keep books of accounts and records at NOIDA by filing form AOC-5 within 30 days of passing board resolution.
- (c) The company can keep books of accounts and records at NOIDA by filing form AOC-5 within 7 days of passing board resolution.
- (d) The company can keep books of accounts and records at NOIDA by filing form AOC-2 within 7 days of passing board resolution.

II. Descriptive Questions

6. The promoters of the company are law compliant and do not want to be seen on the wrong side of law. However, they are also prudent minded and want to take benefits/deductions/exemptions available legally and seek your advice.
- Advise the company in accordance with policy pronouncements followed by legislative amendments to lower its tax liability for AY 2023-24, if any, quoting relevant provisions of law. However, if promoters are mistaken regarding any such legally permissible ways, advise regarding correct tax liability in light of provisions of law. Make suitable assumptions and ignore adjustment on account of depreciation under Companies Act and Income Tax Act
7. The company has exported made-ups on payment of IGST. Discuss whether there was any other legally permissible way to export its goods keeping in view provisions of GST law. Also make a cross comparison of export on payment of IGST vs. other legally compliant way in terms of financial burden/benefit and procedural requirements to the taxpayer company. Make suitable assumptions.

ANSWERS TO THE CASE STUDY 2**I. Answers to the Multiple Choice Questions**

1. (b) The company is legally bound to raise a tax invoice in Indian Rupees as well as commercial invoice in foreign currency in accordance with relevant rules and procedures governing such transactions. Further, foreign currency amount is to be converted into Indian Rupees in tax invoice by using exchange rate in accordance with exchange rate notification issued by CBIC relevant in relation to date of invoice.

Reason: As per Rule 34 of CGST Rules, 2017, the rate of exchange for determination of value of taxable goods shall be the applicable rate of exchange as notified by the Board under section 14 of the Customs Act, 1962 for the date of time of supply of such goods in terms of section 12 of the Act. The exchange rate notifications are issued by CBIC in exercise of powers conferred under section 14 of Customs Act on a periodic basis and value of taxable goods as reflected in tax invoice has to be arrived at in accordance with such notification. Further, commercial invoice in foreign currency amount is required to be raised for export transaction in accordance with procedures of customs.

2. (a) Only Statement II is correct.

Reason: The IGST liability of company pertaining to zero-rated supplies (export) in 2022-23 is 5% of ₹ 50 crores i.e. ₹ 2.50 crore. It is discharged by setting off eligible ITC of ₹ 2.00 crore. It is immaterial whether ITC is availed on inputs, capital goods or input services. The export supplies are zero-rated supplies and IGST paid of ₹ 2.50 crore was refunded/refundable directly in bank account of the company by customs upon monthly filing of GSTR-3B and GSTR-1 for each tax period. Further, filing of GSTR-9 is an annual affair and hence nothing to do with refund of IGST.

The refund by customs is system generated upon filing of GSTR-3B and GSTR-1 for each tax period. The invoices transmitted to customs via GST network are matched with shipping bills and others details which are also system driven and refund scroll is generated. After scroll generation, refund is credited in bank account of exporter.

3. (a) Combination [1] and [i].

Reason: The TDS amount to be deducted during financial year 2022-23 is as under-

TDS to be deducted on clearing charges of ₹ 2.00 lakhs u/s 194 C is 2% in case of payment to companies.

TDS to be deducted on freight paid of ₹ 3.00 lakhs u/s 194 C is 1% in case of payment to individuals.

TDS to be deducted on payment made to building contractor company of ₹ 1.50 crore u/s 194 C is 2% in case of payment to companies.

Hence, total TDS to be deducted by company comes to ₹ 3,07,000/- (4,000 + 3,000 + 3,00,000).

It is to be remembered that TDS is not to be deducted on GST amount included in payments made to above service contractors in accordance with provisions of CBDT circular number 23/2017 dated 19.7.2017. Hence, for calculation of TDS, pre-GST amounts have to be arrived at.

Further, company has correctly availed IGST on services amounting to ₹ 51,000/- . The company is eligible to avail ITC on services for import of machinery amounting to ₹ 36,000/-. Further, credit of IGST paid on reverse charge basis by the company on freight services amounting to ₹ 15,000/- is also available to the company. The IGST on building contractor services is not eligible as amount would be capitalised under building and the same is blocked under section 17(5) of CGST Act.

4. (d) Bill of Entry is appropriate documentary evidence regarding evidence of import of machinery and its copy is required to be submitted to the concerned branch of bank through whom import transaction was channelised.

Reason: Under section 46 of Customs Act, the importer of goods has to present to the proper officer electronically bill of entry. Therefore, bill of entry is appropriate document establishing import of goods. The bill of entry has to be submitted to the concerned bank branch through whom remittance was made as evidence for import of goods. It is not required to be submitted to GST office.

Bill of lading is issued in case of export transactions evidencing that goods have finally left the country.

5. (c) The company can keep books of accounts and records at NOIDA by filing form AOC-5 within 7 days of passing board resolution.

Reason: Under section 128 of Companies act, 2013, books of accounts and records can be kept at place other than registered office of the company. The relevant form is AOC-5 which is to be filed on MCA portal in 7 days of passing board resolution.

II. Answers to the Descriptive Questions

6. In a major tax policy initiative, the government had reduced income tax rates on manufacturing domestic companies from assessment year 2020-21 and consequently section 115BAB was introduced by virtue of which tax on domestic manufacturing companies was reduced to 15% (plus surcharge @ 10% plus HEC @ 4%) subject to fulfilment of certain conditions contained as under section 115BAB:

(a) the company has been set-up and registered on or after the 1st day of October, 2019, and has commenced manufacturing or production of an article or thing on or before the 31.3.2023 as extended by the Finance Act, 2022 by one year i.e., **from 31st March, 2023 to 31st March, 2024** and, —

(i) the business is not formed by splitting up, or the reconstruction, of a business already in existence:

Provided that this condition shall not apply in respect of a company, business of which is formed as a result of the re-establishment, reconstruction or revival by the person of the business of any such undertaking as is referred to in section 33B, in the circumstances and within the period specified in the said section;

(ii) does not use any machinery or plant previously used for any purpose.

Explanation 1.—For the purposes of sub-clause (ii), any machinery or plant which was used outside India by any other person shall not be regarded as machinery or plant previously used for any purpose, if the following conditions are fulfilled, namely:—

- (A) such machinery or plant was not, at any time previous to the date of the installation used in India;
- (B) such machinery or plant is imported into India from any country outside India; and
- (C) no deduction on account of depreciation in respect of such machinery or plant has been allowed or is allowable under the provisions of this Act in computing the total income of any person for any period prior to the date of the installation of machinery or plant by the person.

Explanation 2.—Where in the case of a person, any machinery or plant or any part thereof previously used for any purpose is put to use by the company and the total value of such machinery or plant

or part thereof does not exceed twenty per cent of the total value of the machinery or plant used by the company, then, for the purposes of sub-clause (ii) of this clause, the condition specified therein shall be deemed to have been complied with;

- (iii) does not use any building previously used as a hotel or a convention centre, as the case may be, in respect of which deduction under section 80-ID has been claimed and allowed.

Explanation.—For the purposes of this sub-clause, the expressions "hotel" and "convention centre" shall have the meanings respectively assigned to them in clause (a) and clause (b) of sub-section (6) of section 80-ID;

- (b) the company is not engaged in any business other than the business of manufacture or production of any article or thing and research in relation to, or distribution of, such article or thing manufactured or produced by it.

Explanation—For the removal of doubts, it is hereby clarified that the business of manufacture or production of any article or thing referred to in clause (b) shall not include business of—

- (i) development of computer software in any form or in any media;
- (ii) mining;
- (iii) conversion of marble blocks or similar items into slabs;
- (iv) bottling of gas into cylinder;
- (v) printing of books or production of cinematograph film; or
- (vi) any other business as may be notified by the Central Government in this behalf; and
- (c) the total income of the company has been computed,—
- (i) without any deduction under the provisions of section 10AA or clause (iia) of sub-section (1) of section 32 or section 32AD or section 33AB or section 33ABA or sub-clause (ii) or sub-clause (iia) or sub-clause (iii) of sub-section (1) or sub-section (2AA) or sub-section (2AB) of section 35 or section 35AD or section 35CCC or section 35CCD or under any provisions of ⁷⁹[Chapter VI-A under the heading "C.—Deductions in respect of certain incomes" other than the provisions of section 80JJAA];

- (ii) without set-off of any loss or allowance for unabsorbed depreciation deemed so under section 72A where such loss or depreciation is attributable to any of the deductions referred to in sub-clause (i).

Explanation.—For the removal of doubts, it is hereby clarified that in case of an amalgamation, the option under sub-section (7) shall remain valid in case of the amalgamated company only and if the conditions contained in sub-section (2) are continued to be satisfied by such company; and

- (iii) by claiming the depreciation under the provision of section 32, except clause (ia) of sub-section (1) of the said section, determined in such manner as may be prescribed.

[Explanation.—For the purposes of clause (b), the "business of manufacture or production of any article or thing" shall include the business of generation of electricity.]

Therefore, in light of above provisions of section 115BAB, tax on new domestic manufacturing companies is applicable at the rate of 15% (plus surcharge @ 10% plus HEC @ 4%). The company in question meets/has to meet all the criteria as discussed under:-

- [1] It is a company registered after 1st October 2019 and has started production within the period set out under provisions of section 115BAB.
- [2] Its business is not formed by splitting or reconstruction of business already in existence.
- [3] Although it has used plant and machinery previously used, it falls within overall cap of 25% stipulated u/s 115BAB. The total value of plant and machinery used by the company is ₹ 9.65 crores. However, value of machinery previously used is only ₹ 2.00 crore which is 20.72% of total value of plant and machinery. Hence, this newly set up domestic company satisfies this criterion also.
- [4] The company is engaged in business of manufacturing of an article or thing and research in relation to it.
- [4] The company's business does not fall into prohibited categories.
- [5] The company has not taken benefit of other beneficial provisions as listed out in Section 115BAB.

[6] The company has to exercise its option by filing form 10-ID by due date of first return of income under section 139 for AY 2023-24.

Hence, a newly set up domestic manufacturing company, satisfying criteria stated under section 115BAB can take benefit of reduced income tax rate of 15% which is the lowest tax slab applicable to domestic companies. However, after taking into effect of surcharge and cess, effective tax rate comes to 17.16%.

Therefore, the company can avail benefit of lower tax rate on companies by fulfilling criteria stated in section 115BAB.

7. Under provisions of section 16(3) of IGST Act, 2017, a registered person making zero rated supply shall be eligible to claim refund under either of the following options, namely:—
- (a) he may supply goods or services or both under bond or Letter of Undertaking, subject to such conditions, safeguards and procedure as may be prescribed, without payment of integrated tax and claim refund of unutilised input tax credit; or
 - (b) he may supply goods or services or both, subject to such conditions, safeguards and procedure as may be prescribed, on payment of integrated tax and claim refund of such tax paid on goods or services or both supplied, in accordance with the provisions of section 54 of the Central Goods and Services Tax Act or the rules made thereunder.

Therefore, under IGST Act, 2017, a taxpayer engaged in zero-rated supplies can make export without payment of tax under LUT or bond or alternatively, it can export on payment of IGST. In case of export under LUT/bond, refund of unutilised ITC would be refundable so that exports remain competitive. However, under Rule 89(4) of CGST Rules, 2017, net ITC means ITC on inputs and input services only. Hence, in case of export under LUT, ITC on capital goods is not refundable.

However, in case of export on payment of IGST, entire IGST paid would be refunded due to same reason. Hence, refund of ITC on input and input services is available under LUT route whereas refund of ITC on input, input services and capital goods is refundable on exports made on payment of IGST.

Export under LUT or bond

Tax liability	0
Refund of unutilized ITC	₹ 1.64 crore

Export on payment of IGST

Tax liability	₹ 2.50 crore
Set off by using ITC	₹ 2.00 crore
Set off by payment of cash	₹ 0.50 crore
Refund of IGST paid	₹ 2.50 crore

Hence, in export under LUT, ITC of input and input services amounting to ₹ 1.64 crore is refunded/refundable. In case of export on payment of IGST, entire ITC of ₹ 2.00 crore is refunded along with tax of ₹ 0.50 crore deposited by company in cash.

Therefore, under export via LUT route, refund of ITC of ₹ 1.64 crore would be available to the company. However, under export via payment of IGST, entire ITC of ₹ 2.00 crore is refundable.

In terms of procedural requirements, separate refund application has to be filed electronically for exports under LUT. However, for exports on payment of IGST, refund is automatically granted by customs on valid filing of GSTR-3B and GSTR-1 and validation of tax invoice data with shipping bills and other information.

Further, in case of export under LUT, no tax is to be deposited by the company and refund of ITC has to be applied by way of separate application. Therefore, it does not involve any cash outgo.

In case of export on payment of IGST, it involves cash out go of ₹ 50.00 lakhs which is refunded automatically in a few days. Therefore, it involves temporary blockage of working capital for certain period of time. However, since refund process is system driven and automated as provided in rules under this route, it results in quicker refunds including refund of entire ITC and cash deposited.

CASE STUDY 3

M/s Parv fabrics, a partnership firm, registered under GST, having partners Mr. Parth and Mr. Aarav, is in business of manufacturing designed and printed fabric and its plant is located on the outskirts of a mofussil town near Varanasi in state of Uttar Pradesh. The main raw material consisting of raw plain fabric is supplied by two companies i.e. Costa Industries Pvt. Ltd. and Zosta Industries Pvt. Ltd. located in UT of Daman on the western coast of India. The firm is a profit-making concern and gist of some of its main financial indicators/information is as under:

Particulars	Financial year ending 31/03/2022	Financial year ending 31/03/2023
Capital	3,25,00,000	5,05,00,000
Machinery term loans from bank	1,50,00,000	1,25,00,000
Overdraft facility from Bank	10,00,00,000	14,19,50,000
Unsecured loans	2,50,00,000	3,25,00,000
Inventories	7,50,00,000	2,00,00,000
Trade Receivables	8,35,00,000	10,50,00,000
Other current assets	40,00,000	10,95,00,000
Trade payables	4,00,00,000	2,00,00,000
WDV of Fixed Assets in Balance Sheet	5,00,00,000	XXXXXXX
Turnover	60,00,00,000	45,00,00,000
PBT	1,80,00,000	XXXXXXX
Gross Margin ratio	10%	10%
WDV of block consisting of Building @10%	1,25,00,000	XXXXXXX
WDV of block consisting of Machinery@15%	3,00,00,000	XXXXXXX

Way back in the year 2011, a fire broke in the night at factory premises which lead to loss of inventory, furniture turning into ashes, building premises covered in smoke. The fire department was informed as soon as the fire was seen by the passer-by, but it was too late to save the loss suffered. Recollecting that day of fire, Mr. Parth, partner in M/s Parv fabrics, understood the need of considering fire insurance policies for their fabric business. He understood, although one may take great caution using latest technologies at the premises, possibility of accidents can't be entirely mitigated. He understands the safety risk a textile company faces and how an

insurance policy could help cover their losses. He believes it is better to be safe than sorry. Mr. Parth explains Mr. Aarav the following importance of fire insurance for the business:

- (i) Coverage for damage of stock and premises due to smoke caused by fire and water used to extinguish the fire.
- (ii) Coverage for funds due to financial loss.
- (iii) Fire insurance may also cover natural calamities like lightening, explosion, etc.
- (iv) Business may be started again using claim amount.
- (v) Coverage for building, plant, machinery, furniture along with stock.

Mr. Parth further explained the options/ coverage available for investing in different types of fire insurance policies:

- (i) Valued Policy - An agreement is framed for a particular property and the insurer pays in the event of destruction of property by fire.
- (ii) Specific Policy- It insures a risk for a specific amount. The compensation is provided under the limit of determined amount.
- (iii) Average Policy - A policy where property is insured for a smaller value than the value of the property.
- (iv) Floating policy- It covers goods lying at various locations for one amount and one premium.
- (v) Blanket Policy- It covers fixed as well as current assets under one policy.
- (vi) Comprehensive Policy- It covers risks such as riots, strikes, burglary etc., along with fire.
- (vii) Consequential Loss Policy- A policy covering against loss of profit caused by fire-outbreak.
- (viii) Replacement Policy- It covers compensation at market value for the loss of property due to fire.
- (ix) Reinstatement Policy- It is a policy where insurer pays sufficient compensation to reinstate property destroyed.

Considering the benefits and compensation covered in fire insurance policies, Mr. Aarav agrees to go for coverage of risk and have insurance policy for the purpose. They together, in the name of firm, opted a policy covering loss for building, machinery and inventories due to fire and approached a PSU insurer for the same.

Unfortunately, a major fire had occurred on 06/01/2023 in plant of the firm resulting in damages to its building, machinery and inventories. A major part of inventories consisting of raw material comprising raw plain fabric and finished goods comprising designed and printed fabric was affected and damaged in this sudden incident. Stock worth ₹ 8.80 crores was damaged and affected during fire consisting of raw material and other inputs such as dyes & chemicals, etc., costing ₹ 2 crores and finished goods costing ₹ 6.80 crores.

Further, out of above damaged stock of finished goods of ₹ 6.80 crores, stock worth ₹ 0.50 crores was smoke affected only and remaining stock of ₹ 6.30 crores was completely burnt and destroyed. The firm has received ₹ 8 crores as insurance compensation against loss of such stock. It was decided to get smoke cleaned and removed by availing third party services at a cost of ₹ 10 lacs, ITC of the third party services has been availed. The unit is selling finished goods at prescribed GST rate of 5%. Besides, certain information regarding ITC availment and output liability of GST, for the month of January, 2023, is as under:-

ITC availed on raw material and other inputs destroyed during fire	₹ 15.00 lacs
ITC availed on inputs contained in smoke affected stock	₹ 3.00 lacs
ITC availed on inputs contained in destroyed finished stock	₹ 35.00 lacs
Output liability of GST in respect of smoke affected stock	₹ 2.50 lacs
Output liability of GST in respect of normal finished stock	₹ 31.5 lacs

Besides, substantial part of building (WDV as on 31/03/2022 ₹ 0.95 crores) was damaged and needed extensive reconstruction works. It is also provided that ₹ 1.75 crore is needed for extensive reconstruction of damaged building. However, firm has incurred ₹ 15.00 lacs up-to 31/03/2023 for reconstruction works. The firm received ₹ 0.75 crores as insurance compensation against the damages to its building.

Further, main machinery feeding about 75% capacity of plant was also gutted (WDV ₹ 2.10 crore as on 31/03/2022). The cost of new machinery with the same capacity and build up is ₹ 2.50 crore. The orders of new machinery are yet to be placed. Against loss of machinery, it received insurance compensation of ₹ 1.80 crores.

Further, the firm has purchased plain raw fabric from M/s Costa Industries Pvt. Ltd. vide bill dated 27/03/2023 having quantity of 50,000 metres valuing ₹ 10 lacs. Besides, IGST of ₹ 0.50 lacs is charged in the bill. The said goods were received in plant on 02/04/2023. M/s Costa Industries Pvt. Ltd. has filed its GSTR-1 for the month of March 2023 well before its due date and therefore IGST of ₹ 0.50 lacs is also reflected in GSTR-2A of M/s Parv Fabrics before filing its GSTR-3B of March 2023.

I. Multiple Choice Questions

1. In light of information provided above pertaining to inventories damaged and affected during fire, which of the following statements is MOST LIKELY to be true regarding GST?
 - (a) The taxpayer firm is required to reverse ITC of ₹ 50.00 lacs in GSTR-3B and also simultaneously reduce output liability of ₹ 31.50 lacs.
 - (b) The taxpayer firm is required to reverse ITC of ₹ 53.00 lacs in GSTR-3B and also simultaneously reduce output liability of ₹ 34.00 lacs.
 - (c) The taxpayer firm is required to reverse ITC of ₹ 50.00 lacs in GSTR-3B and there would no effect on output liability.
 - (d) The taxpayer firm is required to reverse ITC of ₹ 53.00 lacs in GSTR-3B and there would be no effect on output liability.

2. What would be impact on profits of the firm on account of damage of stock due to fire and receipt of insurance compensation towards such loss while computing income under the head "Profits and gains from business or profession" under the Income-tax Act, 1961?
 - (a) The profits of firm would be reduced by ₹ 0.30 crores, being the difference between cost of damaged stock and insurance compensation.
 - (b) The profits of firm would be reduced by ₹ 8.30 crores and insurance compensation would be taxable under the head "Capital Gains".
 - (c) The profits of firm would be reduced by ₹ 0.80 crores, being the difference between cost of damaged stock and insurance compensation.
 - (d) There would be no impact on profits as the firm has received insurance compensation.

3. The firm has sent its smoke affected stocks of ₹ 0.50 crore to third party in Varanasi for cleaning and removal of smoke. In light of provisions of GST and rules made thereunder, consider the following statements:

Statement I- The firm can send goods to third party by raising a proper tax invoice and after performing necessary services, the third party can send goods back to the firm under the cover of proper tax invoice. The firm shall disclose output liability in GSTR-3B and avail ITC on services availed from third party.

Statement-II – The firm can send goods to third party under the cover of delivery challan without charging GST and third party can also return the goods under delivery challan. The third party can, thereafter, raise tax invoice in respect of services performed and the firm can avail ITC on services availed from third party. However, firm has to file form ITC-03 on GST portal for quarter ending March, 2023.

Statement-III – The firm can send goods to third party under the cover of delivery challan without charging GST and third party can also return the goods under delivery challan. The third party can, thereafter, raise tax invoice in respect of services performed and the firm can avail ITC on services availed from third party. However, firm has to file form ITC-04 on GST portal for half yearly from October to March, 2023.

Statement-IV- The firm can send goods to third party under the cover of delivery challan without charging GST and third party can also return the goods under delivery challan. The third party can, thereafter, raise tax invoice in respect of services performed and the firm can avail ITC on services availed from third party. The filing of a separate statement is not mandated in such a case as firm has availed ITC on services rendered by third party and third party has also discharged its tax liability.

Which of the above statements is in accordance with provisions of law and rules made thereunder?

- (a) Statement II
 - (b) Statement III
 - (c) Statement IV
 - (d) Statement I
4. While preparing e-way bill for movement of goods to third party for cleaning and removal of smoke, the accountant of the firm is in dilemma regarding its preparation. What would be most likely correct position in this regard?
- (a) Value of goods on e-way bill portal should be reflected as ₹ 0.50 crores.
 - (b) Value of goods on e-way bill portal should be reflected as ₹ 0.40 crores.
 - (c) Value of goods on e-way bill portal should be reflected as ₹ 0.10 crores.
 - (d) Value of goods on e-way bill portal should be reflected as ₹ 0.30 crores.
5. What would be the most likely impact on financial statements and availment of ITC by the firm for year ending 31st March, 2023, in respect of the plain raw fabric purchased from M/s Costa Industries Pvt. Ltd. on 27/03/2023?
- (a) The profits of firm would be reduced by ₹ 10.00 lacs and ITC of ₹ 0.50 lacs can be availed.
 - (b) The profits of firm would be reduced by ₹ 10.00 lacs and ITC of ₹ 0.50 lacs cannot be availed.
 - (c) There would be no impact on profits of firm and ITC of ₹ 0.50 lacs cannot be availed.
 - (d) There would be no impact on profits of firm and ITC of ₹ 0.50 lacs can be availed.

II. Descriptive Questions

6. The firm has lodged its claim with PSU insurer consisting of damages to building, machinery and stocks. Besides, the firm has also included in its claim bill lodged with insurers certain un-incurred estimated expenses for debris removal amounting to ₹ 5.00 lacs as on 31st March, 2023. Kindly suggest how these expenses should be treated in financial statements of the firm for year ending 31st March, 2023 along with reasons therefor.
7. In light of provisions of Income-tax Act, compute the amount of depreciation allowable as deduction on building and plant & machinery for the previous year 2022-23.
8. Analyse working capital position of the firm vis-à-vis last year by discussing each component of working capital cycle and overall working capital requirements of firm including effect of incident of fire on its working capital requirements. Also dwell upon how working capital requirements are being met as compared to last year.

ANSWERS TO THE CASE STUDY 3**I. Answers to the Multiple Choice Questions**

1. (c) The taxpayer firm is required to reverse ITC of ₹ 50.00 lacs in GSTR-3B and there would no effect on output liability.
Reason: As per provisions of section 17(5)(h) of CGST Act, 2017, input tax credit is not available in respect of goods stolen, lost, destroyed or written off. Fire occurred in plant of the firm on 6.01.2023. ITC availed on destroyed raw material and inputs is ₹ 15 lacs. Further, ITC on inputs in finished stocks destroyed is ₹ 35 lacs. Hence, ITC on inputs in stock destroyed is ₹ 50 lacs. Since, the stocks have been destroyed, ITC on inputs contained in these destroyed stocks is not available and, is, therefore liable to be reversed in GSTR-3B of January 2023. However, smoke affected stock is not destroyed and is reusable after cleaning. Hence, there is no reason for reversal of ITC on inputs contained in such stocks. Further, destruction of stocks due to fire does not lead to change in output tax liability as stocks have been destroyed due to reason of fire and there is no supply.
2. (a) The profits of firm would be reduced by ₹ 0.30 crores, being the difference between cost of damaged stock and insurance compensation.
Reason: Since value of stock destroyed is ₹ 8.30 crores against which ₹ 8 crores are received as insurance compensation, loss of stocks valuing ₹ 0.30 crores

would be allowable as deduction while computing Income under the head “Profits and gains from business or profession”.

3. (b) Statement III.

The firm can send goods to third party under the cover of delivery challan without charging GST and third party can also return the goods under delivery challan. The third party can, thereafter, raise tax invoice in respect of services performed and the firm can avail ITC on services availed from third party. However, firm has to file form ITC-04 on GST portal for half yearly from October to March, 2023.,

Reason: It pertains to statement III which is in accordance with provisions of law and rules made thereunder. The firm can send goods for cleaning which is a kind of job work activity under the cover of delivery challan without charging GST in accordance with rule 45 of CGST rules. The services supplying concern can raise tax invoice thereafter. Further, detail of such goods showing challan number and other particulars have to be furnished in form ITC-04 annually/half yearly on the GST portal in accordance with rule 45.

With effect from 01.10.2021, rule 45(3) has been amended. Amended rule 45 reads as under:

The details of challans in respect of goods dispatched to a job worker or received from a job worker **during the specified period** shall be included in Form GST ITC-04 furnished for that period on or before 25th day of the month succeeding **the said period**.

Now Form GST ITC-04 is required to be furnished by the principal on annual/half yearly basis, depending upon the quantum of his aggregate turnover during immediately preceding financial year.

Aggregate turnover of principal during preceding F.Y.	Form GST ITC-04 to be filed on	Due date(s) for filing Form GST ITC-04
upto ₹ 5 crore	annual basis	25 th April
greater than ₹ 5 crore	half yearly basis	25 th October & 25 th April

[Notification No. 35/2021 CT dated 24.09.2021]

In this case the firm has to furnish form ITC-04 up to 25th April as its aggregate turnover during preceding Financial year was more than 5 crore ie 6 crore.

4. (a) Value of goods on e-way bill portal should be reflected as ₹ 0.50 crores.
- Reason:** The value of goods has to be filled on e-way bill portal. It is provided that value of smoke affected finished stocks is ₹ 0.50 crores. However, as stock has been affected by smoke, its value has been reduced by ₹ 0.10 crores which is the extra cost to be incurred for removing smoke. Hence, value of these goods at the time of movement from premises of the firm is ₹ 0.40 crores.
5. (c) There would be no impact on profits of firm and ITC of ₹ 0.50 lacs cannot be availed.
- Reason:** The firm has purchased raw material vide invoice dated 27/03/2023. However, it has still not been received by the firm as on close of financial year. Therefore, these are goods in transit without impacting profits. Further, as per provisions of section 16(2)(b), to claim ITC, the goods should have been received. In the given scenario, the goods consisting of raw material have not been received up to 31/03/2023. Hence, the firm cannot claim ITC in GSTR-3B for March 2023. It can claim ITC of the same while filing GSTR-3B for April 2023. It is immaterial that supplier has filed its return in time and said invoice is reflecting in GSTR-2A for March 2023 as goods have not been received.

II. Answers to the Descriptive Questions

6. The firm has included certain un-incurred estimated expenses on account of debris removal amounting to ₹ 5.00 lacs in its claim bill lodged with insurance company. In accordance with Indian Accounting Standard (Ind AS) 1, Presentation of Financial Statements, an entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting. When the accrual basis of accounting is used, an entity recognises items as assets, liabilities, equity, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the Framework. The Conceptual Framework for Financial Reporting under Indian Accounting Standards provides that the accrual accounting depicts the effects of transactions and other events and circumstances on a reporting entity's economic resources and claims in the periods in which those effects occur, even if the resulting cash receipts and payments occur in a different period. In the given scenario, costs on account of debris removal expenses are not incurred up to 31.03.2023. Although these have been included by firm in claim bill lodged with insurance company, these are not to be recognized in financial statements for 2022-23 as these are not incurred. Hence, no treatment of such expenses is required in financial statements.

7. Computation of depreciation on Building

WDV as at beginning of year	1,25,00,000
Less: Insurance compensation for building destroyed in fire	75,00,000
	=====
	50,00,000
Depreciation on ₹ 50 lacs @ 10%	5,00,000

Depreciation would be available on ₹ 50 lacs for full year @ 10% amounting to ₹ 5 lacs only. As reconstruction of building is in progress as on 31/03/2023, it implies that reconstructed part of building on which ₹ 15 lacs has been incurred is not put to use by 31/03/2023. Hence, depreciation is not available on ₹ 15 lacs.

Computation of depreciation on Plant & Machinery

WDV as at beginning of year	3,00,00,000
Less: Insurance compensation for machinery destroyed in fire	1,80,00,000
	=====
	1,20,00,000
Depreciation on 120 lacs @ 15%	18,00,000

8. The working capital position and requirement of firm as on 31.03.2022 and 31.03.2023 are as under:

(₹ crore)

Particulars	31.03.2022	31.03.2023
Inventories	7.500	2.000
Trade receivables	8.350	10.500
Other Current assets	0.400	10.950
Total current assets	16.250	23.450
Less:		
Trade payables	4.000	2.000
Working capital requirement	12.250	21.450
Met through overdraft facility from bank	10.000	14.195

As reflected in above table, working capital requirements of the firm grew from ₹ 12.25 crore as on 31.03.2022 to ₹ 21.45 crore as on 31.03.2023. The break-up of different components of working capital cycle are discussed below in a comparative manner:

Inventories

Inventories have reduced from ₹ 7.50 crores as on 31.03.2022 to ₹ 2.00 crore on 31.03.2023. This is mainly due to destruction of major part of inventories due to fire and probable consequent hampering of operations of the firm.

Trade receivables

Trade receivables have increased from ₹ 8.35 crores as on 31.03.2022 to ₹ 10.50 crore on 31.03.2023. It shows that payments from debtors are stuck up and not coming fast enough. Further, turnover of the firm has reduced mainly due to hampering of operations due to fire. However, trade receivables have increased leading to longer realisation period.

Other Current assets

Other current assets have increased from ₹ 0.40 crores as on 31.03.2022 to ₹ 10.95 crores as on 31.03.2023. The increase appears to be mainly on account of claim receivable from insurance company.

Trade Payables

Trade payables have decreased from ₹ 4.00 crore as on 31.03.2022 to ₹ 2.00 crore as on 31.03.2023 meaning faster payment to creditors. However, due to lower trade credit available, overall working capital requirements have increased.

Meeting of working capital requirements

Overdraft facility from bank has increased from ₹ 10 crore as on 31.03.2022 to ₹ 14.195 crore implying to increased funds tied up in working capital which are partially being met through overdraft facility from bank. Since substantial funds have been tied up in other current assets on account of insurance claim receivable from insurers, it has led to increased borrowing from bank to tide over liquidity concerns. Further, part of increased working capital requirement has been met through bringing partners' capital and raising fresh unsecured loans.

CASE STUDY 4

Dalmia & Associates, a practising CA firm, submitted its application to ICAI for carrying out the bank audit for nationalised banks. After following the designated procedures and approvals required for appointment of bank auditors, the firm was appointed as branch auditor of Eastern Bank of India, a public sector bank headquartered in Kolkata. The audit offered was for branch located in Kolkata for year ending as on 31st March, 2023.

Before commencing the audit, the teammates of the firm decided to first understand the nature of activities carried out at the bank branch. Besides the core business of bank of accepting deposits and sanctioning advances, newer banking products are being periodically introduced. The teammates discussed about the basics of the core business of the bank and the products offered at the branch to have the complete knowledge of the same. They studied the financial implications of all the products offered at the branch along with the types of facilities provided to borrowers and the Standard Operating Procedures (SOP) followed. The teammates acquainted themselves with the basic understanding of the core banking solution (CBS) used by the bank and understood the authority levels. Based on the features of the products offered, the teammates also need to draw up a suitable audit plan to verify the transactions of the activities being provided by the Bank. They also carried out the risk assessment based on clear understanding of the business profile of the Bank. They assessed the resource requirements for audit to be completed within the stipulated timeline. Based on the volume and nature of transactions executed at branch, staff were deployed. The leader of the audit team updated his teammates with banking law and regulations and RBI Guidelines.

The audit firm sent detailed requirement letter seeking information from branch management so that necessary information is received during the planning stage and accordingly proper audit plans could be prepared. The audit firm also called for previous year's inspection and other important reports so that beforehand they are aware of the past key issues. They also look at the previous period's report of the previous statutory auditors and its compliance status. To gain an understanding of the issues at the branch, they also went through the previous year's LFAR.

Finally, the detailed audit was started on time with proper planning and during the course of audit, following were observed by engagement team of Dalmia & Associates conducting audit of Kolkata branch of Eastern Bank of India: -

- (i) As per instructions of Head office, there exists a system in the bank for obtaining reports on stock audits in respect of borrowers sanctioned fund-based facilities exceeding ₹ 5.00 crores. It was noted that one borrower was having overdraft facility amounting to ₹ 2.75 crore, term loan of ₹ 1.00 crore, packing credit facility of ₹ 0.75 crore, inland letter of credit facility of ₹ 0.35 crore and foreign bill purchased facility of ₹ 0.40 crore. The stock audit of said borrower was not carried out during the year.

- (ii) It was also observed during the course of audit that advances of branch stood at ₹ 350.00 crore as on 31st March 2023. Out of advances of ₹ 350.00 crore, advances pertaining to foreign exchange portfolio stood at ₹ 200.00 crore. Due to high foreign exchange portfolio, auditors have assessed many potential risk areas which might lead to perpetuation of fraud. However, upon applying extensive audit procedures as required by Standards on Auditing, the auditors have not found any instance of fraud during the course of audit.
- (iii) During the course of audit, it was observed that branch is dealing with many exporters who are enjoying credit facilities from branch. Some of the exporters are exporting to Nepal whereas others are exporting to Bangladesh due to proximity of both countries to Kolkata.
- (iv) During the course of audit, it was also observed that one company had an amount of ₹ 25.00 crore stuck up with one of its overseas clients based in US to whom it had exported goods last year as apparent from the financial statements of the company. The company had availed duty drawback in respect of such export in accordance with the Customs Act and its rules. The turnover of company for financial year 2021-22 was Rs. ₹ 30.00 crores. It has prompted auditors to undertake detailed checking of all credit facilities enjoyed by the company.
- (v) It was further observed that M/s Poriborton Industries is enjoying credit facilities to the tune of ₹ 20.00 crore consisting of cash credit limit and outstanding balance as on 31.03.2023 is ₹ 19.98 crore. It is also observed that there is inadequate drawing power on the basis of latest available stock statement for the month of February, 2023. The borrower was having adequate drawing power in previous months of the year.
- (vi) It was also observed by the engagement team members that there have been instances of “quick mortality” in some of cash credit accounts.

I. Multiple Choice Questions

1. How the matter concerning stock audit is to be reported by branch auditors in LFAR?
- (a) The matter should be reported by branch auditors in LFAR in advances section.
- (b) The matter should be reported by branch auditors in general matter section under the sub-heading “Management Information System.”
- (c) The matter should be reported by branch auditors in general matter section under the sub-heading “Miscellaneous section.”
- (d) It does not require reporting at all in LFAR by branch auditors.

-
2. What is the duty cast upon branch auditor as far as reporting of matters regarding fraud is concerned in LFAR?
- (a) The auditors have not found any instance of fraud. Hence, no reporting is to be made on potential risk areas. However, suspected fraud cases reported by branch, if any, to higher office during the year are to be stated along with details and status of investigation.
 - (b) The auditors have not found any instance of fraud. Hence, no reporting is to be made on potential risk areas. However, suspected fraud cases reported by branch, if any, to higher office during the year are to be stated along with details and status of investigation. Besides, frauds detected/classified at branch but whose confirmation of reporting to RBI is not available from records of branch are also to be stated.
 - (c) The potential risk areas which might lead to perpetuation of fraud are to be reported. Further, suspected fraud cases reported by branch, if any, to higher office during the year are to be stated along with details and status of investigation. Besides, frauds detected/classified at branch but whose confirmation of reporting to RBI is not available from records of branch are also to be stated.
 - (d) The potential risk areas which might lead to perpetuation of fraud are to be reported. Further, suspected fraud cases reported by branch, if any, to higher office during the year are to be stated along with details and status of investigation. Besides, frauds detected/classified at branch but whose confirmation of reporting to RBI is not available from records of branch need not be stated.
3. In the context of foreign exchange transactions dealt in by the branch, identify which of the following statement is likely to be most appropriate?
- (a) The auditor has to obtain from branch management a list of all "VOSTRO" accounts maintained/operated by branch. A VOSTRO account is an account that a bank holds in foreign currency in another bank.
 - (b) The auditor has to obtain from branch management a list of all "NOSTRO" accounts maintained/operated by branch. A NOSTRO account is an account that a bank holds in foreign currency in another bank.
 - (c) The auditor has to obtain from branch management a list of all "VOSTRO" accounts maintained/operated by branch. A VOSTRO account is an account in local currency of the bank where money is being held.

- (d) The auditor has to obtain from branch management a list of all "NOSTRO" accounts maintained/operated by branch. A NOSTRO account is an account in local currency of the bank where money is being held.
4. In the context of export procedures, which of the following statements is correct?
- (a) The terms "Shipping bill" and "Bill of export" are used interchangeably. There is no distinction between the two terms. Let Export Order (LEO) date cannot be before shipping bill date.
- (b) The terms "Shipping bill" and "Bill of export" have different purposes. Let Export Order (LEO) date can be before shipping bill date.
- (c) The terms "Shipping bill" and "Bill of export" have different purposes. Let Export Order (LEO) date cannot be before shipping bill date.
- (d) The terms "Shipping bill" and "Bill of export" have different purposes. Let Export Order (LEO) date can be either before or after shipping bill date.
5. In terms of customs procedures, exporters and importers have to get themselves registered on a portal for filing various documents online. Which of the following statements is correct in this regard?
- (a) The importers and exporters have to get registered on portal of CBIC. It provides host of services like electronic filing of bill of entry, shipping bills and a web based common signer utility for signing all customs documents.
- (b) The importers and exporters have to get registered on portal of DGFT. It provides host of services like electronic filing of bill of entry, shipping bills and a web based common signer utility for signing all customs documents.
- (c) The importers and exporters have to get registered on portal of ICEGATE. It provides host of services like electronic filing of bill of entry, shipping bills and a web based common signer utility for signing all customs documents.
- (d) The importers and exporters have to get registered on portal of CBIC. It provides host of services like electronic filing of bill of entry, shipping bills and a web based common signer utility for signing all customs documents and facility of document tracking status.

II. Descriptive Questions

6. What shall be the consequences for the company in respect of amount of ₹ 25.00 crore stuck up with one of its clients in an export trade for which duty draw back had been availed under Customs laws?
7. The auditors want to change asset classification from "Standard" to "Sub-Standard" for M/s Poriborton Industries. Discuss.

8. Discuss what is understood by “quick mortality” and also list out reporting requirements in respect of such accounts in LFAR to be submitted by the auditor. What could be probable significance of such reporting?

ANSWERS TO THE CASE STUDY 4

I. Answers to the Multiple Choice Questions

1. (d) It does not require reporting at all in LFAR by branch auditors.
- Reason:** There is system in bank for stock audit of borrowers having sanctioned fund-based facility exceeding ₹ 5.00 crore. However, inland letter of credit facility does not fall under fund-based facilities. Therefore, aggregate of fund-based facilities sanctioned to the borrower is ₹ 4.90 crore. Hence, stock audit is not applicable as per instructions laid down by Head office. There is no deviation and no reporting is required in LFAR.
2. (c) The potential risk areas which might lead to perpetuation of fraud are to be reported. Further, suspected fraud cases reported by branch, if any, to higher office during the year are to be stated along with details and status of investigation. Besides, frauds detected/classified at branch but whose confirmation of reporting to RBI is not available from records of branch are also to be stated.
- Reason:** As per LFAR reporting requirement relating to fraud discovered during the year under audit.
3. (b) The auditor has to obtain from branch management a list of all “NOSTRO” accounts maintained/operated by branch. A NOSTRO account is an account that a bank holds in foreign currency in another bank.
- Reason:** In respect of branches dealing in foreign exchange transactions, auditor has to obtain a list of NOSTRO accounts maintained/operated by branch. A NOSTRO account is an account that a bank holds in foreign currency in another bank.
4. (c) The terms “Shipping bill” and “Bill of export” have different purposes. Let Export Order (LEO) date cannot be before shipping bill date.
- Reason:** The term “shipping bill” is used in case of export through air/sea. However, in case of export through land, term “Bill of export” is used. Let Export Order (LEO) date cannot be before shipping bill date. LEO date means the date on which custom clearance procedures have been completed with customs by filing shipping bill and other necessary documents with customs.

5. (c) The importers and exporters have to get registered on portal of ICEGATE. It provides host of services like electronic filing of bill of entry, shipping bills and a web based common signer utility for signing all customs documents.

Reason: The exporters and importers are registered on national portal of ICEGATE for filing shipping bills and other documents etc.

II. Answers to the Descriptive Questions

6. It is given in situation that company has not been able to realize ₹ 25.00 crore stuck up with overseas client based in US.

Under Rule 18 of Customs and Central Excise Duties Drawback Rules, 2017, where duty drawback has been paid to an exporter but the sale proceeds in respect of such goods have not been realised within period allowed under the FEMA, 1999, including any extension of such period, such draw back shall be recovered from such exporter.

Further in terms of Section 75A of Customs Act, 1962, interest at rate fixed under section 28AA shall also be recoverable along with duty drawback amount. The amount of interest shall have to be paid for the period beginning from the payment of duty drawback to the claimant till the date of recovery of such amount.

7. As per RBI master circular relating to prudential norms on income recognition, asset classification and provisioning related to advances, the classification of an asset as NPA should be based on record of recovery. Bank should not classify an advance account as NPA merely due to existence of some deficiencies which are temporary in nature such as non-availability of drawing power based on latest available stock statement, balance exceeding limit temporarily, non-renewal of limits on due dates etc. In the case of M/s Poriborton Industries, drawing power is inadequate on basis of stock statement of February 2023 only. Hence, it is nature of temporary deficiencies. Hence, proposed action of auditors is not in line with above norms.

8. "Quick mortality" means that credit facilities sanctioned to a borrower have become non-performing within a short period time from date of its first sanction. Such accounts where facility became non-performing within 12 months from date of first sanction are to be specifically reported in LFAR under "credit appraisal". The account number, account name and balances as at year end in respect of such accounts have to be reported.

Its significance lies in the fact that it helps in highlighting and understanding serious short comings in credit appraisal. It means that credit appraisal may not have been carried out diligently leading to quick slippage of sanctioned credit facility to non-performing asset.

CASE STUDY 5

It was the year 1918 when the World witnessed the worst Pandemic ever in the history of mankind- "Spanish Flu". It took the world 4 years to get back to normal by the year 1922 but the Pandemic left it with memories of pain and devastation. The experts bounced back with huge promises and work in the field of Technology and Healthcare, but another pandemic was awaiting them nearly a century later in the year 2019 and it was COVID-19 virus outbreak. Starting from China, it spread all over the world in a short span of time and strict lockdowns were being imposed in almost every country to prevent its spread but with dire consequences for the world economy, where the technology & health care sector got a huge boost during this period, almost all other sectors witnessed a sharp decline in growth or almost no growth as survival became more important than money & business. Out of all the sectors affected, the worst affected was the hospitality sector where hotel and tourism Industry did almost negligible business.

One such case is of Anupama Hotels Ltd. operating an all category resort – "THE VILLAS" which is a famous Vacation Property located in the Hills of Shivalik and the Room occupancy is almost full throughout the year. This property was a hot favorite for not only the people of India but also for international tourists. But, unfortunately, with the effects of the Pandemic on the Hospitality industry, this property also suffered huge economical losses with very less business and thus, the Board of Directors wanted to either go for putting it on sale or work out a process of restructuring as a measure to improve the economical feasibility of the property. Restructuring is the corporate management term for the act of reorganizing the legal, ownership, operational, or other structures of a company for the purpose of making it more profitable, or better organized for its present needs. Alternate reasons for restructuring include a change of ownership or ownership structure, demerger, or a response to a crisis or major change in the business such as bankruptcy, repositioning, or buyout. Restructuring may also be described as corporate restructuring, debt restructuring and financial restructuring. The underlying object of corporate restructuring is efficient and competitive business operations by increasing the market share, brand power and synergies. In the emerging scenario, joint ventures, alliances, mergers, amalgamations and takeovers are becoming the easiest and quickest way to expand capacities and acquire dominance over the market. They didn't want to sell it as the price quotes they were getting were quite low as they would have got if the conditions were normal. Out of all the offers they have been getting, they have come down to 3 Options and want to discuss them with you to finalise the most feasible option as follows :-

Option :-1

Naman Hotels Ltd. has shown interest in acquiring this Resort Property as they are of the view that they can help each other in the Business with Naman Group's experienced staff and innovative team in collaboration with the beautiful structure and landscape of "THE VILLAS".

This business combination can be carried out by setting up a new entity called “the Namupama Villas Ltd.” that will issue 50 shares to Anupama Hotels Ltd. shareholders and 100 shares to Naman Hotels Ltd. shareholders in exchange for the transfer of the shares in those entities. The number of shares reflects the relative fair values of the entities before the combination. Also, respective company’s shareholders get the voting rights in the Namupama Villas Ltd. based on their respective shareholdings. The timeline, if the deal is finalised, will stand as:-

a)	Date of shareholder agreement	1 st June
b)	Appointed date as per shareholder agreement	1 st April
c)	Date of obtaining control over the Board representation	1 st July
d)	Date of transfer of shares	1 st August

Option:- 2

Another Company – Kavya Hotels Ltd. from a different state wants to acquire Anupama Hotels Ltd. to take charge of the Resort Property with its Managing Director, Miss Kavya Narula, having confidence of pulling the property out of economic losses using her vast experience in the field of Hospitality industry. To substantiate this, they are asked by the Management of Anupama Hotels Ltd. to put forward the financial details of their performance during the F.Y./P.Y. 2022-23 for Anupama Hotel Ltd.’s consideration regarding striking a deal with them w.r.t. “THE VILLAS”. The Head Accountant of Kavya Hotels Ltd. wants to discuss some peculiar transactions w.r.t. the Profit/Loss made by the Group with Miss Kavya and other members of the management as follows, before they finalise their books and submit a report of their Financial Performance to Anupama Hotels Ltd. The Head accountant tells them that their group’s Statement of Profit and Loss for the previous year ended 31st March, 2023 shows a profit of ₹ 150 lakhs after debiting or crediting the following items:-

- Payment of ₹ 0.35 lakh in cash on 20th December 2022 to a local farmer for purchase of daily use vegetables and ₹ 0.30 lakh to a Confectionary Wholesaler on 26th December 2022 for different products.
- Contribution towards employees' pension scheme notified by the Central Government under section 80CCD for a sum of ₹ 3 lakhs calculated at 12% of aggregate of basic salary and dearness allowance (forming part of retirement benefits) payable to the employees in terms of employment.
- Payment of ₹ 5.50 lakhs towards transportation of various materials procured by the resort to M/s. PQR Transport, a partnership firm, without deduction of tax at source. The firm opts for presumptive taxation under section 44AE and has furnished a declaration to this effect. It also furnished its Permanent Account Number in the tender document.
- Profit of ₹ 12 lakhs on sale of a plot of land to Divya Limited, a domestic company, the entire shares of which are held by the assessee company. The plot was acquired by Kavya Hotels Limited on 1st June 2021.

- (e) Contribution of ₹ 0.50 lakhs to Indian Institute of Technology with a specific direction for use of the amount for scientific research programme approved by the prescribed authority.
- (f) Expense of ₹ 5 lakhs on foreign travel of two directors for a collaboration agreement with a foreign company for a brewery project to be set up. The negotiation did not succeed, and the project was abandoned.
- (g) Fees of ₹ 1 lakh paid to independent directors for attending Board meeting without deduction of tax at source under section 194J.
- (h) Depreciation charged ₹ 10 lakhs.

After submitting a report on their financial performance, Kavya Group works out on the Acquisition plan of "THE VILLAS" as this - On 1 April 2022, it will acquire 80 percent of the equity interest of Anupama Hotels Ltd. in exchange for cash of ₹ 300. Due to legal compulsion, Anupama Hotels Ltd. will have to dispose off their investments by a specified date such that they will not have sufficient time to market their property to multiple potential buyers. The management of Kavya Hotels Ltd. initially measures the separately recognizable identifiable assets acquired and the liabilities assumed as of the acquisition date in accordance with the requirement of Ind AS. The identifiable assets are measured at ₹ 600 lakhs and the liabilities assumed are measured at ₹ 200 lakhs. Kavya Ltd. engages an independent consultant who determined that the fair value of 20 per cent non-controlling interest in Anupama Hotels Ltd. is ₹ 84 lakhs. Kavya Hotels Ltd. reviewed the procedures it used to identify and measure the assets acquired and liabilities assumed and to measure the fair value of both the non-controlling interest in Anupama Hotels Ltd. and the consideration transferred. After the review, it decided that the procedures and resulting measures are appropriate and it waited for approval from the end of Anupama Hotels Ltd. to move ahead with this plan if they accept their offer.

Option :- 3

The management of Anupama Hotels Ltd. wants you to carry out a special audit of the controls implemented in their Property and suggest them solutions to improve any deficiency in controls or any management incompetencies which might need improvement or replacement to bring back the good old days and the Company could ask its Financers for a Corporate Restructuring based on your Audit report. You suggest them about Risk Based audit and deliberate them about the process of this audit on their request. You tell them that your Audit would be risk-based or focused on areas of greatest risk to the achievement of the audited entity's objectives. Risk-based audit (RBA) is an approach to audit that analyzes audit risks, sets materiality thresholds based on audit risk analysis and develops audit programmes that allocate a larger portion of audit resources to high-risk areas. Risk Based Audit is an essential element of financial audit- both in the attest audit of the financial statements and in the audit of financial systems and transactions including evaluation of internal controls. It focuses primarily on the identification and assessment of the financial statement misstatement risks and provides a

framework to reduce the impact to the financial statement of these identified risks to an acceptable level before rendering an opinion on the financial statements. It also provides indicators of risks as a basis of opportunity for improvement of auditee risk management and control processes. This affords an opportunity to the auditee to improve its operations from recommendations on risks that do not have a current impact on the financial statements but impact the audited entity's operational strategies and performance over the longer term. The auditor's objective in a risk-based audit is to obtain reasonable assurance that no material misstatements whether caused by fraud or errors exist in the financial statements. This involves the following three key steps: - Assessing the risks of material misstatement in the financial statements; Designing and performing further audit procedures that respond to assessed risks and reduce the risks of material misstatements in the financial statements to an acceptably low level; and issuing an appropriate audit report based on the audit findings and this work is done in three distinct phases. You have three articles in your team and you delegate them the work as – Komal to check and evaluate the controls in the Restaurant & Bar and work on the risks associated while another two articles Sagar & Ritu to help you with the allotted works as follows:-

KOMAL :- During the process of extracting the exception reports in the Restaurant, she observes numerous purchase entries without valid purchase orders. In terms of percentage, about 30% of purchases were made without valid purchase orders and also few purchase orders were validated after the actual purchase. Also there was no reconciliation between the goods received and the goods ordered. She proceeds ahead to check the validity of purchases at account Balance level and follows some specific audit procedures to achieve her objective. Also, she is told that the Resort has a tie up with Hard Coupons Ltd. which sells coupons to general public that are redeemable against specified luxury food products at selected properties and "THE VILLAS" being one of them. Each coupon is sold for value of ₹ 900 but is redeemable for supplies worth ₹ 1,000. She also notices a Working Capital Block relating to GST ITC utilisation by the Hotel. During the current year, they have been awarded a contract for catering in a marriage to be held at Dehradun. They have further subcontracted it for supply of snacks, to be served in the marriage, to Vanraj & Sons, a local caterer of Dehradun. The Head accountant is of the view that they can't avail ITC on such sub-contract.

SAGAR :- Performing client acceptance or continuance procedures; Planning the overall engagement; Performing risk assessment procedures to understand the business and identify inherent and control risks; Identifying relevant internal control procedures and assessing their design and implementation; Assessing the risks of material misstatement in the financial statements, etc.

RITU :- Designing and performing further audit procedures that respond to the assessed risks of material misstatement and will provide the evidence necessary to support the audit opinion.

Finally, you, as the auditor, assess the audit evidence obtained and determine whether it is sufficient and appropriate to reduce the risks of material misstatement in the financial statements to an acceptably low level and hand over your Audit Report to the management of

Anupama Hotels Ltd. with all your suggestions and scope for improvements for reviving the economic operations of their Resort.

THE DECISION :- Considering all the above options and working out on the feasibility of each , the management of Anupama Ltd. chooses to go further with Option No. 3 of going for Corporate Debt Restructuring and request you to frame a scheme to be discussed with their main financiers XYZ Bank Ltd. in due time.

I. Multiple Choice Questions

1. Which of the following is an indicator of possible potential misstatement with respect to recording as could be identified by you while carrying out this specific audit of Anupama Hotels Ltd.:
 - (a) Source documents captured inaccurately.
 - (b) Source documents not captured.
 - (c) Source documents overstated.
 - (d) Rejected Source documents are not represented.
2. The Head Accountant's view w.r.t. utilisation of ITC on the contract outsourced to Vanraj & sons is:
 - (a) Correct, as ITC will not be available under GST law.
 - (b) Incorrect, as ITC is available for utilisation as per GST Law.
 - (c) Incorrect, as it has been subcontracted.
 - (d) Correct, as it falls under the category of Blocked ITC.
3. Which two Account Balances are most likely to be affected by the wrongdoings found by Komal while auditing the expenses of the Restaurant?
 - (a) Sales invoices and Purchases.
 - (b) Inventory & Account Payables.
 - (c) Opening & Closing Stocks only.
 - (d) Purchases & Account Payables.
4. What is the value of supply of Luxury food coupons as sold by Hard Coupons Ltd. under GST law?
 - (a) ₹ 1000.
 - (b) ₹ 900.

- (c) ₹ 100.
- (d) Either (a) or (b) depending upon the time of its redemption.
5. Suppose Anupama Hotels Ltd. strikes a deal with Naman Hotels Ltd. as per the plan of Business combination put forward by the latter :-

STATEMENT 1 :- In this case , the ACQUIRER will be Anupama Hotels Ltd. and not Naman Hotels Ltd.

STATEMENT 2 :- 1st July will be considered as the ACQUISITION DATE.

- (a) Both the Statements are Incorrect.
- (b) Both the Statements are Correct.
- (c) Statement 1 is Incorrect while Statement 2 is Correct.
- (d) Statement 1 is Correct while Statement 2 is Incorrect.

II. Descriptive Questions

6. Calculate the gain or loss, Kavya Hotels Ltd. will make on acquisition of Anupama Hotels Ltd., if their deal is finalised. Also show the Journal entries for accounting of its acquisition. Also calculate the value of the non-controlling interest in Anupama Hotels Ltd. on the basis of proportionate interest method, if alternatively applied?
7. "Auditors are required to assess the risks of material misstatement at two levels". Briefly explain the same and state the procedures to be followed by Komal regarding validity of account balances relating to the purchases while auditing the controls in the restaurant of Anupama Hotels Ltd.
8. With the help of data provided by the Head Accountant of Kavya Hotels Ltd. and the following additional information, compute profits and gains of business or profession of Kavya Hotels Limited for the Assessment Year 2023-24 indicating the reason for treatment of each item assuming that the company is not eligible for deduction u/s 35AD. Ignore the provisions relating to minimum alternate tax and the provisions of section 115BAA:-
- (a) As a corporate debt restructuring arrangement, their bank has converted unpaid interest of ₹ 10 lakhs upto 31st March 2022 into a new loan account repayable in five equal annual installments. The first installment of ₹ 2 lakhs was paid in March 2023 by debiting new loan account.
- (b) Depreciation as per Income-tax Act, 1961 is ₹ 15 lakhs.
- (c) The company received a bill for ₹ 3 lakhs on 31st March 2023 from a supplier of vegetables for supply made in March 2023. The bill was omitted to be recorded in the books in March 2023. The bill was paid in April 2023 and the necessary entry was made in the books then.

ANSWERS TO THE CASE STUDY 5

I. Answers to the Multiple Choice Questions

1. (a) Source documents captured inaccurately.

Reason:

Possible potential misstatements - Indicators	
Completeness	<ul style="list-style-type: none"> • Transactions not identified. • Source documents not prepared. • Source documents not captured. • Rejected source documents not represented
Existence	<ul style="list-style-type: none"> • Fictitious or unauthorised transactions entered on source documents. • Source documents overstated. • Transactions duplicated on source documents. • Capture of source documents duplicated. • Invalid source documents captured on subsidiary ledgers.
Recording	<ul style="list-style-type: none"> • Source documents captured inaccurately. • Processing of transactions is inaccurate. • Inaccurate adjustments made in subsidiary ledgers.
Cut-Off Procedures	<ul style="list-style-type: none"> • Transactions that occur in one period are recorded in another period.

2. (b) Incorrect, as ITC is available for utilisation as per GST Law.

Reason: ITC on such goods and/or services is allowed in the case of sub-contracting, i.e. when such goods and/or services are used by the taxpayer who is in the same line of business, e.g. outdoor catering service availed by another outdoor caterer.

3. (d) Purchases & Account Payables

Reason: Assertions relating to validity of Purchases is being checked.

4. (a) ₹ 1000

Reason: In terms of rule 32(6) relating to valuation, the value of a coupon is the money value of the goods redeemable against it. Therefore, though the coupon is sold for ₹ 900, its value is ₹ 1000.

5. (c) Statement 1 is Incorrect while Statement 2 is Correct.

Reason: STATEMENT 1 :- As per para B15 of Ind AS 103, in a business combination effected primarily by exchanging equity interests, the acquirer is usually the entity that issues its equity interests. However, in some business combinations, commonly called 'reverse acquisitions', the issuing entity is the acquiree. Other pertinent facts and circumstances shall also be considered in identifying the acquirer in a business combination effected by exchanging equity interests, including: The relative voting rights in the combined entity after the business combination - The acquirer is usually the combining entity whose owners as a group retain or receive the largest portion of the voting rights in the combined entity. In above mentioned para, acquirer shall be the either of the combining entities (i.e. Naman Hotels Limited or Anupama Hotels Limited) whose owners as a Group retain or receive the largest portion of the voting rights in the combined entity. Hence in the above scenario Naman Hotels Limited shareholder gets 67% Share $[(100/150) \times 100]$ and Anupama Hotels Limited shareholder gets 33% share in the Namupama Villas Limited. Hence Naman Limited is acquirer as per the principles of Ind AS 103.

STATEMENT 2 :- In this case, as the control over financial and operating policies are acquired through obtaining board representation on 1st July, it is this date that is considered as the acquisition date. It may be noted that the appointed date as per the agreement is not considered as the acquisition date, as Naman Hotels Ltd. did not have control over Anupama Hotels Ltd. as at that date.

II. Answers to the Descriptive Questions

6. The amount of Anupama Hotels Ltd. identifiable net assets [₹ 400, calculated as ₹ 600 - ₹ 200) exceeds the fair value of the consideration transferred plus the fair value of the non controlling interest in Anupama Hotels Ltd. [₹ 384 calculated as 300 + 84]. Kavya Hotels Ltd. measures the gain on its purchase of the 80 per cent interest as follows:

		₹ in lakh
Amount of the identifiable net assets acquired (₹ 600 - ₹ 200)		400
Less: Fair value of the consideration transferred for Kavya Hotels Ltd. 80 per cent interest in Anupama Hotels Ltd.	300	
Add: Fair value of non controlling interest in Anupama Hotels Ltd.	84	(384)
Gain on bargain purchase of 80 per cent interest		16

Journal Entry

		₹ in lakhs	₹ in lakhs
Identifiable assets acquired	Dr.	600	
To Cash			300
To Liabilities assumed			200
To OCI/Equity-Gain on the bargain purchase			16
To Equity-non controlling interest in Anupama Hotels Ltd.			84

If the acquirer chooses to measure the non-controlling interest in Anupama Hotels Ltd. on the basis of its proportionate interest in the identifiable net assets of the acquire, the recognized amount of the non-controlling interest would be ₹ 80 Lakhs ($₹ 400 \times 0.20$). The gain on the bargain purchase then would be ₹ 20 lakhs ($₹ 400 - (₹ 300 + ₹ 80)$)

7. (a) **Auditors are required to assess the risks of material misstatement at two levels :-**
- ◆ The first is at the overall financial statement level, which refers to risks of material misstatement that relate pervasively to the financial statements as a whole and potentially affect many assertions.
 - ◆ The second relates to risks identifiable with specific assertions at the class of transactions, account balance, or disclosure level. This means that for each account balance, class of transactions and disclosure, an assessment of risk (such as high, moderate, or low) should be made for each individual assertion being addressed.
- (b) **Audit Procedures:** The following procedures by Komal may address the validity of the account balance:-
- ◆ Make a selection of the purchases, review correspondence with the vendors, purchase requisitions (internal document) and reconciliations of their accounts.
 - ◆ Review Vendor listing along with the ageing details. Follow up the material amounts paid before the normal credit period and analyse the reasons for exceptions.
 - ◆ Meet with the company's Purchase officer and obtain responses to our inquiries regarding the purchases made without purchase orders.
 - ◆ Discuss the summary of such issues with the client.

8. Computation of Profits and Gains of Business or Profession of Kavya Hotels Ltd. for the A.Y. 2023-24

Particulars		Amount (₹)
Profit as per Statement of profit and loss		1,50,00,000
Add: Items debited but to be considered separately or to be disallowed		
(a)	Payment to middleman for purchase of vegetables, etc. in an amount exceeding ₹ 10,000	30,000
[Under section 40A(3), disallowance is attracted in respect of expenditure for which cash payment exceeding ₹ 10,000 is made on a day to a person. Payment of ₹ 35,000 to farmer for purchase of vegetables is covered by exception under Rule 6DD. However, payment of ₹ 30,000 to confectionery wholesaler is not covered under the exception - CBDT Circular 27/2017 dated 3/11/2017].		
(b)	Contribution towards employees' pension scheme in excess of 10% of salary disallowed under section 40A(9) (3lacsx2/12)	50,000
[Contribution to the extent of 10% of salary (basic salary + dearness allowance, if it forms part of pay for retirement benefits) is allowable as deduction under section 36(1)(iva). In this case, it is presumed that dearness allowance forms part of pay for retirement benefits]		
(c)	Payment to transport contractor without deduction of tax at source	-
[Since the contractor opts for presumptive taxation under section 44AE and furnished a declaration to this effect, tax is not required to be deducted at source under section 194C in respect of payment to transport contractor].		
(f)	Expenses on foreign travel of two directors for a collaboration agreement which failed to materialize	5,00,000
[Where expenditure is incurred for a project not related to the existing business and the project was abandoned without creating a new asset, the expenses are capital in nature as per Mc Gaw-		

	Ravindra Laboratories (India) Ltd. v. CIT (1994) 210 ITR 1002 (Guj.). Brewery project is not related to the existing business of running three - star hotels]		6,10,000
(g)	Fees paid to directors without deducting tax at source [30% of ₹ 1 lakh]	30,000	
	[Disallowance @ 30% would be attracted under section 40(a)(ia) for non-deduction of tax at source from director's remuneration on which tax is deductible under section 194J]		
	Less: Items credited but to be considered separately/ Expenditure to be allowed		1,56,10,000
(d)	Profit on sale of plot of land to 100% subsidiary [Short-term capital gains arise on sale of plot of land held for less than 24 months. However, in this case, since the transfer is to a 100% subsidiary company and the subsidiary company is an Indian company, the same would not constitute a transfer for levy of capital gains tax as per section 47(iv). Since this amount has been credited to the statement of profit and loss, the same has to be deducted for computing business income].	12,00,000	
(e)	Contribution to IIT for scientific research [Contribution to IIT for scientific research programme approved by the prescribed authority qualifies for deduction @100% under section 35(2AA). Since the amount of contribution has already been debited to the statement of profit and loss, there is no further adjustment required – From AY 2021-22 , it is deductible @ 100%]	-	
(h)	Depreciation [Depreciation allowable under the Income-tax Act, 1961 is ₹ 15 lakhs whereas the depreciation as per books of account debited to the statement of profit and loss is ₹ 10 lakhs. Hence, the additional amount of ₹ 5 lakhs has to be deducted while computing business income]	5,00,000	
(i)	Interest paid during the year [Conversion of unpaid interest into loan shall not be construed as payment of interest for the purpose section 43B. The amount of unpaid interest converted into a new loan will be allowable as	2,00,000	(22,00,000)

	deduction only in the year in which such converted loan is actually paid. Since ₹ 2 lakhs has been paid in the P.Y. 2022-23, the same is allowable as deduction]		
(iii)	Purchases omitted to be recorded in the books [Since the purchase is made in March, 2023 (i.e., P.Y.2022-23), in respect of which bill of ₹ 3 lakhs received on 31.3.2023 has been omitted to be recorded in the books in that year, it has to be deducted to compute the business income [Kedarnath Jute Manufacturing Company Ltd. v. CIT (1971) 82 ITR 363 (SC)]. It is logical to assume that the company is following mercantile system of accounting.] Income under the head “Profits and Gains of Business or Profession”	3,00,000	1,34,10,000

CASE STUDY 6

CA Parminder Kaur is qualified as a Chartered Accountant 3 years back and has set up her own Practice in Jalandhar, Punjab. Her major expertise is in the field of consultancy to her clients regarding Global Accounting, Foreign Exchange related Legal matters, International taxation & promoting Financial Literacy. Through reference of an NRI relative, she recently bagged a contract of providing her services to the corporate house "SIMRAJ", a venture of Raj Arora & Simran Arora, husband & wife, based at Frankfurt, Germany. Raj & Simran met each other during their post-graduation days in London School of Economics and became best friends there. While Simran was simultaneously involved in the construction business of her father in London, Raj was always a kind of creative person who would like to promote innovations in the field of Healthcare and Pharmaceuticals. At present, Simran is successfully running her construction business by the name of Simran Constructions GmbH in Germany, while Raj has set up his venture by the name of Raj Pharma AG, incorporated in Germany and 63% of its shares are held by Simraj (P) Ltd., an Indian company. Raj Pharma AG has its presence in India also.

Simran's one of the biggest construction project was being executed in India at Amritsar through Sim Contractors Pvt. Ltd., another company based in India, shortly known as "SIMCO", which is a foreign operation of Simran Constructions GmbH, primarily set up to execute construction projects in India. The functional currency of Simran Constructions GmbH is Euros. 78% of SIMCO's finances have been raised in USD by way of contribution from Simran Constructions GmbH. SIMCO's bank accounts are maintained in USD as well as in INR. Cash flows generated by it are transferred to the German Company on a monthly basis in USD in respect of repayment of finance received from the German Company. Revenues of SIMCO are in USD. Its competitors are globally based. Tendering for the construction project happened in USD. SIMCO incurs 80% of the cost in INR and remaining 20% costs in USD.

While carrying out this construction project in Amritsar, SIMCO was in need of a heavy excavation machinery "XALTI" which was not available in India. CA Parminder arranges a meeting of SIMCO's Manager in India with one of her clients, Mr. Amit Juneja, at the request of Simran to enter into a contract of importing this machinery from out of India. Mr. Juneja has been in the business of trading in heavy machineries used in construction business since the past 5 years and had been planning since long to start importing highly technical machines from outside India to include in his trade segment. He felt it to be the right time and opportunity to enter into the Global market. He imported "XALTI" from Malta Machineries based in France. CA Parminder guides and helps Mr. Juneja to execute this import transaction following all the general guidelines as laid under the domestic laws of India. Alongwith this

transaction, Mr. Juneja requires to transfer U.S. \$ 15,000 for remittance towards hiring charges of transponders to be paid to Ross and U.S. \$ 20,000 to be paid to Chandler for payment related to call back services of telephones, both being foreign nationals.

Raj Arora is very curious to know about the compliances to be made by Raj Pharma AG. He provides the following details to CA Parminder Kaur relating to Raj Pharma AG for the P.Y. 2022-23:

Particulars	India	Germany
Fixed assets at depreciated values for tax purposes (₹ in crores)	100	60
Intangible assets (₹ in crores)	50	100
Other assets (value as per books of account) (₹ in crores)	40	120
Income from trading operations (₹ in crores)	50	75
The above figure includes:		
(i) Income from transactions, where purchases are from associated enterprises and sales are to unrelated parties	2	4
(ii) Income from transactions, where sales are to associated enterprises and purchases are from unrelated parties	3	5
(iii) Income from transactions, where both purchases and sales are from/to associated enterprises	5	10
Interest and dividend from investments (₹ in crores)	30	20
Number of employees (Residents in respective countries)	60	90
Payroll expenses on employees (₹ in crores)	10	15

During F.Y.2022-23, eight board meetings of Raj Pharma AG were held – 3 in India and 5 in Germany.

Raj Pharma AG's Indian counterpart – Simraj (P) Ltd. required a high tech machinery "Medifix" to be purchased from Cambridge, UK. For importing such machinery, Raj contacted one of his friends in Cambridge, who runs a company by the name of "Medico Inc.", a London based company, having several business units all over the world. It has a unit for manufacturing pharma machineries with its Headquarters in New Delhi. It has a branch in Dubai which is controlled by the Headquarters in New Delhi. However, "Medifix", being not available with 'Medico Inc.', Raj's friend in Cambridge helped him to procure the machinery from another

company in Frankfurt, Germany known to him. This foreign currency asset amounting to Euro 100,000 is recorded by Simraj (P) Ltd. as a non-monetary item at the date of purchase when the exchange rate was ₹ 52 at ₹ 52 lakhs. The recoverable amount of the asset on the reporting date is calculated as Euro 85,000. The exchange rate on the date of valuation was ₹ 60 to a Euro and the carrying amount of Medifix recorded accordingly, as per the relevant Ind-AS, in the books of Simraj (P) Ltd. is ₹ 51 lakhs.

Raj and Simran, both made several trips to India during the previous year and they are quite skeptical about the taxation of their income in both the countries – Germany & India. One day, over dinner table, they discussed all these aspects. Raj, having an experience in International tax matters and having discussed the same with CA Parminder tells Simran that in the case of income arising to an assessee in countries with which India does not have any double taxation agreement, relief would be granted under the Indian Income tax law subject to fulfilment of certain conditions. Simran tells him that one of her friends told her in a Kitty party that the double taxation avoidance treaties entered into by the Government of India with other countries can never ever override the domestic law of India. Further, Simran is curious to tell Raj about her father's business in the same segment and how her father is doing so good with the finances of the business that inspires her as well. She tells Raj that one of her father's business set-ups in India by the name of Entity "P" whose functional currency is '₹', has a foreign operation, Entity "Q" with Euro as its functional currency and Entity Q issued to Entity P, a perpetual debt denominated in Euros with an annual interest rate of 6%. The perpetual debt has no issuer call option or holder put option. Thus, contractually it is just an infinite stream of interest payments in Euros. Further, being highly impressed with CA Parminder's work and quality of, they both decide to offer her the role of CFO in their German Group "SIMRAJ" and wanted her to get migrated to Germany to which CA Parminder heartily agreed. As per the offer letter, Parminder should join the company at any time between 1st September, 2022 and 31st October, 2022. She has maintained a joint account with her father in UCO Bank, Jalandhar, in India.

I. Multiple Choice Questions

1. Referring to the provisions of the Foreign Exchange Management Act, 1999, state the kind of approval required for the transactions to be carried out by Mr. Amit Juneja for payment to Ross and Chandler respectively:-
 - (a) Ross :- Central Government ; Chandler :- Reserve Bank of India
 - (b) Ross :- Reserve Bank of India; Chandler :- Central Government
 - (c) Ross :- Prohibited Transaction ; Chandler :- Reserve Bank of India
 - (d) Ross :- Central Government ; Chandler :- Prohibited Transaction

2. What would be the residential status under the FEMA, 1999, of Pharma unit of "Medico Inc." in New Delhi and that of Dubai branch?
- (a) Both are persons resident outside India .
 - (b) New Delhi Headquarters – Resident person & Dubai Branch – Non-resident person
 - (c) Both are persons resident in India.
 - (d) New Delhi Headquarters – Non-resident person & Dubai Branch – Resident-person
3. Determine the value of Impairment loss in foreign currency with respect to "Medifix" and whether it should be recognised in books by Simraj (P) Ltd.?
- (a) Euro 15,000 and such loss should be recognised.
 - (b) ₹ 1 lakh and such loss should be recognised.
 - (c) ₹ 1 lakh and such loss should not be recognised
 - (d) Euro 15,000 and such loss should not be recognised.
4. In Entity P's consolidated financial statements, can the perpetual debt be considered, in accordance with Indian Accounting Standards, a monetary item "for which settlement is neither planned nor likely to occur in the foreseeable future" (i.e. part of P's net investment in Q), with the exchange gains and losses on the perpetual debt therefore being recorded in equity? Entity "P's" functional currency is INR, and Entity "Q's" functional currency is Euro.
- (a) Yes, the Perpetual Debt can be considered as a monetary item and the related exchange gains and losses should not be recognised.
 - (b) No, the Perpetual Debt should not be considered as a monetary item and the related exchange gains and losses should not be recognised accordingly.
 - (c) Yes, the Perpetual Debt can be considered as a monetary item and the related exchange gains and losses should be recorded in equity at the consolidated level.
 - (d) No, the Perpetual Debt should not be considered as a monetary item and the related exchange gains and losses should be recognised in consolidation of accounts.

5. By what date maximum, should CA Parminder leave India and how should she receive her salary to minimize her tax liabilities in India, if her total income during P.Y. 2022-23 was ₹ 14 lakhs?
- (a) She should leave India on or before 28 September, 2022 and get her salary credited to a Bank account in Germany only, to be remitted, later on, to her Joint account in India.
 - (b) She should leave India on or before 27 September, 2022 and get her salary credited directly to her Joint account in India.
 - (c) She should leave India on or before 27 September, 2022 and get her salary credited to a Bank account in Germany only, to be remitted, later on, to her Joint account in India
 - (d) She should leave India on or before 28 September, 2022 and get her salary credited directly to her Joint account in India.

II. Descriptive Questions

6. Mr. Amit Juneja wants to know from CA Parminder, the various modes of payment he can use, to make payment to Malta Constructions for importing "XALTI". Also, he requests her to guide on the time-limit for making settlement of such payment as laid under the Domestic law.
7. Can INR be presumed as the Functional Currency for SIMCO, since it is located in India?
8. Determine the residential status of Raj Pharma AG for A.Y.2023-24, as per the Indian Income tax law.

ANSWERS TO THE CASE STUDY 6

I. Answers to the Multiple Choice Questions

1. (d) Ross :- Central Government ; Chandler :- Prohibited Transaction
- Reason:** Under section 5 of the Foreign Exchange Management Act, 1999, and Rules relating thereto, some current account transactions require prior approval of the Central Government, some others require the prior approval of the Reserve Bank of India, some are freely permitted transactions and some others are prohibited transactions. Accordingly,

- (i) It is a current account transaction, where Amit is required to take approval of the Central Government for drawal of foreign exchange for remittance of hire charges of transponders.
- (ii) Withdrawal of foreign exchange for payment related to call back services of telephone is a prohibited transaction. Hence, Amit cannot obtain US \$ 20,000 for the said purpose.

2. (c) Both are persons resident in India.

Reason: Medico Inc. being a UK based company would be person resident outside India [(Section 2(w)]. Section 2 (u) defines 'person' under clause (viii) thereof, as person would include any agency, office or branch owned or controlled by such person. The term such person appears to refer to a person who is included in clause (i) to (vi). Accordingly, the Headquarters in New Delhi, being a branch of a company would be a 'person'.

Section 2(v) defines a person resident in India. Under clause (iii) thereof person resident in India would include an office, branch or agency in India owned or controlled by a person resident outside India. Headquarters Unit in New Delhi is owned or controlled by a person resident outside India, and hence it, would be a 'person resident in India.'

However, Dubai Branch though not owned is controlled by the Headquarters in New Delhi which is a person resident in India. Hence, the Dubai Branch is also a person resident in India.

3. (d) Euro 15,000 and such loss should not be recognised.

Reason: The carrying value of the foreign currency asset will be determined based on the recoverable amount of the asset converted into functional currency at the exchange rate on valuation date which is ₹ 51 lakhs. However, the impairment loss is of Euro 15,000 in foreign currency which is not to be recognised.

4. (c) Yes, the Perpetual Debt can be considered as a monetary item and the related exchange gains and losses should be recorded in equity at the consolidated level.

Reason: Yes, as per Ind AS 21, net investment in a foreign operation is the amount of the reporting entity's interest in the net assets of that operation.

As per para 15 of Ind AS 21, an entity may have a monetary item that is receivable from or payable to a foreign operation. An item for which settlement is

neither planned nor likely to occur in the foreseeable future is, in substance, a part of the entity's net investment in that foreign operation. Such monetary items may include long-term receivables or loans. They do not include trade receivables or trade payables.

Analysis on the basis of above mentioned guidance

Through the origination of the perpetual debt, P has made a permanent investment in Q. The interest payments are treated as interest receivable by P and interest payable by Q, not as repayment of the principal debt. Hence, the fact that the interest payments are perpetual does not mean that settlement is planned or likely to occur. The perpetual debt can be considered part of P's net investment in Q.

In accordance with para 15 of Ind AS 21, the foreign exchange gains and losses should be recorded in equity at the consolidated level because settlement of that perpetual debt is neither planned nor likely to occur.

5. (a) She should leave India on or before 28 September, 2022 and get her salary credited to a Bank account in Germany only, to be remitted, later on, to her Joint account in India

Reason: In this case, since Parminder is an Indian citizen and leaving India during P.Y. 2022-23 for the purpose of employment outside India, she will be treated as resident only if the period of her stay during the previous year amounts to 182 days or more. Therefore, Parminder should leave India on or before 28th September, 2022, in which case, her stay in India during the previous year would be less than 182 days and she would become non-resident for the purpose of taxability in India. In such a case, only the income which accrues or arises in India or which is deemed to accrue or arise in India or received or deemed to be received in India shall be taxable.

The income earned by her in Germany would not be chargeable to tax in India for A.Y. 2023-24, if she leaves India on or before 28th September, 2022.

If any part of Parminder's salary will be credited directly to her bank account in Jalandhar, then, that part of her salary would be considered as income received in India during the previous year under section 5 and would be chargeable to tax under Income-tax Act, 1961, even if she is a non-resident. Therefore, Parminder should receive her entire salary in Germany and then remit the required amount to her bank account in Jalandhar in which case, the salary earned by her in Germany would not be subject to tax in India.

II. Answers to the Descriptive Questions**6. As per Master Direction No. 17 on Import of Goods and Services issued by the RBI, the general Guidelines for Imports are as follows:-**

(i) **Mode of payment:** A person resident in India may make payment for import of goods in foreign exchange through-

- an international card held by him/in rupees from international credit card/ debit card through the credit/debit card servicing bank in India against the charge slip signed by the importer, or
- as prescribed by Reserve Bank from time to time,

provided that the transaction is in conformity with the extant provisions and the import is in conformity with the Foreign Trade Policy in force.

In essence, payment has to be made through banking channels.

(ii) **Other modes:**

For following transactions, a person resident in India may also make payment as under :

- (a) In rupees towards meeting expenses on account of boarding, lodging and services related thereto or travel to and from and within India of a person resident outside India who is on a visit to India;
- (b) By means of a crossed cheque or a draft as consideration for purchase of gold or silver in any form imported by such person in accordance with the terms and conditions imposed under any order issued by the Central Government under the Foreign Trade (Development and Regulations) Act, 1992 or under any other law, rules or regulations for the time being in force;
- (c) A company or resident in India may make payment in rupees to its non-whole time director who is resident outside India and is on a visit to India for the company's work and is entitled to payment of sitting fees or commission or remuneration, and travel expenses to and from and within India, in accordance with the provisions contained in the company's Memorandum of Association or Articles of Association or in any agreement entered into it or in any resolution passed by the company in general meeting or by its Board of Directors. This is also subject to compliance with requirement of any law, rules, regulations, directions applicable for making such payments.

(ii) Time Limit for Settlement of Import Payments:**(i) Time limit for Normal Imports:**

- In terms of the extant regulations, remittances against imports should be completed not later than six months from the date of shipment, except in cases where amounts are withheld towards guarantee of performance, etc.
- AD may permit settlement of import dues delayed due to disputes, financial difficulties, etc. However, interest if any, on such delayed payments, usance bills (a bill of exchange which allows the drawee to have period of credit or term) or overdue interest is payable only for a period of up to three years from the date of shipment at the rate prescribed for trade credit from time to time.

(ii) Time Limit for Deferred Payment Arrangements:

Payment arrangements (including suppliers' and buyers' credit) upto five years, are treated as trade credits for which the procedural guidelines as laid down in the Master Circular for External Commercial Borrowings and Trade Credits may be followed

(iii) Extension of Time:

- (i) limit of extension:** AD Category – I banks can consider granting extension of time for settlement of import dues up to a period of six months at a time (maximum up to the period of three years) irrespective of the invoice value for delays on account of disputes about quantity or quality or non-fulfilment of terms of contract; financial difficulties and cases where importer has filed suit against the seller. In cases where sector specific guidelines have been issued by Reserve Bank of India for extension of time (i.e. rough, cut and polished diamonds), the same will be applicable.
- (ii) Circumstances:** While granting extension of time, AD must ensure that:
- a. The import transactions covered by the invoices are not under investigation by Directorate of Enforcement / Central Bureau of Investigation or other investigating agencies;
 - b. While considering extension beyond one year from the date of remittance, the total outstanding of the importer does not exceed

USD one million or 10 per cent of the average import remittances during the preceding two financial years, whichever is lower; and

- c. Where extension of time has been granted by the AD, the date up to which extension has been granted may be indicated in the 'Remarks' column.

7. No, SIMCO cannot presume INR to be its functional currency on the basis of its location. It needs to consider various factors listed in Ind AS 21 for determination of functional currency.

Primary indicators:

1. The currency that mainly influences:
 - (a) sales prices for its goods and services. This will often be the currency in which sales prices are denominated and settled; and of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services.
 - (b) labour, material and other costs of providing goods and services. This will often be the currency in which these costs are denominated and settled.
2. Other factors that may provide supporting evidence to determine an entity's functional currency are ***(Secondary indicators):***
 - (a) the currency in which funds from financing activities (i.e. issuing debt and equity instruments) are generated; and
 - (b) the currency in which receipts from operating activities are usually retained.
3. ***If an entity is a foreign operation***, additional factors set out in Ind AS 21 should be considered to determine whether its functional currency is the same as that of the reporting entity of which it is a subsidiary, branch, associate or joint venture:
 - (c) Whether the activities of foreign operations are carried out as an extension of that reporting entity, rather than being carried out with a significant degree of autonomy;
 - (d) Whether the transactions with the reporting entity are a high or a low proportion of the foreign operation's activities;
 - (e) Whether cash flows from the activities of the foreign operations directly affect the cash flows of the reporting entity and are readily available for remittance to it.

- (f) Whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligation without funds being made available by the reporting entity.

On the basis of additional factors mentioned in point 3 above, SIMCO cannot be said to have functional currency same as that of Simran Constructions GmbH.

Hence primary and secondary indicators should be used for the determination of its functional currency giving priority to primary indicators. The analysis is given below:

- ◆ Its significant revenues and competitive forces are in USD.
- ◆ Its significant portion of cost is incurred in INR. Only 20% costs are in USD.
- ◆ 78% of its finances have been raised in USD.
- ◆ It retains its operating cash flows partially in USD and partially in INR.

Keeping these factors in view, USD should be considered as the functional currency of Sim Contractors Pvt. Ltd.

8. The residential status of a foreign company is determined on the basis of place of effective management (POEM) of the company.

For determining the POEM of a foreign company, the important criteria is whether the company is engaged in active business outside India or not.

A company shall be said to be engaged in "Active Business Outside India" (ABOI) for POEM, if

- the passive income is not more than 50% of its total income; and
- less than 50% of its total assets are situated in India; and
- less than 50% of total number of employees are situated in India or are resident in India; and
- the payroll expenses incurred on such employees is less than 50% of its total payroll expenditure.

Raj Pharma AG shall be regarded as a company engaged in active business outside India for P.Y. 2022-23 for POEM purpose only if it satisfies all the four conditions cumulatively:-

Condition 1: The passive income of Raj Pharma AG should not be more than 50% of its total income

Total income of Raj Pharma AG during the P.Y. 2022-23 is ₹ 175 crores [(₹ 50 crores + ₹ 75 crores) + (₹ 30 crores + ₹ 20 crores)]

Passive income is the aggregate of, -

- (i) income from the transactions where both the purchase and sale of goods is from/to its associated enterprises; and
- (ii) income by way of royalty, dividend, capital gains, interest or rental income;

Passive Income of Raj Pharma AG is ₹ 65 crores, being sum total of:

- (i) ₹ 15 crores, income from transactions where both purchases and sales are from/to associated enterprises (₹ 5 crores in India and ₹ 10 crores in Germany)
- (ii) ₹ 50 crores, being interest and dividend from investment (₹ 30 crores in India and ₹ 20 crores in Germany)

Percentage of passive income to total income = ₹ 65 crore / ₹ 175 crore x 100 = 37.14%

Since passive income of Raj Pharma AG is 37.14%, which is not more than 50% of its total income, the first condition is satisfied.

Condition 2: Raj Pharma AG should have less than 50% of its total assets situated in India

- Value of total assets of Raj Pharma AG during the P.Y. 2022-23 is ₹ 470 crores [₹ 190 crores, in India + ₹ 280 crores, in Germany]
- Value of total assets of Raj Pharma AG in India during the P.Y. 2022-23 is ₹ 190 crores
- Percentage of assets situated in India to total assets = ₹ 190 crores / ₹ 470 crores x 100 = 40.43%.

Since the value of assets of Raj Pharma AG situated in India is less than 50% of its total assets, the second condition for ABOI test is satisfied.

Condition 3: Less than 50% of the total number of employees of Raj Pharma AG should be situated in India or should be resident in India

- Number of employees situated in India or are resident in India is 60 Total Number of employees of Raj Pharma AG is 150 [60 + 90]
- Percentage of employees situated in India or are resident in India to total number of employees is 60/150 x 100 = 40%

Since employees situated in India or are residents in India of Raj Pharma AG are less than 50% of its total employees, the third condition for ABOI test is satisfied.

Condition 4: The payroll expenses incurred on employees situated in India or resident in India should be less than 50% of its total payroll expenditure

- Payroll expenses on employees employed in and resident of India = ₹ 10 crores.
- Total payroll expenses = ₹ 25 crores (₹ 10 crores + ₹ 15 crores)
- Percentage of payroll expenses of employees situated in India or are resident in India to the total payroll expenses = $10 \times 100/25 = 40\%$

Since the payroll expenses incurred on employees situated in India or resident in India is less than 50% of its total payroll expenditure, the fourth condition for ABOI test is also satisfied.

Thus, since Raj Pharma AG has satisfied all the four conditions, the company would be said to be engaged in “active business outside India” during the P.Y. 2022-23.

POEM of a company engaged in active business outside India shall be presumed to be outside India, if the majority of the board meetings are held outside India.

Since Raj Pharma AG is engaged in active business outside India in the P.Y. 2022-23 and majority of its board meetings i.e., 5 out of 8, were held outside India, POEM of Raj Pharma AG would be outside India.

Therefore, Raj Pharma AG would be non-resident in India for the P.Y. 2022-23.

CASE STUDY 7

M/s ABCD Ltd. is a textile manufacturing company based at Surat, Gujarat, which enjoys a vintage of more than 50 years of good reputation and business. The Company was set up by Mr. Amar Dev in the 1960's in a small room and as years passed by, it became such a successful and big business that now after serving the Domestic consumers, the Company has gone global and expanding its business all across Europe and Canada through Third Party Sales from India. Mr. Rahul Dev, the grandson of Mr. Amar Dev is the Managing Director of the Company and has been following quite an aggressive approach in globalizing their business after graduating from college. He remains in constant touch with CA Nitin Garg, Partner of Nitin Garg & Co., Chartered Accountants, and keeps on discussing with him legal compliances and procedures.

With the introduction of GST, Rahul knows that the complexities in business have increased a lot and it is imperative to diversify the ever-expanding businesses. He understands that their company is well integrated into the web of international business transactions. There is inward as well as outward flow of goods and services between India and other countries. GST, being a business tax, impacts import and export too. Provisions in the GST laws seek to (i) provide level playing field to domestic suppliers vis a vis international suppliers in case of import and (ii) make export more competitive. He has had been discussing the various provisions of GST law as will be applicable on import and export supplies w.r.t. their business, if they wish to enter the Global market directly, apart from the normal customs levy.

To expand the business, Rahul is in talks with Robert de Nero, one of his fast friends whom he met during his graduation in London and who is currently the owner of a famous International Clothing Brand "ALPHA". Robert wants to establish a company in India and seeks Rahul's help who further consults CA Nitin on helping Robert set up a Branch Office in India. Robert's venture – ALPHA Units is a limited company incorporated in London in the year 2011, and he desires to establish a branch office at Surat in the year 2022.

Nitin, being a practicing Chartered Accountant is appointed by Robert as a liaison officer for compliance of legal formalities on behalf of the company. Nitin helps them in the legal compliance, research, feasibility, documentation and procedural work to set up the Branch office in India. Rahul, in order to expand his business, discusses with Nitin on setting up a subsidiary outside India at Paris for specifically carrying out the Import-Export transactions easily and soon afterwards Rahul sets up a subsidiary at Paris under the name & style of M/s PQRS Ltd.

M/s ABCD Ltd. is engaged in the business of manufacturing of cloth for other Textile companies and non-textile companies. Now the company will be itself carrying out the Import-Export transactions without involving any 3rd Party for the export purposes which it had been

doing till now. It applies for the IEC – Import Export Code with the Customs authorities and gets the same issued in due time. The wholly owned subsidiary, M/s PQRS Ltd., is engaged in the business of Readymade designer garments. The subsidiary purchases the garments and other stuff from its parent company. The demand of garments of M/s PQRS Ltd. is very high and hence to cater to its shortfall, PQRS Ltd also purchases the garments from other companies. Purchases are made at the competitive prices. During the year 2022-23, ABCD Ltd sold garments to PQRS Ltd for Euro 13 lakhs on 1st January, 2023. The cost of these garments was ₹ 936 lakhs in the books of ABCD Ltd at the time of sale. At the year-end i.e. 31st March, 2023, all these Garments were lying as closing stock with PQRS Ltd. Euro is the functional currency of PQRS Ltd. while Indian Rupee is the functional currency of ABCD Ltd.

Further, GST being a new law, businesses are finding it quite difficult to understand and comply with, so they are always in the need of seeking help from professionals regarding various transactions and same is the case with ABCD Ltd. as follows:-

(a) During the year, Rahul is finding it difficult to comprehend the GST taxation w.r.t. majority export sales made by their company, ABCD Ltd., which are of a peculiar nature. One such sale is where ABCD Ltd. receives an order to supply goods to a dealer 'B' in Greece. The company, finds a supplier 'C' in Singapore and asks him to supply goods to 'B' in Greece. Two invoices are raised here; one by the company on 'B' in Greece and the other by 'C' in Singapore on ABCD Ltd. in India. The point to be noted here is that goods do not touch the Indian shores; they are shipped by 'C' from Singapore to 'B' in Greece. There are many more, such kind of export sales and Rahul seeks CA Nitin's help in getting out of this confusion.

(b) Rahul seeks CA Nitin's opinion on the GST procedures and treatment for the following two types of Export transactions which he plans to proceed with in near future:-

- Rahul has purchased a license to put up a stall in the Textile Supermarket Global Fair to be held at Milan, Italy and he wishes to send his team to this fair alongwith their company's merchandise to be distributed over there for promotional purposes.
- He had heard from a dear friend that he could sell his company's products under Export transactions without the goods leaving India but are sold within India.

(c) The Chief accountant of the Company further seeks CA Nitin's time to understand about the valuation & taxability of the following transactions under GST:-

- M/s ABCD Ltd. has imported a special fabric from Paris and files an ex-bond bill of entry for clearing such warehoused goods for home consumption.
- M/s ABCD Ltd. imported textile fabric from London and sells them to a Panacea Pvt. Ltd. in india itself before the goods are cleared for home consumption. The customs declarations i.e. bill of entry etc. is filed by the agent of Panacea Pvt. Ltd. for clearance of such goods.

The Statutory audit of the company M/s ABCD Ltd. is also being carried out by Nitin Garg & Co. under the supervision of the Engagement Partner CA Krit Garg. CA Krit understands that as the auditor, he should develop an audit plan that shall include a description of the procedures to be performed as per SA 315 & 330. The audit plan is more detailed than the overall audit strategy that includes the nature, timing and extent of audit procedures to be performed by engagement team members. Planning for these audit procedures takes place over the course of the audit as the audit plan for the engagement develops. He asks Megha in his Audit team to work on planning the nature, timing and extent of specific further audit procedures and Saurab on planning of the auditor's risk assessment procedures. Further, CA Krit knows that the overall audit strategy & Audit plan should take into consideration the element of materiality and its relationship with Risks & procedures to be adopted. It is summarized as under:-

High Materiality	Detailed Procedures	High Risks
Low Materiality	Test Checks	Low Risks

While the audit is being carried out, CA Krit, midway feels that he has already developed an audit strategy and while a detailed audit plan is being developed, he decides that materiality levels set earlier need to be lowered as weaknesses in the internal controls were highlighted in the internal audit report. Subsequently, a deviation from the audit strategy is felt necessary and he is stuck in a dilemma as what to do first – modify the audit strategy and then revise the audit plan or vice-versa and seeks his Partner CA Nitin's suggestion.

I. Multiple Choice Questions

- While applying for IEC by ABCD Ltd., what was required to be declared for obtaining the same?
 - Only PAN of the company.
 - Only GSTIN of the company.
 - Both PAN & GSTIN of the Company.
 - Either PAN or GSTIN of the Company
- What should CA Nitin advise CA Krit to do when the latter is stuck in the revision dilemma of materiality levels set earlier?
 - Firstly, modify the overall strategy and thereafter, prepare the audit plan in line with the strategy.
 - Firstly, prepare the audit plan and then modify the overall audit strategy in line with the Plan.
 - Modify the Audit Plan and Strategy simultaneously.
 - Go with change in anyone, as these are not inter-related.

3. STATEMENT 1:- GST is leviable on the fabric imported from Paris while filing for its clearance.
STATEMENT 2:- GST is not leviable on the sales made to Panacea Pvt. Ltd.
- Statement 1 is Correct but statement 2 is Incorrect.
 - Both the statements are Correct and independent of each other.
 - Statement 2 is Correct & Statement 1 supports Statement 2.
 - Statement 1 is Correct but Statement 2 is Incorrect.
4. In the above case, Robert de Nero's Branch Office in India proposes to offer subscription to securities of Alpha Units LLC. Before going with the subscription, the Branch office will have to will have to-
- STATEMENT 1:- file a prospectus dated and signed.
STATEMENT 2:- the prospectus shall not be required to contain the Constitution, law under which incorporated and address of the company where such information can be inspected.
- Both the statements are Correct.
 - Both the Statements are Incorrect.
 - Statement 1 is Correct while Statement 2 is Incorrect.
 - Statement 1 is Incorrect while Statement 2 is Correct.
5. STATEMENT 1 :- In case of trade involving 'B' in Greece and 'C' in Singapore, invoicing should not have been done by ABCD Ltd. in India.
STATEMENT 2 :- Value of such shipments has to be included by ABCD Ltd. in the value of exempt supply for the purpose of reversal of ITC under rules 42 and 43 of CGST Rules.
- Statement 1 is Correct & Statement 2 supports Statement 1.
 - Both the Statements are Incorrect.
 - Statement 2 is Correct & Statement 1 supports Statement 2.
 - Statement 1 is Incorrect but Statement 2 is Correct.

II. Descriptive Questions

6. Provide the accounting treatment w.r.t. transaction between ABCD Ltd. and PQRS Ltd. in their respective books of accounts. Also show its impact on consolidated financial statements. Support your answer by Journal entries, wherever necessary, in the books of ABCD Ltd.

Following additional information is available:

Exchange rate on 1st January, 2023

1 Euro = ₹ 83

Exchange rate on 31st March, 2023

1 Euro = ₹ 85

7. (i) Whether the branch office of the Alpha Units LLC set up in Surat will be considered as a company incorporated outside India.
- (ii) If yes, state the documents CA Nitin Garg is required to furnish on behalf of the company, on the establishment of the office at Surat.
8. Discuss the taxability of Export transactions as are being planned by Mr. Rahul Dev to be carried out in near future as told by him to CA Nitin Garg under the GST Law.

ANSWERS TO THE CASE STUDY 7

I. Answers to the Multiple Choice Questions

1. (b) Only GSTIN of the company.
Reason: As per DGFT's Trade Notice No. 09 dated 12.06.2017, the PAN of an entity is to be used as IEC. If importer is registered under GST, he is required to declare only GSTIN as PAN is part of GSTIN.
2. (a) Firstly, modify the overall strategy and thereafter, prepare the audit plan in line with the strategy.
Reason: CA Krit should firstly modify the overall strategy and thereafter, prepare the audit plan in line with the strategy. This shows that the audit strategy and audit plan are closely inter-related as change in one is resulting into change in the other.
3. (b) Both the statements are Correct and independent of each other
Reason: GST is not leviable when goods deposited in customs bonded warehouse are sold before clearance; the same is leviable when ex-bond bill of entry is filed for clearing such warehoused goods for home consumption. GST is not leviable on high sea sales (the sales made to Panacea Pvt. Ltd.).
4. (a) Both the statements are Correct.
Reason: The Prospectus will be getting issued after a period of more than 2 years since the Company Alpha has commenced its business (2011)
Prospectus to be dated and signed [Section 387(1)]: No person shall issue, circulate or distribute in India any prospectus offering to subscribe for securities of a company incorporated or to be incorporated outside India, whether the company has or has not established, or when formed will or will not establish, a place of business in India, unless the prospectus is dated and signed, and—
(a) contains particulars with respect to the following matters, namely:—

- (1) the instrument constituting or defining the constitution of the company;
 - (2) the enactments or provisions by or under which the incorporation of the company was effected;
 - (3) address in India where the said instrument, enactments or provisions, or copies thereof, and if the same are not in the English language, a certified translation thereof in the English language can be inspected;
 - (4) the date on which and the country in which the company would be or was incorporated; and
 - (5) whether the company has established a place of business in India and, if so, the address of its principal office in India; and
- (b) states the matters specified under section 26 (Matters to be stated in prospectus).

Provided that points (1), (2) and (3) of point (a) above shall not apply in the case of a prospectus issued more than 2 years after the date at which the company is entitled to commence business.

5. (b) Both the Statements are Incorrect.

Reason: Third country shipments or triangular trade is a common practice in international trade whereby goods move from one country to another without touching India; only invoicing is done by the registered person in India. Paragraph 7 of the Schedule III to CGST Act provides that supply of goods from a place in the non-taxable territory to another place in the non-taxable territory without such goods entering into India (third country shipments) is treated neither as a supply of goods nor a supply of services. Thus, there is no GST liability on such sales. Further, value of such third country shipments is not included in the value of exempt supply for the purpose of reversal of ITC under rules 42 and 43 of CGST Rules [Explanation to section 17(3) of the CGST Act].

II. Answers to the Descriptive Questions

6. **Accounting treatment in the books of ABCD Ltd (Functional Currency ₹)**

ABCD Ltd will recognize sales of ₹ 1079 lakhs (13 lakhs Euro x 83)

Profit on sale of Inventory = 1079 lakhs – 936 lakhs = ₹ 143 lakhs.

On balance sheet date receivable from PQRS Ltd. will be translated at closing rate i.e. 1 Euro = ₹ 85. Therefore, unrealised forex gain will be recorded in standalone profit and loss of ₹ 26 lakhs. (i.e. (85 - 83) x 13 Lakhs)

Journal Entries

	₹ (in Lakhs)	₹ (in Lakhs)
PQRS Ltd. A/c To Sales (Being revenue recorded on initial recognition)	Dr. 1079	1079
PQRS Ltd. A/c To Foreign exchange difference (unrealised) (Being foreign exchange difference recorded at year end)	Dr. 26	26

Accounting treatment in the books of PQRS Ltd. (Functional currency EURO)

PQRS Ltd will recognize inventory on 1st January, 2023 of Euro 13 lakhs which will also be its closing stock at year end.

Journal Entry

	(in Euros)	(in Euros)
Purchase A/c To ABCD Ltd. (Being revenue recorded on initial recognition)	Dr. 13	13

Accounting treatment in the consolidated financial statements

Receivable and payable in respect of above-mentioned sale / purchase between ABCD Ltd and PQRS Ltd will get eliminated.

The closing stock of PQRS Ltd will be recorded at lower of cost or NRV.

	Euro (in lakhs)	Rate	₹ (in lakhs)
Cost	13	83	1079
NRV (Assumed Same)	13	85	1105

Therefore, no write off is required. The amount of closing stock of ₹ 1079 includes two components–

Cost of inventory for ₹ 936 lakhs; and Profit element of ₹ 143 lakhs; and

At the time of consolidation, the second element amounting to ₹ 143 lakhs will be eliminated from the closing stock.

Journal Entry

	₹ (in Lakhs)	₹ (in Lakhs)
Consolidated P&L A/c	Dr. 143	

To Inventory (Being profit element of intragroup transaction eliminated)	143
---	-----

7. (i) **According to section 2(42) of the Companies Act, 2013**, “Foreign company” means any company or body corporate incorporated outside India which-

- (a) has a place of business in India whether by itself or through an agent, physically or through electronic mode; and
- (b) conducts any business activity in India in any other manner.

Further, branch offices are generally considered as reflection of the Parent Company’s office. Thus, branch offices of a company incorporated outside India are considered as a place of business for conducting business activity in India and will be required to follow provisions of this chapter and such other provisions as may be specified elsewhere under Companies Act, 2013.

(ii) **Under section 380(1) of the Companies Act, 2013** every foreign company shall, within 30 days of the establishment of place of business in India, deliver to the Registrar for registration the following documents:

- (a) a certified copy of the charter, statutes or memorandum and articles, of the company or other instrument constituting or defining the constitution of the company. If the instruments are not in the English language, a certified translation thereof in the English language;
- (b) the full address of the registered or principal office of the company;
- (c) a list of the directors and secretary of the company containing such particulars as may be prescribed;

In relation to the nature of particulars to be provided as above, the *Companies (Registration of Foreign Companies) Rules, 2014*, provide that the list of directors and secretary or equivalent (by whatever name called) of the foreign company shall contain the following particulars, for each of the persons included in such list, namely:

- (1) personal name and surname in full;
- (2) any former name or names and surname or surnames in full;
- (3) father’s name or mother’s name and spouse’s name;
- (4) date of birth;
- (5) residential address;
- (6) nationality;

- (7) if the present nationality is not the nationality of origin, his nationality of origin;
 - (8) passport Number, date of issue and country of issue; (if a person holds more than one passport then details of all passports to be given)
 - (9) income-tax permanent account number (PAN), if applicable;
 - (10) occupation, if any;
 - (11) whether directorship in any other Indian company, (Director Identification Number (DIN), Name and Corporate Identity Number (CIN) of the company in case of holding directorship);
 - (12) other directorship or directorships held by him;
 - (13) Membership Number (for Secretary only); and
 - (14) e-mail ID.
- (d) the name and address or the names and addresses of one or more persons resident in India authorised to accept on behalf of the company service of process and any notices or other documents required to be served on the company;
- (e) the full address of the office of the company in India which is deemed to be its principal place of business in India;
- (f) particulars of opening and closing of a place of business in India on earlier occasion or occasions;
- (g) declaration that none of the directors of the company or the authorised representative in India has ever been convicted or debarred from formation of companies and management in India or abroad; and
- (h) any other information as may be prescribed.

According to the Companies (Registration of Foreign Companies) Rules, 2014, any document which any foreign company is required to deliver to the Registrar shall be delivered to the Registrar having jurisdiction over New Delhi.

- 8. Export of goods or services are treated as inter-State supply and zero rated.** This means that even if there is full exemption for the supply, ITC is still available to the exporter. The exporter will have an option to either pay IGST on the outward supply and claim refund of such IGST paid or export under Bond/LUT without payment of IGST and claim refund of ITC. The objective is to make Indian exports competitive in the international market. It may be noted that since exports are inter-State supplies, the tax associated with them will always be IGST.

- (a) Rahul has purchased a license to put up a stall in the Textile Supermarket Global Fair to be held at Milan, Italy and he wishes to send his team to this fair along with their company's merchandise to be sold over there for promotional purposes.

= Sending/ taking goods out of India for exhibition or on consignment basis for export promotion: Circular No. 108/27/2019 GST dated 18.07.2019 has clarified that the activity of sending/ taking goods out of India for exhibition or on consignment basis for export promotion, except when such activity satisfy the tests laid down in Schedule I of the CGST Act, does not constitute supply as the said activity does not fall within the scope of section 7 of the CGST Act as there is no consideration at that point in time. Since such activity is not a 'supply', the same cannot be **considered as "zero rated supply" as per the provisions contained in section 16 of the IGST Act.** Thus, activity of sending/ taking specified goods out of India is not a zero-rated supply. That being the case, execution of a bond or LUT, as required under section 16 of the IGST Act, is not required.

- (b) He had heard from a dear friend that he could sell his company's products under Export transactions without the goods leaving India but are sold within India.

= This is a case of Deemed Exports. Deemed exports refers to supplies of goods manufactured in India (**and not services**) which are notified as deemed exports under section 147 of the CGST Act. Such supplies do not leave India and the payment for the same is received either in Indian rupees or in convertible foreign exchange.

Following categories of supply of goods have been notified as deemed exports by the Government vide Notification No. 48/2017 CT dated 18.10.2017, as options available to Rahul:-

- (a) Supply of goods by a registered person against Advance Authorisation (AA)

If exports have already been made after availing ITC on inputs used in manufacture of such exports, the goods so supplied should be used in manufacture and supply of taxable goods (other than nil rated or fully exempted goods) and a certificate to this effect from a Chartered Accountant should be submitted to the jurisdictional Commissioner of GST or any other officer authorised by him within 6 months of such supply.

- (b) Supply of capital goods by a registered person against Export Promotion Capital Goods Authorisation (EPCG)

- (c) Supply of goods by a registered person to Export Oriented Unit (EOU)
- (d) Supply of gold by a bank or Public sector Undertaking specified in Notification No. 50/2017 Cus dated 30.06.2017 (as amended) against AA

Taxability of deemed exports

Deemed exports are not zero-rated supplies by default, unlike the regular exports. Hence, all supplies notified as supply for deemed export are subject to levy of taxes, i.e. such supplies can be made on payment of tax and cannot be supplied under a Bond/LUT.

However, the refund of tax paid on the supply regarded as deemed export is admissible to either the supplier or the recipient. Thus, the application for refund has to be filed by the supplier or the recipient (subject to certain conditions) of deemed export supplies, as the case may be.

CASE STUDY 8

Luminous Ltd. is a company engaged in the manufacture of solar panels. The vision of the company is to provide the most compelling value in the solar energy industry. By value, the company means designing and installing highest quality solar panels on a timely basis with proper safety standards and lowest cost. The company aims at providing the country with clean, abundant, low cost, distributed and renewable energy. It is one of the largest vertically integrated solar company that offers services across the spectrum of photovoltaics manufacturing. The company offers and produces high efficiency solar panels with higher performance and enhanced reliability. The company has the following vision:

“To be world class leader in businesses that contribute to nations in building infrastructure through sustainable value creation”.

Luminous Ltd. has always been a standard for all the manufacturing companies for product quality. The company has multiple quality checks during its solar module production. This helps to ensure flawless production of solar panel and hence attain utmost customer satisfaction.

The company believes that in the resource-scarce developing countries, identifying and targeting R&D policies in critical areas, such as energy, is particularly important to maximize benefits derived from limited funds and skilled manpower. Energy R&D policy analysis and formulation in a developing country should not be carried out in isolation — it must be consistent with overall technology policy, as well as national energy policy. The management of the company is of the view that ultimately, energy R&D policies and priorities must support the goals of national socio-economic development. Therefore, these priorities must be determined on the basis of an analytical framework that recognizes and addresses national development objectives. The company’s Research & Development department is working very hard to come out with solar panels with the lowest possible cost, so as to compete with the foreign manufacturers of solar panels. During the FY 2022-23, the Government gave the following grants to Luminous Ltd. for its business of solar panel:

1. ₹ 30 lakhs for past research of technology related to solar system. There is no condition attached to the grant.
2. ₹ 5 lakhs towards purchase of machinery of ₹ 15 lakhs. Useful life of the machinery is 5 years and depreciation on the machinery is to be charged on straight line basis.
3. 3 acres of land to set up a plant. The fair value of the land is ₹ 20 lakhs.

4. Government grant of ₹ 20 lakhs to defray expenses for environmental protection. Expected environmental costs to be incurred is ₹ 6 lakhs per annum for the next 5 years.

R. Sridharan & Associates are the statutory auditors of the company for the FY 2022-23. The said chartered accountant firm has a robust team of skilled and proficient Chartered Accountants, who can handle all financial services relating to accounting, auditing and assurance, income tax, GST, company law matters, foreign exchange matters, etc.

During the financial year under consideration, the Board of Directors of the company passed a board resolution to sell one of the company's undertakings out of the multiple undertakings of the company. One of the directors of the company, Mr. Ramesh, is of the view that the board can exercise this power with the consent of the shareholders by way of an ordinary resolution and passing only Board resolution would not be sufficient. The other directors on the Board, however, did not agree to him. The investment of the company in the said undertaking which has been proposed to sell is 22% of its net worth as per the audited balance sheet of F.Y. 2021-22.

Further, Mr. Ramesh stays in Delhi with his wife. With respect to one of his immovable house properties in USA, he took the professional services of a consulting engineer, Mr. George, based in Chennai. Mr. George has high engineering qualifications, specialised background and wide experience and can plan, design and supervise and help in undertaking maintenance of any type of structure according to the needs of the client.

On 31.05.2022, Mr. Ramesh took his family to an amusement park located in Gurugram (Haryana). This particular amusement park has various attractions such as rides and games as well as other events for entertainment purposes. For such visit, son of Mr. Ramesh who stays in Jaipur for his studies came to Delhi. Mr. Ramesh bought three tickets for the amusement park.

Luminous Limited is based in Delhi, primarily. During the FY 2022-23, the company receives legal services from an attorney in Dubai (unrelated person) in relation to registration of company's trademark in Dubai. The company paid AED 10,000 for the same to the attorney in Dubai.

The company has 10 directors on its board. Three of the directors have retired by rotation at the Annual General Meeting conducted recently. The place of retiring directors is not so filled up and the meeting has also not expressly resolved 'not to fill the vacancy'. Since the AGM could not complete the said business, it was adjourned to the same day in the next week, at the same time and place. At this adjourned meeting also, the place of retiring directors could not be filled up, and the meeting has also not expressly resolved 'not to fill the vacancy'.

Further, Mr. Baldev is one of the directors of the company. During the financial year, the company paid him the sitting fee amounting to ₹ 35,000, for the month of December.

During the year, the company declared the interim dividend for the F.Y. 2022-23, out of the profits of the same year. However, the company did not transfer any profits to the reserves for the said financial year.

The company has its retail showrooms in Patiala and Delhi and factory at Ludhiana. During the F.Y. 2022-23, the company has manufactured 1,50,000 units of solar panels at its factory at Ludhiana, Punjab. The management decided to transfer half of the units manufactured to one of its retail showrooms in Patiala and the second half to its retail showroom in Delhi for sale therefrom. The factory and the aforesaid retail showrooms are registered under GST, in the states where they are located. Further, the company has obtained separate registrations under GST, for Ludhiana factory and the Patiala showroom. The management of the company understands that such transfer shall not be considered as supply under GST as such transfers are without any consideration.

I. Multiple Choice Questions

1. Is the understanding of Mr. Ramesh for obtaining prior consent for selling one of the undertakings of the company, correct, considering the fact that Luminous Limited is not a private company?
 - (a) No, as only board's resolution is required in this case, which has been duly passed.
 - (b) No, as the Board can exercise this power with the consent of the shareholders by a special resolution and not on its own simply by passing of an ordinary resolution.
 - (c) Yes, his understanding is correct.
 - (d) Partly correct, as the Board shall exercise the powers with the consent of the company by an ordinary resolution and not only by passing a Board resolution at a Board meeting. Further, prior approval of the Registrar of Companies is also required.

2. What is the place of supply with respect to the professional service rendered by Mr. George to Mr. Ramesh?
 - (a) Chennai
 - (b) Delhi

- (c) USA
 - (d) Place of supply is not relevant, as such services are not liable to GST as the property is situated outside India.
3. What is the place of supply with respect to the tickets bought by Mr. Ramesh for the amusement park?
- (a) Delhi
 - (b) Gurugram
 - (c) With respect to tickets purchased for Mr. Ramesh and his wife, the place of supply is Delhi and for the ticket purchased for his son, the place of supply is Jaipur.
 - (d) Jaipur
4. Which of the following is the correct statement with respect to the GST liability in case of the fees paid to Mr. Baldev?
- (a) GST shall be payable by Luminous Ltd. under reverse charge mechanism.
 - (b) GST shall be payable by Mr. Baldev.
 - (c) Sitting fees paid to the director of a company is not liable to GST.
 - (d) Sitting fees paid to the director of a company is treated as salary paid to the director and is subjected to deduction of TDS under section 192 of the Income Tax Act, 1961 and not liable to GST.
5. Whether the action of management of Luminous Ltd. correct w.r.t. declaration of interim dividend?
- (a) The management of Luminous Ltd. is not correct in not transferring any percentage of profits to reserves, as such transfer to reserves is mandatory.
 - (b) The management of Luminous Ltd. is correct in not transferring any percent of profits to reserves, as such transfer to reserves is optional.
 - (c) The management of Luminous Ltd. is correct in not transferring any percent of profits to reserves, as such transfer to reserves is required in case of declaration of final dividend and not interim dividend.
 - (d) The management of Luminous Ltd. is correct in not transferring any percent of profits to reserves, as the company has declared the dividend out of current year profits.

II. Descriptive Questions

6. (i) Whether the retiring directors shall be deemed to have been re-appointed at the adjourned meeting?
 - (ii) What will be your answer in case at the adjourned meeting, the resolutions for re-appointment of these directors were lost?
 - (iii) Whether such directors can continue in case the directors do not call the Annual General Meeting?
7. Whether the management's understanding related to the transfer of solar panel to the company's retail showrooms, correct, in view of the GST law?
- Also determine the place of supply in case of services procured from attorney by Luminous Limited and suggest if the company is required to pay tax under reverse charge on such transaction.
8. How should Luminous Ltd. recognise the government grants in its books of accounts for the F.Y. 2022-23?

ANSWERS TO THE CASE STUDY 8

I. Answers to the Multiple Choice Questions

1. (b) No, as the Board can exercise this power with the consent of the shareholders by a special resolution and not on its own simply by passing of an ordinary resolution.

Reason: The powers of the Board of Directors of a company are not unrestricted or uncontrollable as Section 180 of the Companies Act 2013 portrays. This Section contains directive provisions which direct that the powers in respect of specified matters shall be exercised by the Board subject to the certain restrictions i.e. in such cases the exercise of powers by the Board shall be restricted as per law. Section 180 is not applicable to a private company.

(i) Matters in respect of which powers shall be exercised after obtaining consent by a special resolution: According to Section 180(1)(a), the Board shall exercise the powers with the consent of the company by a special resolution and not on its own simply by passing a Board resolution at a Board meeting, in respect:

To sell, lease or otherwise dispose of the whole or substantially the whole of the undertaking of the company or where the company owns more than one undertaking, of the whole or substantially the whole of any of such undertakings. In other words, out of multiple undertakings of a company even if one is sold, leased or disposed of, either wholly or substantially, the consent by special resolution shall be required.

The expression “undertaking” means an undertaking in which the investment of the company exceeds 20% of its net worth as per the audited balance sheet of the preceding financial year or an undertaking which generates twenty per cent of the total income of the company during the previous financial year.

Here, the investment of the company in the said undertaking which has been proposed to sell is 22% (i.e. more than 20%) of its net worth as per the audited balance sheet of F.Y. 2021-22.

Thus, in the present case, Mr. Ramesh is correct.

2. (b) Delhi

Reason: The place of supply of services,—

- (a) directly in relation to an immovable property, including services provided by architects, interior decorators, surveyors, engineers and other related experts or estate agents, any service provided by way of grant of rights to use immovable property or for carrying out or co-ordination of construction work; or
- (b) by way of lodging accommodation by a hotel, inn, guest house, home stay, club or campsite, by whatever name called, and including a house boat or any other vessel; or
- (c) by way of accommodation in any immovable property for organising any marriage or reception or matters related thereto, official, social, cultural, religious or business function including services provided in relation to such function at such property; or
- (d) any services ancillary to the services referred to in clauses (a), (b) and (c),

shall be the location at which the immovable property or boat or vessel, as the case may be, is located or intended to be located:

Provided that if the location of the immovable property or boat or vessel is located or intended to be located outside India, the place of supply shall be the location of the recipient.

3. (b) Gurugram

Reason: The place of supply of following services-

- (i) services provided by way of admission to following types of events: cultural, scientific, sporting, artistic, entertainment.
- (ii) services provided by way of admission to amusement park or any other place.
- (iii) services ancillary to the above-mentioned services.

is the place where the event is actually held or where the park or such other place is located.

4. (a) GST shall be payable by Luminous Ltd. under reverse charge mechanism.

Reason: Sitting fee paid to director – As per reverse charge notification, tax on services supplied by a director of a company/ body corporate to the said company/ body corporate, located in the taxable territory, is payable under reverse charge. Hence, in the present case, the sitting fee amounting to ₹ 35,000, payable to Mr. Baldev by Luminous Ltd., is liable to GST under reverse charge and thus, recipient of service – Luminous Ltd. – is liable to pay GST on the same.

5. (b) The management of Luminous Ltd. is correct in not transferring any percent of profits to reserves, as such transfer to reserves is optional.

Reason: Dividends out of current profits- Transfer to Reserves is optional –The first proviso to section 123(1) of the Companies Act, 2013 provides that a company **may**, before the declaration of any dividend in any financial year, transfer such percentage of its profit for that financial year as it may consider appropriate to the reserves of the company irrespective of the size of the declared dividend.

II. Answers to the Descriptive Questions

6. In accordance with the provision of the Companies Act, 2013, as contained in section 152(7)(a) which provides that if at the annual general meeting at which a director retires and the vacancy is not so filled up and the meeting has not expressly resolved not to fill the vacancy, the meeting shall stand adjourned to same day in the

next week, at the same time and place, or if that day is a national holiday, till the next succeeding day which is not a holiday, at the same time and place.

Section 152(7)(b) further provides that if at the adjourned meeting also, the place of the retiring is not filled up and that meeting also has not expressly resolved not to fill the vacancy, the retiring director shall be deemed to have been re-appointed at the adjourned meeting, unless at the adjourned meeting or at the previous meeting a resolution for the re-appointment of such director was put and lost or he has given a notice in writing addressed to the company or the Board of Directors expressing his desire not to be re-elected or he is disqualified.

Therefore, in the given circumstances answers to the asked questions shall be as under:

- (i) In the first case, applying the above provisions, the retiring directors shall be deemed to have been re-appointed.
- (ii) In the second case, where the resolutions for the reappointment of the retiring directors were lost, the retiring directors shall not be deemed to have been re-appointed.
- (iii) Section 152(6)(c) states that 1/3rd of the rotational directors shall retire at every AGM. Accordingly, the directors will retire as soon as the AGM is held on its due date. Further, as per Section 96 (dealing with Annual General Meeting), every company other than a One Person Company is required to hold an Annual General Meeting in each year. Hence, it is necessary for the company to hold the AGM, where the directors liable to retire by rotation shall retire. In case AGM is not held till the last date on which it should have been held, the term of retiring directors ends on this last date and it cannot be extended till the new date when the AGM shall be held. As the calling of the AGM is the duty and responsibility of the directors, they by omitting to call the AGM on its due date cannot take advantage of their own fault and by that means cannot extend their own continuance in the office for any period of their choice and as long as the holding of the next AGM does not take place.

7. **Stock transfers or branch transfers qualify as supply:** It is a common practice in business that one branch supplies services to another branch of same entity without consideration. Similarly, goods are transferred among different units of same entity free of cost, for instance, distribution of samples manufactured in a factory to different branches or transfer of goods from factory to depot/showroom for sale therefrom, from one warehouse to another warehouse, from one branch to another branch where the demand of the goods is higher. These transactions are termed as self-supplies.

Under GST, these transactions undertaken, even without consideration, will also qualify as supply, provided the transfer of goods or services is between

- (i) different locations (with separate GST registrations) of same legal entity as these are transactions between distinct persons, or
- (ii) establishments of distinct persons.

The establishments of a person with **separate registrations** whether within the same State/UT or in different States/UTs are considered as distinct persons as per section 25(4) of the CGST Act.

Therefore, transfer of solar panels from Ludhiana factory to showroom in Delhi will be considered as a supply under GST.

Also, since the company has obtained separate registrations for the Ludhiana factory and the showroom in Patiala, the transfer of solar panels will also constitute supply.

Service of Attorney taken by Luminous Limited:

In the given case, the service provider i.e. the attorney, is outside India, and the service recipient i.e. Luminous Limited, is based in Delhi, India. Thus, the place of supply will be determined on the basis of the provisions of section 13. Since the given service does not get covered under any of the specific provisions of section 13, the place of supply thereof will be governed by the general rule, i.e. place of supply of services will be the location of the recipient of service, which in this case is Delhi (India).

Further, the given case is import of service in terms of section 2(11) of the IGST Act, as the supplier of service is located outside India, the recipient of service is located in India and the place of supply of service is in India. Since the services are imported for a consideration from an unrelated person, the same tantamount to supply in terms of section 7(1)(b) of CGST Act and are liable to GST.

As per reverse charge *Notification No. 10/2017 IT(R) dated 28.06.2017*, if a service is supplied by a person located in a non-taxable territory to a person located in the taxable territory, other than non-taxable online recipient, the tax is payable by the recipient of service under reverse charge. Therefore, Luminous Limited will pay GST under reverse charge on AED 10000 paid by it to the attorney in Dubai.

8. Luminous Ltd. should recognise the government grants in its books of accounts in the following manner:

1. Entire grant amount of ₹ 30 lakhs should be recognised immediately in the profit & Loss account as there are no conditions attached to the grant.

2. ₹ 5 lakhs should be recognised as deferred income and will be transferred to profit and loss over the useful life of the asset. In this case, ₹ 1,00,000 [₹ 5 lakhs/5] should be credited to profit and loss each year over period of 5 years.

Alternatively, ₹ 5,00,000 may be deducted from the cost of the asset and depreciation shall be charged at ₹ 10,00,000 (₹ 15,00,000 – ₹ 5,00,000).

3. Land should be recognised at fair value of ₹ 20 lakhs and government grants should be presented in the balance sheet by setting up the grant as deferred income. Alternatively, deduct the amount of grant from the cost of the asset. In the given case, the land is granted at no cost. It will be presented in the books at nominal value.
4. As per paragraph 29 of Ind AS 20, Grants related to income are presented as part of profit or loss, either separately or under a general heading such as 'Other income'; alternatively, they are deducted in reporting the related expense.

In accordance with the above (point 4), presentation of grants related to income under both the methods are as follows:

Method 1: Credit in the statement of profit and loss: The entity can recognise the grant as income on a straight line basis i.e., ₹ 4,00,000 per year (₹ 20 lakhs / 5) in the statement of profit and loss either separately or under the head "Other Income".

Method 2: As a deduction in reporting the related expense:

Since the grant relates to environmental expenses incurred/to be incurred by the entity, it can present the grant by reducing the grant amount every year from the related expense i.e., environmental expense of ₹ 2,00,000 (i.e., net expense ₹ 6,00,000 – ₹ 4,00,000).

The Standard regards both the methods as acceptable for the presentation of grants related to income. However, method 2 may be more appropriate when the company can relate the grant to a specific expenditure. The Standard also provides that disclosure of the grant may be necessary for a proper understanding of the financial statements. Disclosure of the effect of the grants on any item of income or expense which is required to be separately disclosed is usually appropriate.

CASE STUDY 9

Mr. Murlilal & Mrs. Bansuri Devi have been residing in the village of Manpur since their marriage. They have been actively involved in their Agriculture & Dairy farming business in the village and sell their output in the nearby villages as well. They have earned much accolades for the business they run and have accrued much wealth. There have been many instances where the couple felt that they could move to a metro town to explore more but without any knowledge of the business world and modern compliances, they would feel handicapped in the absence of their children who are settled abroad. One fine day, when they are visited by CA Puru, a fast friend of their son who would usually come down to village quite often to know about the well being of his friend's parents from time to time, Mrs. Bansuri Devi discusses with him about the agricultural operations she manages with the help of her team in the village and the scale of operations they maintain. Puru tells them about how agricultural activities are maintained and operated in the metro towns like Mumbai where he lives and practices his profession. During the discussion, he tells her that one of his clients, M/s Khetibaadi Ltd., a listed company is involved in agricultural and allied operations by procuring material from nearby areas. This company is also involved in various other types of Animal Husbandry operations and works on the same scale as Mrs. Bansuri Devi & Mr. Murlilal work in the village. On getting curious, Mrs. Bansuri Devi asks him about the form and style in which Khetibaadi Ltd. works in the city. Puru tells her that unlike villages, in corporate world, the large businesses have to follow certain standards of accounting while maintaining the books and balances of their businesses. Standards related to agriculture set out the accounting for agricultural activity, the management of the transformation of biological assets (living plants and animals) into agricultural produce (harvested product of the entity's biological assets). The standards generally require biological assets to be measured at fair value less costs to sell. He tells her about the following activities carried out by Khetibaadi Ltd.:-

- Managing animal-related recreational activities like Zoo
- Fishing in the ocean
- Fish farming
- Development of living organisms such as cells, bacteria and viruses
- Growing of plants to be used in the production of drugs.
- Purchase of 25 dogs for security purpose of the company's premises.

Hearing about this, Mrs. Bansuri Devi persuades Mr. Murlilal to set up a company in town under Puru's guidance to expand their business outside village as well. CA Puru assures Mr. Murlilal on all his queries and tells him that he and his team will help them at every step in setting up their company. Soon, the couple, with the help of CA Puru, set up and started

operating their company in Mumbai under the name & style of M/s. Bansuri Pvt. Ltd. which ventured into business of agricultural operations with Mr. Murlilal, Mrs. Bansuri Devi and Mr. Prabhudeva as the Directors of the Company. Mr. Prabhudeva appointed as the managing director, as the former directors are quite busy in the business already set up at Manpur. The company got registered under GST, solely, in the state of the Maharashtra. During the year, the company falls short of funds and they decide to borrow funds from the market. The Board of Directors of the company resolve to borrow a sum of ₹ 20 crores from a nationalized bank at a Board meeting held on 15.1.2023. Mr. Prabhudeva, who opposes the said borrowing as not in the interest of the company has raised an issue that the said borrowing is outside the borrowing powers of the Board putting forward the following data :-

- (i) Share Capital ₹ 5 crores
- (ii) Reserves and Surplus ₹ 5 crores
- (iii) Secured Loans ₹ 10 crores
- (iv) Unsecured Loans ₹ 5 crores.

In the same meeting itself, Mr. X, the head of the legal department informs them about a dispute, the company is currently trying to settle with Alpha Pvt. Ltd., one of their suppliers. They entered into an agreement with Alpha Pvt. Ltd for the supply of a specific solution “O” for a period of 5 years. Clause 7 of the terms & conditions of their agreement provided that if any dispute arises between the parties, the same shall be mutually decided by the parties or shall be referred for arbitration if the parties so determine. However, Mr. Murlilal feels that they shouldn't go for arbitration but sue them instead and discuss the repercussions with Mr. X. Also, he wants Mr. X to file an appeal in one of their cases related to Income tax in Supreme court against the order of the Division Bench of the Maharashtra High Court to which Mr. X tells him in the appeal, we can contend that the Division Bench of the Maharashtra High Court had not considered the earlier decision given by the Full Bench of the same court in a similar case.

After the meeting, since Mr. Murlilal was in Mumbai, he wanted to discuss all the tax matters with CA Puru and sits with him in his office for the same :-

1. With business expansion, Mr. Murlilal has also purchased a controlling stake in M/s Khetibaadi Ltd. and is now a Director in the said company. He wants Puru to tell him briefly about the performance of this company in Tea Market as well. Puru tells him that for the previous year ended 31.03.2022, Khetibaadi Ltd.'s composite business profits before allowing deduction u/s 33AB is ₹ 50,00,000. On 01.09.2022, it deposited a sum of ₹ 10,00,000 in the Tea Development Account. During the previous year 2020-21, this company had incurred a business loss of ₹ 15,00,000 which has been carried forward. On 25.01.2023, it withdrew ₹ 10 lakhs, from deposit account which is utilized as :-

- (1) ₹ 6,00,000 for purchase on non-depreciable asset as per the scheme specified;
- (2) ₹ 3,00,000 for purchase of machinery to be installed in the office premises;
- (3) ₹ 1,00,000 was spent for the purpose of scheme on 05.04.2023.

Mr. Murlilal wants to know about the income of the company for the year & the tax liabilities, if any, thereon, and about which CA Puru gives him an approximate idea of at that time itself.

2. Mr. Prabhudeva had informed CA Puru about two peculiar transactions related to GST which he wanted to discuss in the presence of Mr. Murlilal, related to M/s Bansuri Pvt. Ltd. In one of the cases, they send raw tea leaves to their registered job worker under GST, Mr. Sharma in Mangalore, Karnataka and further, the processed flavored tea, which is further delivered to the wholesalers in Telangana from the job worker's place in Mangalore itself with invoice and the e-way bill was issued by the company's department from the Mumbai office. Further, he asks him about the treatment of another transaction. They had sent a special lot of Tea "Rosa" to another Job worker, Mr. Shakti Puri, in Ratlam for making flavored tea as per the directions given. Further, due to a decline in the market of flavored tea, they send fresh normal unprocessed raw tea with new instructions to the job worker to hold the earlier consignment in stock till a buyer is found. The new stock is easily sold, but the old stock lies in the godown of the job worker for over a year. CA Puru guides them properly about the tax treatment of these two transactions under GST.
3. Mr. Murlilal is happy that their business has gone online as well and now they are selling their products through various e-commerce platforms. Mr. Prabhudeva shows his concern over the online selling part and wants CA Puru to keep a check on the working of the same during his audit. CA Puru assures him that his audit strategy would majorly be based on the fact that a good part of the company's business has gone online.

In the evening, Mr. Murlilal takes Puru with him to meet his old friend Mr. Babu Lal who resides in Mumbai with his family. Mr. Babulal had requested him for a meeting with Puru so as he could discuss with the latter certain tax related issues of his family and hire his services for tax related work. Mr. Babulal tells Puru that his son Gautam is liable to pay ₹ 10,000 per month to Barkha (his ex-wife) as alimony. Gautam, being an employee of PQR Pvt. Ltd., has instructed his company's HR department to pay ₹ 10,000 per month out of his salary to his wife directly and remit the remaining salary in his account. Mr. Babulal wants to know the tax treatment of such alimony given by Gautam in his hands. Further, he tells CA Puru that he works under a partnership firm in which he and his other two sons, Mr. B & Mr. C are partners. The partnership deed provides that after his death, Mr. B & Mr. C shall continue the business of the firm

subject to a condition that 20% of profit of the firm shall be given to Mrs. Daya (wife of Mr. Babu Lal). Mr. Babu Lal wants to know the tax treatment of such receipt in his wife's hands after his death. Puru satisfies Mr. Babu Lal by solving all his queries and quotes his fee to handle all the tax related matters of the family.

I. Multiple Choice Questions

1. W.r.t the dispute with Alpha Pvt. Ltd., the two parties can refer the dispute to relevant authority under the Arbitration & Conciliation Act, 1996, based on the agreement between them?
 - (a) Yes, the dispute can be referred to.
 - (b) No, as this is a sensitive case and matter comes under the jurisdiction of the Court as rightly put forward by Mr. Murlilal.
 - (c) No, the dispute can't be referred to as the terms and conditions of arbitration agreement through reference are vague and not clear and thus the arbitration agreement is not valid in law.
 - (d) No, as the agreement between the parties is void-ab-initio and thus the dispute can't be referred to arbitration in such case.
2. Select the correct option on the basis of the following two statements :-
STATEMENT 1:- Payment of 20% Profit to Mrs. Daya is Application of Income.
STATEMENT 2:- Payment of alimony by Gautam to his ex-wife is Diversion of Income.
 - (a) Statement 1 is Correct but Statement 2 is Incorrect.
 - (b) Statement 1 is Incorrect but Statement 2 is Correct.
 - (c) Both the Statements are Correct.
 - (d) Both the Statements are Incorrect.
3. What would be the GST Treatment of the stock lying with Mr. Shakti Puri, assuming no extension is granted by the Commissioner?
 - (a) Tax payable by Mr. Shakti Puri.
 - (b) Tax payable by Bansuri Pvt. Ltd.
 - (c) No GST liability.
 - (d) Tax payable by Bansuri Pvt. Ltd. on its removal from the premises of Mr. Shakti Puri.

4. The transaction between Bansuri Pvt. Ltd. & the wholesalers in Telangana is an-
 - (a) Inter-State Supply
 - (b) Intra State Supply
 - (c) Composite Supply
 - (d) Exempt Supply
5. W.r.t the decision taken at the 4th Board Meeting, the contention of Director Prabhudeva is -
 - (a) Valid, as per the provisions of the Companies Act, 2013.
 - (b) Invalid, as Bansuri Pvt Ltd is a Private Company.
 - (c) Valid, subject to passing an Ordinary Resolution in the General Meeting.
 - (d) Valid, subject to passing a Special Resolution in the General Meeting.

II. Descriptive Questions

6. Analyse whether the activities as narrated by CA Puru to Mrs. Bansuri Devi w.r.t Khetibaadi Ltd. fall within the scope of Ind AS 41 with proper reasoning.
7. You are required to determine business income of M/s Khetibaadi Ltd. for the relevant assessment year.
8. What specific factors for online shopping would be considered by CA Puru in formulating the audit strategy of the company in the above case keeping in mind the concern raised by Mr. Prabhudeva?

ANSWERS TO THE CASE STUDY 9

I. Answers to the Multiple Choice Questions

1. (c) No, the dispute can't be referred to as the terms and conditions of arbitration agreement through reference are vague and not clear and thus the arbitration agreement is not valid in law.

Reason: The provisions of the Arbitration and Conciliation Act, 1996 outlines the requirements of a valid arbitration agreement. One of such requirements is clarity of consent i.e. the intention to go to arbitration must be clear in other words there must be consensus ad idem. Utilization of vague words cannot be considered as adequate. Further the Arbitration and Conciliation Act, 1996 envisages the possibility of an arbitration agreement coming into being through incorporation i.e. arbitration agreement through reference. In other words,

parties to an agreement could agree to arbitrate by referring to another contract containing an arbitration agreement.

In the given scenario, it was an arbitration agreement through reference, but the terms and conditions of the said agreement were not clear and vague and therefore the said agreement is not a valid arbitration agreement as the italicized portion in the agreement clearly highlights the need for further agreement between the parties. Accordingly in the given instance, the parties will not be able to refer the disputes, if any, to arbitration since the terms and conditions of arbitration agreement through reference are vague and not clear and thus the arbitration agreement is not valid in law.

2. (d) Both the Statements are Incorrect.

Reason: STATEMENT 1:- Such income does not reach the assessee-firm. Rather, such income stands diverted to the other person as such other person has a better title on such income than the title of the assessee. The firm might have received the said amount, but it so received for and on behalf of Mrs. Dayaa, who possesses the overriding title. Therefore, the amount payable to Mrs. Daya after the death of Mr. Babu Lal would be excluded from the income of the partnership firm in question.

STATEMENT 2 :- In this case, the amount of ₹ 10,000 per month is an obligation of Gautam to pay to his ex-wife out of his income and not an income in which she had over riding entitlement. In other words, this is the income of Gautam, which is applied by him to fulfill an obligation and hence, includible in his total income and a mere arrangement to pay a sum directly to his ex-wife would not make it a case of diversion of income.

3. (b) Tax payable by Bansuri Pvt. Ltd.

Reason: Here, sending of unprocessed tea by Bansuri Pvt Ltd to the job worker Mr. Shakti Puri in the first lot will be deemed as a supply as there are lying over 1 year with Mr. Shakti Puri and thus, tax would be payable on the same by the company.

4. (a) Inter-State Supply.

Reason: The principal is located in Maharashtra, the job worker in Karnataka and the recipient in Telangana. In case the supply is made from the job worker's place of business / premises, the invoice (along with electronic way bill) will be issued by the supplier (principal) located in Maharashtra to the recipient located in Telangana. The said transaction will be an inter-State supply. In case the recipient is also located in Maharashtra, it will be an intra-State supply.

5. (b) Invalid, as Bansuri Pvt Ltd is a Private Company.

Reason: According to the provisions of Section 180(1)(c) of the Companies Act, 2013, the powers of the Board are not uncontrolled and there are restrictions on the borrowing powers to be exercised by the Board of Directors. According to the said section, the borrowings should not exceed the aggregate of the paid-up share capital, free reserves and securities premium. While calculating the limit, the temporary loans obtained by the company from its bankers in the ordinary course of business will be excluded. However, from the figures available in the present case, the proposed borrowing of ₹ 20 crore will exceed the limit calculated as per the given information. Thus, the proposed borrowings are beyond the powers of the Board of Directors. In view of the above position, the management of any Company should take steps to pass a special resolution authorising to borrow the proposed amount of ₹ 20.00 crore, so that the requirement of Section 180(1)(c) is satisfied. Only thereafter, the proposed borrowing can be availed of.

However, Bansuri Private Limited is a Private Company and as per the MCA notification dated 5th June, 2015 which stated that this section shall not apply to private companies. Further on 4th January 2017, Specified IFSC public company would also not be required to comply with this section, unless the article of the company provides otherwise. Hence, they can avail the required Borrowing. As notified by the MCA, Section 180 of the Act (i.e. restrictions on the powers of the Board) shall not apply to a private company which has not committed a default in filing its financial statements under Section 137 or Annual Return under Section 92 with the Registrar. [Notification No. 464(E), dated 5th June, 2015 as amended by Notification No. 583 (E), dated 13th June, 2017.]

II. Answers to the Descriptive Questions

6.

Activity	Whether in the scope of Ind AS 41?	Remarks
Managing animal-related recreational activities like Zoo	No	Since the primary purpose is to show the animals to public for recreational purposes, there is no management of biological transformation but simply control of the number of animals. Hence it will not fall in the purview of considered in the definition of agricultural activity.

Fishing in the ocean	No	Fishing in ocean is harvesting biological assets from unmanaged sources. There is no management of biological transformation since fish grow naturally in the ocean. Hence, it will not fall in the scope of the definition of agricultural activity.
Fish farming	Yes	Managing the growth of fish and then harvest for sale is agricultural activity within the scope of Ind AS 41 since there is management of biological transformation of biological assets for sale or additional biological assets.
Development of living organisms such as cells, bacteria viruses	Analysis required	The development of living organisms for research purposes does not qualify as agricultural activity, as those organisms are not being developed for sale, or for conversion into agricultural produce or into additional biological assets. Hence, development of such organisms for the said purposes does not fall under the scope of Ind AS 41. However, if the organisms are being developed for sale or use in dairy products, the activity will be considered as agricultural activity under the scope of Ind AS 41.
Growing of plants to be used in the production of drugs	Yes	If an entity grows plants for using it in production of drugs, the activity will be agricultural activity. Hence it will come under the scope of Ind AS 41.
Purchase of 25 dogs for security purposes of the company's premises	No	Ind AS 41 is applied to account for the biological assets when they relate to agricultural activity. Guard dogs for security purposes do not qualify as agricultural activity, since they are not being kept for sale, or for conversion into agricultural produce or into additional biological assets. Hence, they are outside the scope of Ind AS 41.

7. **Computation of Business Income of Khetibaadi Ltd. and the tax consequences for the A.Y. 2023-24:-**

Particulars	(₹)
₹ 10,00,000 being the amount withdrawn from Tea Development Account has to be utilized in the prescribed manner, otherwise, the withdrawn amount would be chargeable to tax as business income. In the given case, the taxability of withdrawal amount based on their utilization is as follows:	Not taxable
<p>- ₹ 6,00,000, out of the amount withdrawn from the deposit account, utilised for purchase of non-depreciable asset as per the specified scheme.</p> <p>[As per section 33AB(6), no deduction would be allowed under section 33AB since amount is spent out of ₹ 10 lakh deposited in Tea Development Account, which has already been allowed as deduction in A.Y.2022-23 (See Working Note below)].</p>	
- ₹ 3,00,000, being the amount utilized for purchase of machinery to be installed in the office premises is not a permissible utilization. Hence, the amount would be deemed as profits and gains of business of the previous year 2022-23 as per section 33AB(4).	3,00,000
- ₹ 1,00,000 was spent for the purpose of scheme on 05.04.2023. As per section 33AB(7), this amount would be taxable since the same is not utilized during the same previous year (i.e., P.Y. 2022-23) in which the amount is withdrawn from the deposit account.	1,00,000
<p>When any part of withdrawal amount becomes taxable, the agricultural and non-agricultural portions of income must be segregated.</p> <p>Accordingly, ₹ 1,60,000, being 40% of ₹ 4,00,000 (₹ 3,00,000 + ₹ 1,00,000) would be chargeable to tax as business income and the balance ₹ 2,40,000, being 60% of ₹ 4,00,000 would be agricultural income exempt from tax.</p>	

Working Note:

Computation of Business Income of Khetibaadi Ltd. for the A.Y. 2022-23

Particulars	(₹)
Composite business profits before allowing deduction under section 33AB	50,00,000
Less: Deduction under section 33AB(1) would be the lower of:	
- Amount deposited in Tea Development Account on or before 30.9.2022 [i.e., ₹ 10,00,000]	

- 40% of profits of such business [i.e., ₹ 20,00,000, being 40% of ₹ 50,00,000]	10,00,000
	40,00,000
Less: 60% of ₹ 40,00,000, being agricultural income [as per Rule 8]	24,00,000
Business income	16,00,000
Less: Brought forward business loss of A.Y. 2021-22 set-off as per section 72	15,00,000
Business income chargeable to tax	1,00,000

8. **Formulation of Audit Strategy:** While formulating the audit strategy for a company, following specific factors may be considered by the auditor for **Online Shopping:**

The auditor shall also obtain an understanding of the information system including the related business processes due to new venture of online shopping in the following areas:

- (i) The classes of transactions in the entity's operations that are significant to the financial statements;
- (ii) The procedures, within both information technology (IT) and manual systems, by which those transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements;
- (iii) The related accounting records, supporting information and specific accounts in the financial statements that are used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information is transferred to the general ledger. The records may be in either manual or electronic form;
- (iv) How the information system captures events and conditions, other than transactions, that are significant to the financial statements;
- (v) Controls surrounding journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments.

CASE STUDY 10

LWS & Co., a Chartered Accountant Firm has been into practice since 2006 in Delhi. CA Suresh Shah and CA Harvinder Kaur started their firm after practicing individually for almost 4 years and now firm has grown into big firm of 5 partners. The partners of firm have contributed various articles on subjects of Direct Tax and Allied Laws in professional journals and magazines. The clientele encompasses various segments i.e. software, education, NGOs, Government Bodies, Real Estates, Construction, jewellery and a host of others. Over the years, the firm has evolved into renowned professional firm that has worked on various assignments ranging from Statutory Audits, Management Audits, Income Tax Planning, FEMA Consultancy, GST Consultancy, Establishment of Overseas ventures and other related matters.

The firm has unique way of training its articles by involving them with its experienced partners on crucial projects so that they are able to learn and understand the practical issues arising in the industry. Currently, Subhash, Ashish and Manoj being articles of the firm are working with CA Harsh Bhatia, CA Nikhil Grover and CA Sakshi Ahuja, respectively for the prestigious clients of the firm.

(1) Subhash assisting CA Harsh Bhatia

Currently, CA Harsh Bhatia is working on the applicability of Ind-AS for various clients. The firm has a prestigious client, Shivalik Construction Private Limited, a construction company. On 1st January 2023, the company contracts to renovate a building including the installation of new elevators. The company estimates the following with respect to the contract:

Particulars	Amount (₹)
Transaction price	60,00,000
Expected costs:	
(a) Elevators	10,00,000
(b) Other costs	35,00,000
	45,00,000

The company purchased the elevators and they are delivered to the site six months before they will be installed. The Company uses an input method based on cost to measure progress towards completion. The Company has incurred actual other costs of ₹ 7,00,000 by 31st March, 2023. The accounts team of the Company is facing difficulty in recognising revenue in respect of above contract. So, they have approached CA Harsh Bhatia with the

abovementioned facts. So, CA Harsh Bhatia delegated the said work to Subhash to start initial working and then revert to him with his opinion.

(2) Ashish assisting CA Nikhil Grover

CA Nikhil Grover handles the tax department of the firm. The final calculation of income tax and their tax planning is being headed by CA Nikhil Grover. He is nowadays being assisted by Ashish. One of the oldest clients of the firm is MVS Private Ltd. The accountant of the company approached CA Nikhil Grover for calculation of final tax liability of the company. CA Nikhil assigned the work to Ashish. The accountant showed the financials of the company to Ashish as below:-

The Profit & Loss Account of MVS private Limited for the year ended 31st March, 2023 shows a profit of ₹ 75 lakhs after debiting the following items:

- (i) ₹ 2 Lakhs contributed to Employee's Welfare Trust (not required as per any law for the time being in force).
- (ii) ₹ 7,80,000 paid towards course fee and hostel expenses for MBA course of a close relative of a director. The relative is not in employment with the company.
- (iii) ₹ 3.50 lakhs being expenses incurred on installation of a traffic signal, so as to facilitate its employees coming to office to overcome traffic jam and save office time.
- (iv) ₹ 3 lakhs spent of gift items distributed to various dealers under the company's sales incentive scheme.
- (v) ₹ 6 lakhs being expenses incurred on the travelling of the wife of MD, who accompanied him on tour to Singapore on invitation of Trade and Commerce chamber, Singapore.
- (vi) ₹ 3 lakhs being amount paid in March 2023 consequent upon change in currency rate due to exchange fluctuation in excess of the amount due to the supplier of machinery. Such machinery acquired was put to use on 10th September, 2022.
- (vii) ₹ 18,000 and ₹ 9,000 paid in cash on 25th October, 2022 by two separate vouchers to a contractor who carried out certain repair work in the office premises.
- (viii) Interest of ₹ 2 lakhs was paid in March, 2023 to a company on a loan taken from a company. Tax deducted at source, during P.Y. 2022-23, from such interest was deposited in July, 2023.

Additional Information:

- (a) Audit fee of ₹ 6 lakhs was credited during Previous Year 2021-22 without deducting tax at source. Such fee was paid to the auditors in September, 2022 after deducting tax

under section 194J and the tax so deducted was deposited on 7th December, 2022. 30% of audit fee was disallowed.

- (b) During the financial year under consideration, the company purchased 10,000 shares of AB Private Limited out of its total 2 lakh shares at ₹ 40 per share. The fair market value of such shares on the date of transaction was ₹ 60 per share.

(3) Manoj assisting CA Sakshi Ahuja

Mr Amit, the director of SSI Pvt. Ltd. visited CA Sakshi Ahuja who is handling all the custom related work of the clients for past 7 years. The company imported machinery from USA by air for which the details are given as follows:

Purchase cost of Machinery	US \$ 7,000
Accessories worth US \$ 2,000 compulsorily supplied with machine, price of which is included in price of machine	
Air Freight	US \$ 2,000
Insurance	US \$ 100
Local Agent Commission (not buying commission)	₹ 4,500
Exchange Rate	1 US \$ = 70
Custom Duty on Machine	10% ad valorem
Custom duty on Accessory	20% ad valorem
Integrated Tax	12%
GST Compensation cess	Nil
SWS (Social Welfare Surcharge)	10%

I. Multiple Choice Questions

1. With reference to the Information given in point (3), compute the customs FOB value of machinery purchased by SSI Pvt. Ltd. as per the Customs Act, 1962.
- (a) ₹ 4,90,000
 (b) ₹ 4,94,500
 (c) ₹ 6,30,000
 (d) ₹ 6,37,000

2. With reference to the Information given in point (3), compute Assessable Value of Machinery purchased by SSI Pvt. Ltd. as per the Customs Act, 1962.
- (a) ₹ 6,00,400
 - (b) ₹ 6,37,000
 - (c) ₹ 6,41,500
 - (d) ₹ 7,81,500
3. With reference to the Information given in point (3), compute the total customs duty and integrated tax payable as per the Customs Act, 1962 by SSI Pvt. Ltd. in respect of imported machine.
- (a) ₹ 1,54,918
 - (b) ₹ 1,46,017
 - (c) ₹ 1,56,013
 - (d) ₹ 1,90,060
4. With reference to the Information given in point (2), compute the Income of MVS Private Limited taxable under the head "Income from other sources".
- (a) ₹ 4,00,000
 - (b) ₹ 1,50,000
 - (c) ₹ 2,00,000
 - (d) Nil
5. With reference to the Information given in point (1), existence of which of the conditions would make it appropriate for Shivalik Construction Private Limited to recognise revenue only to the extent of costs incurred?
- (i) The goods do not represent a distinct performance obligation;
 - (ii) The goods represent a distinct performance obligation;
 - (iii) Customer is expected to obtain control of the goods significantly before receiving the services;
 - (iv) Cost of such goods is significant relative to the total expected costs to complete the performance obligation; and
 - (v) The entity procures the goods from a third party and does not significantly involve in designing / manufacturing the goods (even if the entity is a principal in the arrangement between the entity and end customer).

In the above context, which of the following is correct combination:

- (a) (i), (ii), (iii), (iv), (v)
- (b) (i), (iii), (iv), (v)
- (c) (ii), (iii), (iv), (v)
- (d) (i), (ii), (iii), (iv)

II. Descriptive Questions

6. Compute total income of MVS Private Limited for Assessment Year 2023-24 and tax payable under Income Tax Act on such income indicating reasons for treatment of each item. Ignore the provisions relating to minimum alternative tax and also the company does not opt for provisions of section 115BAA. (Turnover of the company for Previous Year 2020-21 was ₹ 400 crores)
7. How will Shivalik Construction Private Limited recognize revenue as per the relevant Ind-AS, if performance obligation is met over a period of time.

ANSWERS TO THE CASE STUDY 10

I. Answers to the Multiple Choice Questions

1. (b) ₹ 4,94,500

Reason:

Particulars	Amount
Cost of machinery inclusive of accessory (FOB) (See note)	\$ 7,000
Total (in Indian ₹) US \$ 7000 * ₹ 70 (being Exchange Rate)	₹ 4,90,000
Add: Local Agency Commission	₹ 4,500
FOB Value as per Customs	₹ 4,94,500

Note:

- 1) As per Accessories (Conditions) Rules, 1963, accessories and spare parts compulsorily supplied with main implements are chargeable at the same rate applicable to main machine. Therefore, such accessories shall also be chargeable with duty at the rate applicable to the machinery i.e. 10% ad valorem

- 2) Agency Commission, which is incurred in India, is not regarded as Buying Commission and therefore will be added to determine customs FOB Value.

2. (a) ₹ 6,00,400

Reason:

Particulars	Amount
Cost of machinery inclusive of accessory (FOB) (See note)	\$ 7,000
Total (in Indian ₹) US \$ 7,000* ₹ 70 (being Exchange Rate)	₹ 4,90,000
Add: Agency Commission	₹ 4,500
FOB Value as per Customs	₹ 4,94,500
Add: Cost of insurance (\$ 100 * ₹ 70)	₹ 7,000
Add: Air freight restricted to 20% of FOB Value as per customs	₹ 98,900
CIF Value/Assessable Value	₹ 6,00,400

Note: Actual Air freight is \$ 2,000, it is limited to 20% of Custom FOB value of Goods as per Rule 10(2) of Custom Valuation Rules

3. (b) ₹ 1,46,017

Reason:

Particulars	Amount (₹)
Assessable Value (A)	6,00,400
Add: Basic Custom Duty (10%) (B)	60,040
Add: SWS @10% on BCD (C)	6,004
Total for Integrated Tax u/s 3(7) CTA,1975 (D)	6,66,444
Integrated Tax @ 12% of ₹ 6,66,444 (rounded off) (E)	79,973

Total Custom Duty Payable = (B) + (C) + (E) i.e. ₹ 1,46,017

4. (c) ₹ 2,00,000

Reason: Income from other sources - Difference between the aggregate fair market value of shares of a closely held company and the consideration paid for purchase of such shares is deemed as income in the hands of the purchasing company under section 56(2)(x). Since the difference exceeds ₹ 50,000, the entire sum is taxable.

10,000 shares * (60 - 40) = ₹ 2,00,000

5. (b) (i), (iii), (iv), (v)

Reason: While applying input method, a careful consideration should be given for events that do not depict a direct relationship between entity's inputs and transfer of control of goods or services. For example, when cost-based input method is used, an adjustment may be required when cost incurred is not proportionate to entity's progress in satisfying its performance obligation. In such cases, the best reflection is to adjust the input method to recognise revenue only to the extent of costs incurred. Such recognition of revenue to the extent of costs incurred is appropriate, if at contract inception, all the following conditions exist:

- (i) The goods do not represent a distinct performance obligation;
- (iii) Customer is expected to obtain control of the goods significantly before receiving the services;
- (iv) Cost of such goods is significant relative to the total expected costs to complete the performance obligation; and
- (v) The entity procures the goods from a third party and does not significantly involve in designing / manufacturing the goods (even if the entity is a principal in the arrangement between the entity and end customer).

II. Answers to the Descriptive Questions

6. Computation of total income of MVS Private Ltd. for A.Y. 2023-24

Particulars	Amount (₹)
Profits and gains of business or profession	
Net profit for the year as per profit and loss account	75,00,000
Add: Expenses debited to profit and loss account but not allowable	
Contribution to Employees' Welfare Trust disallowed under section 40A(9)	2,00,000
Note: Alternatively, contribution to Employees Welfare Trust can be regarded as labour welfare expenditure and hence, can be allowed as deduction under section 37 as the payments were made on the ground of assessee's business exigencies [CIT v. Cheran Transport Corp. Ltd. (1999) 238 ITR 892 (Mad.)]	

Expenses on course fee and hostel expenses for MBA course of a close relative of a director, who is not in employment of MVS Private Ltd., is not deductible under section 37 [Enkay (India) Rubber Co. Ltd. V CIT] Such expenditure is not incurred wholly and exclusively for the purposes of business. Hence, it should be added back to compute business income.	7,80,000
Expenses on installation of traffic signal, to facilitate its employees to overcome traffic jam and be on time, is in the interest of the business so that the work gets completed on time, and is hence, an allowable expense under section 37(1) [Infosys Technologies Ltd. v. CIT (2007) 109 TTJ 631 (Bangalore)]	
Expenses on distribution of gift items to dealers under sales incentive scheme would promote goodwill and is made in the interest of business. Such gifts are prompted by commercial expediency and hence, the expenditure is allowable under section 37(1) [CIT v. Avery Cycle Industries Ltd. (2006) 157 Taxman 381/ 298 ITR 0239 / 296 ITR 0393 (Punjab & Haryana)]	
Expenses on travelling to Singapore of the wife of Managing Director on the invitation of Trade and Commerce Chamber, Singapore, is an allowable expense on the grounds of commercial expediency and business considerations. [Hero Honda Motors Ltd. v. CIT (2005) 3 SOT 572 (Delhi)]	
Increase in liability due to change in currency rate and paid to the suppliers of machinery is to be added to cost of the asset as per section 43A. Hence, it should be added back to compute business income.	3,00,000
Payments to a contractor for repair work in a day by two separate vouchers in cash, is not an allowable expense as per section 40A(3), since the aggregate payments in a day exceeds the limit of ₹ 10,000	27,000
Interest of ₹ 2 lakhs paid in March, 2023, on which tax deducted at source was remitted to the government before the due date of filling of income tax return, is allowable as per section 40(a)(ia).	
Total	88,07,000
Less: Expenditure allowable as deduction but not debited to profit and loss account	
Audit fees paid for the year ended 31.3.2022 for which tax was not deducted in the F.Y. 2021-22 but was deducted and paid in F.Y 2022-23, is allowable as deduction in the A.Y. 2023-24, as per the proviso to section 40(a)(ia)	1,80,000

Depreciation on the amount of ₹ 3 lakhs added in cost of Machinery was put to use for more than 180 days	45,000
Income under the head Profits & Gains of Business or Profession	85,82,000
Income from other sources Difference between the aggregate fair market value of shares of a closely held company and the consideration paid for purchase of such shares is deemed as income in the hands of the purchasing company other section 56(2)(x). Since the difference exceeds ₹ 50,000, the entire sum is taxable.	2,00,000
Total Income	87,82,000

Computation of tax liability of MVS Private Ltd. For the A.Y. 2023-24

Particulars	Amount (₹)
Tax on ₹ 87,82,000 @ 25%	21,95,500
Add: Health & Education cess @ 4%	87,820
Total tax payable	22,83,320

7. Costs to be incurred comprise two major components – elevators and cost of construction service

- (a) The elevators are part of the overall construction project and are not a distinct performance obligation.
- (b) The cost of elevators is substantial to the overall project and are incurred well in advance.
- (c) Upon delivery at site, customer acquires control of such elevators.
- (d) And there is no modification done to the elevators, which the company only procures and delivers at site. Nevertheless, as part of materials used in overall construction project, the company is a principal in the transaction with the customer for such elevators also.

Therefore, applying the guidance on input method as provided under Ind-AS 115, 'Revenue from Contracts with Customers' –

- The measure of progress should be made based on percentage of costs incurred relative to the total budgeted costs.
- The cost of elevators should be excluded when measuring such progress and revenue for such elevators should be recognized to the extent of costs incurred.

The revenue to be recognized is measured as follows:

Particulars	Amount (₹)
Transaction price	60,00,000
Costs incurred:	
(a) Cost of elevators	10,00,000
(b) Other costs	7,00,000
Measure of progress:	$7,00,000/35,00,000 = 20\%$
Revenue to be recognised:	
(a) For costs incurred (other than elevators)	Total attributable revenue = 50,00,000 % of work completed = 20% Revenue to be recognised = 10,00,000
(b) Revenue for elevators	10,00,000 (equal to costs incurred)
Total revenue to be recognised	$10,00,000 + 10,00,000 =$ 20,00,000

Therefore, for the year ended 31st March, 2023, the company shall recognize revenue of ₹ 20,00,000 on the project.

CASE STUDY 11

1. CA Ashish Kulkarni & CA Nita Goswami were best friends since childhood. They were also neighbors and had same aspirations and almost all their hobbies were similar at that time. While kids, they spent much of their time with each other and in fact they initially prepared for the CA Foundation test together and after clearing the said test, Ashish moved to Delhi for better internship opportunities and better coaching facilities but Nita decided to do the preparation of exams by remaining at her hometown at Ludhiana in Punjab. After 5 years of becoming CA, they both met in the marriage of one of their common friends although they were well connected over phone in this period of 5 years.
2. CA Ashish was trying to convince CA Nita to start their own practice being partners in Delhi considering the opportunities in Delhi. But Nita wanted to remain in her hometown. She said to Ashish that they both can be partners by remaining at different places as well. Moreover, they would be able to capture two different markets as Punjab is also a hub of many industries. Now a days, video conferencing has dramatically changed the way to communicate, and one can communicate easily with other by remaining at different places as well. They decided to form a partnership firm of Chartered Accountants by staying & working at their respective places
3. They initially started their small practice in both the cities with the name "KG & Co." The firm also created its own website, 'www.kgco.com'. The website besides containing details of the firm and bio-data of the partners, also contained the passport size photographs of CA Ashish & CA Nita. But in the earlier days of the partnership, the firm did not get enough work, as it takes time to settle a new business. So, to cover the operating expenses of branch, CA Nita Goswami started private tutorship to students doing CA course for 3 days in a week for 2 hours in a day, but she forgot to take special permission for private tutorship from the Council. But CA Ashish Kulkarni informed her that the council has passed resolution granting general permission for private tutorship, and part time tutorship under coaching organization of the Institute and specific permission is required in case of part-time or full time tutorship under any educational institute other than coaching organization of the institute. Such general & specific permission granted is subject to condition that direct teaching hours devoted to such activities taken together should not exceed certain hours in order to be able to undertake attest functions
4. With the passage of time & their strong dedication and quality services, they have achieved what they desired. The firm has now been connected with various prestigious clients of the market. The growth of the firm is directly attributable to transparency and mutual discussions between both partners, as both the partners spare their time in the evening for discussing the prevailing issues of the client which helps them to arrive at a valuable

conclusion. Hence, it results in effective solution of the problem which ultimately leads to customer satisfaction.

5. One fine evening, CA Nita Goswami was discussing the case of one of their valuable clients, Creations Ltd. Creations Ltd. has two industrial undertakings – one engaged in production of Ladies Hand Bags and the other engaged in production of Luggage Bags. As a restructuring drive, the company has decided to sell its undertaking producing Luggage bags as a going concern by way of slump sale for ₹ 225 lakh to a new company called Rockstar Bags Ltd. in which it holds 75% equity shares. The balance sheet of Creations Ltd., as on March 31, 2023 reads as follows.

	(₹ in lakhs)	(₹ in lakhs)
	<u>Hand Bags unit</u>	<u>Luggage Bags unit</u>
Fixed assets	75.00	112.50
Debtors	75.00	56.25
Inventories	37.50	18.75
Liabilities (Current & Ascertained)	21.00	37.50
Paid-up shares capital		₹ 189 lakh
General reserve		₹ 111 lakh
Shares premium		₹ 16.5 lakh

6. The company set up the Luggage Bags unit on April 1, 2005. The written down value of the block of assets for tax purposes as on March 31, 2023 is ₹ 100 lakh of which ₹ 42.5 lakh are attributable to Luggage Bags unit. There is not any immovable property included in the fixed assets of Luggage Bags unit. CA Nita wanted to discuss with her partner about the taxation liability which would arise to Creations Ltd. from slump sale and any other advise, firm can give to client to make it more tax efficient

7. While they were discussing the issue of Creations Ltd., CA Ashish got a call from a client Ram Electricals, registered under GST in Delhi, is registered supplier of air conditioners. He has provided the following information of consignment which needs to be supplied to Punjab :-

- Taxable value of supplies indicated on tax invoice: ₹ 32,500/- (Applicable GST rate 18 %)
- Value of Exempted Goods: ₹ 5,500/-
- Value of goods to be sent to job worker on delivery challan: ₹ 15,500/

The accountant of Ram Electricals called CA Ashish Kulkarni, being their GST consultant, to seek advise on issuance of e-way bill in respect of the above consignment.

8. After the discussion of above parties, Ashish brought into the knowledge of Nita the case of one of their new clients, "Sai Kripa International Ltd.", the accounting manager of which approached their firm for determination of refund admissible under GST Law. The company supplies various goods in domestic and international markets. The company manufactures the product in in-house as well does the business of trading. The company is registered under GST in Uttar Pradesh. The company exports goods without payment of tax under LUT in accordance with the provisions of GST Act. The company has made the following supplies during a tax period:-

S. No.	Particulars	Amount (in ₹)
1)	Export of Product "X" for \$ 12,500. Assessable value under customs in India Rupees. Export Duty is levied on above product at the time of exports. (Value of like goods domestically supplied by the similarly placed supplier is . 6,00,000)	9,00,000
2)	Domestic supplies of taxable product "Y"* during the period (excluding GST rate @ 5%) (Inputs used in manufacturing of such goods are taxable @ 18%) *not notified as a product, in respect of which refund of unutilised ITC shall not be allowed under section 54(3)(ii)	15,00,000
3)	Export of exempt supplies of goods (Value of like goods domestically supplied by the similarly placed supplier is ₹ 5,00,000)	6,00,000
The ITC available for the above tax period is as follows:		
1)	On inputs	2,50,000
2)	On capital goods	1,25,000
3)	On input services (including ₹ 30,000 on outdoor catering)	1,80,000

When CA Ashish Kulkarni filed refund application of "Sai Kripa International Ltd." on GST Portal, there were some deficiencies noticed by GST department and such deficiencies were communicated to applicant in a FORM through the common portal electronically, requiring him to file a fresh refund application after rectification of such deficiencies. When the accountant of the company had logged in the portal, he noticed a Form displayed on the portal & communicated to CA Ashish Kulkarni. Then CA Ashish Kulkarni was approached to resolved the above issue.

I. Multiple Choice Questions

1. Whether the creation of website in aforesaid manner amounts to violation of provisions of Chartered Accountants Act, 1949 and its relevant rules & regulations?
 - (a) Yes, as creation of website itself is not allowed as the provisions of Chartered Accountants Act, 1949 and its relevant rules & regulations.
 - (b) Yes, as the bio-data of partners and photographs posted on website amounts to soliciting of clients and professional work
 - (c) No, as the guidelines of ICAI allows a firm to put up the details of firm, bio-data of partners & display of passport size photograph.
 - (d) No, as it is permissible that the firm can advertise their professional work through its website.

2. With reference to the information given in para (7), what would be the consignment value sent by Ram Electricals Ltd. for the purpose of generating E-way bill for inter-state supply of goods?
 - (a) ₹ 38,350
 - (b) ₹ 53,850
 - (c) ₹ 59,350
 - (d) ₹ 48,000
 - (a) Not exceed 20 hours a week.
 - (b) Not exceed 25 hours a week.
 - (c) Not exceed 25 hours a month.
 - (d) Not exceed 20 hours a month.

4. With reference to the information given in para (8), accountant of the company, Sai Kripa International Ltd., may have noticed Form of GST on GST-Portal.
 - (a) GST RFD-01
 - (b) GST RFD-02
 - (c) GST RFD-03
 - (d) GST RFD-04

5. With reference to the information given in para (5), the income arising on above transaction shall be chargeable to income tax under the head:-
 - (a) Profit and gains from Business or Profession.

- (b) Other Sources.
- (c) House Property.
- (d) Capital Gain.

II. Descriptive Questions

6. Determine the maximum amount of Refund admissible to Sai Kripa International Ltd. for the given tax period.
7. (a) Determine the tax liability, which would arise to Creations Ltd. from slump sale assuming it does not opt for section 115BAA.
(b) Suggest modification of the restructuring plan of Creations Ltd., without changing the amount of sales consideration, so as to make it more tax efficient.

ANSWERS TO THE CASE STUDY 11

I. Answers to the Multiple Choice Questions

1. (c) No, as the guidelines of ICAI allows a firm to put up the details of firm, bio-data of partners & display of passport size photograph.

Reason: In the above case, it does not appears to be violation of Chartered Accountants Act, 1949 as the guidelines of ICAI allow a firm to put up the details of the firm, bio-data of the partners and display of a passport size photograph. However, the website should be so designed that it does not solicit clients or professional work and should not amount to direct or indirect advertisement.

2. (b) ₹ 53,850

Reason: The consignment value will be as follows:

S. No.	Particulars	Consignment Value (₹)	
1	Taxable value of supplies indicated on tax invoice	32,500	
	Add: GST 18%	5,850	38,350
2	Value of exempt Goods (The same shall not be included)		-----
3	Value of goods to be sent to job-worker on delivery challan		15,500
4	Consignment Value for the purpose of generating of E-way bill		53,850

3. (b) Not exceed 25 hours a week.

Reason: Regulation 190 A of Chartered Accountants Regulations, 1988 provides that a Chartered Accountant in practice shall not engage in any business or occupation other than the profession of accountancy except with the permission granted in accordance with a resolution of the council. The council has passed resolution granting general permission (for private tutorship, and part time tutorship under Coaching organization of the institute) and specific permission (for part-time or full time tutorship under any educational institute other than Coaching organization of the institute). Such general & specific permission granted is subject to condition that direct teaching hours devoted to such activities taken together should not exceed 25 hours a week in order to be able to undertake attest functions.

4. (c) GST RFD-03

Reason: Where any deficiencies are noticed in refund application, the proper officer shall communicate the deficiencies to the applicant in FORM RFD-03 through the common portal electronically, requiring to file a fresh refund application after rectification of such deficiencies.

5. (d) Capital Gain.

Reason: Any Profit or Gains arising from the slump sale of one or more undertakings shall be chargeable to income tax under the head Capital Gain.

II. Answers to the Descriptive Questions

6. Calculation of maximum amount of refund admissible to Sai Kripa International Ltd.

S. No.	Particulars	Note	Amount (in ₹)
1)	Export of product "X"	1	Nil
2)	Domestic Supplies of taxable product "Y" during the period	2	81,395
3)	Export of exempt supplies of goods	3	80,000
	Total refund claim admissible		1,30,000

Working Notes:

- Export of goods is a zero rated supply in terms of Sec 16(1)(a) of IGST Act, 2017. Further, Sai Kripa International Ltd. exports goods without payment of tax

under letter of undertaking in accordance with the provisions of Section 16(3)(a) of IGST Act ,2017. Therefore as per clause (i) of first proviso of Sec 54(3) of CGST Act ,2017 a registered person may claim refund of any unutilized ITC in case of zero rated supply at the end of any tax period .However, second proviso to Sec 54(3) lays down that the refund of unutilized ITC is not allowed if the goods exported out of India are subject to export duty.

2. Refund of unutilized ITC is allowed in case of inverted duty structure, i.e. where the credit has accumulated on account of rate of tax on inputs being higher than rate of tax on output supplies (other than nil rated or fully exempt supplies) except supplies of goods or services or both as may be notified by the Government on the recommendations of the GST Council.

As per Rule 89(5) of CGST Rules, 2017

Maximum Refund Amount = $\{(\text{Turnover of inverted rated supply of goods and services}) \times \text{Net ITC} / \text{Adjusted Total Turnover}\} - \{(\text{tax payable on such inverted rated supply of goods and services} \times (\text{Net ITC} \div \text{ITC availed on inputs and input services}))\}$.

“NET ITC” means ITC availed on inputs during the relevant period other than the ITC availed for which refund is claimed under sub-rules (4A) or (4B) or both of rule 89.

“Adjusted Total Turnover” means sum total of the value of:

- (a) The turnover in a state /Union Territory as defined under Section 2(112) excluding turnover of services; and
- (b) Turnover of zero rated supply of services determined in terms of specified manner and non- zero rated supply of services,

excluding:

- (i) Value of exempt supplies other than zero rated supplies and
- (ii) The turnover of supplies in respect of which refund is claimed under sub-rule (4A) or (4B) or both, if any, during the relevant period

Maximum Amount of refund admissible on account of inverted duty structure

S. No.	Particulars	(₹)
1)	Net ITC i.e. input tax credit availed on inputs during the relevant period	2,50,000
2)	Turnover of inverted rated supply of Goods	15,00,000

3)	Adjusted Total Turnover i.e. (6,00,000+15,00,000+9,00,000)	30,00,000
4)	Tax payable on such inverted rated supply of Goods (15,00,000*5%)	75,000
5)	ITC availed on inputs and input services	4,30,000
6)	Maximum Refund $\{[(\text{Item (2)}/\text{Item (3)})*\text{item (1)}]-[\text{Item(4)}*(\text{Item (1)}/\text{Item (5)})]\}$	81,395

3. Section 16(2) of IGST Act ,2017 stipulates that subject to provisions of Sec 17(5) of CGST Act, ITC may be availed for making zero rated supplies ,notwithstanding that such supply may be an exempt supply. Section 54(3) of CGST Act ,2017 allows refund of ITC in the case of zero rated supply made without payment of tax.

Rule 89(4) of CGST Rules ,2017 stipulates that in the case of zero rated supply of goods or services or both without payment of tax under bond /LUT in accordance with the provisions of Section 16(3) of the IGST Act ,2017, refund of ITC shall be granted as per the following formula

Refund amount =

$$\frac{\text{(Turnover of zero rated supply of goods + Turnover of zero rated supply of services)}}{\text{Net ITC /}} \times \text{Adjusted Total Turnover}$$

Where,

“Net ITC” means ITC availed on inputs & inputs services during the relevant period other than ITC availed for which refund is claimed under sub-rules (4A) or (4B) or both of rule 89.

“Turnover of zero rated supply of Goods” means the value of zero- rated supply of goods made during the relevant period without payment of tax under bond or LUT or the value which is 1.5 times the value of like goods domestically supplied by the same or, similarly placed, supplier, as declared by the supplier ,whichever is less ,other than the turnover of supplies in respect of which refund is claimed under section 89(4A) or (4B) or both.

Maximum Amount of refund admissible on account of Zero rated supply (Amount in ₹)

1)	Net ITC i.e input tax credit availed on inputs and inputs services during the relevant period (₹ 2,50,0,00 + ₹ 1,80,000 – ₹ 30,000)	4,00,000
2)	Turnover of zero rated supply of goods i.e value of zero rated supply of goods made during the relevant period without	6,00,000

	payment of tax under Bond or LUT (Lower of ₹ 6,00,000 or 1.5 times of ₹ 5,00,000 i.e. 7,50,000, whichever is lower)	
3)	Adjusted Total Turnover i.e. (₹ 6,00,000 + ₹ 15,00,000 + ₹ 9,00,000)	30,00,000
5)	Maximum Refund (Item (2)/ Item (3))*item (1)	80,000

7. (a) As per section 50B of the Income Tax Act, 1961, any profits and gains arising from the slump sale effected in the previous year shall be chargeable to income-tax as capital gains arising from the transfer of capital assets and shall be deemed to be the income of the previous year in which the transfer took place.

If the assessee owned and held the undertaking transferred under slump sale for more than 36 months before slump sale, the capital gain shall be deemed to be long-term capital gain. Indexation benefit is not available in case of slump sale as per section 50B(2) of the said Act.

Computation of tax liability of creations Ltd. from slump sale

Particulars	(₹)
Full value of consideration for slump sale	2,25,00,000
Less: cost of acquisition (Net Worth – See Note 2)	<u>80,00,000</u>
Long- term capital gain	<u>1,45,00,000</u>
Tax on long term capital gain @ 20%	29,00,000
Add: Surcharge (7% of ₹ 29,00,000)	2,03,000
Tax and surcharge	31,03,000
Add: Health & Education cess (4% of 31,03,000)	<u>1,24,120</u>
Tax liability	<u>32,27,120</u>

Note:

1. **Computation of Full value of consideration**

Particulars	(₹' in lakhs)
Fair market value of the capital assets transferred by way of slump sale	
Fixed assets [Book value as appearing in the books of accounts] [A]	112.5
Debtors [Book value as appearing in the books of accounts] [B]	56.25

Inventories [Book value as appearing in the books of accounts] [C]	18.75
	187.5
Less: Liabilities [L]	37.5
Fair market value of the capital assets transferred by way of slump sale [A+B+C- L] [FMV1]	150
Fair market value of the consideration received or accruing as a result of transfer by way of slump sale [value of the monetary consideration received] [FMV2]	225
Full value of consideration [Higher of FMV1 or FMV2]	225

2. Computation of net worth

Particulars	(₹)
WDV of block of assets	42,50,000
Debtors	56,25,000
Inventories	18,75,000
Total Assets	1,17,50,000
Less: Liabilities	37,50,000
Net worth	80,00,000

Note: For computing net worth, the aggregate value of total assets in the case of depreciable assets shall be the written down value of the block of assets as per section 43(6).

- (b) As an alternative to slump sale, Creations Ltd., should acquire 100% shareholding in Rockstar Bags Ltd. so that Rockstar Ltd. becomes a 100% Indian subsidiary company of Creations Ltd. and, consequently, capital gain arising on transfer of Luggage unit to Rockstar Bags Ltd. shall not be chargeable to tax by virtue of provision of section 47 (iv).

Also, the company may go for demerger. In demerger the tax impact is neutral. Therefore, in the present case, the company should not have effected slump sale. It could either:

- (i) Go for demerger where tax impact is neutral or
- (ii) Make Rockstar Bags Ltd. as its 100% subsidiary company and claim exemption under section 47.

CASE STUDY 12

Whirlsonic Ltd. is a large sized listed Indian company having two business segments, namely light and electrical consumer durables. It is one of the oldest brands in the country and has a rich legacy associated with reliability and superior engineering quality. In the last few years, the company has launched some breakthrough products like India's first anti dust fan and anti-bacterial LED bulbs. The company is a leading Indian brand with significant global presence. The company operates with its philosophy to carve out a niche in the global industry and to evolve into a premier lifestyle home solution provider. With operations spanning in over 20 countries, the company has earned trust of millions of customers by providing cutting edge lifestyle electrical products.

Whirlsonic Ltd. has received many prestigious awards and accolades to date for its commitment to manufacture quality lifestyle electrical solutions that benchmark against the best in industry. The company is proud to be the recipient of the New Product Innovation Award in the antibacterial LED bulbs industry in India and has been recognised as the New Product Innovation leader in the Indian LED bulbs industry.

The company works towards getting the right products to market faster and developing long term product strategies and coherent roadmaps. During the FY 2022-23, the company decided to manufacture the LED lights and bulbs with a unique feature which will enable the users of such products to operate them from any distance, with the help of their mobiles. Such technology requires the use of an electronic chip which is to be imported from Indonesia. So far, LED lights and bulbs with such unique feature have been developed by two more companies. According to market survey done by the marketing team of Whirlsonic Ltd., the demand of these new products is increasing day by day. Further, the management of the company has decided to offer a discount of 20% on the list price of such product to its distributors. The list price of the LED light and LED bulb is ₹ 150/- and ₹ 200/- respectively. In the invoice, the list price of the product will be mentioned on which a discount of 20% will be given to arrive at the final price.

During the year, Whirlsonic Ltd. sponsored a sports event organised by Ballika City Club in Jaipur. Ballika City Club was established in the year 1986 for the protection of the rights of the girl child. The company has paid an amount of ₹ 5,00,000/- for such sponsorship of the sports event. Consequently, the said event was named after the brand name of Whirlsonic Ltd.

M/s S.M. Mehta & Associates are the statutory auditors as well as the tax auditors of the company for the F.Y. 2022-23. CA Mehta, the Managing Partner of the said Chartered Accountant firm had set up the practice soon after becoming the member of the Institute of Chartered Accountant of India in the year 1990. Today the firm has its Head Office in Delhi with branches in 6 different states of the country. The firm has expertise in Audit including Statutory, Management and Internal Audit, due diligence and taxation matters including international taxation.

During the course of audit, CA Mehta, the engagement partner, asked one of his team members, Mr. Rudra to analyse the taxability/ allowability of various receipts and expenditures under the

provisions of the Income Tax Act, 1961. While analysing the same, Mr. Rudra was sceptical with respect to the following two points:

- (i) The company paid dollars equivalent to ₹ 40 lakhs as sales commission for the year ended 31.03.2023, without deducting tax at source, to Mr. Meril, a citizen of UK and non-resident who acted as agent for booking orders, from various customers who are outside India.
- (ii) An amount on account of secret commission was paid during the previous year 2022-23.

Further, Mr. Rudra had certain confusion with respect to the allowance or disallowance of the following expenditure under the provisions of the Income Tax Act 1961, incurred by the company:

- Interest amounting to ₹ 55,000/- payable to Goods and Services Tax Department which was paid after the due date of filing income tax return.

He asked CA Mehta to clear his confusion on the above points.

During the year under audit, the company has entered into a high sea sales transaction with Lavish Ltd. for its products. The management of Whirlsonic Ltd. is of the view that GST on such high sea sales transaction is payable at the time of such sale and basic custom duty is payable at the time of filing the bill of entry for import of goods.

Further, Whirlsonic Ltd. has established a vigil mechanism to enable its directors and employees to report genuine concerns and seek protection against victimization. The details of the mechanism are available on the company's intranet which is accessible by the directors and employees.

While discussing about the status of the audit work with CA Mehta, one of the directors of the company, Mr. Somesh, discussed about the various corporate governance compliance requirements for their company. He asked CA Mehta to brief him about the compliance requirements with respect to the Risk Management Committee. Accordingly, CA Mehta briefed him about the Risk Management Committee in terms of the relevant SEBI Regulation.

Also Mr. Somesh was very impressed with the quality of services and the effectiveness and efficiency of the audit work done by the team of CA Mehta. He, accordingly, requested CA Mehta to provide services for F.Y. 2022-23, of actuarial, investment advisory and investment banking to Whirlsonic Ltd., after the same is duly approved by the Board of Directors of the company.

I. Multiple Choice Questions

1. With respect to the payment made by Whirlsonic Ltd. for sponsorship of the sports event, which of the following is the correct statement regarding the GST liability?
 - (a) GST shall be payable by Whirlsonic Ltd., being the recipient of the sponsorship service, under the reverse charge mechanism.
 - (b) GST shall be payable by Ballika City Club, being the supplier of the sponsorship service.

- (c) GST liability is not leviable on the sponsorship service of the sports event.
- (d) GST liability with respect to sponsorship service is payable by the recipient of such service provided the recipient is not a body corporate. So, in the present case, GST liability is payable by the service provider which is Ballika City Club.
2. What should be the value of supply of the LED bulb with unique feature to be manufactured by Whirlsonic Ltd.?
- (a) ₹ 200
- (b) ₹ 160
- (c) ₹ 120
- (d) ₹ 150
3. Are the measures taken by the company with respect to vigil mechanism in line with the LODR (Listing Obligations and Disclosure Requirements) Regulations?
- (a) No, as apart from making the details of such mechanism available on the company intranet the same should be disclosed by the company on its website.
- (b) No, as apart from making the details of such mechanism available on the company intranet the same should be disclosed by the company in the Board Report.
- (c) Yes, the measures taken by the company are in line with the relevant regulation of the LODR Regulations.
- (d) No, as apart from making the details of such mechanism available on the company's intranet, the same should be disclosed by the company on its website and in the Board Report.
4. What is the correct course of action for CA Mehta with respect to the request made by Mr. Somesh for providing services other than statutory audit and tax audit?
- (a) CA Mehta should not accept the appointment unless he takes the approval from the ICAI.
- (b) CA Mehta can accept the appointment for other services as the same will be duly approved by the Board of Directors.
- (c) CA Mehta can accept the appointment after the same is approved by the shareholders as well as the Board of Directors.
- (d) CA Mehta should not accept the offer for other services.
5. Whether the interest payable by the company to the GST department which is not paid before the due date specified u/s 139(1), will be disallowed?
- (a) No, such interest will not be disallowed as such interest is separate from the GST i.e. the tax payable but not paid is only disallowed under the provisions of the Income Tax Act, 1961.

- (b) Yes, the interest payable to GST department which is not paid before due date of filing of return of income would attract disallowance under the provisions of the Income Tax Act, 1961.
- (c) Such interest will be disallowed as the same is not allowed under the Income Tax Act, 1961, even if it is paid within the due date of filing of return of income.
- (d) 50% of the interest payable by the company to the GST department shall be disallowed if the same is not paid before the due date of filing return of income.

II. Descriptive Questions

6. Explain how GST would be levied and what would be the nature of supply in case of import of the electronic chip to be made by Whirlsonic Ltd.?

Also examine, whether the view of the management of the company is correct with regard to the high sea sale transaction entered by the company with Lavish Ltd.?
7. Explain what CA Mehta would have briefed to Mr. Somesh relating to the Risk Management Committee in terms of the LODR (Listing Obligations and Disclosure Requirements) Regulations?
8. Examine the allowability of the two expenditures incurred by Whirlsonic Ltd., under the relevant provisions of the Income Tax Act, 1961, related to payment of sales commission and secret commission with respect to which Mr. Rudra has certain confusions?

ANSWERS TO THE CASE STUDY 12

I. Answers to the Multiple Choice Questions

1. (a) GST shall be payable by Whirlsonic Ltd., being the recipient of the sponsorship service, under the reverse charge mechanism.

Reason: Notification no 13/2017 CT (R) dated 28.06.2017 as amended (hereinafter referred to as reverse charge notification), provides that sponsorship services provided by any person to a body corporate or partnership firm located in the taxable territory, shall be liable to GST under reverse charge in the hands of recipient. In the present case, Ballika City Club is the supplier of sponsorship services which is receiving the consideration in the form of sponsorship fee of ₹ 5,00,000 from Whirlsonic Ltd., against the provision of sponsorship service. Since the recipient of sponsorship services- Whirlsonic Ltd. is a body corporate, the tax on said services is payable by the recipient – Whirlsonic Ltd., under reverse charge.
2. (b) ₹ 160

Reason: The value is ₹ 160, as the discount is allowed at the time of supply and shown in the invoice.

3. (d) No, as apart from making the details of such mechanism available on the company's intranet, the same should be disclosed by the company on its website and in the Board Report.

Reason: Under Regulation 22 of the LODR (Listing Obligations and Disclosure Requirements) Regulations, the vigil mechanism can be used by directors, employees and any other person. To that effect, Regulation 46 of the LODR requires the details of establishment of such mechanism to be disclosed by the Company on its website and in the Board Report. By only providing the details in the intranet, the Company has failed to meet the LODR Regulations.

4. (d) CA Mehta should not accept the offer for other services.

Reason: Services not to be Rendered by the Auditor- Section 144 of the Companies Act, 2013 prescribes certain services not to be rendered by the auditor. An auditor appointed under the Act shall provide to the company only such other services as are approved by the Board of Directors or the audit committee, as the case may be, but which shall not include any of the following services (whether such services are rendered directly or indirectly to the company or its holding company or subsidiary company), namely:

- a) accounting and book keeping services;
- b) internal audit;
- c) design and implementation of any financial information system;
- d) actuarial services;
- e) investment advisory services;
- f) investment banking services;
- g) rendering of outsourced financial services;
- h) management services; and
- i) any other kind of services as may be prescribed.

CA Mehta should not accept the services as these services are specifically notified in the services not to be rendered by him or his firm as an auditor as per section 144 of the Act.

5. (b) Yes, the interest payable to GST department which is not paid before due date of filing of return of income would attract disallowance under the provisions of the Income Tax Act, 1961.

Reason: Interest payable to Goods and Services Tax department is part of Goods and Services Tax.

Therefore, interest payable to Goods and Services Tax department, which is not paid before the “due date” of filing of return of income, would attract disallowance under section 43B [Mewar Motors v. CIT (2003) 260 ITR 218 (Raj)]

II. Answers to the Descriptive Questions

6. (i) **Goods imported into India:** All imports are deemed as inter-State supplies and accordingly IGST shall be levied on imported goods in addition to the applicable custom duties.

The integrated tax on goods imported into India shall be levied and collected in accordance with the provisions of the Customs Tariff Act, 1975 on the value as determined under the said Act at the point when duties of customs are levied on the said goods under the Customs Act, 1962. The integrated tax on goods shall be in addition to the applicable Basic Customs Duty (BCD) which is levied as per the Customs Tariff Act. In addition, GST compensation cess, may also be leviable on certain luxury and demerit goods under the Goods and Services Tax (Compensation to States) Cess Act, 2017.

Thus, the above GST implications would be there with respect to the import of the electronic chip by Whirlsonic Ltd.

- (ii) **The view of the management of the company about the high sea sale transaction is partially correct.**

Supply of goods by the consignee to any other person, by endorsement of documents of title to the goods, after the goods have been dispatched from the port of origin located outside India but before clearance for home consumption (high sea sale) is neither treated as supply of goods nor supply of services in terms of paragraph 8(b) of Schedule III to the CGST Act. Thus, GST is not leviable on high sea sales. Therefore, the management's view that GST is payable on a high sea sale transaction at the time of sale, is not correct.

As per section 14 of the Customs Act, 1962, the value for the purpose of charging customs duty on imported goods is the value at the time of importation, i.e. at the time of filing of the bill of entry. Further, IGST on imported goods is also levied at the time of filing of bill of entry. Therefore, in case of high sea sales, the assessable value of imported goods for levying customs duty and IGST is determined on the basis of the price paid by the last high sea sales buyer who files the bill of entry for home consumption. Therefore, the management's view that basic customs duty is payable at the time of filing the bill of entry for import of goods is correct.

7. **CA Mehta should have briefed the following to Mr. Somesh with respect to the composition of the Risk Management Committee as per Regulation 21 of the LODR (Listing Obligations and Disclosure Requirements) Regulations:**

- (a) The Board of Directors shall constitute a Risk Management Committee.

- (b) The Risk Management Committee shall have minimum three members with majority of them being members of the board of directors, including at least one independent director and in case of a listed entity having outstanding SR equity shares, at least two thirds of the Risk Management Committee shall comprise independent directors.
- (c) The Chairperson of the Risk Management Committee shall be a member of the Board of Directors and senior executives of the listed entity may be members of the committee.
- (d) The risk management committee shall meet at least twice in a year.
- (e) The quorum for a meeting of the Risk Management Committee shall be either two members or one third of the members of the committee, whichever is higher, including at least one member of the board of directors in attendance.
- (f) The meetings of the risk management committee shall be conducted in such a manner that on a continuous basis not more than one hundred and eighty days shall elapse between any two consecutive meetings.
- (g) The Board of Directors shall define the role and responsibility of the Risk Management Committee and may delegate monitoring and reviewing of the risk management plan to the committee and such other functions as it may deem fit and such function shall specifically cover cyber security.
- (h) It may be noted that the role and responsibilities of the Risk Management Committee shall mandatorily include the performance of functions specified in Part D of Schedule II.
- (i) The provisions of this regulation shall be applicable to top 1000 listed entities, determined on the basis of market capitalisation, as at the end of the immediate previous financial year and a high value debt listed entity.
- (j) The Risk Management Committee shall have powers to seek information from any employee, obtain outside legal or other professional advice and secure attendance of outsiders with relevant expertise, if it considers necessary.

These procedures shall be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework. A majority of this Committee will be the members of the Board of Directors. Senior executives of the company may also be members of the Committee, but the Chairperson of the Committee shall be a member of the Board of Directors.

8. The allowability of the expenditures related to sales commission and secret commission paid by Whirlsonic Ltd. is as under:

1. A foreign agent of an Indian exporter operates in his own country and no part of his income accrues or arises in India. His commission is usually remitted directly to him and is, therefore, not received by him or on his behalf in India. The commission paid to the non-resident agent for services rendered outside India is, thus, **not chargeable** to tax in India.

Since commission income for booking orders by non-resident who remains outside India is not subject to tax in India, disallowance under section 40(a)(i) is not attracted in respect of payment of commission to such non-resident outside India even though tax has not been deducted at source.

Thus, the amount of ₹ 40 lakhs remitted to Mr. Merlin outside India in foreign currency towards commission **would not attract disallowance** under section 40(a)(i) for non-deduction of tax at source.

2. Secret commission is one of the forms of commission payment generally made by business organizations. Secret commission is a payment for obtaining business orders or contracts from parties and /or customers and paid to employees and / or officials of those parties and / or customers or companies from whom business orders are obtained by the assessee.

Explanation 1 below section 37(1) of Income-tax Act, 1961 provides that any expenditure incurred by an assessee for any purpose which is an offence or which is prohibited by law, shall not be deemed to have been incurred for the purpose of business and no deduction or allowance shall be made in respect of such expenditure. In view of the *Explanation*, any expenditure incurred for a purpose which is an offence and prohibited by law cannot be allowed as expenditure.

Therefore, if secret commission payment could be established as a payment for an offence prohibited by law, the same **cannot be allowed as deduction**.

CASE STUDY 13

Para 1

As from last many years, it has been observed that people are returning back to their own country. India, as evidenced by economists all over the world, is not only the world's largest democracy but a country with untapped and unlimited economic potential. As there is a rising trend of companies in sectors such as pharmaceutical, manufacturing, automobiles, healthcare shifting more and more research and development work to India. This trend is leading many Indians to return from overseas to lead prime projects.

Para 2

This situation is called as "reverse brain drains". It is form of brain drain where human capital moves in reverse from a more developed country to a less developed country that is developing rapidly. People returning back to their home country may accumulate savings, earn skills as well as knowledge which can be used in their home country. This became possible in India only due to strategies and long-term planning implemented by the Government to reverse the migration.

Para 3

NRIs knowledge as well as experience can be applied in Indian context in numerous ways across all sectors whether it be managing MNC's, new business start -ups, domestic industries etc. For attracting NRIs, developing countries like India always endeavour to create an environment which will provide ample rewarding opportunities for those who have earned knowledge and skills from overseas.

Para 4

Similarly, Mr. Pardeep, an NRI, had left India in 2005. He was living in U.K. since then and finally moved back to India on 12th June 2022, where he had spent substantial part of his life. Mr. Pardeep was a non- resident in 9 years preceding the previous year 2022-23 but he visited India on various occasions and stayed in India for a total period amounting to 630 days during last 10 years preceding the previous year 2022-23. Mr Pardeep wants to spend rest of his life in his home country.

He returned with one of his close friend Mr John. Mr John, a foreign national & a cricketer came to India as a member of England cricket team in the year ended 31st March, 2023. Mr John received ₹ 5 Lakhs for participation in matches in India. He also received ₹ 1 Lakh for an advertisement of a product on TV. He contributed articles in a newspaper for which he received ₹ 10,000. When he stayed in India, he also won a prize of ₹ 10,000 from horse racing in Mumbai. He has no other income in India during the year.

Para 5

After reaching India, Pardeep visited one of his close friend Anuj who is Chartered Accountant by profession, and he discussed all his details of income for the Financial Year 2022-23:

- (i) Rental Income from the flat situated in London which was deposited in a bank there. The flat was given on rent by him after his return to India since July, 2022.

- (ii) Dividends on the shares of three German companies which are being collected in a bank account in London. He proposes to keep the dividend on shares in London with the permission of Reserve Bank of India.
- (iii) He has got two sons, one of whom is of 12 years and other son is major. Both his sons are staying in London and not returning to India with him. Each of his sons is having income of ₹ 75,000 in U.K. (not received in India) and of ₹ 20,000 in India.
- (iv) During the preceding accounting year when he was a non-resident, he had sold 1,000 shares which were acquired by him in British Pound Sterling and the sale proceeds were repatriated. The profit in term of British Pound Sterling on sale of these 1,000 shares was 175% of the cost at ₹ 37,500 while in term of Indian Rupees it was ₹ 50,000

Para 6

Mr. Pardeep came back to his parental house in Punjab where his parents were staying with Pardeep's younger brother, Mr. Gulshan. With the grace of God and blessings of parents, Mr Gulshan is also well settled in India. Presently, Mr Gulshan is managing a company i.e. Technologies Ltd being a director of company. Presently Technologies Ltd. has 9 directors. Company's Board of Directors desire to increase the number of directors from 9 to 16. But the Company Secretary of the company informed the company's Board of Directors that as per provisions of Companies Act, 2013, every public company shall have **x** number of minimum and **y** number of maximum directors. But if the company wants to appoint more than the specified limit i.e. **y**, it can do so only after passing special resolution.

Para 7

Technologies Ltd. has 2 divisions Laptops and Mobiles. Division Laptops has been making constant profits while division Mobiles has been invariably suffering losses. The company called a meeting for the discussion of financials of the company.

On 31st March, 2023, the division-wise draft extract of the Balance Sheet was:

(₹ in crores)

	Laptops	Mobiles	Total
Property, Plant and Equipment cost	500	1000	1500
Depreciation	<u>(450)</u>	<u>(800)</u>	<u>(1250)</u>
Net Property, Plant and Equipment (A)	<u>50</u>	<u>200</u>	<u>250</u>
Current assets:	400	1000	1400
Less: Current liabilities	<u>(50)</u>	<u>(800)</u>	<u>(850)</u>
(B)	<u>350</u>	<u>200</u>	<u>550</u>
Total (A+B)	<u>400</u>	<u>400</u>	<u>800</u>
Financed by:			

Loan funds	-	600	600
Capital: Equity ₹ 10 each	50	-	50
Surplus	<u>350</u>	<u>(200)</u>	<u>150</u>
	<u>400</u>	<u>400</u>	<u>800</u>

The management is of the opinion to sell Division Mobiles along with its assets and liabilities for ₹ 50 crores to Mobize Ltd. a new company, who will allot 2 crore equity shares of ₹ 10 each at a premium of ₹ 15 per share to the members of Technologies Ltd. in full settlement of the consideration, in proportion to their shareholding in the company. One of the members of the Technologies Ltd. was holding 52% shareholding of the Company.

I. Multiple Choice Questions

- With reference to information given in Para 4, tax liability of Mr. John for Assessment year 2023-24 would be:
 - ₹ 1,25,000
 - ₹ 1,30,000
 - ₹ 1,22,000
 - ₹ 1,70,000
- With reference to information given in Para 4, income earned by Mr. John in India would be subject to TDS. Income constituting ₹ 5,00,000 for participation in matches in India, ₹ 1,00,000 for an advertisement of a product on TV & ₹ 10,000 from articles contributed in newspaper would be subject to TDS at the rate _____ (excluding health & education cess) & ₹ 10,000 from horse racing in Mumbai would be subject to TDS at the rate _____ (excluding health & education cess)
 - 20%, 30%
 - 20%, 20%
 - 30%, 30%
 - 30%, 20%
- What would be the residential status of Mr. Pardeep during the P.Y. 2022-23:
 - Non-Resident
 - Resident but ordinarily Resident
 - Resident but not ordinarily Resident
 - Resident because he is from Indian origin

4. Business combinations involving entities or businesses under common control shall be accounted for using the pooling of interest method. The pooling of interest method is considered to involve the following:
- (i) The assets and liabilities of the combining entities are adjusted to bring them to fair values.
 - (ii) The assets and liabilities of the combining entities are reflected at their carrying amounts.
 - (iii) The financial information in the financial statements in respect of prior periods should be restated as if the business combination had occurred from the beginning of the earliest period presented in the financial statements, irrespective of the actual date of the combination. However, if business combination had occurred after that date, the prior period information shall be restated only from that date.
 - (iv) The identity of the reserves shall be preserved and shall appear in the financial statements of the transferee in the same form in which they appeared in the financial statements of the transferor.
 - (v) The reserves of transferor shall not be preserved and shall not appear in the financial statements of the transferee.
 - (vi) The difference, if any, between the amount recorded as share capital issued plus any additional consideration in the form of cash or other assets and the amount of share capital of the transferor shall be transferred to capital reserve.
 - (vii) The difference, if any, between the amount recorded as share capital issued plus any additional consideration in the form of cash or other assets and the amount of share capital of the transferor shall be transferred to Goodwill/General Reserve.

In the above context, which of the following is correct combination:

- (a) (i), (iii), (iv), (vi)
 - (b) (ii), (iii), (iv), (vi)
 - (c) (ii), (iii), (iv), (vii)
 - (d) (i), (iii), (iv), (vi)
5. With reference to information given in Para 6, x & y equals to-
- (a) 2, 12
 - (b) 2, 15
 - (c) 3, 15
 - (d) 3, 12

II. Descriptive Questions

6. Mr. Pardeep provides the sources of his various income and seeks your opinion to know about his liability to income tax thereon in India in assessment year 2023-24.
7. Assuming that there are no other transactions, you are required to:
- Pass journal entries in the books of Technologies Ltd.
 - Prepare the Balance Sheet of Technologies Ltd. after the entries in (a)
 - Prepare the Balance Sheet of Mobize Ltd.

ANSWERS TO THE CASE STUDY 13**I. Answers to the Multiple Choice Questions**

1. (b) ₹ 1,30,000

Reason: Computation of tax liability of Mr. John for the A.Y. 2023-24p

Particulars	(₹)	(₹)
Income taxable under the section 115BBA		
Income from the participation in matches in India	5,00,000	
Advertisement of product on TV	1,00,000	
Contribution of articles in newspaper	10,000	6,10,000
Income from Horse racing		10,000
Total Income		6,20,000
Tax @ 20% under section 115 BBA on ₹ 6,10,000		1,22,000
Tax @ 30% under section 115 BB on income of ₹ 10,000 from Horse races		3,000
Total		1,25,000
Add Health & Education cess @ 4%		5,000
Total Tax Liability for Mr John for the A.Y. 2023-24		1,30,000

2. (a) 20%,30%

Reason: Income referred to in Section 115BBA (i.e., ₹ 6,10,000, in this case) is subject to tax deduction at source @ 20% under section 194 E.

Income referred to in section 115 BB (i.e., ₹ 10,000, in this case) is subject to tax deduction at source @ 30% under section 194BB.

3. (c) Resident but not ordinarily Resident.

Reason: Mr Pardeep returned to India on 12th June 2022 for permanently residing in India after staying in UK for 16 years. During the P.Y, 2022-23, he stayed in India for 293 days. Since he has stayed in India for a period of 182 days or more during the previous year 2021-22, **he would be a resident in India for the A. Y. 2023-24.** However, he would be a resident but not ordinarily resident because he was a non -resident in nine out of ten previous years preceding the P.Y 2022-23 or his stay in India during the 7 previous years is less than 730days. The residential status of Pardeep for A.Y. 2023-24 is, therefore, **resident but not ordinarily resident.**

4. (b) (ii), (iii), (iv), (vi)

Reason: Business combinations involving entities or businesses under common control shall be accounted for using the pooling of interest method. The pooling of interest method is considered to involve the following:

- (a) The assets and liabilities of the combining entities are reflected at their carrying amounts.
- (b) The financial information in the financial statements in respect of prior periods should be restated as if the business combination had occurred from the beginning of the earliest period presented in the financial statements, irrespective of the actual date of the combination. However, if business combination had occurred after that date, the prior period information shall be restated only from that date.
- (c) The identity of the reserves shall be preserved and shall appear in the financial statements of the transferee in the same form in which they appeared in the financial statements of the transferor.
- (d) The difference, if any, between the amount recorded as share capital issued plus any additional consideration in the form of cash or other assets and the amount of share capital of the transferor shall be transferred to capital reserve.

5. (c) 3, 15

Reason: As per Section 149(1) of Companies Act, 2013, every public company shall have-

Minimum Directors -3 and Maximum directors -15

However, the company can appoint more than 15 directors by passing special resolution in general meeting.

II. Answers to the Descriptive Questions

6. **As per section 5(1) of the Income Tax Act, 1961**, only income which is received/ deemed to be received/ accrued or arisen/ deemed to accrue or arise in India is taxable in case of Resident but not ordinarily resident. Income which accrues or arises or received outside India shall not be included in his total income.

- (i) Rental income from a flat in London which was deposited in a bank there shall not be taxable in the case of a resident but not ordinarily resident, since both the accrual and receipt of income are outside India.
- (ii) Dividends from shares of three German companies, collected in a bank account in London, would also not be taxable in the case of a resident but not ordinarily resident since both the accrual and receipt of income are outside India.
- (iii) As per section 64 (1A), all income accruing or arising to a minor child is includible in the hands of the parent, after providing for deduction of ₹ 1,500 per child under section 10 (32).

Accordingly, income of ₹ 20,000 accruing to his minor son, aged 12 years, in India is includible in the income of Pardeep, after providing a deduction of ₹ 1,500. Therefore, ₹ 18,500 is includible in the income of Pardeep. Income accruing to the minor child outside India (which is also received outside India) is not includible in the income of Mr Pardeep.

As given, his other son is a major son and hence, his income is not includible in the income of Pardeep.

- (iv) Repatriation of sale proceeds of 1,000 shares sold in the preceding accounting year, when Pardeep was a non- resident, is not taxable in the A.Y. 2023-24 since it is not the income of the P.Y. 2022-23.

Consequently, only the income includible under section 64 (1A) would form part of the total income of Mr. Pardeep for A.Y. 2023-24. Since his total income (i.e., ₹ 18,500) is less than the basic exemption limit, there would be no liability to income-tax for A.Y. 2023-24.

7. Journal of Technologies Ltd.

(₹ in crores)

			Dr.	Cr.
(1)	Loan Funds	Dr.	600	
	Current Liabilities	Dr.	800	
	Provision for Depreciation	Dr.	800	
	To Property, Plant and Equipment			1000
	To Current Assets			1000

To Capital Reserve (Being division Mobiles along with its assets and liabilities sold to Mobize Ltd. for ₹ 50 crores)		200
--	--	-----

Note:

- (1) In the given scenario, this demerger will meet the definition of common control transaction. Accordingly, the transfer of assets and liabilities will be derecognized and recognized as per book value and the resultant loss or gain will be recorded as capital reserve in the books of demerged entity (Technologies Ltd).

Technologies Ltd.**Balance sheet after reconstruction****(₹ in crores)**

ASSETS	Note No.	Amount
Non-current assets		
Property, Plant and Equipment		50
Current assets		
Other current assets		400
		<u>450</u>
EQUITY AND LIABILITIES		
Equity		
Equity share capital (of face value of ₹ 10 each)		50
Other equity (Surplus)	1	350
Liabilities		
Current liabilities		
Current liabilities		50
		<u>450</u>

Notes to Accounts

		(₹ in crores)
1.	Other Equity	
	Surplus (350-200)	150
	Add: Capital Reserve on reconstruction	<u>200</u>
		350

Notes to Accounts: Consequent on transfer of Division Mobiles to newly incorporated company Mobize Ltd., the members of the company have been allotted 2 crore equity shares of ₹ 10 each at a premium of ₹ 15 per share of Mobize Ltd., in full settlement of the consideration in proportion to their shareholding in the company.

Balance Sheet of Mobize Ltd.

(₹ in crores)

ASSETS	Note No.	Amount
Non-current assets		
Property, Plant and Equipment		200
Current assets		
Other current assets		1000
		1200
EQUITY AND LIABILITIES		
Equity		
Equity share capital (of face value of Rs 10 each)	1	20
Other equity	2	(220)
Liabilities		
Non-current liabilities		
Financial liabilities		
Borrowings		600
Current liabilities		
Current liabilities		800
		1200

Notes to Accounts

	(₹ in crores)
1. Share Capital:	
Issued and Paid-up capital	
2 crore Equity shares of ₹ 10 each fully paid up	20
(All the above shares have been issued for consideration other than cash, to the members of Technologies Ltd. on takeover of Division Mobiles from Technologies Ltd.)	
2. Other Equity:	
Securities Premium	30
Capital reserve [50- (1200 – 1400)]	(250)
	(220)

Working Note:

In the given case, since both the entities are under common control, this will be accounted as follows:

- (a) All assets and liabilities will be recorded at book value.
- (b) Identity of reserves to be maintained.
- (c) No goodwill will be recorded.
- (d) Securities issued will be recorded as per the nominal value.

CASE STUDY 14

Lakshya has been recently appointed as Chartered Accountant, with effect from 1st April, 2022 in a company namely, Lotus Private Limited which was incorporated 6 years ago with the paid-up capital of ₹ 1.5 crores. Lotus private limited is a maintenance company and is operating in a commercial complex, a state-of-the-art mall located in Delhi. The mall has been developed by another company, hereinafter referred as 'mall developer', but after the commencement of operations, the maintenance services in respect of mall have been outsourced to Lotus Private Limited.

Since Lakshya wants to ascertain the GST liability to be paid for the month of April 2022, he needs to do reconciliation of the data fed in the books of accounts for cross verification to remove discrepancy, if any. For this purpose, Lakshya has gathered the following facts and information for doing the reconciliation exercise and to compute the exact GST liability.

All the units which have been sold by mall developer are occupied by owner themselves. Some units of mall which have not been sold have been provided on lease by the mall developer to tenants. Lotus private limited does billing of each charge to only those units which are either occupied or which are taken on rent; that is either it should have been purchased by the respective unit owner or it should have been rented by the person from company which has constructed the mall i.e. mall developer.

Assume that GST rate wherever, applicable is 18%.

The description of nature of revenue which the Lotus private Limited collects from its customers is mentioned as follows:

Common area maintenance charges: Common Area Maintenance (CAM) charges are fees paid by unit owners/tenants to Lotus private limited to help cover costs associated with overhead and operating expenses for common areas. Common areas are spaces used for or benefited by all unit owners/tenants and include, but are not limited to, elevators, parking lots, lobbies, public bathrooms and building security. Lotus private limited charges common area maintenance charges from the customers at the rate of ₹ 10 per square feet. The charges are to be paid on the basis of super built-up area allotted to the landlord or the tenant, as the case may be.

Electricity charges: It collects the electricity charges from its customers on reimbursement basis; a separate billing is done in this regard wherein the goods & service tax is not levied thereon. There are separate meter connections attached to the shop, from where Lotus private limited on the basis of meter reading collects charges from the customers, in the form of reimbursement. The state government which supplies electricity to the mall and its units thereon does not charge any good & services tax along with the bill amount. For the limited purpose of this case, assume that billing of electricity charges is exempt from tax, on the contention that the supplier is acting as a pure agent and covered under the provisions of Rule 33 of CGST Rules, 2017.

DG backup/DG unit charges: Due to vague interpretation of power outages in the region, electricity through Gensets (DG) is provided. Lotus private limited has its own DG set to provide electricity supply in such a case. DG Fix charges Per KW = ₹ 500 and unit charges on the basis of main meter (DG) consumption is ₹ 12 per unit.

Interest: Customers who fail to make the payment within the due stipulated time, they are required to deposit the interest amount for late payment of outstanding dues to Lotus private limited at the rate of 15 percent per annum after the past due.

Vending charges: Lotus private limited on each bill prepared of common area maintenance charges levy vending charges from each customer at the rate of ₹ 25/-.

Interest-Free Maintenance Security (IFMS): IFMS is a lump sum amount which the mall developer charges in lieu of maintaining the mall. As per the agreement made between mall developer and Lotus private limited, IFMS amount is to be credited in the account of Lotus private limited at the time of registry by the concerned person. The amount so collected is refundable and transferable to concerned persons/landlords, after certain duration as per the terms of agreement.

During the month of April, 2022, Lotus private limited has incurred certain expenses, the details of which are as follows:

Particulars	Amount (₹)
Total expenses incurred	15,00,000
CGST receivable on expenses as per total invoicing (as per MIS report prepared by data operator in MS excel for each & every Invoice received)	70,000
SGST receivable on expenses as per total invoicing (as per MIS report prepared by data operator in MS excel for each & every Invoice received)	70,000
IGST receivable on expenses as per total invoicing (as per MIS report prepared by data operator in MS excel for each & every Invoice received)	25,000
CGST receivable on expenses which is considered as eligible input (as per entries done by accountant in the books of accounts after every voucher approval by Indirect taxes manager)	60,000
SGST receivable on expenses which is considered as eligible input (as per entries done by accountant in the books of accounts after every voucher approval by Indirect taxes manager)	60,000
IGST receivable on expenses which is considered as eligible input. (as per entries done by accountant in the books of accounts after every voucher approval by Indirect taxes manager)	20,000

Other relevant data for the month of April 2022, is as follows:

Particulars	Amount (₹)
Common area maintenance charges (Includes billing done for common area maintenance charges against advance received in earlier months)	(Refer note 1)
Electricity charges	₹ 5,50,000
DG backup fix charges	(Refer note 1)
Gross Interest received from customers, as reflected in bank statement	₹ 3,18,600
DG unit charges	(Refer note 1)
Credit notes with respect to common area maintenance charges issued to customers within the same month of billing i.e. April month	₹ 80,000
Gross Advance received from customers for common area maintenance charges, as reflected in bank statement	₹ 3,54,000
Billion done to customers for common area maintenance charges, from whom Gross advance, as reflected in bank statement (amount as in corresponding column) was received in February, 2021	₹ 70,800
Vending charges	(Refer note 1)
Receipt of Interest free security deposit	(Refer note 2)

Note 1:

There are 500 units in the mall, additional information of respective units for April month is as follows:

Particulars	Owner occupied units	Let-out units	Units held in Inventory
Number of units	300	100	100
Carpet area (in square feet)	1,20,000	40,000	30,000
Super built-up area (in square feet)	1,50,000	50,000	40,000
KW taken for DG back up	750 KW	250 KW	Nil
DG units consumption	4000	1000	Nil

Note 2:

Number of registries done during the month of April, 2022	25
Amount of IFMS receivable from each customer, excluding GST	₹ 30,000

Meanwhile, the accounts department has received a request from a unit owner Mukesh who runs his own business at Noida, Uttar Pradesh. He wants to receive the bill as per his business address situated in Noida since he will be able to take the benefit of GST input accordingly at his Noida address.

During the year, Lotus private limited in the month of October 2022 took a loan of ₹ 1,00,00,000 from another corporate Humara Limited which is related to Lotus Private Limited. Loan was taken with a purpose to deposit statutory dues of GST which was pending for a long period of time. The loan taken was repaid by Lotus private limited to Humara Limited in the month of February 2023. Hence the closing balance of loan in the books of Lotus private limited as on 31st March, 2023 is Nil. Lakshya believes since the closing balance of loan is Nil, it does not need to be reported anywhere in the financials or in the report of auditors.

Further, Lotus private limited has defaulted in payment of service tax amount of ₹ 30,00,000 for the long time (6 years), as per notice received from service tax department and this liability is pending even at 31st March, 2023. The said amount could not be deposited even after 31st March, 2023 at any point of time during the year. The disputed matter is still pending at CESTAT for litigation, after going through appropriate levels of adjudicating authorities at various forums.

According to the Association of Certified Fraud Examiners' 2020 Report to the Nations, expense reimbursement frauds account for 21 percent of fraud in small businesses (those with less than 100 employees), and 11 percent in large businesses (those with 100 or more employees.)

Company's internal controls are not up-to mark so Lakshya has been told by the management to implement the policies which make the system robust. Especially the company's policy with respect to expense reimbursement has always been weak and has been exploited accordingly by the employees.

Lotus Private Limited has the policy of expense reimbursement wherein the person who is claiming the reimbursement has to follow the set procedure to claim the expenses incurred by him. However, there have many instances in the past wherein it has been reported that the false claims are being taken by the employees by creating fake vouchers. The employees have been billing for travel and expenses that never materialized (cancelled airline tickets, seminar or convention registration fees, tuition reimbursement and professional dues payments). It may also happen that concerned employees who are authorised persons may also be the part of this practice. Company wants to fix this problem to ensure there is no siphonage of funds. At present, only bill along with voucher needs to be provided to accounts department for claiming an expense. Thereafter it gets approved by the accounts department without any further questioning.

Lotus private limited during the year has donated the amount of ₹ 8,000 in cash to one of the NGO – 'UTHO' in the area which is working for the upliftment of weaker sections of the society. 'UTHO' is registered with the Income tax authorities as per the rules framed there under and the donations so made to NGO get eligible for section 80G deductions. Lotus private limited has shown it as an expense in the books of accounts.

Lotus Private Limited reported profit before tax of ₹ 5,40,000 for the financial year 2022-23. Other particulars for relevant assessment year are as follows:

	Amount (₹)
Wages to casual workers	15,00,000
Interest on late payment of TDS	1,00,000
Depreciation as per Companies Act, 2013	12,00,000
Depreciation as per Income tax Act, 1961	18,00,000
Interest on fixed deposits	2,50,000

I. Multiple Choice Questions

- Suggest how the issue can be resolved for the request received from a unit owner, Mukesh to send his Invoice with corresponding GST to his Noida address.
 - Invoice can be prepared of Noida (UP) address and IGST would be levied in that case.
 - Invoice cannot be prepared of Noida (UP) address since IGST would be levied in that case.
 - Invoice can be prepared of Noida (UP) address and corresponding CGST and SGST would be levied in that case.
 - None of the above.
- Lotus private limited does the billing of those services separately which are subject to exemption from goods and services tax like electricity in this case. What should be the terminology for such kind of document as per provisions mentioned in GST Act?
 - Tax Invoice
 - Bill of Supply
 - Refund Voucher
 - Exempt Invoice
- Calculate the taxable amount under the head 'Profits and gains from business and profession' of Lotus Private Limited for Assessment Year 2023-24.
 - ₹ 2,90,000
 - ₹ 8,90,000
 - ₹ (2,02,000)
 - ₹ 15,40,000
- How much deduction, Lotus Private Limited can claim under section 80G for donations contributed to NGO 'UTHO'?
 - ₹ 4,000

- (b) ₹ 8,000
 - (c) ₹ 2,000
 - (d) None of the above.
5. Whether the loan obtained from Humara Limited needs to be reported in Form 3CD by the auditors?
- (a) Loan need not be reported since the closing balance of loan is Nil.
 - (b) It is optional for the auditor to check whether loan should be reported or not as per his professional judgment.
 - (c) Loan should be reported even though it has been squared off during the year.
 - (d) Reporting of loan is not needed if loan is taken for the purpose of depositing statutory dues from the related party.

II. Descriptive Questions

6. Analyze the issue of Lotus Private Limited for the billing done to customers and accordingly compute the net GST liability to be paid for the month of April 2022. Support your answer with detailed workings and explanations, wherever necessary.
7. Being Lakshya, how you would strengthen the Company's internal controls as suggested by the management to make the system robust by framing the company's policy with respect to expense reimbursement? What should be the procedure or minimum steps to claim expense reimbursement so that the loopholes if any can be avoided to the maximum extent.
8. What would be the implications in company's audit report as a reporting by the company's auditor, for default committed by Lotus private limited in non-deposit of service tax dues amounting to ₹ 30,00,000 for 6 years, as demanded by department. Show required disclosures, if any.

ANSWERS TO THE CASE STUDY 14

I. Answers to the Multiple Choice Questions

1. (b) Invoice cannot be prepared of Noida (UP) address since IGST would be levied in that case.

Reason: Place of supply of services provided in relation to an immovable property is the location of the immovable property which means GST payable by Lotus Private Limited will be CGST and SGST. Since Lotus private limited is located in

Delhi and providing services at Delhi only (mall); hence a bill with corresponding IGST of another state cannot be made.

2. (b) Bill of Supply

Reason: Bill of Supply is a document to be issued by a registered person supplying exempted goods or services or both or paying tax under the provisions of section 10 instead of a tax invoice.

A bill of supply needs to be issued when:

- A Bill of Supply is issued in case where a registered person is a supplier of exempted goods; or
- If a registered person opts for composition scheme

In these cases, as the registered person cannot issue tax invoice, so he has to issue a Bill of Supply.

3. (c) ₹ (2,02,000)

Reason:

Particulars	Amount (₹)
Profit before taxation	5,40,000
Add: Interest on late payment of TDS	1,00,000
Add: Depreciation as per Companies Act,2013	12,00,000
Add: Donation	8,000
Less: Depreciation as per Income Tax Act,1961	18,00,000
Less: Interest on Fixed Deposit	2,50,000
Loss under the head 'Profits and gains from business and profession'	(2,02,000)

4. (d) None of the above.

Reason: Donations made in cash exceeding ₹ 2,000 are not allowed as deduction under section 80G.

5. (c) Loan should be reported even though it has been squared off during the year.

Reason: As per clause 31 of Form 3CD, particulars of each loan or deposit in an amount exceeding the limit specified in section 269SS/269ST taken or accepted or repaid respectively, during the previous year need to be reported against corresponding: Name, address and PAN of the lender or depositor, Amount of loan or deposit taken or accepted, whether the same was squared up during the year, maximum amount outstanding at any time during the previous year, whether the

same was taken or accepted by cheque or bank draft (specify if account payee) or use of ECS through a bank account, etc.

II. Answers to the Descriptive Questions

6. Calculation of Taxable supplies:

Particulars	Amount (₹)	Remarks
Common area maintenance charges	20,00,000	Refer Note-1
Electricity charges	-	Refer Note-2
DG backup fix charges	5,00,000	Refer Note-3
Interest received, excluding GST	2,70,000	[3,18,600/1.18]; since GST is included in the value of supply, gross up done
DG unit charges	60,000	Refer Note-4
Credit notes with respect to common area maintenance charges issued to customers within the same month of billing i.e.; April 2021	(80,000)	Refer Note-5
Advance received from customers for common area maintenance charges	3,00,000	Refer Note-6
Billing done to customers for common area maintenance charges, from whom stated advance excluding GST amount was received in February, 2021	(60,000)	Refer Note-7
Vending charges	10,000	Refer Note-8
Receipt of Interest free security deposit	-	Non-taxable, since the deposit is refundable
Total Taxable Supplies	30,00,000	

Calculation of GST Payable and GST Receivable:

	Amount (₹)	Remarks
CGST payable @9% on taxable supplies	2,70,000	(₹ 30,00,000 x 9%)
SGST payable @9% on taxable supplies	2,70,000	(₹ 30,00,000 x 9%)
Total GST payable	5,40,000	
CGST Input receivable	60,000	Eligible input only considered
SGST receivable	60,000	Eligible input only considered

IGST receivable	20,000	Eligible input only considered
Total GST Input	1,40,000	

Calculation of Net GST liability to be paid:

Particulars	CGST payable @ 9%	SGST payable @ 9%	Total
GST payable (A)	2,70,000	2,70,000	5,40,000
CGST Input receivable (B)	(60,000)	-	(60,000)
SGST Input receivable (C)	-	(60,000)	(60,000)
IGST Input receivable (D)	(20,000)	-	(20,000)
Net GST payable (A)-(B)-(C)-(D)	1,90,000	2,10,000	4,00,000

Note-1: Calculation of Common area maintenance charges:

Super built-up area of owner occupied units	1,50,000 sq.ft.	
Super built-up area of let-out units	50,000 sq. ft.	
Total billable super built-up area	2,00,000 sq. ft.	
Rate per square feet	₹ 10/-	
Billable Common area maintenance charges	₹ 20,00,000	(2,00,000 sq.ft. x ₹ 10/-)

Note-2: Electricity charges:

Electricity charges are exempt from tax, on the contention that the supplier is acting as a pure agent and covered under the provisions of Rule 33 of CGST Rules, 2017. Further, the requirement of question specifically excludes electricity as taxable supply for the limited purpose of calculations.

Note-3: Calculation of DG backup fix charges:

Particulars	Owner occupied units	Let-out units	Total billable
Number of units	300	100	400
KW taken for DG back up	750 KW	250 KW	1000KW
DG backup fix charges per KW			₹ 500
Billing of charges	₹ 5,00,000= (1000 KW x ₹ 500/KW)		

Note-4: Calculation of DG unit charges:

Particulars	Owner occupied units	Let-out units	Total billable
Number of units	300	100	400

DG units consumption	4000	1000	5000
DG unit charges per unit consumption	₹ 12		
Billing of charges	₹ 60,000 = (5000 units x ₹ 12/unit)		

Note-5: As per 34(1) where a tax invoice has been issued for supply of any goods or services or both and the taxable value or tax charged in that tax invoice is found to exceed the taxable value or tax payable in respect of such supply, or where the goods supplied are returned by the recipient, or where goods or services or both supplied are found to be deficient, the registered person, who has supplied such goods or services or both, may issue to the recipient a credit note containing such particulars as may be prescribed.

As per 34(2) any registered person who issues a credit note in relation to a supply of goods or services or both shall declare the details of such credit note in the return for the month during which such credit note has been issued but not later than September following the end of the financial year in which such supply was made, or the date of furnishing of the relevant annual return, whichever is earlier.

Hence, Tax liability of the supplier gets reduced in this case when the credit notes are issued.

Note-6: The time of supply is the base to determine the time of payment of tax and as per provisi

ons of section 12 (2) of the Central Goods and Service Tax Act, 2017 the time of supply shall be earliest of the following –

- Date of issuance of the invoice or the last date on which invoice should have been issued; and
- Date of receipt of the payment;

Hence if the advance is received before the issue of the invoice the time of supply would be the date of receipt of advance.

Thus taxpayer receiving advance must pay GST on the money received.

The advance received should be grossed up. This means that advance received is considered inclusive of GST. Hence, GST on advance received comes to ₹ [3,54,000-(3,54,000/1.18)] = ₹ 54,000 and advance received excluding GST is ₹ 3,00,000

Note-7: The taxpayer has to declare the advance that has to be adjusted in the tax period in which advance is received. Subsequently when invoice is issued, then taxpayer can adjust the tax liability of the invoice issued of that tax period, in the GSTR-1 of that period. This can be shown in the advance adjustment table of GSTR-1.

Since ₹ 70,800 advance was received in February, 2022; advance received would have been grossed up to make the GST taxable supply at that time to ₹ 60,000 (70,800/1.18).

Note-8: Calculation of Vending charges:

Particulars	Owner occupied units	Let-out units	Total billable
Number of units	300	100	400
Vending charges per unit	₹ 25		
Billing of charges	₹ 10,000 = (400 units x ₹ 25/unit)		

7. Following steps and minimum procedures may be implemented for expense reimbursement policy in the organisation to check any fraud and to strengthen internal controls:

- It should be duly submitted in a standard application form (as a voucher) whose format is common for all class of employees.
- Application form must be signed by the claimant.
- Application date cannot be earlier than that of Invoice date.
- The application form should be supported by original invoices of expense for claim reimbursement.
- Frame and maintain a strong reimbursement policy or guidelines so as to process the reimbursements within the given framework.
- The nature and purpose for which expense was done needs to be ascertained.
- Check that particulars mentioned in invoice are correct and is complete in all respects
- The invoice particulars should correspond to the particulars mentioned in application form filed by the employee.
- Application form must be approved by competent authority as decided by management. If the claim amount exceeds a specified limit, it should be approved by higher competent authority.
- The person who is filling the application form and the one who is approving it, cannot be same.
- Competent authority must ensure that claims being approved are valid and eligible as per the company's policies and incurred within the framework of company's guidelines.
- There must be approved rate for each nature of expense with terms and condition along with eligible criteria like Conveyance rate per kilometre, Daily allowance etc.
- Claim Application forms which have not been properly made or supported or with other reason, should not be processed. The claimant should be provided reasons for rejecting the claim.

- If any advance was provided to the employee and is still outstanding for a long time, ensure that loan amount to be received has been deducted unless the company's policy provide otherwise.
- There should be deadline for timely submission of claims. Thereafter, claims should not be processed further except with the approval of higher authority.
- Reimbursement in the form of cash should be prohibited.

8. Following Private Companies are exempt from the requirements of CARO, 2020 :

- Not a holding or subsidiary of a public company.
- Paid up Capital plus Reserves less than or equal to ₹ 1 crore as at the reporting date
- Borrowings less than or equal to ₹ 1 crore at any time during the year
- Revenue less than or equal to ₹ 10 crores in the financial year

Accordingly, CARO 2020 is applicable to Lotus Private Limited, since company's paid-up capital is ₹ 1.5 crores.

The auditors of such companies to whom CARO 2020 is applicable, are required to report on the matters specified in this order.

The auditor shall report under CARO, 2020 with respect to Statutory Dues that whether the company:

- Is regular in deposit of statutory dues;
- And if it is not regular, then statutory dues outstanding for more than 6 months need to be disclosed/reported
- If any taxes have not been deposited because of any dispute, the amount of dispute and the forum where the litigation is pending should also be disclosed

The auditor should disclose following in its CARO report:

According to the information and explanation given to us and on the basis of our examination of the records of the company, details of dues of service tax which has not been deposited as on 31st March, 2023 on account of dispute is given below:

Name of Statute	Nature of the Dues	(₹)	Forum where dispute is pending
Finance Act, 1994 (Service Tax Provisions)	Service Tax and Penalties	30,00,000	CESTAT

CASE STUDY 15

CA Arvind Kapoor, the founder of Kapoor & Co., is a member of the Institute of Chartered Accountants of India who initially set up his practice in Delhi. Kapoor & Co. has rich experience of more than 35 years in almost every field and served a diverse clientele from individual taxpayers to conglomerates. Their audit approach is pragmatic, relying on a risk-based audit methodology, built on extensive planning and client input, and is fully supported by the latest technology and tools. As a result, the firm's audit practice has grown continuously and has earned specialization in core areas like direct taxation, indirect taxation, internal audit etc.

CA Arvind Kapoor, CA Rajesh Dhamija, CA Piyush Makkar and CA Gaurav Satija are four partners of the firm. They all are specialized in their own niche. They all met on common event and there they decided to start their own firm. With their combined efforts and dedication, the firm has accumulated an enormous amount of knowledge capital that has been built with the passing of every year. This results in association of various valuable clients with the firm.

One of the valuable client of Kapoor & Co. is Vallabh Cotton Limited which is a listed company. Vallabh Cotton Limited is leading manufacturer of Cotton. There are some issues going on in the Company in respect of appointment of Small Shareholders' director. The Company gets its all the finance related work done from CA Gaurav Satija. When the management discussed this matter with CA Gaurav Satija, he praised about the work of his partner CA Rajesh Dhamija who is expert in company law matters & has been practicing in this area since 15 years. Hence, the management of Vallabh Cotton Limited approached CA Rajesh Dhamija for seeking advise on appointment of Small Shareholders' Director and appointment of woman director in the Company. Company has 1,00,000 equity shares of ₹ 10 each. Company has 500 small shareholders. Majority (400) of the small shareholders want to appoint Mr. Brijesh as a director as their representative on the Board of directors of the said company. Mr. Brijesh already holds 1,000 equity shares in the said company.

One sister concern of Vallabh Cotton Limited is Aggarsain Spinners Private Ltd. Earlier Aggarsain Spinners Private Ltd. was in the business of trading of yarns. Now, gradually the Company wants to go forward in the area of manufacturing as well. Last year, the company had made capital investment in construction of building. This year, the company purchased a machinery on 1st April 2022 for ₹ 10 crore. The Company had paid from their own funds 30% and balance 70% by availing loan facility from Syndicate bank @ 12% per annum. The machine was required for extension of the business of the company and was put to use into effective production on 1st February, 2023. The accountant of the Company wants to take advise from CA Arvind Kapoor who is specialised in Direct taxation regarding the amount of depreciation that can be claimed by the company under the Income Tax Act.

The management of the company also wants to discuss with CA Arvind Kapoor regarding the applicability of TDS provisions on the following payments made for job work (excluding material cost) to Khushi Ltd for the financial year 2022-23 towards work done under different contracts

Contract no.	Date of payment	Amount (₹)
1	15.05.2022	22,000
2	04.06.2022	15,000
3	08.07.2022	23,000
4	09.09.2022	25,000
5	26.01.2023	18,000

Company claims that it is not liable to deduction of tax at source. The company is seeking advice from CA Arvind Kapoor on the implication of TDS.

The partners and staff of Kapoor & Co usually meet on every Saturday over coffee and there they discuss the topics which require partners' deliberations and this exercise also makes their staff updated as well. In this meeting they discussed the issues related to blocked input credit and credit admissible under GST Law. In this meeting they also discussed about the remedy that would be available if incorrect input tax credit is taken. All of a sudden, CA Piyush Makkar, having created his expertise under GST law, expressed his willingness to handle a renowned client, like IGT Private Limited, having good volume of turnover to practice in his forte.

IGT Private Limited is in the business of manufacturing of textile products. The accounts team of the Company is not much aware about the GST Law. Earlier, GST work of the Company was being taken care by some other professional, Ryan & Co., till Jan 2023. In Feb, 2023, the proprietor of Ryan & Co. had shifted abroad. Hence, the management approached Kapoor & Co. relating to their GST work for which CA Piyush Makkar curiously came forward to support. The accountant of the Company has correctly taken all other input tax credit related to Company's purchases, but he was confused in respect of availment of input tax credit on following inputs purchased in the month of February, 2023:

Particulars	Input Tax paid (₹)
Goods purchased without invoice	40,000
Goods purchased from Balbir & Co. (Full payment made by IGT Private Limited but tax has not been deposited by Balbir & Co.)	1,25,000
Purchase of goods not to be used for business purpose	20,000
Purchase of goods from Sethi Lal & Son's (Invoice of Sethi Lal & Son's received in the month of February, 2023 but goods were received in the month of March, 2023)	28,000
Pollution control Equipment used in the factory capitalized in the books	1,50,000

Motor Lorries used for transportation of goods capitalized in the books	2,50,000
Electrical Transformers used in the factory capitalized in the books	2,25,000
Capital goods to be used as parts, purchased from supplier paying tax under the composition scheme and such composite tax has not been collected from IGT Private Limited by the supplier.	25,000
Moulds and dies used in the factory	65,000
The company buys cement, tiles and avail the services of an architect for the construction of its office building	1,68,000
Total	10,96,000

I. Multiple Choice Questions

- With reference to information given in the Table regarding payments on account of job work to Khushi Ltd., which one of the below option is correct in respect of the amount on which TDS is required to be deducted under the provisions of Income Tax Act, 1961:
 - TDS is not required to be deducted as each contract amount does not exceed the threshold limit
 - TDS is only required to be deducted on Contract 5 i.e. ₹ 18,000
 - TDS is required to be deducted on the whole amount i.e. ₹ 1,03,000
 - TDS is required to be deducted only on ₹ 3,000.
- Credit of tax paid on almost every input and input service used for supply of taxable goods and/or services is allowed under GST except a list of items provided under CGST Act. Thus, ITC on such items is not allowed even though the same may qualify as inputs, input services & capital goods and are used in the course or furtherance of business. Considering the relevant GST Law, which of the following ITC is admissible under GST:
 - Goods lost, stolen, destroyed, written-off or disposed-off by way of gift or free samples.
 - Service of general insurance of motor vehicles for transportation of persons having approved seating capacity of 7 persons (including driver).
 - Confectionery items for consumption provided to employees working in the factory under statutory obligation.
 - Food and beverages procured from Mohan Caterers for being used in Dealer's meet.
- According to provisions of the Companies Act, 2013, a listed Company may have one Director elected by small shareholders. The provision enables the small shareholders to

place their representative on the Board of Directors of a listed company so that their voice is also listened effectively. The small shareholders are entitled to give a notice to the company requiring the company to make appointment of a Small Shareholders' Director. Whether the 400 small shareholders of Vallabh Cotton Limited are in position to propose appointment of Mr. Brijesh as Small Shareholders' Director.

- (a) Yes, the notice may be given by at least 1,000 small shareholders or 1/10th of the total number of small shareholders whichever is lower.
 - (b) No, the notice may be given by at least 1,000 small shareholders or 1/10th of the total number of small shareholders whichever is higher.
 - (c) No, the notice may be given by at least 1,000 small shareholders.
 - (d) Yes, the notice may be given by at least 9/10th of the total number of small shareholders.
4. Compute the interest on Machinery that is allowed as deduction under Income Tax Act to Aggarsain Spinners Pvt. Ltd.
- (a) ₹ 70,00,000
 - (b) ₹ 84,00,000
 - (c) 0
 - (d) ₹ 14,00,000
5. As the management of Vallabh Cotton Limited approached CA Rajesh Dhamija for seeking advise on appointment of woman director in the Company, which one of the following, CA Rajesh Dhamija, should have suggested regarding the same as per law relating to companies?
- (a) That all companies need to appoint a woman director.
 - (b) That every listed company or every other public company having paid up share capital equal to or more than ₹ 100 crores or turnover equal to or more than ₹ 300 crores.
 - (c) That every listed company or every other public company having paid up share capital equal to or more than ₹ 10 crores or turnover equal to or more than ₹ 100 crores.
 - (d) That the requirement of a woman director is applicable only for private companies.

II. Descriptive Questions

6. Describe in the light of provisions contained in the Companies Act, 2013, whether the proposal to appoint Mr. Brijesh as a Small Shareholders' Director can be adopted by the

company and also brief the law relating to appointment of small shareholders' director. What would be your answer if Mr. Brijesh is already holding a position of Small Shareholders' Director in two companies.

7. Advise Aggarsain Spinners Private Ltd. on the treatment of interest payment made on the loan and depreciation allowable for the Assessment Year 2023-24. Assume that this machine is the only machine in the related block of assets. Aggarsain Spinners Private Ltd. is not opting for the concessional rate of tax u/s 115BAA.
8. Compute the Input Tax credit admissible under GST law to IGT Private Ltd. in respect to various inputs purchased during the month of February, 2023.

ANSWERS TO THE CASE STUDY 15

I. Answers to the Multiple Choice Questions

1. (c) TDS is required to be deducted on the whole amount i.e. ₹ 1,03,000
Reason: As per Section 194C (5) of the Income Tax Act, 1961, tax has to be deducted at source where amount credited or paid or likely to be credited or paid to contractor or sub-contractor exceeds ₹ 30,000 in a single payment or ₹ 1,00,000 in aggregate during the financial year.
 Therefore, in the given case, even though the value of each individual contract does not exceed ₹ 30,000, the aggregate amount exceeds ₹ 1,00,000. Hence, tax is required to be deducted at source on the whole amount ₹ 1,03,000 from the last payment of ₹ 18000 on account of which the aggregate amount exceeded ₹ 1,00,000.
2. (c) Confectionery items for consumption of Employees working in the factory under statutory obligation.
Reason: As per Section 17(5)(b) of CGST Act, ITC on food or beverages is specifically disallowed unless the same is used for making outward taxable supply of the same category or as an element of the taxable composite or mixed supply or where it is obligatory for an employer to provide the same to its employees under any law for the time being in force. Hence the input tax credit is available on Confectionery items for consumption of employees working in the factory, since same is provided under statutory obligation. Sec 17(5) also restricts the input tax credit on motor vehicles for transportation of persons having approved seating capacity of not more than 13 persons (including driver). Goods lost, stolen, destroyed, written off or given off by way of gift or free samples also covered under Sec 17(5) (h).

3. (a) Yes, the notice may be given by at least 1,000 small shareholders or 1/10th of the total number of small shareholders whichever is lower.

Reason: As per Rule 7 of the Companies (Appointment and Qualification of Directors) Rules, 2014, the small shareholders are entitled to give a notice to the company requiring the company to make appointment of a Small Shareholders' Director. The notice shall be given by at least –

1000 small shareholders; or

1/10th of the total number of small shareholders,

whichever is lower.

4. (d) ₹ 14,00,000

Reason: As per proviso to section 36(1)(iii), interest paid in respect of capital borrowed for acquisition of an asset for the period beginning from the date of borrowing of loan for acquiring the asset till the date on which such asset is first put to use is not allowable as deduction. Therefore, interest @ 12% p.a. for a period of 2 months from 1st February, 2022 to 31st March, 2022 on ₹ 7crores is allowable as deduction under Income Tax Act.

5. (b) That every listed company or every other public company having paid up share capital equal to or more than ₹ 100 crores or turnover equal to or more than ₹ 300 crores.

Reason: Rule 3 of the Companies (Appointment and Qualification of Directors) Rules, 2014 provides the following classes of companies shall appoint at least one woman director:

- 1) every listed company,
- 2) every other public company having-
 - a. paid up share capital of ₹ 100 crores rupees or more or
 - b. turnover of ₹ 300 crore rupees or more.

II. Answers to the Descriptive Questions

6. **Small Shareholders' Director:** The provisions relating to appointment of directors by small shareholders are contained in section 151 of the Companies Act, 2013 read with Rule 7 of the Companies (Appointment and Qualification of Directors) Rules, 2014.

The legal position

1. The provisions contained in section 151 read with Rule 7 are applicable to listed companies only.

2. The small shareholders are entitled to give a notice to the company requiring the company to make appointment of a Small Shareholders' Director. The notice shall be given by at least –
 - i. 1000 small shareholders; or
 - ii. 1/10th of the total number of small shareholders,whichever is lower.
3. The notice shall be given at least fourteen days before the meeting and should be signed by all the small shareholders proposing the appointment of Small Shareholders' Director.
4. A person shall not hold the position of Small Shareholders' Director in more than 2 companies at the same time.

Facts of the case and analysis

In the given case, M/s Vallabh Cotton Limited is a listed company. Some small shareholders have given a notice to the company requiring the company to appoint a Small Shareholders' Director.

The small shareholders eligible to give notice for appointment of Small Shareholders' Director shall be –

- a) 1,000 small shareholders ; or
 - b) 1/10th of 500, i.e. 50 small shareholders,
- whichever is lower.

Since lower of 1,000 and 50 is 50, the notice for appointment of Small Shareholders' Director has to be given by at least 50 small shareholders.

Conclusions

As in the given case, 400 of the small shareholders are interested in appointing small shareholders' director, the company shall adopt the procedure given in Rule 7 for appointment.

Neither section 151 nor Rule 7 state any eligibility criteria for appointment of a person as a Small Shareholders' Director to be a small shareholder himself or not. Thus, Mr. Brijesh may be appointed as a Small Shareholders' Director i.e. even he has 1,000 equity shares in the company, it does not affect his appointment.

If Mr. Brijesh already holds position of Small Shareholders' Director in 2 companies, then, he cannot be appointed as a Small Shareholders' Director in M/s Vallabh Cotton Limited.

7. (i) **Interest on term loan for purchase of machinery**

As per proviso to section 36(1)(iii), interest paid in respect of capital borrowed for acquisition of an asset for the period beginning from the date of borrowing of loan for acquiring the asset till the date on which such asset is first put to use is not allowable as deduction.

Interest for such period has to be capitalised, by adding the same to the cost of the asset. Therefore, interest @12% p.a. for a period of 10 months from 1st April, 2022 to 31st January, 2023 on ₹ 7crores, being the amount of loan, has to be capitalised.

Particulars		Amount (₹)
	Cost of machinery	10,00,00,000
Add:	Interest [12% x 10/12 x ₹ 7,00,00,000]	70,00,000
	Actual Cost of machinery	10,70,00,000

Interest @ 12% for two months (February, 2022 & March, 2022) ₹ 14,00,000 after the asset put to use is allowable as deduction under section 36(1)(iii) [12% x 2/12 x ₹ 7,00,00,000]

(ii) **Depreciation**

Particulars	Amount (₹)
Since the machinery is put to use for less than 180 days in the previous year 2021-22, the depreciation would be restricted to 50% of the amount calculated at the prescribed percentage of 15%. Therefore, depreciation is 50% x [15% x ₹ 10,70,00,000]	80,25,000
Additional depreciation of 20%, for being engaged in the manufacturing of cotton and purchasing new machinery, would also be restricted to 50% of the amount calculated. Therefore, additional depreciation= 50% x [20% x 10,70,00,000]	1,07,00,000
Total Depreciation	1,87,25,000

However, balance additional depreciation of ₹ 1,07,00,000 shall be allowed under section 32(1)(ia) in the immediately succeeding Previous year 2023-24.

8. **Computation of input tax credit admissible to IGT Private Ltd. in respect to various inputs purchased during the month of February, 2023**

S. No.	Particulars	Input Tax Credit (₹)
1	Goods purchased without invoice (working note 1)	nil
3	Purchase of Goods not to be used for business purpose (working note 2)	nil

4	Purchase of Goods from Sethi Lal & Son's (Invoice of Sethi Lal & Son's received in the month of February, 2023 but goods were received in the month of March, 2023) (working note 3)	nil
5	Pollution control Equipment used in the factory (working note 4)	1,50,000
6	Motor Lorries used for transportation of goods (working note 6)	2,50,000
7	Electrical Transformers used in the factory (working note 4)	2,25,000
8	Capital goods used as parts purchased from supplier who paid tax under the composition scheme and the composite tax has not been collected from IGT Private Limited (working note 5)	nil
9	Moulds and dies used in the factory (working note 4)	65,000
10	The company buys cement, tiles and avail the services of an architect for the construction of its office building (working note 7)	nil
	Eligible ITC	6,90,000
	Goods purchased from Balbir & Co. (Full payment made by IGT but tax has not been deposited by Balbir & Co.) (working note 8)	34,500
	Total ITC that can be claimed	7,24,500

Working Notes-

- 1) No Input tax credit will be available since IGT Private Limited is not in possession of valid tax paying document.
- 2) A registered person shall be entitled to take the input tax credit on goods which are used or intended to be used in the course or furtherance of his business. Since the company has purchased the goods for non-business purpose, hence no credit will be available on such purchases.
- 3) Input tax credit is admissible only when registered person has received such goods. Hence, when goods received in the month of March, 2023 input tax credit cannot be taken in the month of February, 2023.
- 4) As per section 2(19), "Capital goods" means goods, the value of which is capitalized in the books of accounts of the person claiming input tax credit and which are used or intended to be used in the course or furtherance of business. Hence:

- a) Electrical Transformers
- b) Moulds and dies
- c) Pollution control Equipment

which are used or intended to be used in the course or furtherance of business are eligible for ITC as capital goods.

However, where tax element is added to the cost of plant and machinery and depreciation is claimed thereon, no input tax credit is available.

- 5) As per Section 17(5)(e), input tax credit shall not be available in respect of goods or services or both which tax has been paid under sec 10. Thus, no ITC shall be allowed of tax paid under composition scheme by the supplier.
- 6) In respect of motor vehicle used for the purpose of transportation of goods, the same is not covered under the ambit of blocked credit, hence ITC shall be admissible in respect of motor vehicles.
- 7) As per Section 17(5)(c), ITC is blocked on input or input service relating to construction activity like construction of office building, factory building etc.
- 8) As per Section 16(2), no registered person shall be entitled to the credit of any input tax in respect of supply of goods unless the tax charged in respect of such supply has been actually paid to the Government.

Accordingly, IGT Private Limited can claim a provisional ITC of 5% of the eligible ITC reflected in its GSTR-2B i.e. 5% of ₹ 6,90,000 = ₹ 34,500

CASE STUDY 16

Shanaya Limited owns a Building A which is specifically used for the purpose of earning rentals and had been classified as 'Property, Plant and Equipment' in the financial statements, before the applicability of financial reporting framework as per the principles of Indian accounting standards. The Company has not been using building A or any of its facilities for its own use for a long time. The company is also exploring opportunities to sell the building if it gets the reasonable amount in consideration.

Following information is relevant for the Building A for the year ending 31st March, 2023:

Building A was purchased 5 years ago at the cost of ₹ 10 crore and building life is estimated to be 20 years. The company follows straight line method for depreciation.

During the year, the company has invested in another Building B with the purpose to hold it for capital appreciation. The property was purchased on 1st April, 2022 at the cost of ₹ 2 crore. Expected life of the building is 40 years. As usual, the company follows straight line method of depreciation.

Further, during the year the company earned/incurred following direct operating expenditure relating to Building A and Building B, however the accountant instead of capitalising the same, has directly debited it to Profit and Loss:

Rental income from Building A	=	₹ 75 lakhs
Rental income from Building B	=	₹ 25 lakhs
Sales promotion expenses	=	₹ 5 lakhs
Fees & Taxes	=	₹ 1 lakh
Ground rent	=	₹ 2.5 lakhs
Repairs & Maintenance	=	₹ 1.5 lakhs
Legal & Professional	=	₹ 2 lakhs
Commission and brokerage	=	₹ 1 lakh

The company does not have any restrictions and contractual obligations against Property - A and B. For complying with the requirements of Ind AS, the management sought an independent report from the specialists so as to ascertain the fair value of Buildings A and B. The independent valuer has valued the fair value of property as per the valuation model recommended by International valuation standards committee. Fair value has been computed by the method by streamlining present value of future cash flows namely, discounted cash flow method.

The other key inputs for valuation are as follows:

The estimated rent per month per square feet for the period is expected to be in the range of ₹ 50 – ₹ 60. And it is further expected to grow at the rate of 10 percent per annum for each of 3 years. The weighted discount rate used is 12% to 13%.

Assume that the fair value of properties based on discounted cash flow method is measured at ₹ 10.50 crores. The treatment of fair value of properties is to be given in the financials as per the requirements of Indian accounting standards.

One of the Shanaya Limited's manufacturing units is situated at one of the remotest areas of India. Being the company, whose main objective is also concerned with the welfare of masses, it has been specifically told by the Government of India to take part in initiatives such as 'Swachh Bharat Abhiyaan'. Its main objective would be to create awareness amongst the rural people to be more cautious towards cleanliness and thereby also constructing toilets and imparting training programs. With the passage of time, the costs are expected to be increased. The campaign would run for 4 years and the expected costs to be incurred by company from year to year are expected as follows:

Year 1 =	₹20 crore
Year 2 =	₹ 40 crore
Year 3 =	₹ 70 crore
Year 4 =	₹ 120 crore

The company has also received the grant of ₹ 35 crore from Government of India to compensate for the costs which it is going to incur over a period of 4 years.

Meanwhile assume that the financial statements have been prepared for the year ending March 2023; the auditor of Shanaya Limited has noted following observation in its audit report, said observation has been documented after discussions with 'Those charged with governance':

"The Holding Company also owns various immovable properties that have been let out to Group Companies/ third parties for varied lease periods. Ind AS 40 'Investment Property' requires assets to be classified as Investment Property in case certain conditions are met. This involves significant judgment and estimation with respect to the lease term, management intention etc., basis which the assets are classified either a property, plant and equipment or investment property in the Balance sheet."

Corresponding to above observation, issue has been addressed in the audit report by auditors as follows:

"We obtained an understanding of financial statement closure process, including the process of assessment and classification of immovable properties and preparation of relevant disclosures. We also understood design and implementation of controls, tested the operating effectiveness of these controls, including validation of management review controls.

We assessed various lease agreements entered into by with group Companies / third parties and evaluated terms of agreements, along with requirements of Ind AS.

We read the judgements and assumptions made by the management with respect to classification of investment properties.

We assessed the disclosure of investment property made in the consolidated Ind AS financial statements."

Shanaya Limited's turnover during the P.Y. 2020-21 and 2021-22 was ₹ 500 crore and ₹ 600 crores respectively. The company's turnover for the P.Y. 2022-23 is ₹ 800 crores. Net profit as per the Statement of Profit and Loss Account for the previous year 2022-23 is ₹ 500 crores. Details of the expenses debited to the Statement of Profit and Loss A/c for the year ended 31.3.2023:

Particulars	(₹ crores)
Depreciation as per the Companies Act, 2013	80.00
Interest on borrowings from banks not paid up to tax return filing	2.75
Provision for bad and doubtful debts	6.20
Corporate social responsibility expenses	2.50
Expenses incurred for services taken from Saurashtra Pvt. Ltd., a company registered in Maharashtra region, on which corresponding TDS under section 194C has not been deducted	7.00
Bonus paid on April 30 th , 2023	3.00
Expenses incurred on voluntary retirement scheme	2.40

During the previous year 2022-23, company has not deducted tax at source on the amount of expenditure of ₹ 15.73 crores incurred and paid to PQR Private Limited. Company has collectively deducted tax at source on the further payment made to PQR Limited and deposited the same to the credit of Central Government in the financial year 2021-32 along with interest.

Following information relates to Block of assets for financial year 2022-23 as per Income-tax Act, 1961:

Block of assets	Written down value on the first day of previous year	Purchase of new asset	Date of purchase	Date of ready to use	Date of put to use
Land	Nil	50	01/04/2022	-	-
Plant and Machinery	480	Nil	-	-	-
Office Building	200	75	08/02/2023	15/02/2023	
Furniture and fittings	65	35	10/09/2022	13/09/2022	25/09/2022
Intangible assets	-	40	25/05/2022	25/05/2022	25/05/2022

The brought forward business loss as per Income-tax return for A.Y. 2022-23 is ₹ 35 crores and the company's retained earnings balance for FY 2021-22 is ₹ 1,200 crores.

The company is doing well for some time as the company has witnessed rise in its revenue due to its aggressive marketing campaigns. Although the revenue has increased since past, but the debtors are also accumulating over a period of time. Most of its clients are related to Government sector which takes reasonably long period of time to get the payment cleared. The company is facing liquidity problems due to non-availability of cash; hence it has not been able to pay the statutory dues within the time. As a consequence, company filed the return of income on 31st December, 2023 and paid the due taxes accordingly.

The tax audit of the company started in the month of November 2023 due to delay on the part of the management. It was finally signed by auditor on 20th January, 2024. It may be noted that the transfer pricing audit is not applicable to the company for assessment year 2023-24.

I. Multiple Choice Questions

1. What appropriate term of the following would be used for auditor's observation on the analysis of issue regarding Investment property in the audit report as per relevant standard on auditing?
 - (a) Emphasis of matter
 - (b) Other matter
 - (c) Key audit matter
 - (d) Opinion Para
2. If Income tax provision at the year beginning was ₹ 150 crores as per books and Income tax paid during the year is ₹ 126.09 crores, then the closing balance of Income tax provision as per books of accounts is:
 - (a) ₹ 129.20 crores
 - (b) ₹ 177.66 crores
 - (c) ₹ 102.45 crores
 - (d) ₹ 146.89 crores
3. There are certain carve-outs and significant differences between IFRS and Ind AS. Which of the following statements is correct in reference to Ind AS 40 vis-à-vis- IAS 40?
 - (a) Ind AS 40 permits both cost model and fair value model for measurement of investments after initial recognition.
 - (b) IAS 40 permits only cost model for measurement of investments after initial recognition.
 - (c) Ind AS 40 permits only fair value model for measurement of investments after initial recognition.
 - (d) IAS 40 permits both cost model and fair value model for measurement of investments after initial recognition.

4. Calculate the amount, Shanaya Limited would recognise in its books of accounts in first year, for the grant received from Government of India amounting to ₹ 35 crores.
 - (a) ₹ 8.40 crores
 - (b) ₹ 8.75 crores
 - (c) ₹ 35 crores
 - (d) ₹ 2.80 crores
5. Whether Shanaya Limited is liable to pay any penalty for failure to furnish tax audit report in accordance with the relevant provisions of Income-tax Act, 1961 and if yes, then what would be amount of penalty leviable?
 - (a) Yes, Shanaya Limited is liable to pay penalty of ₹ 1,50,000.
 - (b) Yes, Shanaya Limited it is liable to pay penalty of ₹ 4 crores.
 - (c) Yes, Shanaya Limited is liable to pay penalty of ₹ 8 crores.
 - (d) No, Shanaya Limited is not liable to pay penalty, since the company has filed the tax audit report before the end of relevant assessment year.

II. Descriptive Questions

6. What would be the treatment of Building A and Building B in the Balance Sheet of Shanaya Limited? Provide detailed disclosures and computations in line with relevant Indian accounting standards. Treat it as if you are preparing a separate note or schedule, of the given assets in the Balance Sheet.
7. Compute total income and tax liability of Shanaya Limited for the assessment year 2023-24, as per provisions of Income-tax Act, 1961. Ignore the provisions of Minimum Alternate Tax.
8. Compute the amount of advance tax payable along with due date for payment of instalments of advance tax during the previous year 2022-23 as per the provisions of Income-tax Act, 1961.

ANSWERS TO THE CASE STUDY 16

I. Answers to the Multiple Choice Questions

1. (c) Key audit matter

Reason: As per SA 701, 'Communicating Key Audit Matters in the Independent Auditor's Report', Key audit matters are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance.

2. (b) ₹ 177.66 crores

Reason:

Particulars	Amount (₹)
Opening Provision of Income tax	150.00 crores
Provision made during the year	153.75 crores
Tax paid during the year	(126.09 crores)
Closing Provision of Income tax	177.66 crores

3. (d) IAS 40 permits both cost model and fair value model for measurement of investments after initial recognition.

Reason: This is due to difference between Ind AS 40 and IAS 40 not resulting into carve out. IAS 40 permits both cost model and fair value model (except in some situations) for measurement of investment properties after initial recognition. Ind AS 40 permits only the cost model.

4. (d) ₹ 2.80 crores

Reason: As per Ind AS 20, Government grants shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.

Accordingly, amount to be recognised in Year 1 = $(20/250) \times 35 = ₹ 2.80$ crores

5. (a) Yes, Shanaya Limited is liable to pay penalty of ₹ 1,50,000

Reason: If a taxpayer who is required to obtain the tax audit report under section 44AB or to furnish auditor's report with income tax return but if it fails to do so, then it is penalized accordingly. The defaulters of tax audit report are penalised under section 271B of Income-tax Act.

Penalty is lower of ₹ 1,50,000 or 0.5% of total sales/turnover (₹ 4 crores in this case)

II. Answers to the Descriptive Questions

6. Investment property is held to earn rentals or for capital appreciation or both. Ind AS 40 shall be applied in the recognition, measurement and disclosure of investment property. An investment property shall be measured initially at its cost. After initial recognition, an entity shall measure all of its investment properties in accordance with Ind AS 16's requirements for cost model.

The measurement and disclosure of Investment property as per Ind AS 40 in the Balance Sheet would be depicted as follows:

INVESTMENT PROPERTIES:	
Particulars	Period ended March 31st, 2023 (₹ In crores)
Gross Amount:	
Opening balance (A)	10.00
Additions during the year (B)	2.00
Closing balance (C) = (A) + (B)	12.00
Depreciation:	
Opening balance (D)	2.50
Depreciation during the year (E) (0.5 + 0.05)	<u>0.55</u>
Closing balance (F) = (D) + (E)	<u>3.05</u>
Net balance (C) - (F)	<u>8.95</u>

The changes in the carrying value of investment properties for the year ended 31st March, 2023 are as follows

Amount recognised in Profit and Loss with respect to Investment Properties

Particulars	Period ending 31st March, 2023 (₹ In crores)
Rental income from investment properties (0.75 + 0.25)	1.00
Less: Direct operating expenses generating rental income (5+1+2.5+1.5+2+1)	<u>(0.13)</u>
Profit from investment properties before depreciation and indirect expenses	0.87
Less: Depreciation	<u>(0.55)</u>
Profit from earnings from investment properties before indirect expenses	<u>0.32</u>

Disclosure Note on Investment Properties acquired by the entity

The investment properties consist Property A and Property B. As at March 31st, 2023, the fair value of the properties is ₹ 10.50 crores. The valuation is performed by independent valuers, who are specialists in valuing investment properties. A valuation model as recommended by International Valuation Standards Committee has been applied. The Company considers factors like management intention, terms of rental agreements, area leased out, life of the assets etc. to determine classification of assets as investment properties.

The Company has no restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

Description of valuation techniques used and key inputs to valuation on investment properties:

Valuation technique	Significant unobservable inputs	Range (Weighted average)
Discounted cash flow (DCF) method	-Estimated rental value per sq. ft. per month	-₹ 50 to ₹ 60
	-Rent growth per annum	-10% every 3 years
	-Discount rate	-12% to 13%

7. Computation of Total Income and Tax Liability of Shanaya Limited for the Assessment year 2023-24

Particulars	₹' in crores	₹' in crores
Profit as per the Statement of Profit & Loss A/c		500.00
Add: Items debited but to be considered separately or to be disallowed		
- Depreciation as per the Companies Act, 2013 [Disallowed, since depreciation as per Income-tax Act is allowed]	80.00	
- Interest on borrowings from banks [Disallowed as per section 43B, since interest payable to banks not paid on or before the due date for filing return of income under section 139(1)]	2.75	
- Provision for bad and doubtful debts [Provision for doubtful debts is allowable as deduction under section 36(1)(viiia) only in case of banks, public financial institutions, state financial corporations, state industrial investment corporations and non-banking financial corporations. Such provision is not allowable as deduction in the case of other person. Since the same has been debited to Statement of profit and loss, it has to be added back for computing business income]	6.20	
- Corporate social responsibility expenses [CSR expenditure incurred under the Companies Act, 2013 is not allowable as deduction by virtue of section 37(1)]	2.50	
- Expenses payable to Saurashtra Pvt. Ltd.	2.10	

[30% of ₹ 7 lakhs, being payment to Saurashtra Pvt. Ltd., would have been disallowed under section 40(a)(ia) while computing the business income of A.Y.2022-23, since tax has not been deducted during the previous year 2022-23]		
- Expenses incurred on voluntary retirement scheme [As per section 35DDA, where an Indian company incurs expenditure in connection with voluntary retirement, one-fifth of the amount so paid shall be deducted in computing the profits and gains of the business for that previous year, and the balance shall be deducted in equal installments for each of the four immediately succeeding previous years. Since whole amount debited to the profit and loss account, 4/5 th would be added back]	<u>1.92</u>	95.47
Less: Permissible expenditure and allowances		
- 30% of the amount of ₹ 15.73 crores, being payment to PQR Limited was disallowed during the previous year 2021-22 due non-deduction of tax at source would be allowed during the current previous year, since TDS has been deducted and deposited this year.	4.72	
- Depreciation as per Income-tax Act, 1961	<u>115.75</u>	120.47
Income from business or profession		475.00
Less: Brought forward business loss from the A.Y. 2022-23		35.00
Gross Total Income		440.00
Less: Deduction under Chapter VI-A		Nil
Total Income		440.00
Tax @ 30% on the above total income		132.00
Add: Surcharge @ 12% (since total income exceeds ₹ 10 crore)		15.84
		147.84
Add: Health and Education Cess @ 4%		5.91
Total Tax Liability		153.75

Working Note: Computation of Depreciation as per Income-tax Act, 1961

Block of assets	Opening WDV (A)	Depreciation rate (B)	Additions (put to use for 180 days or more) (C)	Additions (less than 180 days) (D)	Total (E) = (A) + (C) + (D)	Depreciation (F)
Land	Nil	-	50	-	50	-
Plant and Machinery	480	15%	-	-	480	72 (480 x 15%)
Office Building	200	10%	-	75	275	23.75 [200 x 10% + 75 x 5% (50% of 10%)]
Furniture and fittings	65	10%	35	-	100	10 (100 x 10%)
Intangible assets	-	25%	40	-	40	10 (40 x 25%)
TOTAL	745		125	75	945	115.75

8. Computation of advance tax liability and due date for payment of advance tax:

Particulars			(₹' crores)
Total tax liability of the company for the assessment year 2023-24 payable as advance tax			153.75
Due date of installment	Advance tax payable till date (%)	Amount payable (₹ in crore)	Net amount payable
On or before 15.06.2022	15%	23.06 (153.75 x 15%)	23.06
On or before 15.09.2022	45%	69.18 (153.75 x 45%)	46.13 (69.18 - 23.06)
On or before 15.12.2022	75%	115.31 (153.75 x 75%)	46.13 (115.31 - 69.18)
On or before 15.03.2023	100%	153.75	38.43 (153.75 - 115.31)

CASE STUDY 17

Shivani is a newly qualified chartered accountant. After qualification, her interest was in consultancy and so she decided to first gain exposure in consultancy firms and thereafter start own practice. She has been approached by one of the consultancy firms, M/s ABC, to work for it. The consultancy firm M/s ABC has also provided flexibility to Shivani by allowing her to do her own independent assignments if she is able to grab it over a period of time. M/s ABC is showing Shivani as the consultant of firm instead of being an employee. Initially, the consultancy firm ABC is paying ₹ 40,000 per month to Shivani and issuing Form 16A to her on regular basis.

After gaining exposure across varied areas, Shivani was assigned a statutory audit in another assignment. The company to be audited is UBA Private Limited which is subsidiary of its parent company, namely MAR Limited. MAR Limited is listed on the stock exchange. The statutory auditors of MAR Limited are M/s XYZ which is one of the top-rated firms of region.

As the finance team of UBA Private limited is unaware of the changes and latest developments in the field of accounting standards, they seek guidance from Shivani for few matters for the preparation of financials of UBA Private Limited as per the applicable financial reporting framework.

The registered office of UBA Private Limited has been shifted to a complex at the beginning of year which is taken on rent from complex owner at ₹ 80,000 per month. As per the rent agreement, the company is also required to deposit amount of ₹ 1,00,000 as security to Landlord. However, the landlord would not pay any interest on the said amount of security. This clause has also been added in the rent agreement. The duration for which the agreement has been entered into between the company and landlord is for 3 years. The repayment of principal amount as well would be at the end of 3rd year. The interest rate for a similar deposit in market is 12%. The accountant of company initially recognised the security amount of ₹ 1,00,000 as deposit in the liabilities. At the end of year also, its carrying value is standing at ₹ 1,00,000.

The UBA Private Limited has following information about Employee benefits:

Contribution by employers during the year	₹ 75,000
Benefits paid during the year from designated fund	₹ 80,000
Fair value of Plan assets at the beginning of year	₹ 2,00,000
Return expected on plan assets	₹ 20,000
Fair value of plan assets at the end of year	₹ 2,50,000

UBA Private Limited has presented certain material liabilities as non-current in its financial statements for periods up to 31st March, 2022. While preparing annual financial statements for the year ended 31st March, 2023, management discovers that these liabilities should have been

classified as current. The management intends to restate the comparative amounts for the prior period presented (i.e., as at 31st March, 2022). Management thinks that this reclassification of liabilities from non-current to current in the comparative amounts will not be considered to be correction of an error and thereby the entity does not need to present a third balance sheet.

After the completion of audit, M/s XYZ has asked M/s ABC to bring to the principal's auditor immediate attention any significant findings requiring to be dealt with at entity level and further M/s XYZ has asked for a detailed questionnaire from M/s ABC for the information on those matters which require special attention from M/s XYZ as an auditor for discharging their duties effectively.

After completing the assignment of UBA Private Limited, Shivani has assumed her role back in office. Meanwhile, one of the paid assistants of the consultancy firm has sought the help of Shivani for the firm's clients to complete the draft notice to be presented before the annual general meeting/ board meeting, as the case may be:

NOTICE 1:

"That pursuant to the provisions of, and in supersession of the passed by the members in General Meeting held on 30th September, 2022 the company hereby accords its consent to the Board of directors borrowing from time to time all such sums of monies as it may deem requisite or proper for the purpose of the business of the Company notwithstanding that monies to be borrowed together with the monies already borrowed by the Company (apart from Cash Credit and temporary loans obtained from the Company's bankers in the ordinary course of business) exceed the aggregate of the paid-up capital of the company and its free reserves, that is to say, reserves not set apart for any specific purpose provided that the total amount up-to which monies may be borrowed by the Boards of directors (apart from Cash Credit and temporary loan obtained from the company's bankers in the ordinary course of business) shall not exceed the sum of ₹ 30,00,00,000 (Rupees Thirty crore only)".

The Chairman will put the motion for discussion and thereafter to vote and after taking count of the votes "for" and "against" separately on a show of hands by members personally present, the Chairman will declare the result.

NOTICE 2:

The Board resolves that in accordance with section of the Companies Act, 2013 and subject to the approval of, M/s TPR, Chartered Accountants, the auditor of the Company be removed from his office as auditor;

RESOLVED FURTHER THAT an extraordinary general meeting of the Company be held to transact the business as set out in the draft notice of the meeting tabled at this meeting which, together with the explanatory statement to be annexed thereto, are approved;

RESOLVED FURTHER THAT Mr. Amit Saxena, Secretary of the Company is authorised to issue the notice of the extraordinary general meeting to the members of the Company;

RESOLVED FURTHER THAT Mr. Amit Saxena, Secretary of the Company is authorised to inform the Auditor of the decision of the Board as required under the Act;

RESOLVED FURTHER THAT Mr. Amit Saxena, Secretary of the Company is authorised to digitally sign e-form for making an application to the for approval for the removal of the Auditor under section of the Act.

After the end of financial year 2022-23, Shivani has to file her return of Income. Since she has not filed her own return of income in the past, she wants to corroborate it from her firm's partner regarding the selection of appropriate return of income to file, for her income received from the consultancy firm M/s ABC, as she is not interested in presumptive income scheme. Assume that in the FY 2022-23, Shivani has not been able to receive any other source of income.

Shivani files the return of Income of her sister each year. This year too, as the deadline to file the income tax return approaches, Shivani was called by Reena to file it within the due time. The particulars regarding the income and other relevant information of her married sister, who is 35 years old and is currently employed in a MNC in Delhi is as follows:

Particulars	Amount (₹)
Basic salary	6,00,000
Dearness Allowance	2,00,000
House rent allowance	4,00,000

During the year, Reena is paying ₹ 25,000 per month as rent to landlord.

Reena has given one of her owned houses on rent in Lucknow from where she belongs. She has been getting the annual rent of ₹ 3,60,000 for 3 years from that house. Municipal taxes annually amount to ₹ 24,000 for her owned house in Lucknow. She has taken the loan of ₹ 10,00,000 for that particular house against which the annual interest of ₹ 90,000 is to be payable annually. During the year, she repaid the principal instalment of loan amounting to ₹ 50,000.

Reena has invested in public provident fund for ₹ 50,000 in the October, 2022. In it, interest is compounded on an annual basis and the maturity period of the scheme is 15 years.

Reena has further invested in a fixed deposit of ₹ 2,00,000 which is due to be repaid after 2 years along with interest. As per the agreement of fixed deposit policy, Reena can withdraw her fixed deposit balance within 2 years whenever she wants it to be.

The interest from her bank savings account and interest from fixed deposits for FY 2022-23 is ₹ 9,000 & ₹ 15,800 respectively and the closing balance of her savings account at the year-end 31st March, 2023 is ₹ 1,25,000.

During the year, Reena took the medical insurance for herself and her 2 children amounting to ₹ 35,000. Reena has also donated the amount of ₹ 20,000 in cash to the local religious group

for organising *Jagrata* in the area where she lives. Reena has also given the private tuition fees of ₹ 75,000 during the year for her 2 children.

Reena has also received a gift of ₹ 50,000 during the year from her father as a token gift for her affection and care towards the family over the years.

Assume that TDS of ₹ 1,15,000 has been deducted from the income of Reena for FY 2022-23 and it has been correctly reflected in corresponding TDS certificates.

Reena has asked her sister Shivani to help her ascertain the income for FY 2022-23 and file the return thereon.

I. Multiple Choice Questions

1. As per which section of the Companies Act, 2013 corresponding to Companies (Audit and auditors) Rules, 2014, the Company is required to pass a resolution at its meeting to remove auditor from his office as auditor? Provide your answer with reference to Notice 2 of case study.
 - (a) Section 140(1) of the Companies Act, 2013 read with rule 7 of Companies (Audit and auditors) Rules, 2014 and subject to the approval of the Company at a general meeting, the auditor of the Company be removed from his office as auditor.
 - (b) Section 139 of the Companies Act, 2013 read with rule 7 of Companies (Audit and auditors) Rules, 2014 and subject to the approval of the Company at a general meeting, the auditor of the Company be removed from his office as auditor.
 - (c) Section 140(1) of the Companies Act, 2013 read with rule 7 of Companies (Audit and auditors) Rules, 2014 and subject to the approval of the Company at a general meeting with corresponding previous approval of Central Government, the auditor of the Company be removed from his office as auditor.
 - (d) No requirement to pass any resolution to remove auditor as Companies Act, 2013 is silent on the issue, hence auditor can be removed directly.
2. For which appropriate authority, the Company is required to sign e-form for making an application, for approval to remove the auditor under the Companies Act, 2013. Provide your answer with reference to Notice 2 of case study.
 - (a) Company is required to digitally sign e-form ADT-1 for making an application to the Central Government for approval for the removal of the Auditor.
 - (b) Company is required to digitally sign e-form ADT-1 for making an application to the Registrar of Companies for approval for the removal of the Auditor.
 - (c) Company is required to digitally sign e-form ADT-2 for making an application to the Registrar of Companies for approval for the removal of the Auditor.

- (d) Company is required to digitally sign e-form ADT-2 for making an application to the Central Government for approval for the removal of the Auditor.
3. Under which section of the Companies Act, 2013, the members are required to pass a resolution in its general meeting held on 30th September, 2022, for the nature of business/agenda mentioned in Notice 1 of the question?
- (a) Section 186
(b) Section 180
(c) Section 179
(d) Section 185
4. Which form of Income tax return, Shivani is required to file of herself, for the relevant assessment year?
- (a) ITR-4
(b) ITR-3
(c) ITR-2
(d) ITR-1
5. How much amount of expenses/income for employee benefits, UBA Private Limited is required to recognise in the 'Other Comprehensive Income' section of its financials? Ignore deferred tax, if any.
- (a) Actuarial gain – ₹ 35,000
(b) Actuarial gain – ₹ 55,000
(c) Actuarial loss – ₹ 35,000
(d) Nil, since all expense/income related to employee benefits are to be recognised in profit before taxation

II. Descriptive Questions

6. Would the reclassification of liabilities from non-current to current in the comparative amounts be considered to be correction of an error? Would the entity, UBA Private Limited need to present a third balance sheet? Support your answer with reference to relevant Ind AS.
7. How UBA Private Limited is required to account for the security deposit in its books of accounts, for the rent agreement made between it and the complex owner. Pass journal entries for the entire duration of security deposit since its inception.

8. How should M/s XYZ, Chartered Accountants indicate in its report for responsibilities of their work and M/s ABC, Chartered accountants work in the course of audit, so that the concerned stakeholders could clearly differentiate for their respective defined roles. Provide your answer with the relevant lines of standard on auditing, which M/s XYZ has to consider while drafting the report for aforementioned matter.
9. How much income tax is to be payable by Shivani's sister Reena? Calculate the taxable income of Reena to be shown in her income tax return as per the information mentioned in question and calculate income tax thereon. Ignore calculations under sections 234 A/B/C.

ANSWERS TO THE CASE STUDY 17

I. Answers to the Multiple Choice Questions

1. (c) Section 140(1) of the Companies Act, 2013 read with rule 7 of Companies (Audit and auditors) Rules, 2014 and subject to the approval of the Company at a general meeting with corresponding previous approval of Central Government, the auditor of the Company be removed from his office as auditor.
Reason: As per section 140(1) of the Companies Act, 2013, the auditor appointed under section 139 may be removed from his office before the expiry of his term only by a special resolution of the company, after obtaining the previous approval of the Central Government in that behalf.
2. (d) Company is required to digitally sign e-form ADT-2 for making an application to the Central Government for approval for the removal of the Auditor.
Reason: Section 140 read with Rule 7 of Companies (Audit & Auditors) Rules, 2014 mandates that the application to the Central Government for removal of auditor shall be made in Form ADT-2 and shall be accompanied with fees as provided for this purpose under the Companies (Registration Offices and Fees) Rules, 2014.
3. (b) Section 180
Reason: Section 180(1)(c) of the Companies Act, 2013 states that the Board of Directors of a company shall exercise the following power only with the consent of the company by a special resolution to borrow money, where the money to be borrowed, together with the money already borrowed by the company will exceed aggregate of its paid-up share capital and free reserves, apart from temporary loans obtained from the company's bankers in the ordinary course of business.

4. (b) ITR-3

Reason: The status of Shivani in the given case is not that of an employee as firm is deducting her TDS under section 194J (TDS on Professionals/consultants), hence the manner of tax computation would also differ. As there is no employer-employee relationship in this case, income won't be taxed under 'Salaries' while furnishing her Income tax return.

Professional/Contract based employees are required to disclose their income (net off expenses) under the head 'Profit and gains from business or profession'. Accordingly, ITR-3 would be furnished by Shivani (as she is not interested in presumptive income scheme to file ITR-4).

5. (a) ₹ 35,000

Reason:

Particulars	Amount (₹)
Fair value of Plan assets at the beginning of year	2,00,000
Employer contribution	75,000
Expected return on plan assets	20,000
Benefits paid during the year	(80,000)
Actuarial gains (balancing figure)	35,000
Fair value of plan assets at the end of year	2,50,000

II. Answers to the Descriptive Questions

6. **Paragraph 41 of Ind AS 8 states as follows:** "Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Ind ASs if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are approved for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period."

In accordance with the above, the reclassification of liabilities from noncurrent to current would be considered as correction of an error under Ind AS 8. Accordingly, in the financial statements for the year ended March 31st, 2023, the comparative amounts as at 31st March, 2022 would be restated to reflect the correct classification.

Ind AS 1 requires an entity to present a third balance sheet as at the beginning of the preceding period in addition to the minimum comparative financial statements, if, inter alia, it makes a retrospective restatement of items in its financial statements and the restatement has a material effect on the information in the balance sheet at the beginning of the preceding period. Accordingly, the entity should present a third balance sheet as at the beginning of the preceding period, i.e., as at 1st April 2021 in addition to the comparatives for the financial year 2021-22.

7. Treatment of Security Deposit as per Ind AS 109

Deposit details:	
Initial Security Deposit amount	₹ 1,00,000
Amount to be repaid at each year end	Nil
Interest receivable annually	Nil
Maturity period	3 years
Market interest rate for a similar deposit	12%

Initial measurement of Security deposit (as per fair value):

Fair value of deposit = ₹ 71,178 [1,00,000/(1.12)(1.12)(1.12)]

Accounting entry at the time of deposit

	Debit (₹)	Credit (₹)
Security Deposit (Balance sheet)	71,178	
Deferred Rent Expense (Balance sheet)	28,822	
To Bank A/c		1,00,000
(Being the security deposit made with the landlord)		

Subsequent measurement (Amortized cost at each year end):

Accounting entry at the end of Year 1:

	Debit (₹)	Credit (₹)
Security Deposit (Balance sheet)	8,541	
To Interest Income A/c (Profit & Loss A/c) (71,178 x 12%)		8,541
(Being the interest income on deposit booked as per effective interest rate)		

	Debit (₹)	Credit (₹)
Finance Expenses (Profit & Loss A/c)	9,607	

To Deferred Rent Expense (Balance sheet) (28,822/3)		9,607
(Being deferred rent expenses amortized)		

Accounting entry at the end of Year 2:

	Debit (₹)	Credit (₹)
Security Deposit (Balance sheet)	9,566	
To Interest Income A/c (Profit & Loss A/c) (79,719 x 12%)		9,566
(Being the interest income on deposit booked as per effective interest rate)		
	Debit (₹)	Credit (₹)
Finance Expenses (Profit & Loss A/c)	9,607	
To Deferred Rent Expense (Balance sheet)		9,607
(Being deferred rent expenses amortized)		

Accounting entry at the end of Year 3:

	Debit (₹)	Credit (₹)
Security Deposit (Balance sheet)	10,715	
To Interest Income A/c (Profit & Loss A/c) (89,285 x 12%)		10,715
(Being the interest income on deposit booked as per effective interest rate)		

	Debit (₹)	Credit (₹)
Finance Expenses (Profit & Loss A/c)	9,608	
To Deferred Rent Expense (Balance sheet)		9,608
(Being deferred rent expenses amortized)		

	Debit (₹)	Credit (₹)
Bank A/c	1,00,000	
To Security Deposit (Balance sheet)		1,00,000
(Being Security deposit refunded to company)		

8. In the given case, 'SA 600: Using the work of another auditor' is applicable between Principal auditor and other auditor.

The provisions regarding 'Division of Responsibility' between Principal auditor and other auditor as mentioned in SA 600 are as follows, which the principal auditor has to consider while drafting his report on the matter of responsibility.

The principal auditor would not be responsible in respect of the work entrusted to the other auditors, except in circumstances which should have aroused his suspicion about the reliability of the work performed by the other auditors.

When the principal auditor has to base his opinion on the financial information of the entity as a whole relying upon the statements and reports of the other auditors, his report should state clearly the division of responsibility for the financial information of the entity by indicating the extent to which the financial information of components audited by the other auditors have been included in the financial information of the entity, e.g., the number of divisions/branches/subsidiaries or other components audited by other auditors.

9. **Computation of Taxable Income & Income tax of Reena for assessment year 2023-24:**

Particulars	Amount (₹)
Income from Salary (Note-1)	9,30,000
Income From House Property (Note-2)	1,45,200
Income From Other Sources (Note-3)	<u>24,800</u>
Gross Total Income [A]	11,00,000
Deductions (Note-4) [B]	<u>1,34,000</u>
Net Taxable Income [C] = [A] – [B]	<u>9,66,000</u>
Income Tax on [C]; [D]	1,05,700
Health and Education Cess @ 4% on [D]; [E]	<u>4,228</u>
Total Tax Liability [D] + [E]; [F]	1,09,928
TDS [G]	<u>1,15,000</u>
Tax payable/(refundable) [F] – [G]	(5,072)

Note 1 - Income from Salary:

The least of below three would be HRA exempt tax is as follows:

Particulars	Amount (₹)
50% of Basic Salary (including DA)	4,00,000
HRA received	4,00,000
Excess of Rent paid over 10% of salary	2,20,000

Hence Amount exempted from HRA is ₹ 2,20,000 and HRA chargeable to tax is ₹ 1,80,000

Accordingly, following amount would be taxable under the head 'Salaries':

Particulars	Amount (₹)
Basic salary	6,00,000
Dearness Allowance	2,00,000
House rent allowance	1,80,000
Total [A]	9,80,000
Less: Standard deduction [B]	(50,000)
Net taxable [A] – [B]	9,30,000

Note 2 - Income from Let out House Property:

Particulars	Amount (₹)
Annual lettable value or rent received or receivable	3,60,000
Less: Municipal Taxes Paid During the Year	<u>24,000</u>
Net annual value	3,36,000
Less: Standard Deduction @ 30% of Net Annual Value	1,00,800
Less: Interest on Housing Loan	<u>90,000</u>
Income from Let-out House Property	1,45,200

Hence Income from House property chargeable to tax would be ₹ 1,45,200.

Note 3 – Income from Other Sources:

Particulars	Amount (₹)
Interest on savings bank account	9,000
Interest on fixed deposits	15,800
Gift from father (Gift received from relative is exempt from income tax)	<u>-</u>
	<u>24,800</u>

Note 4 - Deductions:

Particulars	Amount (₹)
Deductions under section 80C:	
Investment in PPF	50,000
House loan principal payment	<u>50,000</u>
Total [A]	<u>1,00,000</u>
Deductions under section 80D:	

Medical insurance premium	<u>25,000</u>
Total [B]	<u>25,000</u>
Deductions under section 80TTA:	
Interest from savings account in bank [C]	<u>9,000</u>
Grand Total [A] + [B] + [C]	1,34,000

Note: 80C deductions are not available in the cases of: Investment in non-tax saver FD, private tuition fees and donations in cash to local religious groups, which are not registered as a charitable institution under the provisions of income tax act.

CASE STUDY 18

Para 1

Aspan Ltd. is an unlisted public company, located in Chennai, Tamil Nadu, with thirteen directors, engaged in the business of manufacturing and Steel trading. Trulor (P) Ltd., is another company, with five shareholders as its directors, engaged in the business of exploration, mining and processing of Iron Ore. In order to have business synergies, it was proposed to amalgamate Trulor (P) Ltd. ('Transferor Company') with Aspan Ltd. ('Transferee Company').

For approval of the matter relating to such amalgamation, a meeting of board of directors of Aspan Ltd. was held which was attended by seven directors, out of which five directors attended the meeting through physical presence and two directors were able to attend such meeting through video conferencing. Afterwards, an application was made to the Tribunal ('NCLT') for sanctioning such scheme for amalgamation between the aforesaid companies.

Para 2

On receipt of such application, the tribunal ordered a meeting of members of both the companies to be held. The Tribunal dispensed with calling of meeting of creditors of Aspan Ltd. as the creditors with requisite value of debts in aggregate, out of total outstanding debt of ₹ 150 lakhs of the company, agreed and confirmed by way of affidavit to such scheme for amalgamation. A meeting of members of Aspan Ltd. was then convened, as per the orders of the Tribunal, for the purpose of considering the scheme of amalgamation with Trulor (P) Ltd. The meeting was attended by 200 members holding 6,00,000 shares out of which 95 members holding 4,30,000 shares in aggregate voted in favour of the scheme, 80 members holding 1,40,000 shares in aggregate voted against the scheme and 25 members holding 30,000 shares were abstained from voting, respectively.

Para 3

Tribunal made an order dated 20th September, 2022, sanctioning the said scheme for amalgamation, which was received by both the companies on 23rd September, 2022, and then it was filed with the Registrar of Companies ('ROC') on 5th October, 2022, by both of them, by the advocate appointed for such amalgamation procedure by Aspan Ltd. for the two companies. The appointed date indicated in the scheme was 1st October, 2022.

Due to such amalgamation, Mr. Rohit, the whole time director of Aspan Ltd., was removed from his office, with a condition that he will get compensation for his early vacation of office. The office of Mr. Rohit was vacated on 31st May, 2022 and his original tenure of appointment with Aspan Ltd. was up to 31st October, 2024. The remuneration drawn by Mr. Rohit, since the date of his joining the office is as follows:

F.Y.	Remuneration (₹ in lakhs)
2020-21	55
2021-22	62
2022-23 (upto 31 st May, 2022)	13

Para 4

This was considered as the acquisition by Aspan Ltd. of Trulor (P) Ltd. in a business combination as per Ind AS 103. However, there was an existing share-based plan in Trulor (P) Ltd. with a vesting condition for 4 years in which 3 years had already lapsed at the date of such business acquisition. Aspan Ltd. agreed to replace the existing award for the employees of combined entity. The details are as below –

Acquisition date fair value of share-based payment plan	₹ 400
Number of years to vest after acquisition	1 year
Fair Value of award which replaces existing plan	₹ 500

Para 5

Aspan Ltd., GST registered in Tamil Nadu, got a contract from a Public Sector Undertaking, GST registered in Karnataka, for supply of steel TMT bars worth ₹ 22,00,000 (excluding taxes), to its site of construction in Coimbatore, Tamil Nadu. The following details are given below:

Particulars	(₹)
Price of Steel TMT bars	22,00,000
Freight	1,00,000
Insurance on Freight	10,000
Loading and handling charges incurred after removal from factory	70,000
Packing charges	20,000

A cash discount of 5% was allowed on the price of steel TMT bars, as the full payment was received in advance from the PSU on 31st December, 2022 and invoice was raised against the same, dated 6th January, 2023.

It was an over dimensional cargo, removed from the factory in Chennai, on 9th January, 2023, and was delivered at the customer's site in Coimbatore on 6th February, 2023, after travelling a distance of 540 kms. E-way Bill for the same was generated on 12:00 pm on 9th January, 2023. The PSU deducted tax at the time of payment to Aspan Ltd. on 31st December, 2022, which was deposited on 16th February, 2023.

I. Multiple Choice Questions

1. With reference to the information given under Para 1, whether the meeting held by board of directors of Aspan Ltd. with respect to approval of the matter relating to amalgamation can be considered as valid?
 - (a) No, as such a matter cannot be dealt in a meeting through video conference.
 - (b) No, as the requisite quorum for the meeting was not present.
 - (c) No, as prior approval of Registrar is required to deal such a matter in a meeting through video conference.
 - (d) Yes, as the requisite quorum for the meeting was present through physical presence of directors.

2. With reference to the information given under Para 2 and 3, what shall be considered as the effective date for scheme of amalgamation and creditors holding what minimum value of debt would have agreed and confirmed to the scheme for amalgamation?
 - (a) Effective date shall be 1st October, 2022 and creditors with debt of at least ₹ 112.5 lakhs would have agreed and confirmed to the scheme for amalgamation.
 - (b) Effective date shall be 1st October, 2022 and creditors with debt of at least ₹ 135 lakhs would have agreed and confirmed to the scheme for amalgamation.
 - (c) Effective date shall be 20th September, 2022 and creditors with debt of at least ₹ 135 lakhs would have agreed and confirmed to the scheme for amalgamation.
 - (d) Effective date shall be 5th October, 2022 and creditors with debt of at least ₹ 112.5 lakhs would have agreed and confirmed to the scheme for amalgamation.

3. With reference to the information given under Para 5, what amount of tax would have been deducted by PSU under GST law and by what date it should have been remitted?
 - (a) ₹ 48,000 to be remitted by 10th January, 2023
 - (b) ₹ 48,000 to be remitted by 10th February, 2023
 - (c) ₹ 44,000 to be remitted by 10th January, 2023
 - (d) ₹ 48,000 to be remitted by 5th January, 2023

4. With reference to the information given under Para 5, what shall be the interest liability for late deposit of TDS amount by the PSU under GST law?
 - (a) ₹ 876
 - (b) ₹ 142

- (c) ₹ 803
(d) ₹ 584
5. With reference to the information given under Para 5, till what date the E-way Bill generated on 9th January, 2023, would be valid?
- (a) Till 12:00 midnight of 5th February, 2023 – 6th February, 2023
(b) Till 12:00 midnight of 15th January, 2023 – 16th January, 2023
(c) Till 12:00 midnight of 6th February, 2023 – 7th February, 2023
(d) Till the date when the cargo reaches its destination i.e. 6th February, 2023.

II. Descriptive Questions

6. (i) With reference to the information given under Para 2, examine how the scheme for amalgamation was approved by the required majority of members of Aspan Ltd.?
(ii) With reference to the information given under Para 3, to what amount of compensation, Mr. Rohit will be eligible to get from Aspan Ltd.?
7. With reference to the information given under Para 4, calculate the share-based payment value as per Ind AS 102?
8. (i) With reference to the information given under Para 5, what shall be the place of supply and time of supply with respect to supply of steel TMT bars in an over dimensional cargo made by Aspan Ltd. to PSU?
(ii) With reference to the information given under Para 5, what shall be the value of supply with respect to the supply made by Aspan Ltd. to PSU?

ANSWERS TO THE CASE STUDY 18

I. Answers to the Multiple Choice Questions

1. (d) Yes, as the requisite quorum for the meeting was present through physical presence of directors.

Reason: Section 173 (2) of the Companies Act, 2013 states (2) The participation of Directors in a meeting of the Board may be either in person or through video conferencing or other audio visual means, as may be prescribed, which are capable of recording and recognising the participation of the Directors and of recording and storing the proceedings of such meetings along with date and time:

Provided that the Central Government may, [by notification, specify such matters](#) which shall not be dealt with in a meeting through video conferencing or other audio visual means.

[Provided further that where there is quorum in a meeting through physical presence of Directors, any other [director](#) may participate through video conferencing or other audio visual means in such meeting on any matter specified under the first proviso.]

However, Rule 4 of the Companies (Meetings of Board and its Powers) Rules, 2014 which dealt with matters not to be dealt with in a meeting through video conferencing or other audio visual means is deleted.

Thus, as per Section 174(1) of Companies Act, 2013 the quorum for the board meeting is complied with. Thus, the correct answer is d.

2. (b) Effective date shall be 1st October, 2022 and creditors with debt of at least ₹ 135 lakhs would have agreed and confirmed to the scheme for amalgamation.

Reason: Refer Section 232 and Section 230 of the Companies Act, 2013, respectively.

The Tribunal may dispense with calling of a meeting of creditor or class of creditors where such creditors or class of creditors, having at least ninety per cent value, agree and confirm, by way of affidavit, to the scheme of compromise or arrangement. [Section 230(9)]

Thus, 90% of creditors having value ₹ 150 lakhs = ₹ 135 lakhs

Effective date specified in scheme [Sub-section 232(6)]: The scheme under this section shall clearly indicate an appointed date from which it shall be effective and the scheme shall be deemed to be effective from such date and not at a date subsequent to the appointed date.

Thus, the effective date for scheme of amalgamation shall be 1st October, 2022.

3. (a) ₹ 48,000 to be remitted by 10th January, 2023

Reason: Section 20 of IGST Act provides that in the case of tax deducted at source, the deductor shall deduct tax at the rate of 2% from the payment made or credited to the supplier.

The amount of tax deducted at source should be deposited to the Government account by deductor by 10th of the succeeding month. –

Value of Supply = ₹ 24,00,000. TDS = 2% of 24,00,000 = ₹ 48,000 and to be remitted by 10th day of the month succeeding the month in which TDS was collected.

TDS was collected on 31st December, 2022 so it should be remitted by 10th January, 2023.

4. (a) ₹ 876

Reason: If the deductor has not remitted the amount deducted as TDS to the Government within the prescribed time limit, he is liable to pay penal interest under Section 50 i.e. @ rate of 18% p.a., in addition to the amount of tax deducted.

TDS was to be remitted by 10th January, 2023 and it is remitted on 16th February, 2023, so there is delay of 37 days.

Therefore, the interest liability for late deposit of TDS amount by the PSU = ₹ 48,000*18%*37/365 = ₹ 876.

5. (a) Till 12:00 midnight of 5th February, 2023 – 6th February, 2023

Reason: Relevant date means the date on which the e-way bill has been generated and the period of validity shall be counted from the time at which the e-way bill has been generated and each day shall be counted as the period expiring at midnight of the day immediately following the date of generation of e-way bill.

It was an over dimensional cargo, for which the validity of E-way Bill for a distance of 540 kms, would stay for 27 days (540 kms/20 kms).

E-way Bill was generated on 12:00 pm on 9th January, 2023, so it be valid for 12:00 midnight of 5th February, 2023 – 6th February, 2023.

II. Answers to the Descriptive Questions

6. (i) **Legal Position:**

As per Section 230 of the Companies Act, 2013, where, at a meeting held, majority of persons representing three-fourths in value of the creditors, or class of creditors or members or class of members, as the case may be, voting in person or by proxy or by postal ballot, agree to any compromise or arrangement and if such compromise or arrangement is sanctioned by the Tribunal by an order, the same shall be binding on the company, all the creditors, or class of creditors or members or class of members, as the case may be, or, in case of a company being wound up, on the liquidator [appointed under this Act or under the Insolvency and Bankruptcy Code, 2016, as the case may be,] and the contributories of the company.

Analysis and Conclusion:

Members who attended the meeting	200 members
Shares held by members who attended the meeting	6,00,000
Members who voted in favour of the scheme	95 members
Shares held by members who voted in favour of the scheme	4,30,000
Members who voted against the scheme	80 members
Shares held by members who voted against the scheme	1,40,000
Members who abstained from voting	25 members
Shares held by members who abstained from voting	30,000
Number of members who have voted, in favour or against the scheme	175 members
Shares held by members who have voted, in favour or against the scheme	5,70,000
Number of members who should have voted in favour for approving the scheme	88 members or more
Shares that should have been held by members who have voted in favour for approving the scheme	4,27,500 or more

The scheme has been approved by them members holding 4,30,000 shares. Thus, the requirement of approval of the scheme by the members representing 3/4th in the value of members present and voting at the meeting (i.e. members holding 4,27,500 shares or more, in this case) has been satisfied.

The scheme has approved by the required majority (i.e. 88 members or more, in this case) and so this condition has also been satisfied.

Accordingly, due to compliance of aforesaid conditions, the tribunal would have sanctioned the scheme for amalgamation.

(ii) Legal Position:

As per Section 202(1) of the Companies Act, 2013, a company may make payment to a managing or whole-time director or manager, but not to any other director, by way of compensation for loss of office, or as consideration for retirement from office or in connection with such loss or retirement.

As per Sub-section (3), any payment made to a managing or whole-time director or manager in pursuance of sub-section (1) shall not exceed the remuneration which he would have earned if he had been in office for the remainder of his term or for three years, whichever is shorter, calculated on the basis of the

average remuneration actually earned by him during a period of three years immediately preceding the date on which he ceased to hold office, or where he held the office for a lesser period than three years, during such period.

Analysis and Conclusion:

Average remuneration drawn by Mr. Rohit during the period immediately preceding the date of cessation of office = $(55L+62L+13L)/26$ months = ₹ 5 lakhs per month

Unexpired residue term of office of Mr. Rohit was 29 months (from 01.06.2022 to 31.10.2024). Compensation payable shall be lower of unexpired residue term of office i.e. 29 months or 3 years i.e. 36 months. **Thus, the maximum amount of compensation to which Mr. Rohit is entitled = ₹ 5 lakhs*29 months = ₹ 1.45 crores.**

7. Pre-acquisition period = 3

Post-acquisition period = 1

Total fair value at acquisition date = ₹ 400

Value to be recorded as per business combination under Ind AS 103

= ₹ $400/4 \times 3$ = ₹ 300

Value to be recorded as per Ind AS 102 (A) = ₹ $400/4 \times 1$ = ₹ 100

Fair value of the replacement of such award = ₹ 500

Difference from acquisition date fair value (B) = ₹ 500 – ₹ 400 = ₹ 100

Total value to be accounted over vesting period as per Ind AS 102 = A + B = ₹ 100 + ₹ 100 = ₹ 200

- 8. (i) (a)** As per Section 10(1)(a) of the IGST Act, 2017, where the supply involves movement of goods, whether by the supplier or the recipient or by any other person, the place of supply of such goods shall be the location of the goods at the time at which the movement of goods terminates for delivery to the recipient.

In the given case, goods are supplied from factory of Aspan Ltd. in Chennai to a site of PSU in Coimbatore i.e. the movement of goods terminates for delivery to the recipient i.e. PSU at Coimbatore. Hence, the place of supply is **Coimbatore, Tamil Nadu.**

- (b)** As per Section 31(1)(a) of the CGST Act, 2017, A registered person supplying taxable goods shall, before or at the time of removal of goods for supply to the recipient, where the supply involves movement of goods,

issue a tax invoice showing the description, quantity and value of goods, the tax charged thereon and such other particulars as may be prescribed.

As per Section 12(2) of the CGST Act, 2017, the time of supply of goods shall be the earlier of the following dates, namely:-

- (a) the date of issue of invoice by the supplier or the last date on which he is required, under section 31, to issue the invoice with respect to the supply; or
- (b) the date on which the supplier receives the payment with respect to the supply

Analysis and conclusion:

Date of removal of goods from factory - 9th January, 2023

Date of Invoice - 6th January, 2023

Date of payment - 31st December, 2022

Time of supply shall be considered on 'invoice basis' and not 'payment basis', in case of receipt of advance money as per Notification No. 66/2017- CT dated 15-11-2017.

So, time of supply will be the date of invoice i.e. **6th January, 2023.**

(ii) Computation of Value of Supply of Aspan Ltd.:

Particulars	(₹)
Price of Steel TMT bars	22,00,000
Add: Freight	1,00,000
Add: Insurance on Freight	10,000
Add: Loading and handling charges incurred after removal from factory	70,000
Add: Packing charges	20,000
Less: Cash Discount (5% on 22,00,000)	<u>(1,10,000)</u>
Value of Supply	22,90,000

Notes:

As per Section 15(2)(b) of the CGST Act, 2017, any amount that the supplier is liable to pay in relation to such supply but which has been incurred by the recipient of the supply and not included in the price actually paid or payable for the goods or services or both;

As per Section 15(2)(c) of the CGST Act, 2017, incidental expenses, including commission and packing, charged by the supplier to the recipient of a supply and any

amount charged for anything done by the supplier in respect of the supply of goods or services or both at the time of, or before delivery of goods or supply of services.

As per Section 15(3) of the CGST Act, 2017, the value of the supply shall not include any discount which is given before or at the time of the supply if such discount has been duly recorded in the invoice issued in respect of such supply.

CASE STUDY 19

Below is presented the Profit and Loss extract of Surya Limited for FY 2022-23.

Particulars	Amount (₹)
Revenue from operations	2,75,00,00,000
Interest Income	50,54,500
Cost of goods sold	5,15,61,510
Change in inventory	45,84,840
Loss of subsidiary written off	25,25,000
Salary and wages	1,84,98,890
Bonus to employees (not in lieu of profit or dividend)	12,54,120
Penalty for service tax demand	15,75,000
Contribution to employee related funds	19,88,090
Donation in cash to 'Sab ka Sath NGO'	75,000
Other expenses	1,95,14,700

Other Items which are omitted in above extract:

Duty drawback (due from authorities)	₹ 5,50,000
Dividend Income	₹ 1,00,000

Particulars regarding stock information (Metal semis)	Units (ton)
Opening stock	5,150
Quantity manufactured	15,750
Sales during the period	12,900

Surya Limited has sold a land namely, ABC Park at Delhi on 1st December 2022. The said land was purchased by Surya Limited on 7th August 2012 at the cost of ₹ 10,00,00,000. Surya Limited has sold this land for ₹ 15,00,00,000. However, the consideration as assessed by land authority is measured at ₹ 18,00,00,000 as per circle rates. Surya Limited has paid the stamp duty as per circle rates. Surya Limited has accordingly shown the gain of 18,00,00,000 while computing the taxable income as per section 50C of Income-tax Act.

Further, Surya Limited has discarded a part of its plant and machinery at nil value on 31st October 2022 due to its obsolescence. The book value of plant and machinery as on relevant date was ₹ 1,00,00,000.

Following particulars are shown with respect to pending matters relating to TDS for FY 2022-23, which still require the consideration. TDS has not been deducted on the following:

Date of payment	Amount of payment	Nature of payment	Name of the payee	PAN of the payee	Address	Remarks
05/04/2022	1,00,000	Sale of goods	Dharmveer	ABCPD1234O	Delhi	-
07/07/2022	20,000	Professional services	PQR Pvt. Ltd.	ABCCD7234O	Mumbai	-
11/12/2022	25,000	Contractor services	Chotu Ram	ABCPD1234O	Gujarat	-
28/03/2023	90,000	Interest for car financing loan	Ghanshyam HUF	ABCCD1934O	Mumbai	According to accountant, no TDS is required to be deducted against interest payment to HUF

Surya Limited has filed the TDS returns of form 24Q and 26Q (containing information of all transactions as are required to be reported) during the year as follows:

Tax deduction and collection Account Number (TAN)	Type of Form	Due date for furnishing	Date of furnishing
DELMXXXXXP	Form 26Q	30/04/2022	27/04/2022
DELMXXXXXP	Form 24Q	30/04/2022	28/04/2022
DELMXXXXXP	Form 26Q	31/10/2022	26/10/2022
DELMXXXXXP	Form 24Q	31/10/2022	02/11/2022
DELMXXXXXP	Form 24Q	31/01/2023	25/01/2023
DELMXXXXXP	Form 26Q	31/01/2023	02/02/2023
DELMXXXXXP	Form 26Q	31/05/2023	30/04/2023
DELMXXXXXP	Form 24Q	31/05/2023	29/05/2023

The tax audit of Surya Limited is due; however, the tax auditor had told his assistant to prepare the draft Form 3CD of company. Instead of having prior discussion with the tax auditor, he directly sent the draft form 3CD to the Direct tax head of Surya Limited. The assistant has filled the following details in Form 3CD.

EXTRACT OF FORM NO. 3CD (DRAFT)

Statement of particulars required to be furnished under section 44AB of the Income-tax Act, 1961

- Name of the assessee : **SURYA LIMITED**
 - Previous year : **01/04/2022 to 31/03/2023**
 - Assessment year : **2022-2023**
 - Amounts not credited to the profit and loss account, being: -

a The items falling within the scope of section 28

Description	Amount
Nil	Nil

b The proforma credits, drawbacks, refunds of duty of customs or excise or service tax or refunds of sales tax or value added tax, where such credits, drawbacks or refunds are admitted as due by the authorities concerned

Description	Amount
Nil	Nil

d Any other item of income

Description	Amount
Nil	Nil

e Capital receipt, if any

Description	Amount
Nil	Nil

- Where any land or building or both is transferred during the previous year for a consideration less than value adopted or assessed or assessable by any authority of a State Government referred to in section 43CA or 50C, please furnish:

Details of property	Address	Consideration received or accrued	Value adopted or assessed or assessable
Land	ABC Park, Delhi	15,00,00,000	15,00,00,000

- Particulars of depreciation allowable as per the Income-tax Act, 1961 in respect of each asset or block of assets, as the case may be, in the following Form :-

Description of the block of assets	Rate of depreciation	Opening WDV	Additions	Deductions	Depreciation allowable	Written down value at the end of the year
Plant & Machinery	15%	5,00,00,000	3,00,00,000	0	1,20,00,000	6,80,00,000
Building	10%	15,00,00,000	0	0	1,50,00,000	13,50,00,000
Furniture & Fittings	10%	3,00,00,000	1,00,00,000	0	40,00,000	3,60,00,000
Total		23,00,00,000	4,00,00,000	0	3,10,00,000	23,90,00,000

Additions : Furniture & Fittings @ 10%

Date of purchase	Date of put to use	Amount
18/06/2022	18/06/2022	1,00,00,000

Additions : Plant & Machinery @ 15%

Date of purchase	Date of put to use	Amount
02/05/2022	02/05/2022	2,00,00,000
05/06/2022	05/12/2022	1,00,00,000

- Any sum paid to an employee as bonus or commission for services rendered, where such sum was otherwise payable to him as profits or dividend. [section 36(1)(ii)]

Description	Amount
Nil	Nil

- Please furnish the details of amounts debited to the profit and loss account, being in the nature of capital, personal, advertisement expenditure etc.

Capital expenditure :

Particulars	Amount
Nil	Nil

Personal expenditure :

Particulars	Amount
Nil	Nil

Expenditure by way of penalty or fine for violation of any law for the time being force

Particulars	Amount

Expenditure by way of any other penalty or fine not covered above

Particulars	Amount
Nil	Nil

-Amounts inadmissible under section 40(a):-

ii. as payment referred to in sub-clause (ia)

(A) Details of payment on which tax is not deducted:

Date of payment	Amount of payment	Nature of payment	Name of the payee	PAN of the payee	Address line 1
Nil	Nil	Nil	Nil	Nil	Nil

(B) Details of payment on which tax has been deducted but has not been paid on or before the due date specified in sub- section (1) of section 139

Date of payment	Amount of payment	Nature of payment	Name of the payee	PAN of the payee	Address line 1	Address line 2	City/ Town/ District	Pin code	Amount of tax deducted	Amount out of (V) deposited, if any
Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

-Disallowance/deemed income under section 40A(3):

(A) On the basis of the examination of books of account and other relevant documents/evidence, whether the expenditure covered under section 40A(3) read with rule 6DD were made by account payee cheque drawn on a bank or account payee bank draft. If not, please furnish the details : **Yes**

Date of payment	Nature of payment	Amount	Name of the payee	PAN of the payee
Nil	Nil	Nil	Nil	Nil

-Whether the assessee is required to furnish the statement of tax deducted or tax collected. If yes, please furnish the details: : **Yes**

Tax deduction and collection Account Number (TAN)	Type of Form	Due date for furnishing	Date of furnishing, if furnished	Whether the statement of tax deducted or collected contains information about all transactions which are required to be reported
DELMXXXXXP	Form 24Q	31/10/2022	02/11/2022	Yes
DELMXXXXXA	Form 26Q	31/01/2023	02/02/2023	Yes

-In the case of manufacturing concern, give quantitative details of the principal items of raw materials, finished products any by-products

Finished products

Item Name	Unit	Opening stock	Purchase during the previous year	quantity manufactured during the previous year	Sales during previous year	Closing Stock	Shortage/ Excess, if any
Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

Other Matters:

Surya Limited is based in Delhi and is also registered under GST in Delhi jurisdiction. For the assignments sent on 1 January, 2023, IDT manager has been told by CFO to provide the taxable inter-state and intra-state details on the basis of following information.

Location (where goods would reach)	Amount (₹)	Remarks
Japan	5,51,065	Goods come under the exempt category
Delhi	56,520	Purchaser in Mumbai has instructed Surya Limited to deliver the goods at his residence in Delhi
Madhya Pradesh	1,46,650	Purchaser in Delhi has instructed Surya Limited to deliver the goods at Madhya Pradesh
Delhi	2,98,500	Purchaser will arrange his own transport for goods

Surya Limited sells various products in various segments. One of the popular products of company is product 'Kanti', whose details for the January, 2023 are as under:

	Amount (₹)	Quantity	Rate (₹)
Opening inventory	3,12,500	12,500	25
Goods purchased (all within the state) inc. GST	15,45,750	57,250	27
Closing inventory	5,53,000	19,750	28
Goods sold (all within the state) inc. GST	17,50,000	50,000	35

GST is applicable at the rate of 18%.

A new assistant of IDT manager has been hired. Since the software was not in operation on a particular day due to technical issues, IDT manager told his assistant to prepare the invoice manually for sale of 'Kanti' products to a registered buyer. Following invoice is prepared by the assistant:

Following are the details of supplies made by Surya Limited for one of the segments 'Beauty and Personal care' in February, 2023:

Item	Amount (₹)
Beauty products	15,14,842
Skincare products	6,98,161
Salary and wages	5,64,564
Saloon services	8,48,123
Hair oil products	3,48,564

Reimbursement of conveyance expenses (to employees)	1,98,840
Shaving creams	4,98,516
Services provided to the United Nations for an event	75,650
Interest from debtors for late payment of dues	45,645

INVOICE

Surya Limited
123, Near SBI Building, Karol Bagh, Delhi, 110005
 GSTIN: 07ABCCP1234B1AB
 PAN NO. ABCCP1234B

DUPLICATE FOR
 RECIPIENT

Invoice No: Surya/2021-202/XX2			
Date: 18-01-2023			
Buyer: Night Limited, 52, Praja colony, Noida, UP – 201301			
Description	Quantity	Rate	Amount (₹)
Supply of Goods	5	10,000	50,000
	Total		50,000
<i>Terms & conditions</i>		CGST @	9% 4,500
<ul style="list-style-type: none"> • Make payment within 15 days of receipt. • Interest at 20% will be charged after 15 days of due date. 		SGST @	9% 4,500
Note: GST will also be charged on interest		Grand Total	59,000

Total Amount (In Words): Fifty-nine thousand only

For :

Surya Limited
 Mr. Vaibhav Saxena
 Manger, F&A

Surya Limited has conducted following board meetings during the year:

S.no.	Date of board meeting
1	02-04-2022
2	26-07-2022
3	27-11-2022
4	15-03-2023

Surya Limited is considering to get itself listed. As per the latest audited financial statements, the paid up share capital of the Surya Limited is ₹ 90 crore and turnover of the Surya Limited is ₹ 275 crore.

The company secretary of Surya Limited is insisting the management to include a woman director in the board of directors as per the requirements of Companies Act, 2013.

You are required to analyse the above scenarios and then answer the following questions on the basis of your understanding.

I. Multiple Choice Questions

- Whether the concern of company secretary holds good in including a woman director in the board of directors.
 - Yes, as the Surya Limited is thinking to get itself listed.
 - No, as the Surya Limited is not a listed company on the relevant date.
 - Yes, as it is mandatory to appoint women directors in the board.
 - No, as the Surya Limited has not met the prescribed criteria to get the woman director included in board.
- Whether the Surya Limited has defaulted in conducting board meetings as per Companies Act, 2013?
 - There is no default since four board meetings have been conducted in the year.
 - There is default by Surya Limited as not more than 4 board meetings have been conducted in the year.
 - There is no default since Companies Act, 2013 does not prescribe any criteria for board meetings as it is the internal matter of Surya Limited.
 - There is default by Surya Limited since board meetings have not been conducted in the prescribed frequency.

3. Calculate the net GST liability of 'Kanti' for January, 2023.
 - (a) ₹ 31,158
 - (b) ₹ 67,844
 - (c) ₹ 80,055
 - (d) ₹ 36,765
4. Calculate the amount of taxable supply of 'Beauty and Personal care' segment for February, 2023?
 - (a) ₹ 47,92,905
 - (b) ₹ 40,29,501
 - (c) ₹ 39,53,851
 - (d) ₹ 35,30,180
5. Calculate the amount of taxable inter-state and intra-state supplies with respect to assignments sent on various locations on 1 January, 2023.
 - (a) ₹ 6,07,315; ₹ 4,45,150
 - (b) ₹ 56,250; ₹ 4,45,150
 - (c) ₹ 4,45,150; ₹ 56,250
 - (d) Nil; ₹ 5,01,400

II. Descriptive Questions

6. Being the direct tax head of Surya Limited, what are your observations in respect of Form 3CD prepared by the assistant of tax auditor. You are required to discuss the points which need the attention of auditor for correction in draft audit report. Also state the correct treatment.
7. Being the IDT manager, what are your observations under the scope of GST rules and regulations for the manual Invoice issued by your assistant.

ANSWERS TO THE CASE STUDY 19

I. Answers to the Multiple Choice Questions

1. (d) No, as the Surya Limited has not met the prescribed criteria to get the woman director included in board.

Reason: As per second Proviso to Section 149(1) read with Rule 3 of the Companies (Appointment and Qualification of directors) Rules, 2014, following are the Companies which need to appoint women directors:

- Every listed company
- Every other public company having : a) paid-up share capital of one hundred crore rupees or more; or b) turnover of three hundred crore rupees or more.

The paid-up share capital or turnover, as the case may be for this purpose is considered as on the last date of latest audited financial statements.

2. (d) There is default by Surya Limited since board meetings have not been conducted in the prescribed frequency.

Reason: As per section 173(1) of Companies Act, 2013, every company shall hold minimum of 4 meetings every year but the gap between two consecutive board meetings shall not be more than 120 days. However, there is a gap of more than 120 days for the meeting between 26.07.2022 and 27.11.2022.

3. (a) ₹31,158

Reason:

	CGST (₹)	SGST (₹)	Calculation of CGST/SGST
GST on goods purchased	1,17,896	1,17,896	$(15,45,750 / 1.18) * .09$
GST on goods sold	1,33,475	1,33,475	$(17,50,000 / 1.18) * .09$
Net GST Liability	15,579	15,579	

4. (c) ₹ 39,53,851

Reason:

Item	Amount (₹)	Remarks
Beauty products	15,14,842	Taxable supply
Skincare products	6,98,161	Taxable supply
Saloon services	8,48,123	Taxable supply
Hair oil products	3,48,564	Taxable supply
Shaving creams	4,98,516	Taxable supply
Interest from debtors for late payment of dues	45,645	Taxable supply
Total	39,53,851	

5. (b) ₹ 56,250; ₹ 4,45,150

Reason:

Place of Supply	Nature of Supply	IGST supply (₹)	CGST/SGST supply (₹)
Japan	Exempt	-	-
Mumbai	Inter-state	56,520	-
Delhi	Intra-state	-	1,46,650
Delhi	Intra-state	-	2,98,500
		56,520	4,45,150

II. Answers to the Descriptive Questions

6. Errors/Observations in Form 3CD:

- Assessment Year should be 2023-24 instead of 2021-32. Since the given information pertains to FY 2022-23, hence the corresponding assessment year should be 2023-24.
- As per **Clause 16**; the particulars of those amounts should be provided which are not credited to the profit and loss account, being,-
 - the items falling within the scope of section 28;
 - the proforma credits, drawbacks, refund of duty of customs or excise or service tax, or refund of sales tax or value added tax, where such credits, drawbacks or refunds are admitted as due by the authorities concerned;

- (c) escalation claims accepted during the previous year;
- (d) any other item of income;
- (e) capital receipt, if any.

The items which were omitted in profit & loss have not been reported in Form 3CD too. Hence, they need to be reported in Form 3CD as per clause 16 as follows:

Clause 16(b) -The proforma credits, : drawbacks, refunds of duty of customs or excise or service tax or refunds of sales tax or value added tax, where such credits, drawbacks or refunds are admitted as due by the authorities concerned

Description	Amount
Duty drawback	5,50,000

Clause 16(d) - Any other item of income :

Description	Amount
Dividend Income	1,00,000

- Although Surya Limited has determined the sale value of land at ₹ 18,00,00,000 for the purpose of Income tax computation but that fact has not been presented as per clause 17. Hence it needs to be reported in Form 3CD as per clause 17 as follows:

Clause 17: Where any land or building or both is transferred during the previous year for a consideration less than value adopted or assessed or assessable by any authority of a State Government referred to in section 43CA or 50C, please furnish:

Details of property	Address	Consideration received or accrued	Value adopted or assessed or assessable
Land	ABC Park, Delhi	15,00,00,000	18,00,00,000

- The particulars of depreciation allowable as per Income-tax Act, 1961 are to be shown as per clause 18 in Form 3CD.

Depreciation on Plant & machinery is incorrectly calculated. Depreciation on Plant & machinery should be at half rate since it is put to use on 05/12/2022, which is less than 180 days.

The correct information as per clause 18 should be shown as follows:

Description of the block of assets	Rate of depreciation	Opening WDV	Additions	Deductions	Depreciation allowable	Written down value at the end of the year
Plant & Machinery	15%	5,00,00,000	3,00,00,000	0	1,62,50,000	6,87,50,000
Building	10%	15,00,00,000	0	0	1,50,00,000	13,50,00,000
Furnitures & Fittings	10%	3,00,00,000	1,00,00,000	0	40,00,000	3,60,00,000
Total		23,00,00,000	4,00,00,000	0	3,52,50,000	23,47,50,000

Note: Calculation of Depreciation as per Income-tax Act, 1961

Asset	Depreciation on opening block (A)	Depreciation on additions at full rate (B)	Depreciation on additions at half rate (C)	Additional Depreciation	Total Depreciation (A) + (B) + (C)
Plant and machinery (15%)	75,00,000	30,00,000	7,50,000	40,00,000 (2,00,00,000*20%) 10,00,000 (1,00,00,000*10%)	1,62,50,000
Building (10%)	1,50,00,000	-	-		1,50,00,000
Furniture and fittings (10%)	30,00,000	10,00,000	-		40,00,000
Total	2,55,00,000	40,00,000	7,50,000		3,52,50,000

Additional depreciation on new plant and machinery will be allowable as per sec32(1)(ia) @20% of actual cost of plant and machinery. If the asset is put to use for less than 180 days, then depreciation will be restricted to 50% of the additional depreciation. Balanced depreciation can be claimed in the next assessment year.

Note: No treatment for sale of plant & machinery (Book value- ₹ 1,00,00,000) at nil value as no consideration is received against sale.

- Under Clause 21(a), the details of those amounts need to be reported which are debited to the profit and loss account, being in the nature of Capital, personal, advertisement expenditure etc.

In accordance with above clause, the following needs to be reported in Form 3CD as per clause 21(a):

Capital expenditure	:	Particulars	Amount (₹)
		Loss of subsidiary written off	25,25,000
Expenditure by way of penalty or fine for : violation of any law for the time being force	:	Particulars	Amount (₹)
		Penalty under service tax law	15,75,000

- Under Clause 21(b)(ii)(A), company needs to furnish the details of those payment details on which tax is not deducted.

In accordance with above clause, the following needs to be reported in Form 3CD

Details of payment on which tax is not deducted:

Date of payment	Amount of payment	Nature of payment	Name of the payee	PAN of the payee	Address
28/03/2023	90,000	Interest	Ghyanshyam HUF	ABCCD1934O	Mumbai

Note: TDS under section 194A needs to be deducted for Ghyanshyam HUF. For other parties, there is no need to deduct the TDS as per relevant provisions of Income-tax Act, 1961.

- There has been a cash payment in respect of donation exceeding ₹ 10,000/- by the assessee during the relevant year. Details of payments should be stated under clause 21(d)(b) as follows:

On the basis of the examination of books of account and other relevant documents/evidence, whether the payment referred to in section 40A(3A) read with rule 6DD were made by account payee cheque drawn on a bank or account payee bank draft If not, please furnish the details of amount deemed to be the profits and gains of business or profession under section 40A(3A)

No

Date of payment	Nature of payment	Amount	Name of the payee	PAN of the payee
X-X-20XX	Donation in cash	75,000	Sab Ka Saath NGO	XXXXXXXXXX

- As per clause 34(b) of Form 3CD, assessee is required to furnish the statement of tax deducted or tax collected as per following details:

Tax deduction and collection Account Number (TAN)	Type of Form	Due date for furnishing	Date of furnishing	Whether the statement of tax deducted or collected contains information about all transactions which are required to be reported
DELMXXXXXP	Form 26Q	30/04/2022	27/04/2022	Yes
DELMXXXXXP	Form 24Q	30/04/2022	28/04/2022	Yes
DELMXXXXXP	Form 26Q	31/10/2022	26/10/2022	Yes
DELMXXXXXP	Form 24Q	31/10/2022	02/11/2022	Yes
DELMXXXXXP	Form 24Q	31/01/2023	25/01/2023	Yes
DELMXXXXXP	Form 26Q	31/01/2023	02/02/2023	Yes
DELMXXXXXP	Form 26Q	31/05/2023	30/04/2023	Yes
DELMXXXXXP	Form 24Q	31/05/2023	29/05/2023	Yes

- Under clause Clause 35 (b) of Form 3CD, In the case of a manufacturing concern, provide quantitative details of the principal items of raw materials, finished products and by-products as follows:

(B) Finished products

Item Name	Unit	Opening stock	Purchase during the previous year	quantity manufactured during the previous year	Sales during previous year	Closing Stock	Shortage/ Excess, if any
Metal Semis	ton	5,150	0	15,750	12,900	8,000*	0

*Closing stock = 5,150+15,750-12,900 = 8000 ton

7. Observations on Invoice as per GST rules and regulations:

- The type of invoice to be issued depends upon the category of registered person making the supply. If a registered person is making or receiving supplies (from unregistered persons), then a tax invoice needs to be issued by such registered person.

In this case, word 'Invoice' is used in place of 'Tax Invoice', which is incorrect.

- The invoice shall be prepared in triplicate, in case of supply of goods, in the following manner:
 - (a) The original copy being marked as ORIGINAL FOR RECIPIENT.
 - (b) The duplicate copy being marked as DUPLICATE FOR TRANSPORTER.
 - (c) The triplicate copy being marked as TRIPLICATE FOR SUPPLIER.

In this case, original copy to buyer has been marked as DUPLICATE FOR RECIPIENT, which is incorrect. The original copy to buyer should be marked as ORIGINAL FOR RECIPIENT.

- GST is a destination-based tax. Under GST, IGST is a tax levied on all Inter-State supplies of goods and CGST/SGST is a tax levied on all Intra-State supplies of goods. Hence there should have been levied IGST by the supplier instead of CGST/SGST since the buyer is located in Noida, UP and supplier is located in another state, Delhi.
- Name, address and GSTIN of the recipient, if registered is required on mandatory basis. In this case, the GSTIN of registered recipient is missing.
- Description of goods 'Kanti' is missing in the invoice.
- Signature or digital signature of the supplier or his authorized representative is missing.
- HSN Code of the sold product is missing in the invoice.
- "I/We hereby declare that though our aggregate turnover in any preceding financial year from 2017-18 onwards is more than the aggregate turnover notified under sub-rule (4) of rule 48, we are not required to prepare an invoice in terms of the provisions of the said sub-rule."]

CASE STUDY 20

SSP & CO. LLP, a Chartered Accountancy Firm has been into Practice since year 2009 at Vadodara, Gujarat. The Senior Partners of the Firm – CA Sagar Shah, CA Simran Kaur & CA Pankaj Bansal started the firm after practicing individually for almost 3 years and now it has grown into a big firm of 7 Partners. Since its inception, this CA Firm has always been in news among the Chartered Accountants and the Articled Trainees for its unique way of working. The 3 Partners have given their best to inculcate a working culture of hard work, learning, training, development and rendering best quality in the service industry it belongs to. Under one of the unique ways of its working, the firm annually holds a one month long and continuous competition among its Articled Trainees to motivate them towards working hard and reward 3 best candidates as the “Winning Articled Assistants” who get incentives in the form of important roles with the Senior Partners in handling crucial work projects of different clients of the firm.

This year, around 25 Articled Trainees, excluding the recently joined ones, were a part of this annual competition & after a one-month continuous assessment of their performance, Pratham, Shivam & Ragini were declared as the winning Articled Trainees for the said year. As a part of the incentive, they were assigned important roles with the 3 Senior Partners as follows:

- 1) Pratham would assist CA Sagar in carrying out the tax-audit work of the 3 major clients of the Firm.
- 2) Shivam would be leading the team headed by CA Simran to carry out the work of accounting for different projects handled by one of their important clients.
- 3) Ragini would be an important part of the team headed by CA Pankaj to conduct “TDS Audit” of the major clients of the Firm to check their TDS compliance and report thereon.

Pratham assisting CA Sagar Shah

CA Sagar briefs his team about the various objectives, guidelines and working involved in carrying out different audits by a Chartered Accountant with special emphasis on Tax Audit. He tells them that for ensuring compliance sometimes audit becomes a necessity. Therefore, various statutes, including legislations governing direct tax provisions have incorporated audit provisions in some or the other form. Under direct taxes, the Central Board of Direct taxes has posed onerous responsibility on the auditor via Income-tax Act, 1961 which has various provisions requiring compulsory audit. The Income-tax Act, 1961 contains several provisions for audit of accounts of public charitable trusts, non-corporate assesses and other assesses to meet the specific objectives of the Act. Under the Act, several sections such as 12A, 35D, 35E, 44AB, 80IA, 80-IAB, 80-IB, 80-IC, 80-ID, 80-IE, 142(2A), etc., require audit of accounts for tax purposes. He deliberates them in detail on the various provisions as entailed in Section 44AB

of the Income Tax Act, 1961 and its various clauses and sub clauses on applicability of the Tax audit provisions to any enterprise. He also tells them about the amendments which had been made in the Tax audit Provisions by the Government of India whereby with effect from assessment year 2023-24, the threshold limit, for a person carrying on business, had been increased from ₹ 5 crore to ₹ 10 crores in case when cash receipts and payments made during the year does not exceed 5% of total receipt or payment, as the case may be. Section 44AB provides for the compulsory audit of accounts of certain persons carrying on business or profession. Now, he delegates his team to work out the tax audit applicability of various client firms for the Financial Year 2022-23 and Pratham gets to work out the Tax audit applicability on various clients as follows:

1. PQR Ltd. is engaged in the business of manufacturing of threads and having 97% of the receipts and payments through account payee cheque. The company has recorded turnover of ₹ 10.50 crores during the financial year 2022-23 before adjusting the following:

Discount allowed in the Sales Invoice	₹	9,50,000
Cash discount (other than allowed in Cash memo/ sales invoice)	₹	10,30,000
Trade discount	₹	5,30,000
Commission on Sales	₹	7,80,000
Sales Return (F.Y. 2020-21)	₹	6,60,000
Sale of Investment	₹	15,30,000

2. Mr. Anurag Basu, owning an Agency of Samsung Mobile, has turnover of ₹ 97 lacs during the F.Y. 2022-23.
3. XYZ & Co. (a Partnership firm) engaged in trading of electronic goods is having a turnover of ₹ 175 lacs for the F.Y. 2022-23.

Shivam with CA Simran Kaur

CA Simran and her team would handle the accounting of various complex operations of their client firms and provide consultancy accordingly. This year, CA Simran is dealing with the Grants received from the Government during the COVID-19 Pandemic period and how to deal with them in the accounts of their various clients. She enlightens her team members on this topic and tells them that the government gives grants to entities for various purposes including for industrial, geographic and social development, to facilitate the flow of foreign investments, to promote entrepreneurship, as subsidies to reduce the prices of goods and services offered by these entities. The grant could be in different forms, e.g., monetary or non-monetary government grants. Government grants may be significant for an entity and require appropriate treatment in the books of accounts and disclosures in financial statements to facilitate comparison with other

entities and with prior periods. She delegates this work of different clients among her team members and Shivam gets to work on the case of 2 Client companies as follows:

1. Spectra Limited is carrying out various projects for which the company has either received government financial assistance or is in the process of receiving the same. The company has received two grants of ₹ 2,00,000 each, relating to the following ongoing research and development projects:
 - (i) The first grant relates to the “Clean river project” which involves research into the effect of various chemicals waste from the industrial area in Madhya Pradesh. However, no major steps have been completed by Spectra limited to commence this research as at 31st March, 2023.
 - (ii) The second grant relates to the commercial development of a new equipment that can be used to manufacture eco-friendly substitutes for existing plastic products. Spectra Limited is confident about the technical feasibility and financial viability of this new technology which will be available for sale in the market by April 2024.

In September 2022, due to the floods near one of its factories, the entire production was lost and Spectra Limited had to shut down the factory for a period of 3 months. The State Government announced a compensation package for all the manufacturing entities affected due to the floods. As per the scheme, Spectra Limited is entitled to a compensation based on the average of previous three month’s sales figure prior to the floods, for which the company is required to submit an application form on or before 30th June, 2023 with necessary figures. The financial statements of Spectra Limited are to be adopted on 31st May, 2023, by which date the claim form would not have been filed with the State Government.

2. BCD Pharmaceuticals Ltd.: Government gives a grant of ₹ 20,00,000 for past research of COVID-19 vaccine to BCD Pharmaceuticals Limited, one of the top clients of SSP & CO., LLP. There is no condition attached to the grant.

Ragini with CA Pankaj Bansal

CA Pankaj lectures his team on various TDS provisions to carry out the below mentioned tasks and also makes them aware of the amendments brought into effect via Budget 2022 as well as the relaxations provided by the Government during the COVID-19 Pandemic Period to infuse capital into the economy by way of TDS relaxations during this hard period so that they are able to:

- examine the provisions relating to deduction and collection of tax at source to determine whether tax needs to be deducted/collected at source;

- compute the amount of tax to be deducted/collected at source;
- analyse and apply the provisions relating to deduction and collection of tax at source to address related issues;
- examine the provisions relating to advance tax obligations, the instalments and due dates, and interest and penal consequences of non- payment or delayed payment of advance tax; analyse and apply such provisions to determine the quantum of advance tax payment and interest liability, if any, and address related issues;
- examine the provisions relating to chargeability of interest for defaults in furnishing return of income, for non-payment of advance tax and deferral of advance tax; analyse and apply such provisions to compute interest and address related issues;
- analyse and apply the provisions relating to refunds to compute the refund due and address related issues.

After this, he hands over TDS working & compliance of various client firms to all the team members and Ragini, being a part of the winner trio, gets the following responsibilities of various important clients under the supervision of CA Pankaj:

- (i) On 17.6.2022, a commission of ₹ 60,000 was retained by the consignee 'PQR Packaging Ltd.' and not remitted to the consignor 'ABC Developers Ltd.', the client company of SSP & Co., LLP, while remitting the sale consideration. Ragini had to examine the obligation of the client firm to deduct tax at source.
- (ii) Raj is working with ABC Developers Ltd. He is entitled to a salary of ₹ 60,000 per month w.e.f. 01.04.2022. He has a house property which is self-occupied. He paid an interest of ₹ 90,000 on loan, during the previous year 2022-23. The loan was taken for construction of house. He has notified his employer ABC Developers Ltd. that there will be a loss of ₹ 90,000 in respect of this house property for financial year ended 31.03.2023. Raj is not opting for the provisions of section 115BAC.
- (iii) By virtue of an agreement with ABC Developers Ltd., a catering organisation receives a sum of ₹ 55,000 per month towards supply of food, water, snacks etc. during office hours to the employees of the company.
- (iv) DK, a part time director of ABC Developers Ltd., was paid an amount of ₹ 3,50,000 as fees which was actually in the nature of commission on sales for the period 01.07.2022 to 30.09.2022.

- (v) ACD Ltd., a Pharmaceutical company, credited ₹ 18,000 towards fees for professional services and ₹ 17,000 towards fees for technical services to the account of HG in its books of account on 06.10.2022. The total sum of ₹ 35,000 was paid by cheque to HG on 18.12.2022.
- (vi) XYZ Ltd., a foreign company, pays outside India, salary to its employee, Mr. Raghav, a foreign national and a non-resident, for services rendered in India for 265 days during the Previous Year 2022-23.

You are required to work out the following questions as to how the Winning Articled Assistants would have worked out on the issues given to them w.r.t the various important clients and projects of the firm SSP & CO. LLP.

I. Multiple Choice Questions

1. The Winning Articled Trainee is told that the Partnership firm – XYZ & Co. would not be able to ensure that the aggregate of all amounts received including amount received for sales, turnover or gross receipts during the previous year, in cash, does not exceed five per cent of the said amount and aggregate of all payments made including amount incurred for expenditure, in cash, during the previous year does not exceed five per cent of the said payment. Which of the following statements hold true w.r.t. taxability of business profits of the firm?
- (a) The Partnership Firm can opt for presumptive scheme under section 44AD.
 - (b) Section 44AB would only be applicable to the Partnership Firm and it can't avail the benefit of Presumptive taxation scheme as the same is available to Individuals & HUF only.
 - (c) If the firm opts for Presumptive income scheme under section 44AD, even then, it has to get its books of accounts audited u/s 44AB of the Act, being a Partnership firm.
 - (d) It can declare the minimum profit @ 6% of the turnover as its turnover during the PY 2022-23 is not expected to exceed ₹ 2 crores.
2. What should be the outcome of the Tax Audit applicability as worked upon by Pratham in the case of Mr. Anurag Basu?
- (a) He can opt for section 44AD. Hence, he is not liable for tax audit.
 - (b) He needs to get his books of accounts audited u/s 44AB of the Act.
 - (c) He need not get his books of accounts audited u/s 44AB of the Act.
 - (d) He can opt for section 44ADA. Hence, he is not liable for tax audit.

3. XYZ Ltd. is required to deduct tax at source as follows in case of the payment made by it to Mr. Raghav-
 - (a) TDS u/s 192 of the Income tax Act, 1961.
 - (b) TDS u/s 194J of the Income tax Act, 1961.
 - (c) TDS u/s 195 of the Income tax Act, 1961.
 - (d) No liability of TDS as it being a foreign company and the remuneration is paid outside India.
4. What should be the TDS liability on the payment made by ACD Ltd. to the account of HG?
 - (a) TDS u/s 194J is applicable and would be deducted @ 30% w.r.t each kind of payment.
 - (b) TDS u/s 194J is applicable considering the aggregate payment made.
 - (c) TDS u/s 194C would be applicable as it becomes a Contract when two services got clubbed.
 - (d) TDS u/s 194J is applicable on such payments but the threshold limit is w.r.t. each kind of payment and therefore, no TDS liability in this case.
5. Examine how the Government grant be recognised in the books of BCD Pharmaceuticals Limited.
 - (a) To be capitalized in the Books of account.
 - (b) The entire grant should be recognised immediately in profit or loss.
 - (c) To be deferred till the research work proves to be marketable.
 - (d) Credited to a special Research Fund.

II. Descriptive Questions

6. Help Pratham in working out the applicability of Income tax Audit on PQR Ltd.
7. Explain the accounting treatment of, if any, for the two grants received and the flood-related compensation in the books of accounts of Spectra Limited as on 31st March, 2023, to be worked out by Shivam.
8. State all the TDS provisions applicable on ABC Developers Ltd. w.r.t. their transactions as stated in the above case scenario.

ANSWERS TO THE CASE STUDY 20**I. Answers to the Multiple Choice Questions**

1. (a) The Partnership Firm can opt for presumptive scheme under section 44AD.
Reason: Section 44AD of the Income Tax Act, 1961 would be applicable to Partnership Firm. Thus, XYZ & Co. can declare the minimum profit @ 8% of the turnover since its turnover during the P.Y. 2022-23 is not expected to exceed ₹ 2 crores. If the firm does not opt for presumptive income scheme under section 44AD, it has to get its books of account audited u/s 44AB of the said Act.
2. (c) He need not get his books of accounts audited u/s 44AB of the Act.
Reason: Though Section 44AD of the Income Tax Act, 1961 is applicable to an Individual, it is not applicable to person carrying on agency business. In the given case, since, Mr. Anurag is running an agency business, he cannot take the benefit of section 44AD. And since his total turnover during the F.Y. 2022-23 is not expected to exceed ₹ 1 crore, therefore, he need not get his books of accounts audited u/s 44AB of the said Act.
3. (a) TDS u/s 192 of the Income tax Act, 1961.
Reason: Section 195 requires deduction of tax at source by any person responsible for making payment to a non-resident, any interest or any other sum chargeable under the provisions of the Income-tax Act, 1961 (other than income chargeable under the head "Salaries"). Section 192(1) requires "any person" responsible for paying income under the head "Salaries" to deduct tax at source. Therefore, even if the payer is a foreign company, section 192 would be applicable. TDS provisions under section 192 are attracted, if the salary payable to a non-resident is chargeable to tax in India. Under section 9(1)(ii), income which falls under the head "Salaries" shall be deemed to accrue or arise in India, if it is earned in India. Salary payable for service rendered in India shall be regarded as income earned in India. Therefore, salary paid to Mr. Raghav, a non-resident, attracts tax liability in India, as he has rendered services in India.
4. (d) TDS u/s 194J is applicable on such payments but the threshold limit is w.r.t each kind of payment and therefore, no TDS liability in this case.
Reason: The limit of ₹ 30,000 for non-deduction of tax under section 194J would apply separately for fees for professional services and fees for technical services. This means that if a person has rendered services falling under both the

categories, tax need not be deducted if the fee for each category does not exceed ₹ 30,000 even though the aggregate of the amounts credited to the account of such person or paid to him for both the categories of services exceed ₹ 30,000. Therefore, ACD Ltd. is not required to deduct tax at source in respect of the fees either at the time of credit or at the time of payment.

5. (b) The entire grant should be recognised immediately in profit or loss.

Reason: Government grants, including non-monetary grants at fair value, should be recognised only when there is reasonable assurance that:

- (a) the entity will comply with the conditions attaching to them; and
- (b) the grants will be received.

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised in profit or loss of the period in which it becomes receivable.

II. Answers to the Descriptive Questions

6. **Applicability of Income tax Audit on PQR Ltd.**

The provisions relating to tax audit under section 44AB of the Income Tax Act, 1961 apply to every person carrying on business, if his total sales, turnover or gross receipts in business exceed the prescribed limit of ₹ 1 crore (Provided that in the case of a person whose aggregate of all amounts received including amount received for sales, turnover or gross receipts during the previous year, in cash, does not exceed five per cent of the said amount and aggregate of all payments made including amount incurred for expenditure, in cash, during the previous year does not exceed five per cent of the said payment, the limit of one crore rupees shall change to ten crore rupees) and to a person carrying on a profession, if his gross receipts from profession exceed the prescribed limit of ₹ 50 lakhs in any previous year. However, the term "sales", "turnover" or "gross receipts" are not defined in the Act, and therefore the meaning of the aforesaid terms has to be considered for the applicability of the section.

Some of the points for merit consideration in this regard as discussed in the Guidance Note issued by ICAI are given below-

- (i) Discount allowed in the sales invoice will reduce the sale price and, therefore, the same can be deducted from the turnover.

- (ii) Cash discount otherwise than that allowed in a cash memo/sales invoice is in the nature of a financing charge and is not related to turnover. Therefore, should not be deducted from the turnover.
- (iii) Turnover discount is normally allowed to a customer if the sales made to him exceed a particular quantity. As per trade practice, it is in the nature of trade discount and should be deducted from the figure.
- (iv) Special rebate allowed to a customer can be deducted from the sales if it is in the nature of trade discount. If it is in the nature of commission on sales, the same cannot be deducted from the figure of turnover.
- (v) Price of goods returned should be deducted from the turnover even if the returns are from the sales made in the earlier year/s.
- (vi) Sale proceeds of any shares, securities, debentures, etc., held as investment will not form part of turnover. However, if the shares, securities, debentures etc., are held as stock-in-trade, the sale proceeds thereof will form part of turnover.

In the given case, PQR Ltd. is engaged in manufacturing business and also having 97% of the receipts and payments through account payee cheques. Therefore, the tax audit would be applicable if the turnover exceeds ₹ 10 crores during the financial year 2022-23. The calculation of effective turnover for the prescribed limit purpose, in accordance with above-mentioned conditions, is given below:

Turnover during the year	₹10,50,00,000
Less: (i) Discount allowed in the Sales Invoice	(₹ 9,50,000)
(ii) Trade Discount	(₹ 5,30,000)
(iii) Sales Return	(₹ 6,60,000)
Effective turnover	₹ 10,28,60,000

The expected effective turnover of PQR Ltd. is ₹ 10,28,60,000 which is over and above the prescribed limit for tax audit under section 44AB of the Income Tax Act, 1961. Thus, the provisions related to tax audit would be applicable to the company and would therefore be liable for tax audit.

7. Accounting treatment for:

First Grant

The first grant for "Clear River Project" involving research into effects of various chemicals waste from the industrial area in Madhya Pradesh, seems to be unconditional as no details regarding its refund has been mentioned. Even though the research has

not been started nor any major steps have been completed by Spectra Limited to commence the research, yet the grant will be recognised immediately in profit or loss for the year ended 31st March, 2023.

Alternatively, in case, the grant is conditional as to expenditure on research, the grant will be recognised in the books of Spectra Limited over the year the expenditure is being incurred.

Second Grant

The second grant related to commercial development of a new equipment is a grant related to depreciable asset. As per the information given in the question, the equipment will be available for sale in the market by April, 2024. Hence, by that time, grant relates to the construction of an asset and should be initially recognised as deferred income. The deferred income should be recognised as income on a systematic and rational basis over the asset's useful life.

The entity should recognise a liability on the balance sheet for the years ending 31st March, 2023 and 31st March, 2024. Once the equipment starts being used in the manufacturing process, the deferred grant income of ₹ 2,00,000 should be recognised over the asset's useful life to compensate for depreciation costs.

Alternatively, as per Ind AS 20, Spectra Limited would also be permitted to offset the deferred income of ₹ 2,00,000 against the cost of the equipment as on 1st April, 2024.

For Flood related compensation

Spectra Limited will be able to submit an application form only after 31st May, 2023 i.e. in the year 2023-2024. Although flood happened in September, 2022 and loss was incurred due to flood related to the year 2022-2023, the entity should recognise the income from the government grant in the year when the application form related to it is submitted and approved by the government for compensation.

Since, in the year 2022-2023, the application form could not be submitted due to adoption of financials with respect to sales figure before flood occurred, Spectra Limited should not recognise the grant income as it has not become receivable as on 31st March, 2023.

8. Various TDS Compliances to be made by ABC Developers Ltd. are as follows:

- (i) Section 194H requires deduction of tax at source @ 5% from commission and brokerage payments to a resident. However, no tax is to be deducted at source where the amount of such payment does not exceed ₹ 15,000.

In the given case, 'PQR Packaging Ltd.', the consignee, has not remitted the commission of ₹ 60,000 to the consignor 'ABC Developers Ltd.' while remitting the sale consideration.

Since the retention of commission by the consignee/agent amounts to constructive payment of the same to him by the consignor/principal, deduction of tax at source is required to be made from the amount of commission [CBDT Circular No.619 dated 4/12/1991].

Therefore, ABC Developers Ltd. has to deduct tax at source on ₹ 60,000 at the rate of 5%, amounting to ₹ 3,000.

- (ii) Section 192 provides that tax is required to be deducted on the payment made as salaries. Tax is to be deducted on the estimated income at the average of income tax computed on the basis of the rates in force for the financial year in which payment is made.

The employee may declare details of his other incomes (including loss under the head "Income from house property" but not any other loss) to his employer. In this case, since Mr. Raj has notified his employer ABC Developers Ltd. of loss from self-occupied house property, the employer has to take the same into consideration for deduction of tax at source.

Therefore, ABC Developers Ltd. is required to deduct tax at source on the salary of ₹ 60,000 per month paid to Mr. Raj, in the following manner:

Income under the head salaries (₹ 60,000 x 12)	7,20,000
Less: Standard deduction under section 16(ia)	<u>50,000</u>
	6,70,000
Income under the head "house property"	<u>(90,000)</u>
Gross total income	5,80,000
Less: Deduction under Chapter VI-A	<u>Nil</u>
Total Income	<u>5,80,000</u>
Tax on ₹ 5,80,000	28,500
Add: Health and Education cess @ 4%	<u>1,140</u>
Tax to be deducted at source	29,640

- (iii) The definition of "work" under Explanation to section 194-C includes catering services and therefore, TDS provisions under section 194C are attracted in respect of payments to a caterer. As the payment exceeds ₹ 30,000, the Company is required to deduct tax at source at 2% on the payments made to catering

organisation. If the catering organization is an individual or HUF, then the tax deduction shall be made @1%.

- (iv) Section 194J provides for deduction of tax at source @ 10% on any remuneration or fees or commission, by whatever name called, paid to a director, which is not in the nature of salary in respect of which tax is deductible at source under section 192. Hence, tax is to be deducted at source under section 194J @ 10% by ABC Developers Ltd. on the commission of ₹ 3,50,000 paid to DK, a part-time director. The tax deductible under section 194J would be ₹ 35,000, being 10% of ₹ 3,50,000.

CASE STUDY 21

- (1) Ideal Fabrics Ltd. is a Ludhiana based company incorporated in 1996. The company is one of the leading textile manufacturers of India having its presence across a wide spectrum, from manufacturing lowest to highest range of fabrics. The Company expanded its product offerings and entered into strategic alliance with leading global textile players to gain access to state-of-the-art technologies. Ideal Fabrics Ltd. is one of the very few vertically integrated fabric manufacturers in India producing large variety of fabrics in the apparel segment serving large retailers across USA, Europe, Asia and other emerging nations.
- (2) In recent board meeting, the following particulars are extracted from statement of profit and loss of the company for the year ended 31.03.2023:

Particulars	Amount (₹)
Gross Profit	90,00,000
Profit on sale of building (Cost ₹ 15,00,000 and written down value ₹ 9,00,000)	7,50,000
Salaries & Wages	3,75,000
Sundry Repairs to Fixed Assets	1,50,000
Compensation for breach of contract	1,50,000
Depreciation as per section 123 of the Companies Act, 2013	2,10,000
Loss on sale of current Investments	3,00,000
Interest on unsecured loans	75,000
Interest on Debentures issued by Company	1,50,000
Repair Expenses to Fixed Assets (Capital in nature)	3,00,000
Net Profit (after giving effect of all the items given above)	19,50,000

The management of the company is asking from Company Secretary of the company regarding the overall managerial remuneration payable as per the provisions of Companies Act, 2013.

- (3) Mr. Rajesh is an independent director of the company. He plays a vital role in the management of the Company and contributes to major decision-making process of organisation. The Company pays sitting fees of ₹ 60,000 to him for every Board meeting he attends. The Articles of Association of the company have fixed the payment of sitting fees for each Meeting of Directors subject to a maximum of ₹ 60,000. In view of increased responsibilities of independent directors of companies, the company proposes to increase the sitting fees to ₹ 1,25,000 per meeting.

- (4) Ideal Fabrics Ltd. is registered under GST in Punjab. The product of the company is making its market worldwide because of its quality and price. One of the customer from Haryana, Mr Raju, is asking for a sample of the company. The company is first time sending its sample in Haryana. The company is generally involved in high value transactions but this time company is sending goods of taxable value of ₹ 48,000. The billing department of the company strongly believes that there is no need to generate e-way bill in respect of this consignment as the value is less than ₹ 50,000. The GST applicable on the above goods is 18%. Hence the company did not issue the e-way bill in respect of above consignment.
- (5) The company wanted to add a new product in its range of products. In order to achieve this goal, the company has purchased a new machinery from USA for \$ 1,00,000 on 01.01.2023. The exchange rate on the date of transaction is 1 \$ = ₹ 68. The company is not required to pay for this purchase until 30.06.2022. The exchange rate as on 31.03.2023 is 1 \$ = ₹ 65. Mr. Mohan, the CFO of the company feels that the exchange fluctuation would not affect the financial statements of the Company. Hence, he did not make any changes in respect of currency fluctuations as on 31.03.2023.
- (6) The accounts team of the company is not able to understand the new TCS provision under section 206C(1H) which has come into force with effect from 1st October, 2021. So, Mr. Mohan discussed the issue with management of the company. Hence the company called their statutory auditors CA Rakesh Asija for the meeting. CA Rakesh visited the company and gave presentation on the above topic. CA Rakesh discussed the provisions in a brief manner. Mohan also discussed with him about the prestigious customers of the company i.e. Kunal Textiles & Madhu Textiles. The company has made sales to Kunal Textiles of ₹ 85 lakhs from 1st April 2022 to 30th September 2022 out of which payment of ₹ 45 lakhs was received till 30th September and amount received on or after 01.10.2022 is ₹ 40 lakhs. There is another buyer of the company Madhu Textiles to whom the company made sales up-to 30.09.2022 ₹ 65 lakhs. Amount received up-to 30.09.2022 is ₹ 55 lakhs. Sales made on or after 01.10.2022 is ₹ 30 lakhs. Amount received after 1.10.2022 is ₹ 40 lakhs. Company's turnover for the financial year 2021-22 exceeds ₹ 10 crores. The sales made to Kunal Textiles & Madhu Textiles are inclusive of GST and both the buyers have furnished their PAN.

I. Multiple Choice Questions

1. As per relevant Section of TCS, the amount of TCS collected by seller shall be paid to the credit of Central Government within _____ from the last day of the month in which the collection is made. These transactions are to be reported by the sellers in the Form no _____.
- (a) 15 days, 26Q
- (b) 7 days, 27EQ

- (c) 7 days, 27Q
(d) 15 days, 27EQ
2. If Ideal Fabrics Ltd. makes sale to Madhu Textiles of ₹ 18,00,000 (exclusive of GST @ 18%) on 18.02.2023 in addition to the sales data given in the case study, what would be the amount of TCS to be collected by Ideal Fabrics Ltd. on such additional sales, the payment in respect of such sales is made on the same date?
- (a) ₹ 1,800
(b) ₹ 1,350
(c) ₹ 1,593
(d) ₹ 2,124
3. With respect to para no. (4), which of the following statement is not correct in respect of E-way bill?
- (a) E-way bill is not valid for movement of goods without vehicle number on it.
(b) Once E-way bill is generated, it can be edited for any mistake.
(c) E-way bill can be cancelled within 24 hours of generation.
(d) E-way bill is required to be generated even if movement of goods is by reasons other than supply.
4. Calculate the amount of loss/gain as per IndAS 21 in respect of machinery purchased by Ideal Fabrics Ltd. in foreign currency that needs to be recognised in the statement of profit and loss.
- (a) Gain – ₹ 6 Lakhs
(b) Loss – ₹ 6 Lakhs
(c) Gain – ₹ 3 Lakhs
(d) Loss – ₹ 3 Lakhs
5. With reference to para no. (3), the director may receive remuneration under the Companies Act, 2013 by way of sitting fee for attending meetings of the board which shall not exceed:
- (a) ₹ 75,000
(b) ₹ 1,00,000
(c) ₹ 50,000
(d) ₹ 80,000

II. Descriptive Questions

6. (a) Whether e-way bill in respect of material sent to Raju in Haryana is required to be generated?
- (b) With reference to last part of para no. (4), what will be the consequence for non-issuance of e-way bill?
7. (a) Compute the amount of TCS which needs to be collected from-
 - Kunal Textiles Ltd., &
 - Madhu Textiles Ltd.
- (b) Discuss about the due dates of filing TCS Returns and furnishing of certificates to the buyer.
8. With reference to para no. (2), compute the overall managerial remuneration payable under the provisions of Companies Act, 2013 subject to provisions under Schedule V.

ANSWERS TO THE CASE STUDY 21

I. Answers to the Multiple Choice Questions

1. (b) 7 days, 27EQ
Reason: The person responsible for collecting tax shall deposit the TCS amount within 7 days from the last day of the month in which the tax was collected. Every tax collector shall submit Statement of TCS in Form 27EQ in respect of the tax collected by him.
2. (d) ₹ 2,124
Reason: The Government of India (GOI) in the Finance Bill, 2020 introduced a new sub section (1H) to section 206C of the Income Tax Act, 1961 (IT Act) that "Every person, being a seller, who receives any amount as consideration for sale of any goods of the value or aggregate of such value exceeding fifty lakh rupees in any previous year, other than the goods being exported out of India or goods covered in sub-section (1) or sub-section (1F) or sub-section (1G) shall, at the time of receipt of such amount, collect from the buyer, a sum equal to 0.1 per cent of the sale consideration exceeding fifty lakh rupees as income-tax." CBDT also clarified that the GST portion included in sale value would attract TCS u/s 206C(1H) of the Act.

Hence amount of TCS would be calculated as follows:

Taxable value = 18,00,000

Add: GST = 18,00,000 * 18% = 3,24,000

Total Invoice value = 21,24,000

TCS = 0.1% on 21,24,000 = 2,124

3. (b) Once E-way bill is generated, it can be edited for any mistake.

Reason: Once e-way bill is generated, it cannot be edited for any mistake. However, it can be cancelled within 24 hours of generation.

4. (c) Gain – ₹ 3 Lakhs

Reason: As per IndAS 21 “The effects of change in foreign Exchange Rates” the asset and liability would initially be recognised at the rate of exchange in force at the transaction date i.e. 01.01.2023. Therefore, amount initially recognised would be ₹ 68,00,000 (\$ 1,00,000 * ₹ 68)

The liability is a monetary item, so it is retranslated using the rate of exchange in force at 31.03.2023. This makes the closing liability of ₹ 65,00,000 (\$ 1,00,000 * ₹ 65)

The exchange gain of ₹ 3,00,000 (₹ 68,00,000 – ₹ 65,00,000) on translation of monetary items is recognised in statement of profit and loss.

5. (b) ₹ 1,00,000

Reason: As per Sec 197(5) of Companies Act, 2013, a director may receive remuneration by way of fee for attending meetings of the board or Committee thereof or for any other purpose whatsoever as may be decided by the Board subject to conditions imposed by Rule 4 of the companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 as under-

- The sitting fees shall not exceed ₹ 1,00,000 per meeting of the Board or Committee thereof
- The sitting fee payable to the independent directors and women directors shall not be less than that payable to other directors. (As per Proviso to Rule 4)

II. Answers to the Descriptive Questions

6. (a) Rule 138(1) of CGST Rules, 2017 provides that e-way bill is mandatorily required to be generated *inter alia* if a registered person causes movement of goods of consignment value exceeding ₹ 50,000 in relation to a supply.

Further explanation 2 to Rule 138(1) stipulates that the consignment value of goods shall be value determined in accordance with the provisions of Sec 15, declared in an invoice, a bill of supply or a delivery challan as the case may be, issued in respect of the said consignment and also includes CGST, SGST/UGST, IGST and cess charged, if any, in the document and shall exclude the value of exempt supply of goods where the invoice is issued in respect of both exempt and taxable supply of goods.

Accordingly, in the given case the consignment value will be as follows-

$$= ₹ 48,000 * 1.18 = ₹ 56,640$$

Since the movement of goods is in relation to supply of goods and the consignment value exceeds ₹ 50,000, e-way bill is mandatorily required to be issued in the given case.

- (b) **Consequence of non-issuance of e-way bill:** It is mandatory to generate e-way bill in all cases where the value of consignment being transported is more than ₹ 50,000 and it is not otherwise exempted in terms of Rule 138(14) of CGST Rules, 2017. If e-way bills, wherever required, are not issued in accordance with the provisions contained in rule 138, the same will be considered as contravention of rules. As per Sec 122(1)(xiv) of CGST Act, 2017, a taxable person who transports any taxable goods without the cover of specified documents (e-way bill is one of the specified documents) shall be liable to penalty of ₹ 10,000 or tax sought to be evaded (wherever applicable) whichever is greater.

Moreover, as per Section 129(1) of CGST Act, 2017, where any person transports any goods or stores any goods while they are in transit in contravention of the provisions of this Act or the Rules made thereunder, all such goods and conveyance used as a means of transport for carrying the said goods and documents relating to such goods and conveyance shall be liable to detention or seizure.

7. (a) **Kunal Textiles**

S. No.	Particulars	Amount (₹)
(1)	Sales up-to 30-09-2022	85 Lakhs
(2)	Amount received up-to 30-09-2022	45 Lakhs
(3)	Amount received from 01-10-2022	40 Lakhs
	Amount Liable to TCS u/s 206 C(1H)	35 Lakhs (on the amount exceeding ₹ 50 Lakhs)

Amount of TCS should be ₹ 35 Lakhs x 0.1% = ₹ 3,500

Madhu Textiles

S. No.	Particulars	Amount (₹)
(1)	Sales up to 30-09-2022	65 Lakhs
(2)	Amount received upto 30-09-2022	55 Lakhs
(3)	Sale made on or after 01.10.2022	30 Lakhs
(4)	Amount received from 01-10-2022	40 Lakhs
(5)	Total Amount received as sales consideration from Madhu Textiles	95 Lakhs
	Amount Liable to TCS u/s 206 C(1H)	40 Lakhs (amount exceeding ₹ 50 lakhs)

Amount of TCS should be ₹ 40 Lakhs x 0.1% = ₹ 4,000

(b) The due dates for filing of TCS returns are mentioned below: –

Quarter	Due Date	Due date of issuance of certificate
Q1. April to June	15th of July	30 th of July
Q2. July to Sep	15th of October	30 th of October
Q3. Oct to Dec.	15th of January	30 th of January
Q4. Jan to Mar	15th of May	30 th of May

8. The managerial remuneration shall be computed in accordance with the provisions laid down in section 198 of the Companies Act 2013-

Particulars	Amount (₹)
Net profit	19,50,000
Less: Capital profits on sale of building (Note 1)	1,50,000
Salaries & Wages (Note 2)	-
Sundry repairs to fixed Assets (Note 2)	-
Compensation from breach of contract (Note 2)	-
Depreciation (Note 2)	-
Loss on Sale of Investments (Note 3)	-
Interest on unsecured loans (Note 2)	-
Interest on debentures (Note 2)	-
Add: Repair expenses to fixed assets (Capital in Nature) (Note 4)	3,00,000
Net profits as per section 198	21,00,000

Therefore, the overall maximum managerial remuneration shall be 11% of the Net profits computed in accordance with section 198 i.e. 11% x 21,00,000 = ₹ 2,31,000.

Notes:

- (1) As per section 198(3), credit shall not be given for profits from the sale of any immovable property or fixed assets of a capital nature comprised in the undertaking or any of the undertakings of the company, unless the business of the company consists, whether wholly or partly, of buying and selling any such property or assets; provided that where the amount for which any fixed asset is sold exceeds the written-down value thereof, credit shall be given for so much of the excess as is not higher than the difference between the original cost of that fixed asset and its written-down value.

Accordingly, the calculation of capital profit is computed as under:

Profit = Selling Price – Written down value

7,50,000 = Selling Price – 9,00,000.

Therefore, Selling Price = 16,50,000.

Capital profit = 16,50,000 – 15,00,000 (original cost) = 1,50,000

- (2) According to section 198 (4), the following sums shall be deducted:
- (a) All the usual working charges – salaries and wages are considered as usual working charges.
 - (b) expenses on repairs, whether to immovable or to movable property, provided the repairs are not of a capital nature.
 - (c) any compensation or damages to be paid in virtue of any legal liability including a liability arising from a breach of contract.
 - (d) interest on debentures issued by the company.
 - (e) interest on unsecured loans and advances.
 - (f) depreciation to the extent specified in section 123.

Since all of the above charges are already deducted while arriving at net profit, no effect will be given.

- (3) According to section 198(5), loss of a capital nature including loss on sale of the undertaking or any of the undertakings of the company or any part thereof shall not be deducted. In the given question, the investments are current in nature and accordingly no effect is given as it is already deducted while arriving at net profit.
- (4) According to section 198(4), expenses on repairs, whether to immovable or to movable property is deducted only for repairs which are not capital in nature. Accordingly, we have added back to the net profit.

CASE STUDY 22

Aakash and Vani are close friends who were employed in the city of Delhi, far away from their respective home towns. Aakash is a software engineer while Vani is an MBA by profession. Both of them have spent considerable time in the industry to gain reasonable experience to launch their own startup. Both of them have decided to launch the operations in the area of tourism with effect from 1st April 2022, wherein the customers would be provided the complete package of tourist services in the domestic territories and in the international territories. After the round of discussions with the consultant, it was decided to incorporate a new partnership firm with the proposed name 'AakashVani Universal' (hereinafter referred as 'Aakashvani') with Aakash and Vani being the two partners in newly formed partnership firm.

Salary to partners is to be provided as per the maximum limits allowable as per Income-tax Act, 1961. This clause with sufficient details is also added in the partnership deed.

In the internet of things, travel business must be visible to the potential customers when they type keywords to find similar agencies on the web. This is called search engine optimization of a website. If the site does not appear on the top search results, most customers will not bother to find more sites. They will simply click on the top ranking sites. To improve its search engine optimization to find out the potential customers, the company has subscribed for the services of such kind for the period of 12 months starting from 1st June, 2022 for an agreed amount of ₹ 90,000.

Aakashvani's revenue model in aggregate collects the following types of charges from the customers for every journey:

- (1) There are minimum fixed charges levied by Aakashvani for the type of package chosen by customer as per location and corresponding package and further the hotel charges are varied as per customer's number of days stay in the hotel as against the corresponding package and location:

Location	Package	Fixed charges (₹)	Per day hotel charges (₹)
India	Platinum	1,00,000	5,000
India	Diamond	75,000	4,000
India	Golden	50,000	3,000
India	Copper	40,000	2,000
India	Silver	25,000	1,000
Asia	Platinum	2,00,000	10,000
Asia	Diamond	1,75,000	9,000
Asia	Golden	1,50,000	8,000

Asia	Copper	1,00,000	7,000
Asia	Silver	75,000	6,000
Overseas*	Platinum	3,00,000	15,000
Overseas	Diamond	2,50,000	14,000
Overseas	Golden	2,00,000	13,000
Overseas	Copper	1,75,000	12,000
Overseas	Silver	1,50,000	11,000

*Note: Overseas hereinafter implies, locations other than India and Asia.

- (2) In addition to charges which are discussed in revenue model's point no.1, Aakashvani also collects charges as per the distance travelled by the customers from the base location, as measured in units of Kilometers.

Journey distance (In KM)	Location	Rate per KM (₹)
1-100	India	50
200-400	India	100
400-600	India	150
600-1000	India	200
Above 1000	India	250
1-100	Asia	500
200-400	Asia	400
400-600	Asia	300
600-1000	Asia	200
Above 1000	Asia	100
1-5000	Overseas	200
5001-7000	Overseas	150
7001-10000	Overseas	100
10001-12000	Overseas	75
Above 12000	Overseas	75

It is to be noted that charges which can be levied from the customers as per distance covered is subject to maximum of below limits:

Location	Maximum charges as per distance, that may be levied from a customer (₹)
India	1,00,000
Asia	1,75,000
Overseas	5,00,000

- (3) The company provides direct subsidy of ₹ 10,000 for all the visits to the specific holy places. The details of those places are as under:

Holy Place	Location
Mecca	Saudi Arabia (India)
Vatican city	Europe
Jerusalem	Israel (Asia)
12 Shiv Jyotirlingam	India
4 Dham	India
Golden Temple	Amritsar (India)
Bodh Gaya	Gaya (India)

Actual packages subscribed by customers during FY 2022-23 with relevant details are as below:

Customer	Location	Journey distance (Kilometers)	Package	Number of days stay in Hotel	Agency through which customer acquired
A	India	700	Platinum	4	Wonder Agent
B	Asia	550	Diamond	8	Universal agent
C	Overseas	6,100	Golden	3	Universal agent
D	India	1,800	Copper	6	Wonder Agent
E	Asia	2,000	Silver	5	Universal agent
F	India	500	Platinum	4	Direct
G	Overseas	7,000	Golden	5	Universal agent
H	Overseas	6,500	Copper	7	Universal agent
I	Overseas	9,500	Silver	4	Wonder Agent
J	India	1,200	Golden	14	Wonder Agent
K	Overseas	8,400	Diamond	2	Universal agent
L	Asia	1,800	Platinum	21	Wonder Agent
M	Asia	950	Copper	4	Wonder Agent
N	Overseas	5,500	Golden	10	Universal agent
O	India	700	Diamond	8	Universal agent
P	Asia	1,600	Platinum	15	Direct
Q	Asia	2,500	Copper	3	Universal agent
R	India	500	Golden	7	Universal agent
S	Overseas	7,000	Diamond	5	Wonder Agent
T	India	1,000	Copper	6	Universal agent

Note: The firm does not pay any commission on direct bookings.

The customers with following details have visited holy places during the year:

Customer	Holy Place
A	12 Shiv Jyotirlingam
H	Mecca
J	Golden Temple
T	Bodh Gaya

It may be noted that at present, Aakashvani has 2 travel agents: Wonder Agents and Universal agents, through which it acquires its business.

The tie ups with travel agents is facilitated by variety of services that include arranging airline tickets, making hotel and resort reservations, creating itineraries for tour or cruise packages and providing information about specific destinations.

The company pays two types of commissions to its agents, categorized and paid as per (1) Flat rate and (2) Passengers' count. The agents are paid respective commissions as per following details:

Flat rate: A flat rate travel agent commission is the simplest type of commission wherein every travel agent gets fixed standard amount on each customer's booking.

Commission rate (India)	Commission rate (Asia)	Commission rate (Overseas)
₹ 10,000	₹ 20,000	₹ 30,000

Passengers' count: In addition to the flat rate commission, the commission level Aakashvani pays an agency is determined by the business that has been acquired under that agency. Aakashvani pays them as per the passenger's volume, as per the rate pattern depicted below, wherein that slab rate of commission would be applied to travel agent for which he has done total number of customer's bookings during the year.

Passenger booking by agency during the year	Commission rate per passenger (Domestic)	Commission rate per passenger (Asia)	Commission rate per passenger (Overseas)
1-5 passengers	2.5% of hotel charges & distance charges	5% of hotel charges & distance charges	7.5% of hotel charges & distance charges
6-10 passengers	5% of hotel charges & distance charges	7.5% of hotel charges & distance charges	10% of hotel charges & distance charges
11-20 passengers	7.5% of hotel charges & distance charges	10% of hotel charges & distance charges	12.5% of hotel charges & distance charges

21-50 passengers	10% of hotel charges & distance charges	12.5% of hotel charges & distance charges	15% of hotel charges & distance charges
Above 50 passengers	15% of hotel charges & distance charges	17.5% of hotel charges & distance charges	20% of hotel charges & distance charges

Assets purchased by Aakashvani during the year are:

Asset	Amount (₹)	Date of put to use
Air-conditioner	1,00,000	15/08/2021
Laptop	4,00,00	07/04/2021
Software	1,50,000	30/04/2021
Furniture	2,50,000	15/11/2021

The partnership firm has incurred following income and expenditure for the year ending 31 March 2032: (assume that all the revenue receivable from customers and expenses, which are required to be computed separately hereinabove have been correctly accounted for in the following figures, except depreciation and partners remuneration)

Particulars	Amount (₹)
Revenue from operations (including other income)	1,00,00,000
Advertisement	4,00,000
Salary to staff	8,50,000
Rental expenses	12,00,000
Repairs and Maintenance	3,00,000
Training and Development	4,50,000
Telecommunications cost	5,00,000
Conveyance	3,00,000
Other expenses (including commission to agents)	30,00,000

I. Multiple Choice Questions

- How would the firm recognize expenses amounting to ₹ 90,000 related to search engine optimization?
 - ₹ 90,000 is to be treated as an expense for current financial year.
 - ₹ 90,000 is to be treated as prepaid expense for current financial year.

- (c) ₹ 15,000 is to be treated as expense in current year and ₹ 75,000 as prepaid expense for current financial year.
- (d) ₹ 75,000 is to be treated as expense in current year and ₹ 15,000 as prepaid expense for current financial year.
2. Air travel agent is a person who is engaged in providing services connected with the booking of passage for travel by air. What the provisions of GST are for air travel agents as the value of supply of service?
- (a) 5% of the basic fare in case of the domestic booking for travel by air and 10% of the basic fare in case of an international booking for travel by air.
- (b) 2.5% of the basic fare in case of the domestic booking for travel by air and 5% of the basic fare in case of an international booking for travel by air.
- (c) 10% of the basic fare in case of the domestic booking for travel by air and 5% of the basic fare in case of an international booking for travel by air.
- (d) 5% of the basic fare in case of the domestic booking for travel by air and 5% of the basic fare in case of an international booking for travel by air.
3. Calculate the depreciation as per Income-tax Act, 1961 in the Aakashvani's books for assessment year 2023-24.
- (a) ₹ 2,60,000
- (b) ₹ 3,57,500
- (c) ₹ 1,67,500
- (d) ₹ 2,47,500
4. Calculate the maximum remuneration allowed to partners as per section 40b of Income-tax Act, 1961 in Aakashvani's books for assessment year 2023-24
- (a) ₹ 18,90,000
- (b) ₹ 17,41,500
- (c) ₹ 18,00,000
- (d) ₹ 24,77,250
5. Calculate the tax payable by Aakashvani as per Income-tax Act, 1961 for assessment year 2023-24.
- (a) ₹ 9,36,000

- (b) ₹ 8,58,780
- (c) ₹ 3,43,512
- (d) ₹ 3,15,432

II. Descriptive Questions

6. Calculate the revenue receivable for FY 2022-23 of Aakashvani, from the packages subscribed by customers as per its revenue model.
7. Calculate the commission to be paid by Aakashvani to its respective travel agents for FY 2022-2023.

ANSWERS TO THE CASE STUDY 22

I. Answers to the Multiple Choice Questions

1. (d) ₹ 75,000 is to be treated as expense in current year and ₹ 15,000 as prepaid expense for current financial year.
Reason: On accrual basis, for the given expenditure of ₹ 90,000; 10 months relate to FY 2022-23 and 2 months relate to FY 2023-24.
Accordingly, expenditure of ₹ 75,000 ($90,000 \times 10/12$) relates to FY 2022-23, it is to be charged as an expense and ₹ 15,000 ($90,000 \times 2/12$) would be treated as Prepaid expense as on 31 March, 2023.
2. (a) 5% of the basic fare in case of the domestic booking for travel by air and 10% of the basic fare in case of an international booking for travel by air.
Reason: Rule 32 of the Central Goods and Service Tax Rules, 2017 deals with the value in case of certain supplies and as per rule 32 (3) of the said rules provides that the value of supply of service in case of air travel agent shall be deemed to be following:
 - 5% of the basic fare in case of the domestic booking for travel by air; and
 - 10% of the basic fare in case of an international booking for travel by air.'Basic fare' here is the portion of air fare on which commission is paid by the airline to air travel agent.

3. (d) ₹ 2,47,500

Reason:

Calculation of Depreciation as per Income-tax Act, 1961

Block assets	of	WDV at year beginning	Depreciation rate	Additions (more than 6 months)	Additions (less than 6 months)	Depreciation	WDV at year end
Air-conditioner	-	-	15%	1,00,000	-	15,000	85,000
Laptop	-	-	40%	4,00,000	-	1,60,000	2,40,000
Software	-	-	40%	1,50,000	-	60,000	90,000
Furniture	-	-	10%	-	2,50,000	12,500	2,37,500
Total	-	-		6,50,000	2,50,000	2,47,500	6,52,500

4. (b) ₹ 17,41,500

Reason:

Particulars	Amount (₹)
Revenue from operations (including other income)	1,00,00,000
Less: Sundry expenses	70,00,000
Depreciation	2,47,500
Book profit before partners remuneration	27,52,500

On first ₹ 3,00,000 of the book-profit [A]

= ₹ 2,70,000 (₹ 1,50,000 or at the rate of 90 per cent of the book-profit, whichever is more)

On the balance of the book-profit [B]

= ₹ 14,71,500 (at the rate of 60 percent of ₹ 24,52,500)

Maximum allowable remuneration [A]+[B] = ₹ 17,41,500

5. (d) ₹ 3,15,432

Reason:

Particulars	Amount (₹)
Net profit before tax (27,52,500 - 17,41,500) (Taxable income)	10,11,000
Income Tax @ 30% (A)	3,03,300
Health & Education cess @ 4% (B)	12,132
Total tax liability (A) + (B)	3,15,432

II. Answers to the Descriptive Questions

6. Computation of Revenue levied from customers:

(All amounts are in Rupees, unless otherwise specified)

Customer	Location	Package	Number of days stay in Hotel (A)	Fixed charges (B)	Per day Hotel charges (C)	Hotel charges (D) = (A) x (C)	Billable distance charges (refer note-1) (E)	Subsidy, if any (F)	Total (B) + (D) + (E) - (F)
A	India	Platinum	4	1,00,000	5,000	20,000	1,00,000	10,000	2,10,000
B	Asia	Diamond	8	1,75,000	9,000	72,000	1,65,000	-	4,12,000
C	Overseas	Golden	3	2,00,000	13,000	39,000	5,00,000	-	7,39,000
D	India	Copper	6	40,000	2,000	12,000	1,00,000	-	1,52,000
E	Asia	Silver	5	75,000	6,000	30,000	1,75,000	-	2,80,000
F	India	Platinum	4	1,00,000	5,000	20,000	75,000	-	1,95,000
G	Overseas	Golden	5	2,00,000	13,000	65,000	5,00,000	-	7,65,000
H	Overseas	Copper	7	1,75,000	12,000	84,000	5,00,000	10,000	7,49,000
I	Overseas	Silver	4	1,50,000	11,000	44,000	5,00,000	-	6,94,000
J	India	Golden	14	50,000	3,000	42,000	1,00,000	10,000	1,82,000
K	Overseas	Diamond	2	2,50,000	14,000	28,000	5,00,000	-	7,78,000
L	Asia	Platinum	21	2,00,000	10,000	2,10,000	1,75,000	-	5,85,000
M	Asia	Copper	4	1,00,000	7,000	28,000	1,75,000	-	3,03,000
N	Overseas	Golden	10	2,00,000	13,000	1,30,000	5,00,000	-	8,30,000
O	India	Diamond	8	75,000	4,000	32,000	1,00,000	-	2,07,000
P	Asia	Platinum	15	2,00,000	10,000	1,50,000	1,60,000	-	5,10,000
Q	Asia	Copper	3	1,00,000	7,000	21,000	1,75,000	-	2,96,000
R	India	Golden	7	50,000	3,000	21,000	75,000	-	1,46,000
S	Overseas	Diamond	5	2,50,000	14,000	70,000	5,00,000	-	8,20,000
T	India	Copper	6	40,000	2,000	12,000	1,00,000	10,000	1,42,000
		Total		27,30,000		11,30,000	51,75,000	40,000	89,95,000

Note: Calculation of Billable distance charges

Customer	Location	Distance taken (Kilometres) (A)	Cost per kilometre (B)	Actual Distance charges (C) = (A) x (B)	Maximum cap of distance charges (D)	Billable distance charges [Lower of (C) & (D)]
A	India	700	200	1,40,000	1,00,000	1,00,000
B	Asia	550	300	1,65,000	1,75,000	1,65,000
C	Overseas	6,100	150	9,15,000	5,00,000	5,00,000
D	India	1,800	250	4,50,000	1,00,000	1,00,000
E	Asia	2,000	100	2,00,000	1,75,000	1,75,000
F	India	500	150	75,000	1,00,000	75,000
G	Overseas	7,000	150	10,50,000	5,00,000	5,00,000
H	Overseas	6,500	150	9,75,000	5,00,000	5,00,000
I	Overseas	9,500	100	9,50,000	5,00,000	5,00,000
J	India	1,200	250	3,00,000	1,00,000	1,00,000
K	Overseas	8,400	100	8,40,000	5,00,000	5,00,000
L	Asia	1,800	100	1,80,000	1,75,000	1,75,000
M	Asia	950	200	1,90,000	1,75,000	1,75,000
N	Overseas	5,500	150	8,25,000	5,00,000	5,00,000
O	India	700	200	1,40,000	1,00,000	1,00,000
P	Asia	1,600	100	1,60,000	1,75,000	1,60,000
Q	Asia	2,500	100	2,50,000	1,75,000	1,75,000
R	India	500	150	75,000	1,00,000	75,000
S	Overseas	7,000	150	10,50,000	5,00,000	5,00,000
T	India	1,000	200	2,00,000	1,00,000	1,00,000
		Total		91,30,000		51,75,000

7. Calculation of commission for Wonder Agent:

(All amounts are in Rupees, unless otherwise specified)

Customer	Location	Agency	Fixed commission (A)	Hotel charges levied from customer	Distance charges (C)	Total (D) = (B) + (C)	Commission on Domestic travels (E)	Commission on Asia travels (F)	Commission on Overseas travels (G)	Total commission (A)+(E)+(F)+(G)
A	India	Wonder Agent	10,000	20,000	1,00,000	1,20,000	6,000	-	-	16,000
D	India	Wonder Agent	10,000	12,000	1,00,000	1,12,000	5,600	-	-	15,600
I	Overseas	Wonder Agent	30,000	44,000	5,00,000	5,44,000	-	-	54,400	84,400
J	India	Wonder Agent	10,000	42,000	1,00,000	1,42,000	7,100	-	-	17,100
L	Asia	Wonder Agent	20,000	2,10,000	1,75,000	3,85,000	-	28,875	-	48,875
M	Asia	Wonder Agent	20,000	28,000	1,75,000	2,03,000	-	15,225	-	35,225
S	Overseas	Wonder Agent	30,000	70,000	5,00,000	5,70,000	-	-	57,000	87,000
Total			1,30,000				18,700	44,100	1,11,400	3,04,200

Note: Total 7 bookings are done by Wonder Agent, hence following slab of commission rate would be payable:

Passenger count	Commission rate per passenger (Domestic)	Commission rate per passenger (Asia)	Commission rate per passenger (Overseas-other than Asia)
6-10 passengers	5% of hotel charges & distance charges	7.5% of hotel charges & distance charges	10% of hotel charges & distance charges

Calculation of commission for Universal Agent:

Customer	Location	Agency	Fixed commission (A)	Hotel charges levied from customer (B)	Distance charges (C)	Total (D)=(B)+(C)	Commission on Domestic travels (E)	Commission on Asia travels (F)	Commission on Overseas travels (G)	Total commission (A) + (E) + (F) + (G)
B	Asia	Universal agent	20,000	72,000	1,65,000	2,37,000	-	23,700	-	43,700
C	Overseas	Universal agent	30,000	39,000	5,00,000	5,39,000	-	-	67,375	97,375
E	Asia	Universal agent	20,000	30,000	1,75,000	2,05,000	-	20,500	-	40,500
G	Overseas	Universal agent	30,000	65,000	5,00,000	5,65,000	-	-	70,625	1,00,625
H	Overseas	Universal agent	30,000	84,000	5,00,000	5,84,000	-	-	73,000	1,03,000

K	Overseas	Universal agent	30,000	28,000	5,00,000	5,28,000	-	-	66,000	96,000
N	Overseas	Universal agent	30,000	1,30,000	5,00,000	6,30,000	-	-	78,750	1,08,750
O	India	Universal agent	10,000	32,000	1,00,000	1,32,000	9,900	-	-	19,900
Q	Asia	Universal agent	20,000	21,000	1,75,000	1,96,000	-	19,600	-	39,600
R	India	Universal agent	10,000	21,000	75,000	96,000	7,200	-	-	17,200
T	India	Universal agent	10,000	12,000	1,00,000	1,12,000	8,400	-	-	18,400
Total			2,40,000				25,500	63,800	3,55,750	6,85,050

Note: Total 11 bookings are done by Universal Agent, hence following commission rate would be payable:

Passenger count	Commission rate per passenger (Domestic)	Commission rate per passenger (Asia)	Commission rate per passenger (Overseas-other than Asia)
11-20 passengers	7.5% of hotel charges & distance charges	10% of hotel charges & distance charges	12.5% of hotel charges & distance charges

CASE STUDY 23

Akshay is currently working in one of the top multinational companies of the world in Gurugram namely Kishaniti Limited. At present he is residing in a rented flat in Gurugram itself. Akshay is the Vice-President, Finance of the said company for its Asia-pacific operations. Akshay is paid reasonably well by his company as per his designation. Akshay lives in a rented premium luxury flat in one of the premium colonies of the region. Akshay pays a monthly rent of ₹ 1,00,000 for the said flat. However, there are 2 joint owners of the said property. As per the agreement, Akshay is required to make the payment of ₹ 75,000 to joint owner 1 and ₹ 25,000 to joint owner 2. Akshay has basic understanding that TDS needs to be deducted at the rate of 10% of other party if the aggregate amount of rent credited or paid or likely to be credited or paid during the financial year exceeds ₹ 2,40,000. However, the landlord has shown a reference of website to Akshay that individuals and/or HUFs who are subject to tax audit are only under an obligation to deduct the tax at source. Akshay being a salaried Individual is not required to deduct the TDS of other party. Akshay on the influence of landlord(s) has done the same and is depositing the gross amount of ₹ 1,00,000 in their respective bank accounts.

Recently a new accountant, Rohit has been hired by the company. The company has the following data shown in its books of accounts for the month of March, 2023 (1st March 2023 to 31st March 2023).

Particulars	Amount (₹)
Central goods and service tax payable	2,70,000
Integrated goods and service tax payable	1,80,000
State goods and service tax payable	2,70,000
Central goods and service tax receivable	70,000
State goods and service tax receivable	70,000
Integrated goods and service tax receivable	80,000
TDS receivable	50,000
TDS payable (including earlier carried forward balance)	90,000
TCS payment	10,000

Note: Assume that the figures as shown above are computed correctly after incorporating all adjustments.

According to Rohit, company needs to make the net payment of ₹ 40,000 for TDS i.e. net of TDS payable and TDS receivable. Accountant needs the help of Akshay for the exact final amount of each statutory liability to be paid on net basis for the month of March, 2023.

Accountant has been told by Akshay to show the treatment of entries done for given transactions so that TDS payable for the month of March, 2023 can be ascertained accurately. Before the

deposit of TDS, Akshay wants to cross verify the data to check discrepancy, if any. The company has following data in its books of accounts for the period of March 2023.

Date	Supplier	Company/ Non company	Invoice amount (₹) (A)	GST (₹) (B)	Gross Invoice (₹) (A) + (B)	Nature of Supply	Remarks
03.03.2023	Mohammad Shah & Brothers	Firm	2,00,000	36,000	2,36,000	Labour contractor	
01.03.2023	Madan Lal	Individual	1,20,000	-	1,20,000	Contract for AMC of electrical equipments for 1 year	PAN not available
10.03.2023	Johnsons appliances Pvt. Ltd.	Company	10,00,000	1,20,000	11,20,000	Purchase of Heavy machinery	
10.03.2023	Eagle Watch Security Private Limited	Company	80,000	14,400	94,400	Security Services	
13.03.2023	Mariol Limited	Company	5,00,000	25,000	5,25,000	Goods in the normal course of business	
18.03.2023	Shah & Thapa HUF	HUF	50,000	-	50,000	Interest on unsecured loans	
20.03.2023	M/s PQR	Firm	1,20,000	21,600	1,41,600	Consultancy fees paid to chartered accountant	
23.03.2023	Divine Decorators Private Limited	Company	1,80,000	32,400	2,12,400	Technical fees for architectural services	Certificate u/s 197 issued by the assessing officer for lower deduction at 2.5%
26.03.2023	Good luck Home solutions	Individual	1,75,000	31,500	2,06,500	Brokerage paid for purchase of immoveable property	

30.03.2023	Chotu Lal	Individual	15,000	-	15,000	Services for white wash of building	This is his first invoice to company in the given financial year
01.03.2023	Easy-lifts Limited	Company	1,44,000	25,920	1,69,920	AMC for maintenance of lifts for 1 year	
29.03.2023	Lotus Private Limited	Company	2,00,000	36,000	2,36,000	Rent paid for corporate office	Company pays rent of ₹ 2 lakh per month

Assume that all the above transactions have been executed from within the state only.

The company filed the TDS return for the month of March 2023 as on, 10th June 2023.

One of the companies of group promoters, Shivalik Private Limited is separately funded by the promoters of their own equity. Strategically that company's operations do not hold much significance from the director's vision. The directors want to ensure that this company comes under the ambit of composition scheme and want to pay taxes thereon under tax rates mentioned under the composition levy scheme. The company operates from 2 locations in the same state from where the supplies are executed. Since the commencement of operations in the company, only supplies within the state are made. During the preceding financial year, the company has following relevant information for the respective locations from its books.

Location 1

Particulars	Amount (₹)
Taxable supplies	60,00,000
GST @18% on taxable supplies which could have been levied on taxable supplies	10,80,000
Exports during the year	20,00,000
Exempt supplies	25,00,000
Value of inward supplies on which tax is payable under reverse charge	5,00,000

Location 2

Particulars	Amount (₹)
Taxable supplies	25,00,000
GST @18% on taxable supplies which could have been levied on taxable supplies	5,40,000
Exports during the year	10,00,000

Exempt supplies	5,00,000
Value of inward supplies on which tax is payable under reverse charge	2,00,000

Following particulars relate to the property which has been sold by Kishaniti Limited during the financial year 2022-2023.

Particulars	Amount (₹)
Date of sale	01-12-2022
Sale price of the property	40,00,000
Brokerage on sale	1% of sale value
Purchase value	20,00,000
Brokerage on Purchase	1% of Purchase value
Date of Purchase	08-12-2021

Cost Inflation Index for different years:

Financial Year	Cost Inflation Index
2015-2016	254
2016-2017	264
2017-2018	272
2018-2019	280
2019-2020	289
2020-2021	301
2021-2022	317
2022-23	331

Following information as extracted from company's financials is relevant for the year ending 31st March 2023.

Particulars	Amount (₹)
Profit before taxation	1,00,00,000
Depreciation as per Income tax	20,00,000
Depreciation as per Companies Act,2013	15,00,000
Corporate social responsibility expenses	3,00,000
Closing Written down value of assets as per Income tax	8,00,00,000
Closing Written down value of assets as per Companies Act,2013	10,00,00,000
Provision for doubtful debts	5,00,000
Donations	4,00,000

Interest on late payment of TDS	1,70,000
Penalty for violation of law	30,000

Assume the income tax rate to be 25%.

After analysis of the stated issues, answer the following questions based on applicable framework.

I. Multiple Choice Questions

- Calculate the amount of capital gain for sale of property executed on 01-12-2022.
 - ₹ 19,60,000-Short term capital gain
 - ₹ 19,40,000-Short term capital gain
 - ₹ 20,00,000-Short term capital gain
 - ₹ 18,78,715-Long term capital gain
- Calculate the amount of deferred tax liability to be shown in the company's balance sheet as at 31st March 2023.
 - Deferred tax liability- ₹ 53,50,000
 - Deferred tax liability- ₹ 51,25,000
 - Deferred tax liability- ₹ 2,50,000
 - Deferred tax liability- ₹ 52,42,500
- What is the name of document which Shivalik Private Limited will have to issue w.r.t. sales made by it _____ if it gets registered under the GST scheme directors are rooting for?
 - Tax Invoice
 - Invoice
 - Bill of supply
 - Bill of composition
- The Payment made to Good Luck Home Solutions requires TDS to be deducted at the rate of?
 - 5%
 - 10%
 - 2.5%
 - 3.75%

5. Calculate the fees on late filing of TDS return if any which the company has to pay as per facts mentioned in case study.
- (a) Nil
 (b) ₹ 2,000
 (c) ₹ 1,000
 (d) ₹ 12,800

II. Descriptive Questions

6. Pass complete Journal entries at the time of initial recognition of transactions in the books which relate to TDS after the consideration of provisions or rules as the case may be whether of accounting, Income tax or GST. And calculate the total amount of TDS which is required to be paid as liability for the month of March 2023. Also compute the total amount to be paid to suppliers.
7. Being Akshay, help the accountant to find the liability of statutory dues to be paid in the Government treasury for the month of March 2023

ANSWERS TO THE CASE STUDY 23

I. Answers to the Multiple Choice Questions

1. (b) ₹ 19,40,000-Short term capital gain

Reason: Calculation of Short term capital gain:

Particulars	Amount (₹)
Sale price of the property	40,00,000
Less: Transfer expenses on sale-Brokerage	(40,000)
Net Sale Consideration	39,60,000
Less: Purchase Price of property	(20,00,000)
Less: Cost of transfer	(20,000)
Short Term Capital Gain	19,40,000
Less: exemptions under sections 54, etc.	Nil
Net Short Term Capital Gain	19,40,000

2. (b) Deferred tax liability- ₹ 51,25,000

Reason: Calculation of deferred tax liability:

Particulars	Amount (₹)
Closing Written down value of assets as per Income tax	8,00,00,000
Closing Written down value of assets as per Companies Act,2013	10,00,00,000
Difference in Closing WDV of assets as per Companies Act & Income-tax Act [A]	2,00,00,000
Provision for doubtful debts [B]	5,00,000
Total [A] + [B]; [C]	2,05,00,000
Tax rate [D]	25%
Closing balance of Deferred tax liability [C] x [D] [2,05,00,000 x 25%]	51,25,000

Note: There is no treatment of permanent differences in the calculation of deferred tax as per Ind AS12.

3. (c) Bill of Supply.

Reason: Suppliers opting for composition levy are not required to raise any tax invoice, but simply need to issue a Bill of Supply wherein no tax will be charged from the recipient.

4. (a) 5%

Reason: As per Section 194H, any person other than an individual or HUF, who is responsible for paying any income by way of commission (other than insurance commission) or brokerage to a resident shall deduct income tax at the rate of 5%.

5. (b) ₹ 2,000

Reason: As per section 234E, where a person fails to file the TDS/TCS return on or before the due date prescribed in this regard, then he shall be liable to pay, by way of fee, a sum of ₹ 200 for every day during which the failure continues. The amount of late fees shall not exceed the amount of TDS.

The due date for filing return for March 2023 is 31st May 2022; however, the company has filed the TDS return on 10th June 2023. Accordingly, there is delay of 10 days, for which the company has to pay late fees of 2000 (10 days x ₹ 200/day).

II. Answers to the Descriptive Questions

6. Statement of TDS deduction of suppliers for the month of March 2023:

Date	Supplier	Company/ Non company	Applicable Section	Taxable amount (₹) [A]	TDS Rate [B]	TDS amount (₹) [C] = [A]x[B]	Payable to supplier (₹) [Invoice amount – [C]]	Remarks
03.03.2023	Mohammad shah & brothers	Firm	194C	2,00,000	2%	4,000	2,32,000	Normal Rate of TDS in case of Firm as contractor is 2%.
01.03.2023	Madan Lal	Individual	194C	1,20,000	20.00%	24,000	96,000	TDS deducted at the higher rate of 1% and 20%
10.03.2023	Johnsons appliances Pvt. Ltd.	Company	-	-	0.00%	-	11,20,000	TDS is not to be deducted on purchase of machinery
10.03.2023	Eagle watch security private limited	Company	194C	80,000	2%	1,600	92,800	Normal Rate of TDS in the nature of contract services is 2% for company
13.03.2023	Mariol Limited	Company	-	-	0.00%	-	5,25,000	TDS is not to be deducted on purchase of goods
18.03.2023	Shah & Thapa HUF	HUF	194A	50,000	10%	5,000	45,000	
20.03.2023	M/s PQR	Firm	194J	1,20,000	10%	12,000	1,29,600	

23.03.2023	Divine Decorators Private Limited	Company	194J	1,80,000	2.50%	4,500	2,07,900	TDS deducted at lower rate due to certificate u/s 197 from AO
26.03.2023	Good luck Home solutions	Individual	194H	1,75,000	5%	8,750	1,97,750	
30.03.2023	Chotu Lal	Individual	-	15,000	-	-	15,000	Limit for section 194C is ₹30000 for single invoice and ₹1,00,000 in aggregate
01.03.2023	Easylifts Limited	Company	194C	1,44,000	2%	2,880	1,67,040	
29.03.2023	Lotus Private Limited	Company	194I	2,00,000	10%	20,000	2,16,000	
TOTAL						82,730	30,44,090	

Journal Entries

Date	Particulars	Debit (₹)	Credit (₹)
03.03.2023	Labour expenses A/c	2,00,000	
	CGST Receivable	18,000	
	SGST Receivable	18,000	
	To Mohammad Shah & Brothers		2,32,000
	To TDS payable u/s 194C		4,000
	(Being bill booked against corresponding deduction of TDS as per invoice no. xxx)		

Date	Particulars	Debit (₹)	Credit (₹)
01.03.2023	Repairs & Maintenance A/c	10,000	
	Prepaid expenses A/c	1,10,000	
	To Madan Lal		96,000
	To TDS payable u/s 194C		24,000
	(Being bill booked as per invoice no. xxx)		

Date	Particulars	Debit (₹)	Credit (₹)
10.03.2023	Property, Plant & Equipment A/c	10,00,000	
	CGST Receivable	60,000	
	SGST Receivable	60,000	
	To Johnsons Appliances Pvt. Ltd.		11,20,000
	(Being bill booked for machinery purchase as per invoice no. xxx)		

Date	Particulars	Debit (₹)	Credit (₹)
10.03.2023	Security expenses A/c	80,000	
	CGST Receivable	7,200	
	SGST Receivable	7,200	
	To Eagle Watch Security Pvt Ltd.		92,800
	To TDS payable u/s 194C		1,600
	(Being bill booked against corresponding deduction of TDS as per invoice no. xxx)		

Date	Particulars	Debit (₹)	Credit (₹)
13.03.2023	Purchase of goods A/c	5,00,000	
	CGST Receivable	12,500	
	SGST Receivable	12,500	
	To Mariol Limited		5,25,000
	(Being bill booked for goods purchase as per invoice no. xxx)		

Date	Particulars	Debit (₹)	Credit (₹)
18.03.2023	Interest on unsecured loans	50,000	
	To Shah & Thapa HUF		45,000
	To TDS payable u/s 194A		5,000
	(Being bill booked as per invoice no. xxx)		

Date	Particulars	Debit (₹)	Credit (₹)
20.03.2023	Professional charges A/c	1,20,000	
	CGST Receivable	10,800	
	SGST Receivable	10,800	
	To M/s PQR		1,29,600
	To TDS payable u/s 194J		12,000
	(Being bill booked against corresponding deduction of TDS as per invoice no. xxx)		

Date	Particulars	Debit (₹)	Credit (₹)
23.03.2023	Professional charges A/c	1,80,000	
	CGST Receivable	16,200	
	SGST Receivable	16,200	
	To Divine Decorators Private Limited		2,07,900
	To TDS payable u/s 194J		4,500
	(Being bill booked against corresponding deduction of TDS as per invoice no. xxx)		

Date	Particulars	Debit (₹)	Credit (₹)
26.03.2023	Brokerage charges A/c	1,75,000	
	CGST Receivable	15,750	
	SGST Receivable	15,750	
	To Good Luck Home Solutions		1,97,750
	To TDS payable u/s 194H		8,750
	(Being bill booked against corresponding deduction of TDS as per invoice no. xxx)		

Date	Particulars	Debit (₹)	Credit (₹)
30.03.2023	Repairs & Maintenance A/c	15,000	
	To Chotu Lal		15,000
	(Being bill booked as per invoice no. xxx)		

Date	Particulars	Debit (₹)	Credit (₹)
01.03.2023	Repairs & Maintenance A/c	12,000	
	Prepaid expenses A/c	1,32,000	
	CGST Receivable	12,960	
	SGST Receivable	12,960	
	To Easy Lifts Limited		1,67,040
	To TDS payable u/s 194C		2,880
	(Being bill booked against corresponding deduction of TDS as per invoice no. xxx)		

Date	Particulars	Debit (₹)	Credit (₹)
29.03.2023	Rent A/c	2,00,000	
	CGST Receivable	18,000	

	SGST Receivable	18,000	
	To Lotus Private Limited		2,16,000
	To TDS payable u/s 194I		20,000
	(Being bill booked against corresponding deduction of TDS as per invoice no. xxx) as per invoice no. xxx)		

7. **Calculation of Net GST liability to be paid for the month of March 2023:**

Particulars	CGST (₹)	SGST (₹)	IGST (₹)	Total (₹)
GST payable (A)	2,70,000	2,70,000	1,80,000	7,20,000
GST Input receivable (B)	70,000	70,000	80,000	2,20,000
Net GST payable (A) - (B)	2,00,000	2,00,000	1,00,000	5,00,000

TDS/TCS liability to be paid for the month of March 2023:

Particulars	Amount (₹)
TDS payable (including earlier carried forward balance)	90,000
TCS payment	10,000
Total	1,00,000

Note: TDS Payable and TDS receivable cannot be set off against each other for the purpose of making monthly payment of TDS dues.

CASE STUDY 24

M/s ABCD & Co. is a firm of Chartered Accountants, with its headquarters at Kolkata and branches at many places across the country. Mr. A, Mr. B, Mrs. C and Mr. D are Chartered accountants who are the Partners of this firm and have expertise in different sectors of the economy and render their services accordingly in the firm by forming teams of Audit Staff & articled assistants under their supervision. The Firm has ventured into Tax Audits, Statutory audits, GST, Insolvency Procedures and Financial services. It has a policy of rotating the audit staff among different teams within the Firm itself so that at the end of their articleship training, they would have gained a good knowledge & experience of working as a Chartered Accountant in different sectors and subjects in the economy and their Articles could choose an expertise career accordingly on that basis. Where Mr. A handles all the matters related to accounting and auditing of their clients, Mr. B is responsible for all the GST related matters & Mrs. C takes care of all the Legal matters and their compliances. Mr. D looks after the day to day affairs of the firm, the recruitments, the supervision, the tax matters and the work allotment. Each division in the firm has got some major and important clients for whom the Partners themselves are very particular and take proper care of the quality of work they deliver. Post COVID-19 Pandemic, majority of the firm's clients are stuck with some issues and the Partners are trying their best to resolve them, some major and important issues being discussed are as follows :-

ISSUE: 1

Batliwala Pvt. Ltd. is a very old client of M/s ABCD & Co. It is associated with the firm since its inception and the client relations have grown well with time. The General Manager of Batliwala Pvt. Ltd., Mr. Shah, visits Mr. B in the office one day with two particular issues relating to GST and seeks his advice. He tells him that their Company manufactures Industrial products at its unit situated in West Bengal. Cost of production for 500 products is ₹ 10,00,000. These products require further processing before sale, and for this purpose, products are transferred from its Bengal unit to its another unit in Arunachal Pradesh. The value declared on the invoice for such transfer is the cost of production of such products. The Arunachal Pradesh unit, apart from processing its own products, engages in processing of similar products of other persons who supply the products of the same kind and quality. Thereafter, the Arunachal Pradesh unit sells these processed products to wholesalers. There are no other factories in the neighboring area which are engaged in the same business as that of Arunachal Pradesh unit. 1,000 units of the products of same kind and quality are supplied to Arunachal Pradesh unit, by another manufacturer located in Arunachal Pradesh, at the time when goods are sent by Bengal unit as well. The ex-factory price of such goods is ₹ 19,00,000. The Arunachal Pradesh unit of Batliwala Pvt. Ltd. is eligible for full ITC.

ISSUE: 2

Roy LLP, one of their clients have been hiring their services since the past 2 years. Mrs. C has been looking over all their Legal matters & compliances from time to time. The said LLP has

committed a default. Being, a partner of the said Corporate Debtor, Mr. Y filed an application on behalf of the Corporate Debtor, as a corporate applicant, for initiation of Corporate Insolvency Resolution Process. The Corporate Insolvency Resolution Process (CIRP) was initiated which resulted into passing of liquidation order by the Adjudicating Authority.

On the basis of the following information available w.r.t. Roy LLP, Miss C, who has been appointed as the liquidator, lays down the priority order in which the proceeds shall be distributed as per the provisions of the governing Code:-

Unsecured Financial Creditors (₹ 2,00,000);

Fee payable to M/s ABCD & Co. for the services rendered by Miss C – the Resolution Professional (₹ 70,000, inclusive of ₹ 20,000 being expenses incurred by Miss C in running the business of Roy (P) Ltd.); Amount realized from sale of liquidation of assets (₹ 10,00,000);

Secured Creditor who has relinquished the security (₹ 2,30,000);

Equity shareholders (₹ 5,00,000);

Income tax payable within a period of 2 years preceding the liquidation commencement date (₹2,25,000);

Cess payable to State Govt. within a period of 1 year preceding the liquidation commencement date (₹ 75,000).

ISSUE: 3

Purva Ltd. is one of their prime clients engaged in the business of Wholesale distribution of Electronical appliances. The Company has applied to Dhanwan Bank for loan facilities. The bank on studying the financial statements of the company notices that M/s ABCD & Co. are the auditors and requests them to call at the bank for a discussion. In the course of discussion, the bank asks M/s ABCD & CO., its opinion regarding the company and also asks for the audit working papers which contain detailed information regarding a few items in the financial statements. Mr. D, who is incharge of all the Documentation maintained with the firm, responds to the Bank accordingly.

Further, the MD of the Company informs Mr. B that pursuant to an audit conducted by the tax authorities under section 65 of the CGST Act, 2017, a show cause notice was issued to the Company, alleging that they had wrongly availed the input tax credit without actual receipt of goods for the month of July. In the absence of a satisfactory reply from them, the Joint Commissioner of Central Tax passed an adjudication order dated 20th August confirming a tax demand of ₹ 60,00,000 (i.e., CGST 30,00,000 and SGST 30,00,000) and imposing a penalty of equal amount under section 122. It was received by them on 22nd August. They do not agree with the order passed by the Joint Commissioner and decide to file an appeal with the Appellate Authority against the said adjudication order. The MD of Purva Ltd. seeks advice from Mr. B with the following queries as raised by the Board of Directors of the company-

- Whether it can file an appeal to Appellate Authority against the adjudication order passed by the Joint Commissioner of Central Tax? If yes, till what date can the appeal be filed?

- Does it need to approach both the Central and State Appellate Authorities for exercising its right of appeal?
- It is of the view that there is no requirement of paying pre-deposit of any kind before filing an appeal with the Appellate Authority.

ISSUE: 4

Mr. D consults Mr. A on 2 particular queries raised by two of their vendors which provide technical services to their firm. He tells Mr. A that the firm has sought modem from a company, Netanet, which provides broadband services along with voice call service. However, they can also get the connection from them and modem from any other vendor. The installation activity requires limited effort and the cost involved is almost insignificant. Netanet has various plans where it provides either broadband services or voice call services or both.

Another vendor, Software Company Hally Ltd. has licensed its software application to their firm. Under the agreement, it will provide updates or upgrades on a when-and-if-available basis; the firm can choose whether to install them. The firm expects that Hally Ltd. will undertake no other activities that will change the functionality of the software. Mr. D is confused as to the nature of these services to be recorded in the firm's books of accounts accordingly and Mr. A helps him in the same.

Mr. D, while working on finalizing the accounts of their firm M/s ABCD & Co., for the Previous year 2022-23, has gathered all the information from various associates and partners and has found the total miscellaneous receipts of the firm to be ₹ 3.50 crores (excluding the fee billed to the abovementioned Clients). His finalization is pending, subject to some points of discussion with the Partners which may affect the outcome of the Firm for the P.Y. 2022-23. He calls for a meeting for such discussion and at the meeting, he tells them that:-

- The Firm imported a Biometrics system based upon Artificial Intelligence from Singapore on 22.03.2023 for installation in the building to record attendance of all Employees and Trainees in the firm. It costed ₹ 2 lakhs and was cleared by customs on payment of duty of ₹ 1 lakh. Such customs duty is neither eligible for credit nor any refund. It was duly installed and put to use on 25.03.2023.
- The Book Profits calculated u/s 40(b) are ₹ 30 lakhs and Payment of Salary to Working Partners was ₹ 10 lakhs. The Clause for payment of salary to Working Partners though appears in the deed since the incorporation of the firm, but the same is silent as to quantum or the manner of quantifying such remuneration.
- Salary of ₹ 75,000 p.m. is paid to wife of Mr. A for working as a Manager in the Firm. The normal salary of a Manager working in a CA firm in the town is ₹ 50,000 p.m.
- The firm made a purchase of stationery in cash for ₹ 35,000 on 18.12.2022.
- The firm paid an interest of ₹ 30,000 on an O.D. of ₹ 8 lakhs taken for making payment of Advance Tax of ₹ 10 lakhs.

In between he further shared good news that their firm is offered company audits for 40 private companies having paid-up share capital less than ₹ 100 crore which has not

committed default in filing its financial statements or annual return with the Registrar, 2 small companies and 1 dormant company. However, he is not sure whether all the audits can be accepted by the firm.

After a healthy discussion among the Partners of the firm, Mr. D finalized the accounts of the firm for the Previous Year 2022-23.

I. Multiple Choice Questions

1. What should be Mr. D's response to Dhanwan Bank's requirement and why?
STATEMENT 1: He should deny the Bank's request if Purva Ltd. does not permit for sharing such information.
STATEMENT 2: Unless otherwise specified by law or regulation, engagement documentation is the property of the auditor. The auditor may, at its discretion, make portions of, or extracts from, engagement documentation available to clients, provided such disclosure does not undermine the validity of the work performed, or, in the case of assurance engagements, the independence of the firm or its personnel.
 - (a) Statement 1 is True and Statement 2 supports Statement 1
 - (b) Statement 1 is True and Statement 2 does not support Statement 1
 - (c) Statement 1 is False while Statement 2 is True.
 - (d) Statement 1 is True while Statement 2 is False.
2. Whether the Performance obligations under the Contract with Netanet distinct?
 - (a) There are 2 separate Performance obligations.
 - (b) There are 3 separate Performance obligations.
 - (c) Only 1 Performance obligation is there which encompasses 3 sub contracts.
 - (d) It depends on the CA firm's choice as to how they want to treat it.
3. How many additional number of company audits can be accepted by M/s ABCD & Co.?
 - (a) 40 private company audits only.
 - (b) 2 small company and 1 dormant company audits only.
 - (c) 1 dormant company only.
 - (d) All the company audits i.e. 40 private company, 2 small company and 1 dormant company.
4. Mr. D asks Mr. A as to the nature of License as obtained from Hally Ltd. Mr. A tells him that:-
 - (a) The Software license doesn't provide a right to use the Intellectual Property as the underlying conditions are not satisfied as per the relevant IND-AS.
 - (b) The Software license doesn't provide a right to use the Intellectual Property as the upgrades will change the functionality of the software.

- (c) There is no question of Intellectual Property rights over here in this situation.
 - (d) The Software license provides a right to use the Intellectual Property that is satisfied at a point in time.
5. Determine the value of 500 products supplied by Batliwala Pvt. Ltd. to its Arunachal Pradesh unit as per the provisions of the GST Law
- (a) ₹ 10,00,000
 - (b) ₹ 9,00,000
 - (c) ₹ 9,50,000
 - (d) ₹ 8,55,000

II. Descriptive Questions

6. Provide the priority order which Mr. C would have laid for distributing the proceeds w.r.t. Roy LLP as per the provisions of the governing Code.
7. Purva Ltd. has approached the CA firm for seeking advice regarding the Order passed by the Joint commissioner on the 3 queries raised by its Board of Directors. Help Mr. B out by resolving all the queries.
8. Mr. D discusses some items to be debited to the Income & Expenditure account of their Firm with all the Partners while finalizing the Books of Accounts for the year F.Y. 2022-23. You are required to comment on the allowability of such items as laid forward by Mr. D.

ANSWERS TO THE CASE STUDY 24

I. Answers to the Multiple Choice Questions

1. (a) Statement 1 is True and Statement 2 supports Statement 1

Reason: As per Clause (1) of Part I of the Second Schedule of the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he discloses information acquired in the course of his professional engagement to any person other than his client, without the consent of the client or otherwise than as required by law for the time being in force. SA 200 on "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing" also reiterates that, "the auditor should respect the confidentiality of information acquired in the course of his work and should not disclose any such information to a third party without specific authority or unless there is a legal or professional

duty to disclose". In the instant case, the bank has asked the auditor for the audit working papers which contain detailed information regarding a few items in the financial statements. Having regard to the position stated earlier, the auditor cannot disclose the information in his possession without specific permission of the client. As far as working papers are concerned, working papers are the property of the auditor. The auditor may at his discretion, make portions of or extracts from his working papers available to his client". Thus, there is no requirement compelling the auditor to divulge information obtained in the course of audit and included in the working papers to any outside agency except as and when required by any law.

2. (b) There are 3 separate Performance obligations.

Reason: Netanet promises the CA firm to provide

- ❖ Broadband Service
- ❖ Voice Call services
- ❖ Modem

Its promise to provide goods and services is distinct if

- ❖ the CA firm can benefit from the good or service either on its own or together with other resources that are readily available to the firm, and
- ❖ its promise to transfer the good or service to the CA firm is separately identifiable from other promises in the contract

For broadband and voice call services -

- ❖ Broadband and voice services are separately identifiable from other promises as company has various plans to provide the two services separately. These two services are not dependant or interrelated. Also the CA firm can benefit on its own from the services received.

For sale of modem -

- ❖ The CA firm can either buy product from Netanet or third party. No significant customisation or modification is required for selling product.

Based on the evaluation we can say that there are three separate performance obligations: -

- ❖ Broadband Service
- ❖ Voice Call services
- ❖ Modem

3. (d) All the company audits i.e. 40 private company, 2 small company and 1 dormant company.

Reason: As per section 141(3)(g) of the Companies Act, 2013, a person shall not be eligible for appointment as an auditor if he is in full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor, if such person or partner is at the date of such appointment or reappointment, already holding appointment as auditor of more than twenty companies other than one person companies, dormant companies, small companies and private companies having paid-up share capital less than ₹ 100 crore (private company which has not committed a default in filing its financial statements under section 137 of the said Act or annual return under section 92 of the said Act with the Registrar). Further, in the case of a firm of auditors, 'specified number of companies' shall be construed as the number of companies specified for every partner of the firm.

4. (d) The Software license provides a right to use the Intellectual Property that is satisfied at a point in time.

Reason: Based on the facts given in question it can be concluded that, although the updates and upgrades will change the functionality of the software, they are not activities considered in determining the nature of the entity's promise in granting the licence. The activities of Hally Ltd. to provide updates or upgrades are not considered because they transfer a promised good or service to the CA firm – i.e. updates or upgrades are distinct from the licence. Therefore, the software licence provides a right to use the IP that is satisfied at a point in time.

5. (a) ₹ 10,00,000

Reason: As per section 25(4), a person who has obtained or is required to obtain more than one registration, whether in one State or Union territory or more than one State or Union territory shall, in respect of each such registration, be treated as distinct persons for the purposes of this Act. Therefore, units of Batliwala Pvt. Ltd. in West Bengal and Arunachal Pradesh are distinct persons under GST. As per rule 28, the value of the supply of goods between distinct persons, other than where the supply is made through an agent, shall –

- (a) be the open market value of such supply;
- (b) if open market value is not available, be the value of supply of goods of like kind and quality;
- (c) if value cannot be determined under the above methods, be cost of the supply plus 10% mark-up or be determined by other reasonable means, in that sequence.

Rule 28 also provides that where the goods are intended for further supply as such by the recipient, the value shall, at the option of the supplier, be an amount equivalent to 90% of the price charged for the supply of goods of like kind and quality by the recipient to his customer not being a related person. Further, rule 28 provides that where the recipient is eligible for full input tax credit, the value declared in the invoice shall be deemed to be the open market value of the goods or services.

In the given case, the option of valuing the goods @ 90% of the price charged by the recipient to his unrelated customer is not available as the goods are not further supplied 'as such' but only after processing at Arunachal Pradesh unit. However, since the Arunachal Pradesh unit is eligible for full ITC, the value declared by the Bengal unit in the invoice for transfer of such products, i.e. ₹ 10,00,000 shall be deemed to be the open market value of the products. Thus, the value of 500 products supplied by Batliwala Pvt. Ltd. to its Arunachal Pradesh unit in terms of rule 28 is the open market value of such products which is ₹ 10,00,000.

II. Answers to the Descriptive Questions

6. The priority order in which the liquidator shall distribute the proceeds will be as under:

Particulars	Amount (in ₹)	
Amount realised from the sale of liquidation of assets		10,00,000
Less: (i) Fees payable to resolution professional	50,000	
(ii) Expenses incurred by the resolution professional in running the business of M/s Roy (P) Ltd. on going concern	20,000	(70,000)
Balance available		9,30,000
Less: Secured creditors who has relinquished the security	2,30,000	(2,30,000)
Balance available		7,00,000
Less: Unsecured Financial Creditor	2,00,000	(2,00,000)
Balance available		5,00,000
Less: (i) Income tax payable	2,25,000	
(ii) Cess payable to State Government	75,000	(3,00,000)
Balance available		2,00,000
Balance Available for Equity shareholders		2,00,000

7. (1) An appeal against a decision/order passed by any adjudicating authority under the CGST Act or SGST Act/ UTGST Act is appealable before the Appellate Authority [Section 107(1)]. Thus, Purva Ltd. can file an appeal to Appellate Authority against the adjudication order passed by the Joint Commissioner of Central Tax. Further, such appeal can be filed within 3 months from the date of communication of such decision/order [Section 107(1)]. Thus, Purva Ltd. can file the appeal to Appellate Authority on or before 22nd November. Further, the Appellate Authority can also condone the delay in filing of appeal by 1 month if it is satisfied that there was sufficient cause for such delay [Section 107(4)].
- (2) GST law makes provisions for cross empowerment between CGST and SGST/UTGST officers to ensure that a proper officer under the CGST Act is also treated as the proper officer under the SGST/UTGST Act and vice versa. Thus, a proper officer can issue orders with respect to both, the CGST as well as the SGST/UTGST laws. GST law also provides that where a proper officer under one Act (say CGST) has passed an order, any appeal/review/revision/rectification against the said order will lie only with the proper officers of that Act (CGST Act). Accordingly, if any order is passed by the proper officer under a SGST Act, any appeal/ review/ revision/ rectification against the said order will lie only with the proper officer under that SGST Act. Thus, Purva Ltd. is required to file an appeal only with the Central Tax Appellate Authority [Section 6 of CGST Act].
- (3) Purva Ltd.'s view is not correct in law. Section 107(6) provides that no appeal shall be filed before the Appellate Authority, unless the appellant has paid—
- full amount of tax, interest, fine, fee and penalty arising from the impugned order, as is admitted by him; and
 - a sum equal to 10% of the remaining amount of tax in dispute arising from the impugned order subject to a maximum of ₹ 25 crore*.
- [**Provided** that no appeal shall be filed against an order under sub-section (3) of [section 129](#), unless a sum equal to twenty-five per cent. of the penalty has been paid by the appellant.]

*Equivalent amount is required to be deposited with respect to SGST liability.

Since in the given case, Purva Ltd. disagrees with the entire tax demanded, it has to make a pre-deposit of 10% of the amount of tax in dispute arising from the impugned order, i.e., 10% of ₹ 60,00,000 which is ₹ 6,00,000 (i.e. CGST ₹3,00,000 and SGST ₹ 3,00,000).

8.

Nature of Expenditure	Tax Treatment
Depreciation on imported Biometric System	1. Actual Cost for the purposes of depreciation = Purchase Price ₹ 2,00,000 + Customs Duty Paid ₹ 1,00,000 = ₹ 3,00,000

	<ol style="list-style-type: none"> 2. Rate of depreciation: 15%. 3. Depreciation Amt: ₹ 22,500 (3,00,000 × 15% × 50%) (Since it is put to use for less than 180 days)
Remuneration to Partners	<ol style="list-style-type: none"> 1. Payment of Remuneration is authorised by the partnership Deed, and it is paid to the Working Partners 2. But, since the Partnership Deed does not provide for quantum/ manner of quantifying of such remuneration, it cannot be allowed as a deduction. (Refer CBDT's circular No 739 dated 25-03-1996)
Salary paid to Wife of a Partner – Mrs. A	<ol style="list-style-type: none"> 1. U/s 40 A (2), if a payment for goods or services provided by a relative is considered as excessive and unreasonable as compared with the market value of such goods or services such excess or unreasonable sum is not deductible. 2. For a Partnership Firm, Relative includes Relatives of the Partner. 3. Conclusion: Hence, ₹ 50,000 × 12 = 6,00,000 is allowed as deduction from business income.
Purchases of Stationery in Cash	<ol style="list-style-type: none"> 1. U/s 40 A (3), where an Assessee incurs any expenditure in respect of which payment or aggregate of payments in excess of ₹ 10,000 is made to a person on a single day, otherwise than by an Account Payee Cheque drawn on a Bank or an Account Payee Bank Draft, whole of such expenditure shall be disallowed. 2. Conclusion: Since the payment is made in cash, the entire amount of ₹ 35,000 shall not be Allowed as a deduction.
Interest on Loan taken for payment of Advance Tax	<ol style="list-style-type: none"> 1. Interest paid by any Assessee on any sum borrowed by it for payment of Income Tax (or Interest on overdraft taken for payment of Income Tax) is not deductible from its business Income since it is not an expenditure wholly and exclusively incurred or the business purpose in terms of section 37(1). (Mannalal Ratanlal vs CIT 58 ITR 84 (Cal.)) Therefore, Interest paid on loan taken for the purpose of making Advance Tax instalment shall not be an admissible expenditure.

CASE STUDY 25

P.N. Maheshwari & Associates is a firm of Chartered Accountants (herein after referred to as CA firm) having an experience of more than 25 years. At present the firm is one of the Delhi's largest association of Chartered Accountants with its head office in Delhi and branch offices across the country. The firm aims at providing qualitative professional service to its clients in an efficacious, sagacious and innovative manner. The firm is actively engaged in a multidisciplinary practice under four core verticals namely, Direct Taxation, Indirect Taxation, Auditing and Assurance and Financial Reporting. These verticals are headed by the partners namely, CA Preesha, CA Naman, CA Pawan and CA Nysa respectively. All the partners have vast experience in their respective fields.

During the FY 2022-23, the following were the matters of few clients handled by the team of CA Preesha:

1. Mr. Saransh, one of the clients of the CA firm, purchased gold in the year 1980 for ₹ 20,000/-. In the previous year 2022-23, he gifted it to his daughter at the time of her marriage. The fair market value of the gold on the day the gift given was ₹1,50,000/-. Mr. Saransh approached the direct tax team of M/s P. N. Maheshwari & Associates for working out the capital gain tax liability in such situation.
2. Another client is a proprietorship firm namely, M/s Sunstar Enterprises. It transferred one of its units on 1.4.2022 by way of slump sale for a total consideration of ₹ 14 lakhs. Such unit was started in the year 2009-10. The expenses incurred for this transfer were ₹ 48,000. The assets and liabilities of such unit as on 31.3.2022 is as under:

Particulars	Amount (₹)
Own Capital	1,00,000
Revaluation Reserve (for building of unit)	7,00,000
Bank loan	2,80,000
Trade creditors	87,500
Building	15,00,000
Machinery	3,00,000
Debtors	3,50,000
Other assets	2,00,000

Other information:

- (i) Revaluation reserve is created by revising upward the value of the building of such Unit. The stamp duty value as on 01.04.2022 is ₹ 8,50,000.
- (ii) No individual value of any asset is considered in the transfer deed.
- (iii) Other assets of such unit include patents acquired on 1.7.2020 for ₹ 50,000 on which no depreciation has been charged.

The proprietor of the firm approached the CA firm for the purpose of calculation of the capital gain with respect to such slump sale for the assessment year 2032-43.

CA Naman along with his team also handled various GST matters in a very effective manner. The following are some of such GST matters:

1. One of the clients of the CA firm, namely Sarvagya Ltd., provided the following particulars relating to goods sold by it to Maharaja Ltd.

Particulars	Amount (₹)
Price of the goods (exclusive of all taxes/duties and discounts)	70,000
Duty levied by local authority on sale of such goods	7,000
Packing charges	2,500
Freight (arranged by Sarvagya Ltd.)	1900
Total amount billed to Maharaja Ltd. before any discount	81,400
Discount @ 3% of the price of goods recorded in the invoice	-

The client approached the GST team of M/s P.N. Maheshwari & Associates to help them arrive at the taxable value of such supply.

2. Ms. Sonam, a consulting engineer based in Faridabad, Haryana renders professional services directly in respect of an immovable property located in UK of Mr. Yusuf who is based in Chennai. The team of CA Naman was approached for confirming the place of supply in such case.
3. AAN Consultants (Delhi) impart tally software training to accounts and finance personnel of MMN Steels Ltd., Mumbai, Maharashtra (office registered under GST) at the company's Delhi office which is also registered under GST. The team of CA Naman had to confirm the place of supply in such case.

4. Another client of the CA firm, namely, ABC Pvt. Ltd. offers a new mobile phone worth ₹ 30,000/- to Mr. Mahesh (an unrelated party) in exchange of old mobile phone and cash payment of ₹ 26,000/-. Exchange value of old phone lowers the price of the new phone. The known market value of the new phone (without exchange of old phone), i.e. the open market value is ₹ 30,000. CA Naman worked out the value of supply in this case.

Further, CA Pawan handled the below mentioned audit matter of one of the clients which is an Insurance Company:

Protect Insurance Ltd. issued a policy to an entity on 26th March 2022 covering fire risk. The premium amount was ascertained in advance but the Insurance company did not receive any premium amount and it was reflected as premium receivable as on 31st March 2021. Also, there was no guarantee given by any person for payment of the same within the prescribed time. The company maintained that it is a usual practice in respect of big customers and the money was collected on 5th April, 2022. Further, there was a fire accident in the premises of the insured entity on 31st March 2022 and a claim was lodged for the same. The insurance company also made a provision for claim. Protect Insurance Ltd. is a client for P.N. Maheshwari & Associates for their Audit and Tax work. CA Pawan was consulted on this matter with respect to the liability of the insurance company to pay the claim to the insured entity.

CA Nysa handled the following Financial Reporting matter of one of the clients during the year.

PRQ Ltd. acquired a building for its administrative purposes and presented the same as property, plant and equipment (PPE) in the financial year 2021-21. During the financial year 2022-23, it relocated its office to a new building and leased the aforesaid acquired building to a third party. Following the change in the usage of the building, the company reclassified it from PPE to investment property in the financial year 2022-32. PQR Ltd. approached CA Nysa to consider whether it amounts to change in accounting policy.

I. Multiple Choice Questions

1. What advice CA Preesha should have given to Mr. Saransh with respect to the capital gain tax liability in case of transfer of gold by the latter?
- (a) The capital tax liability will be calculated after giving the indexation effect to the cost of the gold.

- (b) The capital gain tax liability will be calculated without considering indexation.
 - (c) Capital gain tax liability does not arise in terms of section 47(iii) of the Income Tax Act 1961.
 - (d) Capital gain tax liability does not arise in terms of section 47(i) of the Income Tax Act 1961.
2. What is the place of supply with respect to the professional service provided by Ms Sonam to Mr. Yusuf?
- (a) Faridabad
 - (b) Chennai
 - (c) UK
 - (d) GST is not leviable as the professional services are rendered with respect to a property which is situated outside India. Therefore, the question of place of supply does not arise.
3. With respect to the training imparted by AAN consultants what should be the place of supply?
- (a) Mumbai
 - (b) Delhi
 - (c) Mumbai or Delhi at the discretion of the consultant.
 - (d) In terms of section 12(5), GST is not leviable with respect to training or performance appraisal services. Therefore, the question of place of supply does not arise.
4. CA Naman was asked to work out the value of supply in case of the mobile phone offered by ABC Pvt. Ltd. to Mr. Mahesh. What should be the value of supply?
- (a) ₹ 26,000/-
 - (b) ₹ 28,000/-
 - (c) ₹ 30,000/-
 - (d) ₹ 29,000/-

5. Which of the following is correct with respect to the liability of Protect Insurance Ltd. to pay the claim to the insured entity?
- (a) Protect Insurance Ltd. is not liable to pay the claim and hence no provision for claim is required.
 - (b) Protect Insurance Ltd. is liable to pay the claim of the insured entity.
 - (c) Protect Insurance Ltd. is liable to pay only 50% of the claim.
 - (d) Protect Insurance Ltd. is liable to pay only 60% of the claim.

II. Descriptive Questions

6. Compute the capital gain for the A.Y. 2023-24 with respect to the slump sale made by M/s Sunstar Enterprises.
7. What should be the value of the taxable supply in case of goods sold by Sarvagya Ltd. to Maharaja Ltd.?
8. Should PQR Ltd. consider the reclassification of building from PPE to investment property as a change in the accounting policy?

ANSWERS TO THE CASE STUDY 25

I. Answers to the Multiple Choice Questions

1. (c) Capital gain tax liability does not arise in terms of section 47(iii) of the Income Tax Act 1961.
- Reason:** As per the provisions of section 47(iii), transfer of a capital asset under a gift is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.
2. (b) Chennai
- Reason:** Since the immovable property is located outside India, the place of supply of service is the location of recipient, i.e. Chennai and not the place where the immovable property is located (UK).

3. (a) Mumbai

Reason: Since the contract is entered with Mumbai office, and it being a registered recipient, the place of supply is the location of the registered person, i.e. Mumbai.

4. (c) ₹ 30,000/-

Reason: Rule 27 of the CGST Rules lays down the following methods to value a supply when the consideration thereof is not solely in terms of money:

- (a) The open market value of such supply;
- (b) If open market value of the supply is not known, the consideration in money plus the money equivalent of the non-money consideration, if such amount is known at the time of supply;
- (c) If the value cannot be determined under the previous two clauses, the value of supply of goods and/or services of like kind and quality;
- (d) Finally, if the value is not ascertainable by using the above methods, the consideration in money plus the money equivalent of the non-money consideration, as worked out based on cost of the supply plus 10% mark-up [Rule 30-Cost based valuation] or by other reasonable means [Rule 31-Best Judgement method] in that sequence.

5. (a) Protect Insurance Ltd. is not liable to pay the claim and hence no provision for claim is required.

Reason: As per section 64VB of the Insurance Act, 1938, no risk to be assumed unless premium is received in advance.

- (1) No insurer shall assume any risk in India in respect of any insurance business on which premium is not ordinarily payable outside India unless and until the premium payable is received by him or is guaranteed to be paid by such person in such manner and within such time as may be prescribed or unless and until deposit of such amount as may be prescribed, is made in advance in the prescribed manner.
- (2) For the purposes of this section, in the case of risks for which premium can be ascertained in advance, the risk may be assumed not earlier than

the date on which the premium has been paid in cash or by cheque to the insurer.

In view of the above, the insurance company is not liable to pay the claim and hence no provision for claim is required.

II. Answers to the Descriptive Questions

6. Computation of capital gains on slump sale of Unit

Particulars	(₹)
Full value of consideration (FMV as on 01.04.2022)	14,00,000
Less: Expenses on sale	48,000
Net sale consideration	13,52,000
Less: Net worth (See Note 1 below)	<u>12,60,625</u>
Long-term capital gain	91,375

Notes:

(1) Computation of Full value of consideration

Particulars	(₹)
Fair market value of the capital assets transferred by way of slump sale	
Building, being an immovable property [stamp duty value on 1.4.2022, being the date of slump sale] [A]	8,50,000
Machinery [Book value as appearing in the books of accounts] [B]	3,00,000
Debtors [Book value as appearing in the books of accounts] [C]	3,50,000
Other assets [Book value as appearing in the books of accounts] [D]	2,00,000
	17,00,000
Less: Liabilities [₹ 87,500 + ₹ 2,80,000] [L]	3,67,500
Fair market value of the capital assets transferred by way of slump sale [A+B+C+D- L] [FMV1]	13,32,500
Fair market value of the consideration received or accruing as a result of transfer by way of slump sale [value of the monetary consideration received] [FMV2]	14,00,000
Full value of consideration [Higher of FMV1 or FMV2]	14,00,000

(2) Computation of net worth of the Unit

Particulars	(₹)	(₹)
Building (excluding ₹ 7 lakhs on account of revaluation)		8,00,000
Machinery		3,00,000
Debtors		3,50,000
Patents (See Note 2 below)		28,125
Other assets (₹ 2,00,000 – ₹ 50,000)		1,50,000
Total assets		16,28,125
Less: Creditors	87,500	
Bank Loan	2,80,000	3,67,500
Net worth		12,60,625

(3) Written down value of patents as on 1.4.2022

Value of patents	(₹)
Cost as on 1.7.2020	50,000
Less: Depreciation @ 25% for Financial Year 2020-21	12,500
WDV as on 1.4.2021	37,500
Less: Depreciation for Financial Year 2021-22	9,375
WDV as on 1.4.2022	28,125

For the purposes of computation of net worth, the written down value determined as per section 43(6) has to be considered in the case of depreciable assets. The problem has been solved assuming that the Balance Sheet values of ₹ 3 lakh and ₹ 8 lakh (₹ 15 lakh – ₹ 7 lakh) represent the written down value of machinery and building, respectively, of the Unit.

- (4) Since the Unit is held for more than 36 months, capital gain arising would be long-term capital gain. However, indexation benefit is not available in case of slump sale.

7. Computation of value of taxable supply

Particulars	(₹)
Price of the goods (exclusive of taxes and discounts)	70,000

Add: Duty levied by local authority [Note 1]	7,000
Packing charges [Note 2]	2,500
Freight [Note 3]	1,900
Less: Discount @ 3% on ₹ 70,000 [Note 4]	(2,100)
Value of taxable supply	79,300

Notes:

- (1) As per section 15(2)(a), any taxes, duties, cesses, fees and charges other than CGST, SGST, UTGST, IGST and GST Compensation Cess, if charged separately by the supplier should be included in the value of supply.
 - (2) As per section 15(2)(c), incidental expenses, including commission and packing, charged by the supplier to the recipient of a supply should be included in the value. Thus, packing charges have been added in the value.
 - (3) Since transport is arranged by the supplier, the contract of supply becomes a composite supply; the principal supply being the supply of goods. Therefore, freight becomes part of the value of the composite supply.
 - (4) As per section 15(3)(a), the value of the supply does not include any discount which is given before or at the time of the supply if such discount has been duly recorded in the invoice issued in respect of such supply. Therefore, since in this case, discount is known at the time of supply and recorded in the supply, it is deductible from the value.
8. Paragraph 16(a) of Ind AS 8 provides that the application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring are not changes in accounting policies. As per Ind AS 16, property, plant and equipment are tangible items that:
- (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
 - (b) are expected to be used during more than one period.
- As per Ind AS 40, investment property is property (land or a building—or part of a building—or both) held (by the owner or by the lessee as a right-of-use asset) to earn rentals or for capital appreciation or both, rather than for:
- (a) use in the production or supply of goods or services or for administrative purposes; or

(b) sale in the ordinary course of business.

As per the above definitions, whether a building is an item of property, plant and equipment (PPE) or an investment property for an entity depends on the purpose for which it is held by the entity. It is thus possible that due to a change in the purpose for which it is held, a building that was previously classified as an item of property, plant and equipment may warrant reclassification as an investment property, or vice versa. Whether a building is in the nature of PPE or investment property is determined by applying the definitions of these terms from the perspective of that entity.

Thus, the classification of a building as an item of property, plant and equipment or as an investment property is not a matter of an accounting policy choice.

Accordingly, a change in classification of a building from property, plant and equipment to investment property due to change in the purpose for which it is held by the entity is not a change in an accounting policy.

CASE STUDY 26

- (1) RA Ltd, a listed Company is engaged in the business of manufacturing aerated soft drinks which includes various flavours like cola, orange and lemon. Chandra Suppliers Ltd is engaged in the business of manufacturing carbonated sugar which is the main ingredient for aerated soft drinks. Chandra Suppliers Ltd has been supplying carbonated sugar to RA Ltd since past few years. RA Ltd is the main customer of Chandra Suppliers Ltd and in the last financial year 89.9% of the output of Chandra Suppliers Ltd was procured by RA Ltd.

RA Ltd has invested in the share capital of Chandra Suppliers Ltd on the first day of the financial year at a cost of ₹ 55,00,000 and is holding 12% of Chandra Suppliers Ltd.'s total voting power. The carrying value of the net assets of Chandra Suppliers Ltd on the date of acquisition was ₹ 4,00,00,000 and the fair value was ₹ 4,50,00,000. The excess of fair value over the carrying value was attributable to one of the warehouses owned by Chandra Suppliers Ltd having a remaining useful life of 10 years. At the end of the financial year, Chandra Suppliers Ltd earned a profit of ₹ 6,60,000 and other comprehensive income of ₹ 98,000. Dividend declared by Chandra Suppliers Ltd in the financial year was ₹ 2,00,000.

- (2) RA Ltd has constituted an Audit Committee under section 177, and all appointments, including the filling of a casual vacancy of auditors are made after taking into account the recommendations of the committee. A proper manner and procedure for selection and appointment of the statutory auditors for RA Ltd. was undertaken. Finally, ABC & Associates was selected for appointment as statutory auditors of RA Ltd. Before such appointment was made, the written consent of ABC & Associates to such appointment, and a certificate from it that the appointment, if made, is in accordance with the conditions as may be prescribed, was obtained from ABC & Associates. The certificate also indicated whether the auditor satisfied the criteria provided in section 141. RA Ltd. informed ABC & Associates of its appointment, and also filed a notice of such appointment with the Registrar within 15 days of the meeting in which ABC & Associates was appointed.

CA A is the engagement partner for the audit of RA Ltd. During the year, the husband of the daughter of CA A, Mr. M, purchases 10,000 shares (face value ₹ 10 per share) in RA Ltd from the National Stock Exchange after a payment of ₹ 95,000. In the preceding previous year, he had bought 40 shares in RA Ltd at ₹ 120 which he still has in stock. Since the value of the shares had fallen in the current year, he thought it was a good

opportunity to reduce his average cost and earn good profits in the future. Since RA Ltd has invested in Chandra Suppliers Ltd, Mr M expects that the share price of RA Ltd would definitely increase in the near future due to this lucrative deal. Mr. M had a slight idea about the provisions under sub-section (3) of section 141 along with Rule 10 of the Companies (Audit and Auditors) Rules, 2014 regarding the disqualification of auditors and informs CA A that since the shares were purchased for only ₹ 95,000 and that too in his name and not his wife's name, CA A will not be disqualified to continue as an auditor of RA Ltd as he is not covered under the definition of relative and his total cost of investment in shares of RA Ltd has not exceeded ₹ 1 lakh.

- (3) The wife of the chairman of RA Limited is a renowned painter. She holds various exhibitions in India and around the world and has won several awards as well. Her art gallery is on the fourth floor of the office building of RA Limited. The office building of RA Limited consists of four identical floors and other three floors are used by RA Limited for its business. Total rent paid by RA Limited for the entire office building is ₹ 8 lakhs per month.

A machinery was purchased for ₹ 20 lakhs on July 1 of the financial year and put to use on August 1. Depreciation allowed under the Income Tax Act on the Machinery is 15%. Interest payable for the financial year for purchase of machinery amounted to ₹2,40,000.

The municipal elections were held in the current year and various representatives from different political parties visited RA Ltd for donations. RA Ltd thus decided to give a full page advertisement in the brochure published by a political party (costing ₹ 50,000), which is not registered with the Election Commission of India.

RA Ltd supplies the soft drinks pan India under the name of Too Cool. The goods are supplied to the distributors in all the states of India and eventually to the retailers by the distributors. Niraj Transport Co. has been hired by RA Ltd for delivery of its products to all the Indian states. The Company had made a total payment of ₹ 10 lakhs during the year to Niraj Transport for plying its goods from the factory to the distributors. During the year, a payment exceeding 10,000 in cash (i.e. ₹ 25,500) was made to Niraj Transport in a day.

RA Ltd made a provision for gratuity every year of ₹ 40 lakhs in its books of account. During the year, two employees retired from the Company after serving for many years. Payment made to the employees towards the payment of gratuity on their retirement amounted to ₹ 2 lakhs.

RA Ltd had incurred an expenditure of a capital nature (capital asset) of ₹ 7,00,000 on scientific research related to the business carried on by it, three years back, which was deductible in full in that previous year. In addition, land was also acquired to carry out

the capital research along with the capital asset. This capital asset was sold in the current year without having been used for other purposes, for ₹ 1,00,000. Profit of the Company before accounting for all the above transactions is ₹ 5 crores.

CA A commenced the audit of RA Ltd. with the audit team consisting of eight members. On examination of records, various observations came into the notice of the audit team. You, a qualified chartered accountant, is also one of the audit team members. You volunteer to answer all the queries of the team since Company Audit has always been your area of interest.

Based on the information given above, assist the audit team.

I. Multiple Choice Questions

1. In your opinion, does RA Ltd hold significant influence on Chandra Suppliers Ltd.?
 - (a) Yes, if an entity holds (directly or indirectly through a subsidiary) 10% or more of the voting rights of an investee, then it is presumed that the entity has significant influence, unless it can be clearly demonstrated that it is not the case.
 - (b) Yes, since 89.9% of the output of Chandra Suppliers Ltd. is procured by RA Ltd., Chandra Suppliers Ltd. would be dependent on RA Ltd. for the continuation of its business and so RA Ltd. holds significant influence on Chandra Suppliers Ltd.
 - (c) No, since the output of Chandra Suppliers Ltd. procured by RA Ltd., is not 90% or more, RA Ltd does not hold significant influence on Chandra Suppliers Ltd.
 - (d) No, if an entity holds (directly or indirectly through a subsidiary) 20% or more of the voting rights of an investee, only then it is presumed that the entity has significant influence, unless it can be clearly demonstrated that it is not the case.
2. RA Ltd.'s excess of the cost of the investment over its share of the net fair value of the Chandra Suppliers Ltd.'s identifiable assets and liabilities will be treated as _____ and will be included in the carrying amount of the _____.
 - (a) Capital Reserve, Equity.
 - (b) Goodwill, Investment.
 - (c) Capital Reserve, Other liabilities and Provisions.
 - (d) Goodwill, Fixed Assets.

3. Is the contention of Mr. M correct regarding the disqualification of ABC & Associates as statutory auditors in RA Ltd? Why?
- (a) Yes, since the total cost of investment of Mr. M in the shares of RA Ltd has not exceeded ₹ 1,00,000 and he is also not covered in the definition of relative of CA A.
 - (b) No, though his cost of investment in the shares of RA Ltd has not exceeded ₹ 1,00,000, he is covered in the definition of relative of CA A and holding securities of even small value by relatives shall lead to a disqualification.
 - (c) No, since the face value of investment has exceeded ₹ 1,00,000 and he is covered in the definition of relative of CA A.
 - (d) Yes, though the fair value of investment has exceeded ₹ 1,00,000, he is not covered in the definition of relative of CA A.
4. Assuming a circumstance where ABC & Associates is disqualified to be appointed as a statutory auditor of RA Ltd., due to a relative defined under Section 2(77) of the Companies Act, 2013, who has bought shares of RA Limited above the threshold prescribed (if any). Within how many days can the auditor take corrective action for the same?
- (a) 60 Days
 - (b) 45 Days
 - (c) 30 Days
 - (d) 90 Days
5. RA Ltd incurred two different types of capital expenditure on scientific research. Which of the following statements related to such expenditure under section 35 is incorrect?

Statement I: For Capital expenditure incurred prior to commencement of business, the aggregate of the expenditure so incurred within the four years immediately preceding the commencement of the business shall be deemed to have been incurred in the previous year in which the business is commenced and will rank for deduction as expenditure for scientific research incurred during the previous year.

Statement II: No deduction will be allowed in respect of capital expenditure incurred on the acquisition of any land whether the land is acquired as such or as part of any property.

Statement III: Capital expenditure incurred on scientific research which cannot be absorbed by the business profits of the relevant previous year cannot be carried forward to the immediately succeeding previous year.

Statement IV: Section 35(2)(iv) clarifies that no depreciation will be admissible on any capital asset represented by expenditure which has been allowed as a deduction under section 35 whether in the year in which deduction under section 35 was allowed or in any other previous year.

- (a) Statement I and II are incorrect.
- (b) Statement I and III are incorrect.
- (c) Statement III and IV are incorrect.
- (d) Only Statement I is incorrect.

II. Descriptive Questions

- 6. Calculate the closing value of investment in Chandra Suppliers Ltd. of RA Ltd using the equity method of accounting as per IND AS 28 on the basis of Para (1).
- 7. What manner and procedure shall be followed in RA Ltd for selection and appointment of ABC & Associates? Refer Para (2).
- 8. Calculate the Net Profit of RA Ltd. chargeable to tax under PGBP after making the adjustments for the transactions given above in Para (3).

ANSWERS TO THE CASE STUDY 26

I. Answers to the Multiple Choice Questions

- 1. (b) Yes, since 89.9% of the output of Chandra Suppliers Ltd. is procured by RA Ltd., Chandra Suppliers Ltd. would be dependent on RA Ltd. for the continuation of its business and so RA Ltd holds significant influence on Chandra Suppliers Ltd.
Reason: The assessment of whether the investor has significant influence over the investee requires application of judgement. In making such judgement, the investor shall consider material transactions between the entity and its investee which generally demonstrate the existence of significant influence.
- 2. (b) Goodwill, Investment.
Reason: Any excess of the cost of the investment over the entity's share of the net fair value of the investee's identifiable assets and liabilities is treated as goodwill. Goodwill is included in the carrying amount of the investment. Amortisation of that goodwill is not permitted.

3. (c) No, since the face value of investment has exceeded ₹ 1,00,000 and he is covered in the definition of relative of CA A.

Reason: Disqualifications of an Auditor- Under sub-section (3) of section 141 along with Rule 10 of the Companies (Audit and Auditors) Rules, 2014, the following persons shall not be eligible for appointment as an auditor of a company-

- (a) a body corporate other than a limited liability partnership registered under the Limited Liability Partnership Act, 2008;
- (b) an officer or employee of the company;

According to Section 2(59) of the Companies Act, 2013, the term 'Officer' includes:

- (i) Director
 - (ii) Manager
 - (iii) Key Managerial personnel
 - (iv) Shadow Directors.
- (c) a person who is a partner, or who is in the employment, of an officer or employee of the company;

This sub-section disqualifies the below mentioned persons from being appointed as auditor of a company:

- (i) partner of an officer of the company;
 - (ii) employee of an officer of the company;
 - (iii) partner of an employee of the company;
 - (iv) employee of an employee of the company.
- (d) a person who, or his relative or partner -
- (i) is holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company.

It may be noted that the relative may hold security or interest in the company of face value not exceeding rupees one lakh.

It may also be noted that the condition of rupees one lakh shall, wherever relevant, be also applicable in the case of a company not having share capital or other securities.

Section 2(77) of the Companies Act, 2013 defines the term “relative” to mean anyone who is related to another as:

- (i) members of a Hindu Undivided Family;
- (ii) husband and wife; or
- (iii) one person is related to the other in such manner as may be prescribed.

Rule 4 of the Companies (Specification of Definitions Details) Rules, 2014 prescribes the list of relatives as per Section 2(77). As per the said rule, a person shall be deemed to be relative of another if he or she is related to another in the below mentioned manner-

Father (including step- father), Mother (including step- mother), Son (including step- son), Son's wife, Daughter, Daughter's husband, Brother (including step- brother), Sister (including step- sister).

4. (a) 60 Days.

Reason: In the event of acquiring any security or interest by a relative, above the threshold prescribed, the corrective action to maintain the limits as specified shall be taken by the auditor within 60 days of such acquisition or interest.

5. (b) Statement I and III are incorrect.

Reason: Capital Expenditure- Any expenditure of a capital nature on scientific research related to the business carried on by the assessee would be deductible in full in the previous year in which it is incurred [Section 35(1)(iv)].

(a) **Capital expenditure prior to commencement of business**

The *Explanation 1* to section 35(2) (ia) specifically provides that where any capital expenditure has been incurred prior to the commencement of the business, the aggregate of the expenditure so incurred within the three years immediately preceding the commencement of the business shall be deemed to have been incurred in the previous year in which the business is commenced and will rank for deduction as expenditure for scientific research incurred during the previous year.

(b) **Expenditure on land disallowed**

No deduction will be allowed in respect of capital expenditure incurred on the acquisition of any land whether the land is acquired as such or as part of any property.

(c) Carry forward of deficiency

Capital expenditure incurred on scientific research which cannot be absorbed by the business profits of the relevant previous year can be carried forward to the immediately succeeding previous year and shall be treated as the allowance for that year. In effect, this means that there is no time bar on the period of carry forward. It shall be accordingly allowable for that previous year.

(d) No depreciation

Section 35(2)(iv) clarifies that no depreciation will be admissible on any capital asset represented by expenditure which has been allowed as a deduction under section 35 whether in the year in which deduction under section 35 was allowed or in any other previous year.

II. Answers to the Descriptive Questions

6. (1) Cost of acquisition of Investment ₹ 55,00,000
 (2) Share in profit and other comprehensive income of Chandra Suppliers Ltd.

Particulars	Amount (₹)
Share in profit of Chandra Suppliers Ltd. (6,60,000 *12%)	79,200
Adjustment for depreciation based on fair value (50,00,000 ÷ 10) x 12%	(60,000)
Share in profit after adjustment	19,200
Share in other comprehensive income (98,000 x 12%)	11,760
Share in dividend (2,00,000*12%)	24,000

- (3) Closing balance of Investment at the end of the year.

Particulars	Amount (₹)
Cost of acquisition of investment	55,00,000
Share in profit after adjustments	19,200
Share in other comprehensive income	11,760
Share in dividend	24,000
Closing balance of Investment	55,54,960

7. **Manner and Procedure of Selection and Appointment of Auditors:** Rule 3 of Companies (Audit and Auditors) Rules [CAAR], 2014 prescribes the following manner and procedure of selection and appointment of auditors-

- (1) In case of a company that is required to constitute an Audit Committee under section 177, the committee, and, in cases where such a committee is not required to be constituted, the Board, shall take into consideration the qualifications and experience of the individual or the firm proposed to be considered for appointment as auditor and whether such qualifications and experience are commensurate with the size and requirements of the company.

It may be noted that while considering the appointment, the Audit Committee or the Board, as the case may be, shall have regard to any order or pending proceeding relating to professional matters of conduct against the proposed auditor before the Institute of Chartered Accountants of India or any competent authority or any Court.

- (2) The Audit Committee or the Board, as the case may be, may call for such other information from the proposed auditor as it may deem fit.
- (3) Subject to the provisions of sub-rule (1), where a company is required to constitute the Audit Committee, the committee shall recommend the name of an individual or a firm as auditor to the Board for consideration and in other cases, the Board shall consider and recommend an individual or a firm as auditor to the members in the annual general meeting for appointment.
- (4) If the Board agrees with the recommendation of the Audit Committee, it shall further recommend the appointment of an individual or a firm as auditor to the members in the annual general meeting.
- (5) If the Board disagrees with the recommendation of the Audit Committee, it shall refer back the recommendation to the committee for reconsideration citing reasons for such disagreement.
- (6) If the Audit Committee, after considering the reasons given by the Board, decides not to reconsider its original recommendation, the Board shall record reasons for its disagreement with the committee and send its own recommendation for consideration of the members in the annual general meeting; and if the Board agrees with the recommendations of the Audit Committee, it shall place the matter for consideration by members in the annual general meeting.
- (7) The auditor appointed in the annual general meeting shall hold office from the conclusion of that meeting till the conclusion of the sixth annual general meeting, with the meeting wherein such appointment has been made being counted as the first meeting.

8.

Particulars	Amount (₹ in lakh)
Profit before any of the adjustments	500.00
Less: Rent expense $(8,00,000/4*3)*12$	72.00
Depreciation on Machinery $(20,80,000*15\%)$	3.12
Interest payable for purchase of machinery	1.60
Payment to Niraj Transport	10.00
Actual Payment of gratuity to employees	2.00
Add: Sale of asset representing expenditure of a capital nature on Scientific Research without having been used for other purposes	1.00
Profit after adjustments chargeable to tax	412.28

Notes:

- (I) Rent expense allowed to the extent it is used for the Business purposes.
- Premises used partly for business and partly for other purposes: Where the premises are used partly for business and partly for other purposes, only a proportionate part of the expenses attributable to that part of the premises used for purposes of business will be allowed as a deduction [Section 38(1)].
- (II) Since machinery is put to use on August 1, full year depreciation is allowed on the purchase cost.
- Asset used for less than 180 days - Where any asset is acquired by the assessee during the previous year and is put to use for the purposes of business or profession for a period of less than 180 days, depreciation shall be allowed at 50 percent of the allowable depreciation according to the percentage prescribed in respect of the block of assets comprising such asset. It is significant to note that this restriction applies only to the year of acquisition and not for subsequent years.
- (III) Interest on purchase of Machinery till the date of put to use is to be capitalized and after the date of put to use, is treated as a revenue expense. So, machinery cost is equal to ₹ 20 lakh and interest capitalized for four months amounting to ₹ 80,000. Total 20,80,000.
- Interest on borrowed capital [Section 36(1)(iii)] - Deduction of interest is allowed in respect of capital borrowed for the purposes of Business or profession in the computation of income under the head "Profits and gains of business or profession".

Capital may be borrowed for several purposes like for acquiring a capital asset, or to pay off a trading debt or loss etc. The scope of the expression 'for the purposes of business' is very wide. Capital may be borrowed in the course of the existing business as well as for acquiring assets for extension of existing business.

As per proviso to section 36(1)(iii), deduction in respect of any amount of interest paid, in respect of capital borrowed for acquisition of new asset (whether capitalised in the books of account or not) for any period beginning from the date on which the capital was borrowed for acquisition of the asset till the date on which such asset was first put to use shall not be allowed.

Explanation 8 to section 43(1) clarifies that interest relating to a period after the asset is first put to use cannot be capitalised. Interest in respect of capital borrowed for any period from the date of borrowing to the date on which the asset was first put to use should, therefore, be capitalised.

- (IV) Interest on purchase of Machinery from the date of put to use till the end of the financial year is treated as a revenue expense. (₹2,40,000 – ₹ 80,000)

Interest on borrowed capital [Section 36(1)(iii)] - Deduction of interest is allowed in respect of capital borrowed for the purposes of business or profession in the computation of income under the head "Profits and gains of business or profession".

Capital may be borrowed for several purposes like for acquiring a capital asset, or to pay off a trading debt or loss etc. The scope of the expression 'for the purposes of business' is very wide. Capital may be borrowed in the course of the existing business as well as for acquiring assets for extension of existing business.

As per proviso to section 36(1)(iii), deduction in respect of any amount of interest paid, in respect of capital borrowed for acquisition of new asset (whether capitalised in the books of account or not) for any period beginning from the date on which the capital was borrowed for acquisition of the asset till the date on which such asset was first put to use shall not be allowed.

Explanation 8 to section 43(1) clarifies that interest relating to a period after the asset is first put to use cannot be capitalised. Interest in respect of capital borrowed for any period from the date of borrowing to the date on which the asset was first put to use should, therefore, be capitalised.

- (V) Advertisement expenses in a brochure published by a political party, which is registered or not with the Election Commission of India is disallowable.

Advertisements in souvenirs of political parties: Section 37(2B) disallows any deduction on account of advertisement expenses representing contributions made by any person carrying on business or profession in computing the profits and gains of the business or profession. It has specifically been provided that this provision for disallowance would apply notwithstanding anything to the contrary contained in section 37(1).

In other words, the expenditure representing contribution for political purposes would become disallowable even in those cases where the expenditure is otherwise incurred by the assessee in his character as a trader and the amount is wholly and exclusively incurred for the purpose of the business.

Accordingly, a taxpayer would not be entitled to any deduction in respect of expenses incurred by him on advertisement in any souvenir, brochure, tract or the like published by any political party, whether it is registered with the Election Commission of India or not.

- (VI) Total amount paid to Niraj Transport is allowable since the limit of ₹ 10,000 has been raised to ₹ 35,000 in case of payment made to transport operators for plying, hiring or leasing goods carriages.

Increase in limit of cash payment, where payment made to transport operator: This limit of ₹ 10,000 has been raised to ₹ 35,000 in case of payment made to transport operators for plying, hiring or leasing goods carriages. Therefore, payment or aggregate of payments up to ₹ 35,000 in a day can be made to a transport operator otherwise than by way of account payee cheque or account payee bank draft or use of electronic clearing system through a bank account or through such other prescribed electronic modes such as credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay. In all other cases, the limit would continue to be ₹ 10,000.

- (VII) Only actual payment of gratuity is allowed, not provision for gratuity.

Disallowance of provision for gratuity

Section 40A(7) provides that no deduction would be allowable to any taxpayer carrying on any business or profession in respect of any provision (whether called as provision or by any other names) made by him towards the payment of gratuity to his employers on their retirement or on the termination of their employment for any reason.

The reason for this disallowance is that, under section 36(1)(v), deduction is allowable in computing the profits and gains of the business or profession in respect of any sum paid by a taxpayer in his capacity as an employer in the form of contributions made by him to an approved gratuity fund created for the exclusive benefit of his employees under an irrevocable trust. Further, section 37(1) provides that any expenditure other than the expenditure of the nature described in sections 30 to 36 laid out or expended, wholly and exclusively for the purpose of the business or profession must be allowed as a deduction in computing the taxable income from business.

A reading of these two provisions clearly indicates that the intention of the legislature has always been that the deduction in respect of gratuity be allowable to the employer either in the year in which the gratuity is actually paid or in the year in which contributions to an approved gratuity fund are actually made by employer.

This provision, therefore, makes it clear that any amount claimed by the assessee towards provision for gratuity, by whatever name called would be disallowable in the assessment of employer even if the assessee follows the mercantile system of accounting.

However, no disallowance would be made as per section 40A(7) in the case where any provision is made by the employer for the purpose of payment of sum by way of contribution to an approved gratuity fund during the previous year or for the purpose of making payment of any gratuity that has become payable during the previous year by virtue of the employee's retirement, death, termination of service etc.

- (VIII) Where the asset representing expenditure of a capital nature on Scientific Research is sold without having been used for other purposes - This case would come under section 41(3) and if the proceeds of sale together with the total amount of the deductions made under section 35 exceed the amount of capital expenditure, the excess or the amount of deduction so made, whichever is less, will be charged to tax as income of the business of the previous year in which the sale took place.

Where the asset representing expenditure of a capital nature on Scientific Research is sold without having been used for other purposes - This case would come under section 41(3) and if the proceeds of sale together with the total amount of the deductions made under section 35 exceed the amount of capital expenditure, the excess or the amount of deduction so made, whichever is less,

will be charged to tax as income of the business of the previous year in which the sale took place.

In simple words, if (sale proceeds + deduction under section 35) > amount of capital expenditure, then amount of sale proceeds + deduction under section 35 – amount of capital expenditure OR deduction under section 35, whichever is less, will be the charged to tax as income of the business in the previous year in which the asset is sold.

CASE STUDY 27

Para 1

Yantra Pedasu Ltd. (YPL) is an unlisted public company, incorporated since 2005, engaged in the steel business, with nine directors in its board. There is a company in Singapore named, SYD Pte Ltd. (SPL) in which it acquired 54% stake during financial year 2021-22 and thereby it became its first subsidiary company. Mr. Sunil Verma has been appointed for the second consecutive term of five years as the managing director of YPL. He has a daughter named, Mrs. Sunita, who is residing in Singapore since last 6 years and she was appointed as the director in SPL, during financial year 2022-32, at a monthly remuneration of SGD 60,000 equivalent to INR 3 lakhs.

Para 2

For financial year 2022-23, YPL appointed Chappan & Co. as its statutory auditor in place of its previous auditor. All the formalities as prescribed by section 139 & 140 of the Companies Act, 2013, were complied with by YPL in relation to such appointment. Also, Chappan & Co. made a written communication vide a registered post acknowledgment due to the previous auditor before accepting such appointment.

Mr. Kailash Chappan, one of the senior partners of the firm, was appointed as the engagement partner by Chappan & Co. on such audit assignment of YPL. While conducting the audit of YPL, Mr. Kailash observed that there were certain accounting estimates made in relation to certain items of financial statements that might give rise to significant risks and thereby he performed substantive procedures in accordance with the requirements of SA 330, "The Auditor's Responses to Assessed Risks".

Further, Mr. Kailash determined that there were certain factors that indicated the existence of certain transactions entered into by YPL for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements and accordingly, Mr. Kailash lowered his materiality level determined for such transactions.

Apart from conducting the audit assignment, Mr. Kailash also used to solve the concerns raised by the accountant of YPL with respect to GST and Income tax matters. One such concern raised by the accountant to him was with respect to ITC availment under GST, which is briefed as under:

The balance of ITC with YPL after discharging the GST liability for April month was ₹ 60,00,000. The eligible ITC reflected in GSTR-2B with respect to May month of YPL was ₹ 56,00,000 whereas the input tax paid by it on invoices received during the May month was ₹ 75,00,000 and the output tax liability for May month for ₹ 110 lakhs. So he was not sure about the amount of ITC to be availed for May month for which he consulted Mr. Kailash and after following his advise, the GST liability for May month was discharged by YPL fully through its balance in electronic credit ledger only.

Para 3

YPL provides donation every year as a part of its CSR activities to a charitable trust named, Shiksha Kalyan Trust (SKT) engaged in activities of providing education to poor children. The average net profit of YPL for the past three years was ₹ 88 crore. Accordingly, during current financial year i.e. during F.Y. 2022-23, it made a donation of ₹ 2 crore to SKT as its CSR spend. SPL, its subsidiary company also proposed to make donation to such trust in India during the same financial year. However, SKT's certificate of registration under the Foreign Contribution (Regulation) Act, 2010, was to expire on 20th December, 2022 and it had not applied for renewal of certificate before that as the Head accountant believed that they could apply for renewal of registration within one year from the expiry date as per the law and hence pending but the trustees decided to make an application for renewal for certificate sooner, so that the trust can accept donation from SPL and the same was done as per the relevant legal provisions

Para 4

YPL bought a machinery from Dusham Ltd. for its business, for which YPL received a government grant of ₹ 6 lakhs, the details of which are as follows:

Particulars	(₹)
List price of machinery (exclusive of taxes and discount)	30,00,000
Corrugated Boxes used for packing the equipment (not included in price above)	60,000
Discount @ 2% is offered on the list price of the machine (recorded in the invoice of the machine)	-

Such machine was recorded in its books at the cost of ₹ 30,00,000 by treating the grant as a deferred income. As a part of its policy, YPL depreciates all its plant and machinery at 20% per annum on straight-line basis and also it does not claim depreciation on GST component included in the price of plant and machinery.

Para 5

On 24th January, 2023, YPL supplied 2000 MT steel pipes to SPL @ ₹ 1 lakh/ MT on CIF basis. Insurance and Freight were included at ₹ 11,000/ MT. Also, on 5th February, 2023, it made a supply of 3000 MT steel pipes to another Singapore based company, Unno Pte Ltd. (UPL) @ ₹ 95,000 / MT on FOB basis for which payment was to be made of SGD 5,70,00,000 in 3 months and so in order to protect itself from exchange rate fluctuations., YPL hedged receipt of such foreign currency in the forward market.

I. Multiple Choice Questions

1. With reference to the information given under Para 5, what amount of additional tax needs to be paid by YPL if it does not want to repatriate the excess money with respect to supply of steel pipes to SPL?
 - (a) ₹ 22,46,400
 - (b) ₹ 25,15,970
 - (c) ₹ 31,20,000
 - (d) No need to pay additional tax as the amount of primary adjustment does not exceed the prescribed limit.
2. With reference to the information given under Para 1, whether any formalities would have been complied by YPL with respect to appointment of Mrs. Sunita as a director in SPL?
 - (a) No, as such appointment did not amount to appointment of Mrs. Sunita to an office or place of profit in SPL.
 - (b) Yes, as Mrs. Sunita was a related party to YPL and she would be drawing a monthly remuneration exceeding ₹ 2.5 lakhs in its subsidiary company.
 - (c) No, as even though Mrs. Sunita was a related party to YPL but she would be drawing remuneration from SPL, its subsidiary company and not YPL, itself.
 - (d) No, as such provisions with respect to related party are not applicable in relation to a foreign subsidiary company.
3. With reference to the information given under Para 2, how much balance in electronic credit ledger would have been available with YPL after discharging its GST liability for May month for which Mr. Kailash was consulted?

- (a) ₹ 11,60,000
 - (b) ₹ 8,80,000
 - (c) ₹ 6,00,000
 - (d) ₹ 28,75,000
4. With reference to the information given under Para 3, till what time period, SKT had to make an application for renewal of its certificate so that it might be accepted and the application should have been accompanied with what amount of fees?
- (a) Such application needs to be made by 20th September, 2021 and the total fees payable with such application shall be ₹ 5,000.
 - (b) Such application needs to be made by 20th December, 2021 and the total fees payable with such application shall be ₹ 5,000.
 - (c) Such application needs to be made by 31st March, 2022 and the total fees payable with such application shall be ₹ 1,500.
 - (d) Such application needs to be made by 20th December, 2022 and the total fees payable with such application shall be ₹ 6,500.
5. With reference to the information given under Para 4, what shall be the value of supply for Dusham Ltd. for the machinery supplied to YPL?
- (a) ₹ 30,60,000
 - (b) ₹ 25,00,000
 - (c) ₹ 35,00,000
 - (d) ₹ 30,00,000

II. Descriptive Questions

6. With reference to the accounting estimates (given under Para 2) that might give rise to significant risks, what Mr. Kailash should have evaluated in addition to performing procedures as per SA 330?
7. (i) With reference to the information given under Para 3, how much excess CSR expenditure has been made by YPL during F.Y. 2022-23 and whether such excess CSR expenditure can be carried forward to the next financial year?

- (ii) With reference to the information given under Para 2, what kind of factors might be there that would have indicated existence of certain transactions entered into by YPL for which Mr. Kailash was required to lower his materiality?
8. With reference to the information given under Para 4, show the statement of profit and loss and balance sheet extracts in respect of the grant received by YPL for first year under both the methods as per Ind AS 20?

ANSWERS TO THE CASE STUDY 27

I. Answers to the Multiple Choice Questions

1. (b) ₹ 25,15,970

Reason: As per section 92CE of the Income-tax Act, 1961, the assessee is required to carry out secondary adjustment where the primary adjustment to transfer price exceeds ₹ 1 crore and primary adjustment is made in respect of A.Y. 2017-18 and onwards. Where, as a result of primary adjustment to the transfer price, there is an increase in the total income of the assessee, the excess money or part thereof which is available with the AE needs to be repatriated.

In a case where the excess money or part thereof has not been repatriated within the prescribed time, the assessee has the option to pay additional income-tax @ **20.9664%** (i.e., tax @ 18% plus surcharge @ 12% plus cess @ 4%) on such excess money or part thereof, as the case may be.

YPL and SPL are associated enterprise since YPL is the holding company of SPL. As the similar goods were sold by YPL to UPL, an unrelated party, CUP method can be applied for determining the ALP. While applying the Comparable Uncontrolled Price (CUP) method, the price in comparable uncontrolled transaction needs to be adjusted to account for difference, if any, between the international transaction and uncontrolled transaction and the price so adjusted shall be the ALP.

Hence, the ALP of steel pipes would be:

	(₹)
Price per MT of steel pipes to UPL	95,000

Add: Cost of insurance and freight per M.T.	11,000
Arm's length Price per M.T.	1,06,000

Primary adjustment needs to be made to the total income of YPL for P.Y. 2022-23, which shall be $2000 \text{ MT} \times (\text{₹ } 1,06,000 - \text{₹ } 1,00,000) = \text{₹ } 1,20,00,000$.

Here, the amount of primary adjustment is ₹ 120 lakhs (as calculated above). Accordingly, the amount of additional tax that needs to be paid by YPL would be $\text{₹ } 120 \text{ lakhs} \times 20.9664\% = \text{₹ } 25,15,970$ (rounded off) if it does not want to repatriate the excess money with respect to supply of steel pipes to SPL.

2. (b) Yes, as Mrs. Sunita was a related party to YPL and she would be drawing a monthly remuneration exceeding ₹ 2.5 lakhs in its subsidiary company.

Reason: Section 188 of the Companies Act, 2013, along with Rule 15 of the Companies (Meetings of Board and its Powers) Rules, 2014 contain provisions which regulate 'related party transactions'. Further, Section 2(76) of the Act defines who is a 'related party'.

As per Section 2(76), 'related party', with reference to a company, means a director or his relative;

Where the transaction or transactions to be entered into as contract or arrangement is for **appointment to any office or place of profit in the company**, its subsidiary company or associate company at a monthly remuneration **exceeding ₹ 2.5 lakh as mentioned in clause (f) of sub-section (1) of Section 188**, approval by an ordinary resolution is required.

The expression "office or place of profit" means any office or place—

- (1) **where such office or place is held by a director** - if the director holding it receives from the company anything by way of remuneration over and above the remuneration to which he is entitled as director, by way of salary, fee, commission, perquisites, any rent-free accommodation, or otherwise;
- (2) **where such office or place is held by an individual other than a director or by any firm, private company or other body corporate** - if the individual, firm, private company or body corporate holding it receives

from the company anything by way of remuneration, salary, fee, commission, perquisites, any rent-free accommodation, or otherwise.

Mrs. Sunita, was the relative of a director of YPL and she was appointed as the director in its subsidiary company, SPL, at a monthly remuneration of ₹ 3 lakhs during F.Y. 2022-23, the remuneration of which she was entitled to as a related party to the director of YPL holding a place of profit in SPL as its director and no information is given that anything over and above such remuneration was paid or to be paid her. Accordingly, such appointment of her would amount to appointment to an office or place of profit in SPL w.r.t. YPL and accordingly, the required formalities would need to be complied with by YPL with respect to such appointment of Mrs. Sunita as a director in SPL, i.e. this contract shall be entered into with the prior approval of the company (YPL) by passing an ordinary resolution.

3. (c) ₹ 6,00,000

Reason: ITC on all invoices/debit notes which are uploaded by the suppliers in their GSTR-1s can be availed in full. The recipient gets details of tax invoices and debit notes uploaded by the suppliers in their GSTR-1s, in his (recipient's) GSTR-2A and GSTR-2B.

No input tax credit shall be availed by a registered person in respect of invoices or debit notes the details of which are required to be furnished under section 37(1) unless,-

- (a) the details of such invoices or debit notes have been furnished by the supplier in the statement of outward supplies in Form GSTR-1 or using the invoice furnishing facility (IFF); and

the details of **input tax credit in respect of** such invoices or debit notes have been communicated to the registered person in Form GSTR-2B under rule 60(7).

Thus, ITC can now be taken only for those invoices/debit notes whose details are reflected in Form GSTR-2B i.e only when the respective suppliers (vendors) have filed the details of such invoices in their Form GSTR-1. Earlier, ITC, in respect of invoices/debit notes not uploaded by the suppliers in their Form GSTR-1s/IFF, could be availed upto 5% of the eligible credit available in respect of invoices/debit notes the details of which had been furnished by the suppliers in their Form GSTR-1s/ using IFF.

[Notification No. 40/2021 CT dated 29.12.2021]

The balance of ITC with YPL after discharging the GST liability for April month was ₹ 60,00,000.

The eligible ITC reflected in GSTR-2B with respect to May month of YPL was ₹ 56,00,000 whereas the input tax paid by it on invoices received during the May month was ₹ 75,00,000.

Thus, total ITC available for discharging liability for May month = ₹ 60,00,000 + ₹ 56,00,000 = ₹ 1,16,00,000 and the output tax liability for May month for ₹ 110 lakhs. So, the balance in electronic credit ledger that would have been available with YPL after discharging its GST liability for May month would be ₹ 1,16,00,000 – ₹ 1,10,00,000 = ₹ 6,00,000

4. (b) Such application needs to be made by 20th December, 2022 and the total fees payable with such application shall be ₹ 5,000.

Reason: As per the provisions of the FCRA Act, 2010, if the validity of the certificate of registration of a person has ceased in accordance with the provisions of Rule 12, a fresh request for the grant of a certificate of registration may be made by the person to the Central Government as per the provisions of rule 9.

- (1) **Period for applying for renewal of certificate:** Every person who has been granted a certificate, shall have such certificate renewed within six months before the expiry of the period of the certificate.
- (2) **Filing of an application to CG:** An application for renewal of the certificate of registration shall be made to the Central Government in electronic form in Form FC-3C accompanied with an affidavit executed by each office bearer, key functionary and member in Proforma 'AA' appended to these rules within six months before the date of expiry of the certificate of registration.

Every person seeking renewal of the certificate of registration under section 16 of the Act shall open an FCRA Account and mention details of the account in his application for renewal of registration.

An application made for renewal of the certificate of registration shall be accompanied by a fee of rupees five thousand only, which shall be paid through payment gateway specified by the Central Government.

No person whose certificate of registration has ceased to exist shall either receive or utilise the foreign contribution until the certificate is renewed.

If no application for renewal of registration is received or the application is not accompanied by requisite fee before the expiry of the validity of the certificate of registration, the validity of the certificate of registration shall be deemed to have ceased from the date of completion of the period of five years from the date of the grant of certificate of registration.

SKT's certificate of registration under the FCRA Act, 2010, was expiring on 20th December, 2022 and they had to apply for renewal of certificate as against what the Head accountant believed. Accordingly, it had to make an application for renewal of its certificate by 20th December, 2022 so that it might be accepted and the application shall be accompanied with fees of ₹ 5,000.

5. (d) ₹ 30,00,000

Reason: Computation of value of taxable supply for Dusham Ltd.

Particulars	(₹)
List price of equipment (exclusive of taxes and discount)	30,00,000
Add: Corrugated Boxes used for packing the equipment (refer section 15(2)(c) of the CGST Act, 2017)	60,000
Total	30,60,000
Less: Discount @ 2% is offered on the list price of the machine (recorded in the invoice of the machine) (refer section 15(3)(a) of the CGST Act, 2017)	(60,000)
Value of taxable supply	30,00,000

Note: The government grant has been received by YPL, so there will be no impact on value of taxable supply due to it for Dusham Ltd.

II. Answers to the Descriptive Questions

6. As per SA 540, 'Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures', for accounting estimates that give rise to significant risks, in addition to other substantive procedures performed to meet the requirements of SA 330, the auditor shall evaluate the following:

- (a) How management has considered alternative assumptions or outcomes, and why it has rejected them, or how management has otherwise addressed estimation uncertainty in making the accounting estimate.
- (b) Whether the significant assumptions used by management are reasonable.
- (c) Where relevant to the reasonableness of the significant assumptions used by management or the appropriate application of the applicable financial reporting framework, management's intent to carry out specific courses of action and its ability to do so.

In the given instance, Mr. Kailash should have evaluated the aforesaid points, in addition to performing procedures as per SA 330.

7. (i) **As per Section 135(5) of the Companies Act, 2013**, the CSR Board shall ensure that the company spends, in every financial year, at least two per cent of the average net profits of the company made during the three immediately preceding financial years [or where the company has not completed the period of three financial years since its incorporation, during such immediately preceding financial years], in pursuance of its Corporate Social Responsibility Policy.

Further, as per 3rd Proviso to the said sub-section of section 135, the excess amount spent would be allowed to be carried forward to next year.

If the company decides to adjust such excess against future obligation, then to the extent of such excess, an asset will have to be recognized for the amount which is spent in excess of 2%.

In the given instance, the average net profit of YPL for the past 3 years was ₹ 88 crore. Accordingly, during current financial year i.e. 2022-23, it was required to make CSR spend of ₹ 88 crore × 2% = ₹ 1.76 crore but instead it spent ₹ 2 crore by making donation of such amount to Shiksha Kalyan Trust. Accordingly, there was an excess CSR spend by YPL to the extent of ₹ 24 lakhs (₹ 2 crore – ₹ 1.76 crore), which will be allowed to be carried forward if YPL decides to adjust such excess CSR expenditure against future obligation.

- (ii) **As per SA 320, 'Materiality in Planning and Performing an Audit'**, factors that may indicate the existence of one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected

to influence the economic decisions of users taken on the basis of the financial statements include the following:

- Whether law, regulations or the applicable financial reporting framework affect users' expectations regarding the measurement or disclosure of certain items (for example, related party transactions, and the remuneration of management and those charged with governance).
- The key disclosures in relation to the industry in which the entity operates (for example, research and development costs for a pharmaceutical company).
- Whether attention is focused on a particular aspect of the entity's business that is separately disclosed in the financial statements (for example, a newly acquired business).

In the given instance, factors, as aforesaid, might be there that would have indicated existence of certain transactions entered into by YPL for which Mr. Kailash was required to lower his materiality as for such transactions, misstatements of lesser amounts than materiality for the financial statements as a whole could also reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

8. (a) **When grant is treated as deferred income**

Statement of profit and loss – An extract

	(₹)
Depreciation (₹ 30,00,000 x 20%)	6,00,000
Government grant credit (W.N.1)	1,20,000

Balance Sheet - An extract

	(₹)	(₹)
Non-current assets		
Property, plant and equipment	30,00,000	
Less: Accumulated depreciation	(6,00,000)	24,00,000
		????
Non-current liabilities		
Government grant	(6,00,000 - 1,20,000)	4,80,000

Current liabilities		
Government grant	(6,00,000 × 20%)	1,20,000
		????

Working Note:

1. Government grant deferred income account

	(₹)		(₹)
To Profit or loss (6,00,000 × 20%)	1,20,000	By Grant cash received	6,00,000
To Balance c/f	4,80,000		
	6,00,000		6,00,000

- (b) When grant is deducted from cost of the asset

Statement of profit and loss – An extract

	(₹)
Depreciation ((₹₹ 30,00,000 – ₹ 6,00,000) × 20%)	4,80,000

Balance Sheet - An extract

	(₹)	(₹)
Non-current assets		
Property, plant and equipment (30,00,000 – 6,00,000)	24,00,000	
Less: Accumulated depreciation	(4,80,000)	19,20,000

CASE STUDY 28

Mr. Hari Mehta is an Indian citizen who is based in Thailand for past 20 years. His father had their Family business in India when he graduated but he chose to do something different and migrated outside India to start a different business abroad and successfully took this challenge. At present, he has his business spread all over Thailand and now he wants to take his business on a global scale. Being a true Indian he is, by heart, the first destination for overseas investment he has chosen is India. Being a hardcore & experienced businessman, he understands that to successfully venture out of a country with a new business or diversification, one needs to carry out proper research work and get acquainted with the knowledge of laws and practical working of business at such Target countries where one is willing to invest. He himself started studying various laws applicable in India relating to the nature of his business and further consults CA Vani Mehta, one of his friend's daughter in India who is an expert consultant in handling International Business matters.

Through a Video conference, they both discussed how in the present age of commercial globalisation, it is a universal phenomena that Multinational Companies (MNCs) have branches/ subsidiaries/ divisions operating in more than one country. In such a situation, it is a common event for MNCs to transfer goods produced by a branch in one tax jurisdiction to an associate branch operating in another tax jurisdiction. While doing so, the MNC concerned has in mind the goal of minimizing tax burden and maximizing profits but the two tax jurisdictions/countries have also the consideration of maximizing their revenue while making laws that govern such transactions. It is an internationally accepted practice that such 'transfer pricing' should be governed by an Arm's Length Principle (ALP) and the transfer price should be the price applicable in case of a transaction of arm's length. In other words, the transaction between associates should be priced in the same way as a transaction between independent enterprises. The principles governing the taxation of MNCs are embodied in the OECD Model Tax Convention on Income and Capital (OECD Model Convention), which serves as the basis for the bilateral income-tax treaties between OECD member countries and between OECD member and non-OECD member countries. According to these guidelines, "Transfer prices" are the prices at which an enterprise transfers physical goods and intangible property or provides services to associated enterprises. Two enterprises are "associated enterprises" if one of the enterprises participates directly or indirectly in the management, control or capital of the other or if both enterprises are under common control. Since international transfer pricing involves more than one tax jurisdiction, any adjustment to the transfer price in one jurisdiction requires a corresponding adjustment in the other jurisdiction. If a corresponding adjustment is not made, double taxation will result.

He tells CA Vani that he has the following options available with him to invest in India:

OPTION – A: By acquiring controlling shares in Golden Rivers(P) Ltd., an Indian associate Company of one of his friend's Thais company, RPP Ltd. It is a company incorporated in Thailand and 55% of its shares are held by Golden Rivers (P) Ltd., an Indian company. RPP Ltd. has its presence in India also. The details relating to RPP Ltd. for the P.Y.2022-23, are as under:

Particulars	India (₹ in crore)	Thailand (₹ in crore)
Fixed assets at depreciated values for tax purposes	288	192
Intangible assets	120	480
Other assets (value as per books of account)	96	288
Income from trading operations	60	120
The above figure includes:		
(i) Income from transactions where purchases are from associated enterprises and sales are to unrelated parties	4.80	9.60
(ii) Income from transactions where sales are to associated enterprises and purchases are from unrelated parties	7.20	12
(iii) Income from transactions where both purchases and sales are from/to associated enterprises	12	24
Interest and dividend from investments	48	36
Payroll expenses on employees	19.20	28.80
Number of employees (Residents in respective countries)	168	216

CA Vani deliberates on how the Residential Status determination of Companies has changed in India recently when he left India to times now and the importance of the concept of POEM (Place of Effective Management). Mr. Mehta tells CA Vani about his research on Foreign Companies in India and this POEM concept and tells that he has studied the business model of two of his Friends' companies:

1. His friend Amit's company – ABC Inc, a US company has its place of effective management also in the USA, has advanced a loan equivalent to ₹255crores to PQR Ltd., an Indian company on 10-4-2022. The total book value of assets of PQR Ltd. is ₹450crores. The market value of the assets, however, is ₹480crores. PQR Ltd. repaid ₹45crores before 31-3-2023.
2. His nephew Rahul's company – Kings plc., a French company having its place of effective management also in France, has the power to appoint 4 of the directors of

Golden Rivers Ltd., an Indian company, whose total number of directors in the Board is 9.

3. Zen Limited is one of his other Companies registered in Thailand, headed by his son. The Board of Directors usually meet and execute business decisions at their Board Meeting held in India.

OPTION – B: Mr. Mehta tells CA Vani that one of his Associate Companies engaged in the business of manufacturing and distribution of industrial gases, can acquire a listed Indian Company ABC Ltd. having a market share of more than 65% of the industrial gas business in India but only after a “Due Diligence” of this Indian Company is conducted. CA Vani tells him that Due Diligence is used to investigate and evaluate a business opportunity. It implies a general duty to exercise care in any transaction. Most legal definition of due diligence describe it as a measure of prudence activity, or assiduity, as is properly to be expected from, and ordinarily exercised by, a reasonable and prudent person under the particular circumstance, not measure by any absolute standard but depends on the relative facts of the special case. Due diligence is a process of investigation, performed by investors, into the details of a potential investment such as an examination of operations and management and the verification of material facts. It entails conducting inquiries for the purpose of timely, sufficient and accurate disclosure of all material statements/information or documents, which may influence the outcome of the transaction. Due diligence involves a careful study of the financial as well as non-financial possibilities for successful implementation of restructuring plans. Due diligence involves an analysis carried out before acquiring a controlling interest in a company to determine that the conditions of the business conform with what has been presented about the target business. Also, due diligence can apply to recommendation for an investment or advancing a loan/credit. Due Diligence may also require to be performed in cases of corporate restructuring, venture capital financing, lending, leveraged buyouts, public offerings, disinvestment, corporatisation, etc. Sometimes, in a restructuring exercise, while the unit may remain within a group, it may pass from under the charge of one management team to that of another team. This situation also gives rise to the need for a due diligence review.

OPTION – C: Mr. Mehta will get incorporated a new Company in India itself at Kolkata as a Foreign Company which would work under the supervision of its Thais counterpart and invest Capital in the construction of infrastructure required to set up the company. He has worked on this option and tells CA Vani that he has studied the Borrowing & Financing options, his father’s new company Key Ltd. has opted for. Key Ltd. began construction of a new building at an estimated cost of ₹14 lakh on 1st April, 2022. To finance construction of the building it obtained a specific loan of ₹4 lakh from a financial institution at an interest rate of 9% per annum. The construction of building was completed by 31st January, 2023. The company’s other outstanding loans were:

Amount (₹)	Rate of Interest per annum
14,00,000	12%
18,00,000	11%

The expenditure incurred on the construction was:

April, 2022	₹3,00,000
August, 2022	₹4,00,000
October, 2022	₹7,00,000
January, 2023	₹2,00,000

Mr. Mehta comes to India for the first time on June 17, 2022 to discuss these options as per their practicality with CA Vani and her team and he leaves India on September 29, 2022. His total income (other than from foreign sources) does not exceed ₹ 15 lakhs.

I. Multiple Choice Questions

- Under OPTION – C, Mr. Mehta would be required to deliver various documents to Registrar of Companies under the provisions of the Companies Act, at:
 - Kolkata
 - New Delhi
 - Ranchi
 - Mumbai
- What would be Residential status of Mr. Mehta for the A.Y. 2023-24?
 - Resident and ordinarily resident
 - Resident but not ordinarily resident
 - Non-resident
 - Deemed resident
- Under Income Tax Act, 1961, ABC Inc. & PQR Ltd. are?
 - Associated Enterprises.
 - Unrelated Entities.
 - Holding & Subsidiary.
 - ABC Inc. is a specified foreign company of PQR Ltd.
- Under the Income Tax Act, 1961, Kings plc & Golden Rivers Ltd. are?
 - Associated Enterprises.

- (b) Two Independent Entities.
 - (c) Holding & Subsidiary.
 - (d) Kings plc is a specified foreign company of Golden Rivers Ltd.
5. What is the status of Zen Ltd. as per the provisions of the Companies Act, 2013?
- (a) Indian company.
 - (b) Foreign Company.
 - (c) Not a Foreign Company.
 - (d) Special Purpose Company.

II. Descriptive Questions

6. Determine the residential status of RPP Ltd. for A.Y.2023-24, if during the F.Y.2022-23, eight board meetings were held—3 in India and 5 in Thailand.
7. CA Vani would conduct the Due Diligence work w.r.t ABC Ltd. as required by Mr. Hari Mehta. Help her list out the contents of Due Diligence Review Report that she may submit.
8. Following the provisions of Ind AS 23 'Borrowing Costs', calculate the amount of interest to be capitalized and pass necessary journal entry for capitalizing the cost and borrowing cost in respect of the building as on 31st January, 2023, by Key Ltd.

ANSWERS TO THE CASE STUDY 28

I. Answers to the Multiple Choice Questions

1. (b) New Delhi
- Reason:** The Companies Act, 2013 vide section 380 states that every foreign company is required to deliver to the Registrar for registration, within 30 days of the establishment of office in India, documents which have been specified therein. According to the Companies (Registration of Foreign Companies) Rules, 2014, any document which any foreign company is required to deliver to the Registrar shall be delivered to the Registrar having jurisdiction over New Delhi.
2. (c) Non-resident
- Reason:** As per section 6(1) of the Income Tax Act, 1961, an individual is said to be resident in India in any previous year, if he satisfies any one of the following conditions:

- (i) He has been in India during the relevant previous year for a total period of 182 days or more, or
- (ii) He has been in India during the 4 years immediately preceding the relevant previous year for a total period of 365 days or more and has been in India for at least 60 days in the relevant previous year.

If the individual satisfies any one of the conditions mentioned above, he is a resident. If both the above conditions are not satisfied, the individual is a non-resident.

In the case of Mr. Mehta, his presence in India is as follows:

Previous year 2022-23:	105 [14+31+31+29]
Previous year 2021-22	Nil
Previous year 2020-21:	Nil
Previous year 2019-20:	Nil
Previous year 2018-19:	Nil

Thus, Mr. Mehta is non-resident for the assessment year 2023-24 as he does not satisfy either of the basic conditions.

3. (a) Associated Enterprises.

Reason: ABC Inc, a foreign company, has advanced loan of ₹ 255 crores to PQR Ltd., an Indian company, which amounts to 56.67% of book value of assets of PQR Ltd. Since the loan advanced by ABC Inc. is 51% or more of the book value of assets of PQR Ltd., ABC Inc. and PQR Ltd. are deemed to be associated enterprises under the Indian transfer pricing regulations. The deeming provisions would be attracted even if there is a repayment of loan during the same previous year which brings down the said percentage below 51%.

4. (b) Two Independent Entities.

Reason: Kings plc, a foreign company has the power to appoint 44.44% (4 out of 9) of the directors of an Indian company, Golden Rivers Ltd. Two enterprises would be deemed to be associated enterprises if more than half of the board of directors of one enterprise are appointed by the other enterprise.

In this case, since Kings plc has the power to appoint only 44.44% (which is less than half) of the directors of an Indian company, Golden Rivers Ltd., Kings plc and Golden Rivers Ltd. are not deemed to be associated enterprises.

5. (c) Not a Foreign Company.

Reason: According to section 2(42) of the Companies Act, 2013, "Foreign company" means any company or body corporate incorporated outside India which-

- (a) has a place of business in India whether by itself or through an agent, physically or through electronic mode; and
- (b) conducts any business activity in India in any other manner.

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

[Explanation.- For the purposes of this clause, electronic based offering of securities, subscription thereof or listing of securities in the International Financial Services Centres set up under section 18 of the Special Economic Zones Act, 2005 (28 of 2005) shall not be construed as 'electronic mode' for the purpose of clause (42) of section 2 of the Act.].

- (a) business to business and business to consumer transactions, data interchange and other digital supply transactions;
- (b) offering to accept deposits or inviting deposits or accepting deposits or subscriptions in securities, in India or from citizens of India;
- (c) financial settlements, web-based marketing, advisory and transactional services, database services and products, supply chain management;
- (d) online services such as telemarketing, telecommuting, telemedicine, education and information research; and
- (e) all related data communication services,

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

In the given situation, Zen Limited is registered in Thailand. However, it does not have a place of business in India whether by itself or through an agent, physically or through electronic mode; and does not conduct any business activity in India in any other manner. Mere holding of board meetings and executing business decisions in India cannot be termed as conducting business activity in India. Hence, Zen Limited is not a foreign company.

II. Answers to the Descriptive Questions

6. The residential status of a foreign company is determined on the basis of place of effective management (POEM) of the company.

For determining the POEM of a foreign company, the important criteria is whether the company is engaged in active business outside India or not.

A company shall be said to be engaged in “**Active Business Outside India**” (ABOI) for POEM, if

- the passive income is not more than 50% of its total income; and
- less than 50% of its total assets are situated in India; and
- less than 50% of total number of employees are situated in India or are resident in India; and
- the payroll expenses incurred on such employees is less than 50% of its total payroll expenditure.

RPP Ltd. shall be regarded as a company engaged in active business outside India for P.Y.2022- 23 for POEM purpose only if it satisfies all the four conditions cumulatively.

Condition 1: The passive income of RPP Ltd. should not be more than 50% of its total income

Total income of RPP Ltd. during the P.Y. 2022-23 is ₹ 264 crores [(₹ 60 crores+ ₹ 120 crores) + (₹ 48crores + ₹ 36crores)]

Passive income is the aggregate of, -

- (i) income from the transactions where both the purchase and sale of goods is from/to its associated enterprises; and
- (ii) income by way of royalty, dividend, capital gains, interest or rental income;

Passive Income of RPP Ltd. is ₹120 crores, being sum total of:

- (i) ₹ 36 crores, income from transactions where both purchases and sales are from/to associated enterprises (₹ 12 crores in India and ₹ 24 crores in Thailand)
- (ii) ₹ 84crores, being interest and dividend from investment (₹ 48 crores in India and ₹ 36 crores in Thailand)

Percentage of passive income to total income = ₹ 120 crore/ ₹ 264crore x 100 = 45.45%

Since passive income of RPP Ltd. is **45.45%**, which is not more than **50%** of its total income, the first condition is satisfied.

Condition 2: RPP Ltd. should have less than 50% of its total assets situated in India

Value of total assets of RPP Ltd. during the P.Y. 2022-23 is ₹1,464crores [₹504crores, in India+ ₹960crores, in Thailand]

Value of total assets of RPP Ltd. in India during the P.Y. 2022-23 is ₹504crores

Percentage of assets situated in India to total assets = ₹504crores/₹1464crores x 100 = 34.43%

Since the value of assets of RPP Ltd. **situated in India is less than 50%** of its total assets, the second condition for ABOI test is satisfied.

Condition 3: Less than 50% of the total number of employees of RPP Ltd. should be situated in India or should be resident in India

Number of employees situated in India or are resident in India is 168.Total number of employees of RPP Ltd. is 384[168 + 216]

Percentage of employees situated in India or are resident in India to total number of employees is 168/384x 100 =**43.75%**

Since employees situated in India or are residents in India of RPP Ltd. **are less than 50%** of its total employees, the third condition for ABOI test is satisfied.

Condition 4: The payroll expenses incurred on employees situated in India or resident in India should be less than 50% of its total payroll expenditure

Payroll expenses on employees employed in and resident of India = ₹19.20crores.
Total payroll expenses = ₹48crores (₹19.20crores + ₹28.80 crores)

Percentage of payroll expenses of employees situated in India or are resident in India to the total payroll expenses = 19.20x 100/48= 40%

Since the payroll expenses incurred on employees situated in India or resident in India **is less than 50% of its total payroll expenditure**, the fourth condition for ABOI test is also satisfied.

Thus, since RPP Ltd. has satisfied all the four conditions, the company would be said to be engaged in “active business outside India” during theP.Y.2022-23.

POEM of a company engaged in active business outside India shall be presumed to be outside India, if the majority of the board meetings are held outside India.

Since RPP Ltd. is engaged in active business outside India in the P.Y. 2022-23 and majority of its board meetings i.e., 5 out of 8, were held outside India, POEM of RPP Ltd. would be outside India.

Therefore, RPP Ltd. would be non-resident in India for the P.Y. 2022-23.

7. Contents of a Due Diligence Report

The contents of a due diligence report will always vary with individual circumstances. Following headings are illustrative:

Example of Headings of a Due Diligence Report	
◆	Executive Summary
◆	Introduction
◆	Background of Target company
◆	Objective of due diligence
◆	Terms of reference and scope of verification
◆	Brief history of the company
◆	Share holding pattern
◆	Observations on the review
◆	Assessment of management structure
◆	Assessment of financial liabilities
◆	Assessment of valuation of assets
◆	Comments on properties, terms of leases, lien and encumbrances.
◆	Assessment of operating results
◆	Assessment of taxation and statutory liabilities
◆	Assessment of possible liabilities on account of litigation and legal proceedings against the company
◆	Assessment of net worth
◆	Interlocking investments and financial obligations with group / associates companies, amounts receivable subject to litigation, any other likely liability which is not provided for in the books of account
◆	SWOT Analysis
◆	Comments on future projections
◆	Status of charges, liens, mortgages, assets and properties of the company

◆	Suggestion on ways and means including affidavits, indemnities, to be executed to cover unforeseen and undetected contingent liabilities
◆	Suggestions on various aspects to be taken care of before and after the proposed merger/acquisition.

8. (i) **Calculation of capitalization rate on borrowings other than specific borrowings**

Amount of loan (₹)	Rate of interest		Amount of interest (₹)
14,00,000	12%	=	1,68,000
<u>18,00,000</u>	11%	=	<u>1,98,000</u>
<u>32,00,000</u>			<u>3,66,000</u>
Weighted average rate of interest (3,66,000/32,00,000) x100			= 11.4375%

(ii) **Computation of borrowing cost to be capitalized for specific borrowings and general borrowings based on weighted average accumulated expenses**

Date of incurrence of expenditure	Amount spent (₹)	Financed through	Calculation	(₹)
1 st April, 2022	3,00,000	Specific borrowing	3,00,000 x 9% x 10/12	22,500.00
1 st August, 2022	4,00,000	Specific borrowing	1,00,000 x 9% x 10/12	7,500.00
		General borrowing	3,00,000 x 11.4375% x 6/12	17,156.25
1 st October, 2022	7,00,000	General borrowing	7,00,000 x 11.4375% x 4/12	26,687.50
1 st January, 2023	2,00,000	General borrowing	2,00,000 x 11.4375% x 1/12	<u>1,906.25</u>
				<u>75,750.00</u>

Note: Since construction of building started on 1st April, 2022, it is presumed that all the later expenditures on construction of building had been incurred at the beginning of the respective month.

(iii) Total expenses to be capitalized for building

Particulars	(₹)
Cost of building ₹ (3,00,000 + 4,00,000 + 7,00,000 + 2,00,000)	16,00,000
Add: Amount of interest to be capitalized	<u>75,750</u>
	<u>16,75,750</u>

(iv) Journal Entry

Date	Particulars		(₹)	(₹)
31.1.2023	Building account	Dr.	16,75,750	
	To Bank account			16,00,000
	To Interest payable (borrowing cost)			75,750
	(Being expenditure incurred on construction of building and borrowing cost thereon capitalized)			

Note: In the above journal entry, it is assumed that interest amount will be paid at the year end. Hence, entry for interest payable has been passed on 31.1.2023.

Alternatively, following journal entry may be passed if interest is paid on the date of capitalization:

Date	Particulars		(₹)	(₹)
31.1.2023	Building account	Dr.	16,75,750	
	To Bank account			16,75,750
	(Being expenditure incurred on construction of building and borrowing cost thereon capitalized)			

CASE STUDY 29

The decade of 90's witnessed a large shift in the way of doing business in India. The New Economic Policy of 1991 opened doors of and for the Indian economy to the outside world for interaction and business both inside and outside the country. The Service sector grew like anything. India soon proved to the world that it is not limited to Agriculture only and that there is much more scope for Industrialisation and the Tertiary sector. The nation saw an upsurge in the Global activities and thus its development was fast-paced. But every development has its cost and that cost which India started sharing with the whole world was Overexploitation of Natural resources, Global warming, Ozone layer depletion, Pollution and the list goes on. Now, it stands on the same platform as the other nations in facing these issues. With the progress, the World has been making, it also understood its responsibility to protect the planet from the ill-effects of carving out the road to development and modernisation and so did the Corporates.

Corporates also felt their Social responsibility in this regard and thus a term was coined by the name CORPORATE SOCIAL RESPONSIBILITY (CSR). Corporate Social Responsibility is corporate initiative to assess and take responsibility for the company's effects on the environment and its impact on social welfare. It can be conceptualized as the corporations' obligation to take necessary action to reduce the negative externalities and enhance the positive externalities associated with their business. In doing so, the corporations could protect and promote the interests of their stakeholders and society as a whole. The origin of CSR can be traced to philanthropic activities of corporations, viz., donations and charity. Over the years, the concept of CSR has evolved and it now includes within its scope, triple bottom line approach (achieving a balance of economic, environmental and social imperatives), corporate sustainability, improving and developing skills for sustainability, to name a few. CSR is the process by which an organization thinks about and evolves its relationships with stakeholders for the common good, and demonstrates its commitment in this regard by adoption of appropriate business processes and strategies. Thus, CSR is not charity or mere donations. CSR is a way of conducting business, by which corporate entities visibly contribute to the social good. Socially responsible companies do not limit themselves to using resources to engage in activities that increase only their profits. They use CSR to integrate economic, environmental and social objectives with the company's operations and growth.

THE INDIAN SCENARIO

Prior to the year 2014, CSR activities were voluntary for the corporates in India, however they ought to disclose their CSR spending to their shareholders. With an amendment to the

Companies Act, 2013 in April 2014, India became the first country in the world to make CSR mandatory allowing the businesses to invest their profits in areas such as education, poverty, hunger to comply with CSR provisions. CSR is the procedure for assessing an organization's impact on society and evaluating their responsibilities. It begins with an assessment of the aspects of each business such as Customers, Suppliers, Environment, Communities, Employees, etc. Since the applicability of mandatory CSR provision in 2014, CSR spending by corporates in India has increased significantly. Organizations in India taking up CSR initiatives and integrating them into their business processes. Companies now have specific departments and teams that develop specific policies, strategies, and goals for their CSR programs.

One such company is "*Mahima Consumer Products Limited*" which manufactures consumable goods like bath soap, tooth brushes, soap cases etc. This company has made a remarkable success in the recent times starting from a low investment. It had been doing CSR projects on its own without any requirement legally along with an established charitable company by the name of "*Needs & Helps*" but now since it has capitalised the market share to a good extent, the Board of Directors feel the need to know about all the CSR provisions that may be applicable to their Company, the Policies they need to develop, the Accounting treatment & the Taxation impact. For this purpose, they approach Nayyar & Co., a CA firm with an experience of 6 years in CA Practice.

CA Karan Nayyar, the Senior Partner of the firm is invited for a meeting with the BOD of the Company to make them aware of all the provisions relating to CSR and what policies and procedures now would they need to set up to comply with the CSR provisions. Mr. Kapoor, one of the Directors on the Board of the Company is curious to ask about CSR applicability to the Company's Foreign subsidiary to which CA Nayyar replies that every company including its holding or subsidiary, and a foreign company defined under clause (42) of section 2 of the Act having its branch office or project office in India which fulfils the criteria specified in sub-section (1) of section 135 of the Act shall comply with the provisions of section 135 of the Act and these rules. Provided that net worth, turnover or net profit of a foreign company of the Act shall be computed in accordance with balance sheet and profit and loss account of such company prepared in accordance with the provisions of clause (a) of sub-section (1) of section 381 and section 198 of the Act. He tells them that in India, the Companies Act, 2013 has statutorily recognised the concept of CSR. Section 135 of the Companies Act, 2013 read with Schedule VII thereto and Companies (Corporate Social Responsibility Policy) Rules, 2014 are the special provisions under the new company law regime imposing mandatory CSR obligations. Schedule VII of Companies Act 2013 lists activities that may be included by companies in their Corporate Social Responsibility Policies. As per Rule 4 of the Companies

(CSR) Rules, 2014, there are certain expenditures which are not considered as CSR activity for the purpose of section 135.

**MANDATORY CSR OBLIGATIONS UNDER SECTION 135 OF THE COMPANIES ACT,
2013**

- Every company, listed or unlisted, private or public, having a -
 - net worth of ₹ 500 crores or more [*Net worth criterion*]; or
 - turnover of ₹ 1,000 crores or more [*Turnover criterion*]; or
 - a net profit of ₹ 5 crores or more [*Net Profit criterion*](to be calculated as per Section-198)

during the immediate preceding financial year to constitute a CSR Committee of the Board;

- CSR Committee has to formulate CSR policy and the same has to be approved by the Board;
- Such company to undertake CSR activities as per the CSR Policy;
- Such company to spend in every financial year, at least 2% of its average net profits made in the immediately three preceding financial years “or where the company has not completed the period of three financial years since its incorporation, during such immediately preceding financial years, on the CSR activities specified in Schedule VII to the Companies Act, 2013.

Mr. Kapoor spontaneously interrupted and apprised the meeting with the fact that an amount of ₹ 5,00,000 was spent as CSR expense towards the education of a girl child. He further explained that the Company has decided to claim it as an expense against profits while computing income for Income tax purposes.

However, CA Nayar tells them that legal provisions will be looked into and continued explaining further provisions that-

CSR Committee shall:

- (a) formulate and recommend to the Board-
 - (i) a CSR Policy indicating the activities to be undertaken by the company as specified in Schedule VII;
 - (ii) the amount of expenditure to be incurred on the above activities and
- (b) monitor the CSR Policy of the company from time to time

The Board shall disclose:

- (a) The composition of CSR Committee in its report
- (b) Approve the recommended CSR Policy for the company
- (c) Disclose the contents of such Policy in its report and place it on the company's website
- (d) Ensure that the activities included in CSR Policy of the company are duly executed by the company
- (e) Ensure that the company spends, in every financial year, at least two per cent of the average net profits of the company made during the three immediately preceding financial years by giving preference to the local area and areas around it where it operates
- (f) In case the company fails to spend such amount, the Board shall specify the reasons for not spending the amount.

With respect to the accounting for Revenue expenditure for Corporate Social Responsibility made in the current financial year, CA Nayyar said he would discuss with the Accounts Department of the company in the due course of time.

Mr. Parimal, another Director of the Company asks his queries on the following two issues to which CA Nayyar gives him a satisfactory reply:

1. Whether any Unspent Amount of CSR Expenditure is to be Provided for?
2. Whether the Excess Amount can be Carry Forward to set off against Future CSR Expenditure?

THE TAXATION ASPECT

- CSR expenditure, being an application of income, is not incurred wholly and exclusively for the purposes of carrying on business. As the application of income is not allowed as deduction for the purposes of computing taxable income of a company, amount spent on CSR cannot be allowed as deduction for computing the taxable income of the company.
- Based on the Explanatory Memorandum to the Bill, the CSR expenditure which is of the nature described in section 30 to section 36 of the Income-tax Act shall be allowed as deduction under those sections subject to fulfilment of conditions, if any, specified therein. If the nature of CSR expenditure incurred is not covered under the aforesaid sections of the Act and is covered under section 37(1) of the Act, being a general deduction, the same is proposed to be disallowed by the Bill.

The meeting concludes with the Company appointing M/s Nayyar & Co. as its Statutory Auditors for a period of 5 years w.e.f. 2023-24 and CA Nayyar fixes the remuneration to be charged by his firm for the audit as well as the consultancy purposes in agreement with the BOD of Mahima Consumer Products Limited.

Later on, as part of the company's CSR policy, it was decided that for every pack of consumable goods sold, ₹ 0.80 will go towards 'Needs & Helps' which will qualify as a CSR spend as per Schedule VII. Consequently, at the year end, the company sold 25,000 such packs and a total of ₹ 20,000 was recognised as CSR expenditure. However, this amount was not paid to 'Needs & Helps' at the end of the financial year. The company also transferred a small building purchased by it to a school run and maintained by a Gram Panchayat for use as a Library by the school.

I. Multiple Choice Questions

1. The management of the company "Needs & Helps" believes that the CSR provisions are not applicable to it. On discussion with Mr. Kapoor, they approach CA Nayyar to consult the same. What should be CA Nayyar's take on whether the provisions of CSR are applicable to "Needs & Helps" provided it fulfils the criteria of Section 135 of the Act?
 - (a) Not Applicable as all the activities of the company will be with the intent of charity.
 - (b) Not Applicable as all its activities are activities in the normal course of business.
 - (c) Applicable as it applies to every Company.
 - (d) Applicable only if the Company involves itself in any commercial activity other than the charitable ones.
2. Will the recognition of ₹ 20,000 as CSR expenditure qualify to be a CSR Expenditure?
 - (a) No, it needs to be spent actually for such qualification.
 - (b) Yes, as the Company has earmarked it separately to be used for the decided purpose.
 - (c) Yes, if the Company makes a provision for its use in near future for the same.
 - (d) Only 50% qualifies and balance 50% on actual expenditure by the Company.
3. What accounting treatment should be suggested to the Company relating to transfer of building?
 - (a) Capitalised as a CSR Asset as PPE as per IndAS 16 in the books of accounts.

- (b) Capitalised as a CSR Asset as Investment Property as per IndAS 40 in the books of accounts.
 - (c) Capitalised as a CSR Asset without any sub-head classification as per AS in the books of accounts.
 - (d) Charged to the Statement of Profit & Loss for the year of Transfer.
4. Mr. Kapoor tells CA Karan Nayyar that their Company carries out CSR activities from rented premises in Pune. The rent paid for such premises is disclosed as CSR expenditure and subsequently their company also claimed deduction of the same under the Income-tax Act. Is this permissible?
- (a) Not allowed as a Deduction as this expense is not directly benefitting any individual or organisation.
 - (b) Allowed as a Deduction.
 - (c) Partly allowed upto 30% of the total rent.
 - (d) Rent can never be claimed as a CSR Expenditure.
5. During the year, company spent certain amount towards the education of a girl child. Is the treatment as decided by the company w.r.t. such CSR expenditure while computing income for Income tax purposes is valid?
- (a) No, as this expenditure is an application of income, is not incurred wholly and exclusively for the purposes of carrying on business.
 - (b) Yes, as this amount involved is material as it might put a huge impact against the profits.
 - (c) Yes, this expenditure can be claimed as deduction only when it is actually paid before the due date of return filing by the company.
 - (d) No, such an allowance can be made only after applying for and receiving a certificate for the same from the Chief Commissioner of Income tax.

II. Descriptive Questions

6. CA Nayyar said that he would discuss the accounting of the Revenue expenditure for Corporate Social Responsibility made in the current financial year with the accounts department in the due course of time. You, being the assistant to CA Nayyar, have been asked by him to provide the Accounts Department with a brief write up on the same.

7. After the havoc caused by a devastating Tsunami in Andaman & Nicobar islands, a group of companies undertake during the period from October 2022 to December 2022 various commercial activities, with considerable concessions/discounts, along the related affected areas. The management of Mahima Consumer Products Limited intends to highlight the expenditure incurred on such activities as expenditure incurred on activities undertaken to discharge corporate social responsibility, while publishing its financial statements. State whether the management's intention is correct or not and why?

ANSWERS TO THE CASE STUDY 29

I. Answers to the Multiple Choice Questions

1. (c) Applicable as it applies to every Company.
- Reason:** Section 135 of the Companies Act is applicable to every company meeting the specified criteria. As per section 2(20) of the Companies Act, 'company' means a company incorporated under the Companies Act or under any other previous company law. This would imply that companies set up for the purposes of CSR/public welfare are also required to comply with the provisions of CSR.
2. (a) No, it needs to be spent actually for such qualification.
- Reason:** By earmarking the amount from such sale for CSR expenditure, the company cannot show it as CSR expenditure. To qualify the amount to be CSR expenditure, it has to be spent. Hence, ₹ 20,000 will not be automatically considered as CSR expenditure until and unless it is spent on CSR activities.
3. (d) Charged to the Statement of Profit & Loss for the year of Transfer.
- Reason:** The control over the asset is not with the Company and no future economic benefits are expected to flow to the company. So, to be charged as a Revenue Expenditure and not capitalised.
4. (b) Allowed as a Deduction.
- Reason:** CSR expenditure which is of the nature described under section 30 to 36 of the Income-tax Act shall be allowed as a deduction. Rent expense can be claimed under section 30 of the Act and hence it can be claimed as a deduction.

5. (a) This expenditure is an application of income, is not incurred wholly and exclusively for the purposes of carrying on business.

Reason: For the purposes of section 37(1), any expenditure incurred by an assessee on the activities relating to corporate social responsibility referred to in section 135 of the Companies Act, 2013 shall not be deemed to have been incurred for the purpose of business and hence, shall not be allowed as deduction under section 37.

II. Answers to the Descriptive Questions

6. CSR expenditure is an item of Profit & Loss Account.

As per Item 5(A)(k) of the General Instructions for Preparation of Statement of Profit and Loss under Schedule III of the Companies Act 2013, in case of companies covered under section 135, the amount of expenditure incurred on Corporate Social Responsibility Activities shall be disclosed by way of a note to the statement of profit & Loss.

The treatment of revenue expenditure will be same under AS and Ind AS.

7. Corporate Social Responsibility (CSR) Reporting is an information communiqué with respect to discharge of social responsibilities of corporate entity. Through 'CSR Report' the corporate enterprises disclose the manner in which they are discharging their social responsibilities. More specifically, it is addressed to the public or society at large, although it can be squarely used by other user groups also.

Section 135 of the Companies Act, 2013 mandated the companies fulfilling the criteria mentioned in the said section to spend certain amount of their profit on activities as specified in the Schedule VII to the Act. Companies not falling within that criteria can also spend on CSR activities voluntarily. However, besides the requirements of constitution of a CSR committee and a CSR policy, the corporate entities should also take care that expenditure incurred for CSR should not be the expenditure incurred for the activities in the ordinary course of business. If expenditure incurred is for the activities in the ordinary course of business, then it will not be qualified as expenditure incurred on CSR activities.

Here, it is assumed that the commercial activities performed at concessional rates are the activities done in the ordinary course of business of the companies. Therefore, the intention of the management to highlight the expenditure incurred on such commercial activities in its financial statements as the expenditure incurred on activities undertaken to discharge CSR, is not correct.

CASE STUDY 30

CA Ankit Bansal has recently qualified his CA Finals and wants to join his father, FCA Vivek Bansal in his already established CA Practice. His father has earned a good name as one of the most successful Chartered Accountants in the city and Ankit wants to follow on his father's footsteps too. Ankit intimated about his desire to join his father in his office. His father, having struggled a lot in his initial days as a fresher knows the importance of hard-work and efforts required to settle in any Profession. He doesn't want his son to directly join him as a Boss over other employees, but to earn it after working for at least 6-8 months in the office as an employee. He wants his son to know the importance of efforts required to be made in the profession and understand that 'All that Glitters is not Gold'. He asks Ankit to study a new and emerging field in the Profession – GST properly and apply it practically in the office as well, with the help of other Staff & Trainers. He also tells him that as he is a newly qualified Professional, he will also discuss with him the Professional Ethics of CA Profession, though he might have read about it during his studies, yet he wants to tell him about its practical aspects. CA Vivek also asks his son to start working with the family's accounts first and prepare Income tax Returns and GST Returns of the Family including his elder brother's recently started business. Ankit happily agrees to abide by his father's wishes and starts working on it.

Since Indirect Taxes was one subject with which Ankit had to work on a lot to pass its exam, he decides to study about its applicability on their Profession. Initially, he had read that Chartered Accountants were subject to Service Tax in the Pre-GST regime, but now, in the Post-GST era, they also fall under the ambit of GST. He learns that the same exemption limit w.r.t. aggregate turnover as applicable to the Business Community is also applicable to them. However, if any CA or CA firm provides 'Interstate Service', they have to register themselves compulsorily under the GST Law, irrespective of their aggregate turnover being less than the exemption limit. All other provisions too, like issue of Invoices, Charge of GST, payment of tax and filing of returns for Service Providers like CA's are more or less similar under the 'One Nation One Tax' regime with minor variations. Many CA's who were following the Cash System of accounting for Income-tax purposes, cannot follow Cash-system under GST, for which Mercantile System can only be followed. They are also subject to Section-9 of CGST Act w.r.t. Payment & Collection of tax under the 2 different mechanisms - FORWARD CHARGE & REVERSE CHARGE. The GST rate applicable on them is 18% on the value of services provided by them. CA Vivek assigns the work of filing their CA firm's returns for the month to CA Ankit.

As far as Income-tax is concerned, they are individual or a firm of Chartered Accountants covered under the head of 'Profits & Gains from Business or Profession'. They fall under the ambit of Notified Profession as per a CBDT Notification under the Income-tax law but finds it's difficult to make out whether he needs to maintain Books of Accounts U/s 44AA of the Income-

tax Act, 1961 like his Father and their CA Firm or not, being a freshly qualified CA. As per Section-145, they can either adopt Cash or Mercantile system of accounting as they desire, calculate their Gross receipts and then Surplus after deducting expenses required to be in the Profession. The Income tax is to be paid on such Surplus or Net Receipts. Under the Normal Taxation provisions, his income would consist as follows as per the case:

S.No.	Capacity in which income is earned by an individual	Treatment of income earned in each capacity
(1)	In his personal capacity (under the 5 heads of income)	Income from salaries, Income from house property, Profits and gains of business or profession, Capital gains and Income from other sources.
(2)	As a partner of a firm	(i) Salary, bonus etc. received by a partner is taxable as his business income. (ii) Interest on capital and loans to the firm is taxable as business income of the partner. The income mentioned in (i) and (ii) above are taxable to the extent they are allowed as deduction to the firm. (iii) Share of profit in the firm is exempt in the hands of the partner.

During his tenure of 6 months, CA Ankit would discuss various matters, relating to Professional Ethics with his father on various occasions. His father tells him that a Professional needs to be integral, confidential, independent, objective, competent & knowledgeable to be successful in his/her respective Profession. A Professional Accountant's responsibility is not exclusively to satisfy the needs of an individual client or employer but also acting in the public interest. A professional accountant should observe and comply with the ethical requirements of the Code of Ethics applicable on them. This Code discusses the fundamental principles which professional accountants have to observe in order to achieve the objectives of the Accountancy Profession. Compliance with such principles may potentially be threatened by a range of threats as per circumstances categorised as Self-Interest, Self-Review, Advocacy, Familiarity and Intimidation threats. The nature & significance of these threats may differ depending on whether they arise in relation to the provision of services to a financial statement audit client, a non-financial statement audit assurance client or a non-assurance client. Ankit understands the reason now why his father once refused to accept a CAR as a gift from one of his clients while auditing his Listed Company XYZ Ltd. And at other time, when he refused one of his big clients for offering him special treatment at his Service Centre. CA Ankit, asks his father whether they can also put up their Firm Name's Board at their residence and he would cater to some the clients for whom their residence is more accessible and approachable to get the work done, but his father CA Vivek denies him the

permission to do so citing Ethics & tells him that they have already put up a Firm name board at their Official Premises and it is not required at their residence.

CA Ankit works for one year as an Individual- CA Ankit Bansal and after one year, joins his father CA Vivek Bansal in his CA firm as a Partner with full zeal & enthusiasm after having got the relevant experience under his experienced father for one year.

CA Vivek Bansal is having a very big corporate client, Ranjan Pvt. Ltd. This year, after Ankit qualifying and joining his father in the Office, CA Vivek assigns him the Audit work of Ranjan Ltd. for the preparation of their audit report in a timely manner. The Profit & Loss a/c of Ranjan Pvt. Ltd., having business of agricultural produce, consumer items and other products for the year ended 31.03.2023 is as under:

Particulars	Amount (₹)	Particulars	Amount (₹)
Opening Stock	3,75,000	Sales	1,55,50,000
Purchases	1,25,75,000	Closing Stock	4,50,000
Freight & Cartage	1,26,000		
Gross profit	29,24,000		
	1,60,00,000		1,60,00,000
Bonus to staff	47,500	Gross profit	29,24,000
Rent of premises	53,500	Income-tax refund	20,000
Advertisement	5,000	Warehousing charges	15,00,000
Bad Debts	75,000		
Interest on loans	1,67,500		
Depreciation	71,500		
Goods and Services tax demand paid	1,08,350		
Miscellaneous expenses	5,25,650		
Net profit of the year	33,90,000		
	44,44,000		44,44,000

Other Information:-

- (i) There was a survey under section 133A on the business premises on 31.3.2023 in which it was revealed that the value of closing stocks of 31.3.2022 was ₹ 8,75,000 and a sale of ₹ 75,000 made on 13.3.2023 was not recorded in the books. The value of closing stocks after considering these facts and on the basis of inventory prepared by the department as on 31.3.2023 worked out at ₹ 12,50,000, which was accepted to be correct and not disputed.
- (ii) Income-tax refund includes amount of ₹ 4,570 of interest allowed thereon.

- (iii) Bonus to staff includes an amount of ₹ 7,500 paid in the month of December 2022, which was provided in the books on 31.03.2022.
- (iv) Rent of premises includes an amount of ₹ 5,500 incurred on repairs. The assessee was under no obligation to incur such expenses as per rent agreement.
- (v) Advertisement expenses include an amount of ₹ 2,500 paid for advertisement published in the souvenir issued by a political party. The payment is made by way of an account payee cheque.
- (vi) Miscellaneous expenses include:
 - (a) amount of ₹ 15,000 paid towards penalty for non-fulfillment of delivery conditions of a contract of sale for the reasons beyond control,
 - (b) amount of ₹ 1,00,000 paid to the wife of a director, who is working as junior lawyer for taking an opinion on a disputed matter. The junior advocate of High Courts normally charge only ₹ 25,000 for the same opinion,
 - (c) amount of ₹ 1,00,000 paid to an Electoral Trust by cheque.
- (vii) Goods and Services Tax demand paid includes an amount of ₹ 5,300 charged as penalty for delayed filing of returns and ₹ 12,750 towards interest for delay in deposit of tax.
- (viii) The company had made an investment of ₹ 25 lacs on the construction of a warehouse in rural area for the purpose of storage of agricultural produce. This was made available for use from 15.09.2022 and the income from this activity is credited in the Profit and Loss account under the head "Warehousing charges".
- (ix) Depreciation under the Income-tax Act, 1961 works out at ₹ 65,000.
- (x) Interest on loans includes an amount of ₹ 80,000 on which tax was not deducted.

I. Multiple Choice Questions

1. Had CA Vivek accepted the Offer of the special treatment from XYZ Ltd.'s Director, he would have been subject to -
 - (a) Familiarity Threats.
 - (b) Self-Review Threats.
 - (c) Self-Interest Threats.
 - (d) Advocacy Threat.
2. CA Ankit wants to put the name board of the Firm with his name as a Partner in the Firm, if admitted to his Father's Firm as a Partner, at the Place of his residence. He can put up a name board of -

- (a) His name only with designation "Chartered Accountant".
 - (b) Firm's name only with designation "Chartered Accountants".
 - (c) 2 Different name-boards with respective details of his and the Firm's.
 - (d) Nothing, as a member can't put any name boards whether individual or firm name at his place of Residence.
3. Ankit doesn't wish to maintain Books of Account for his Professional earnings on the ground that his income is less than the limits prescribed under the relevant section of the Income Tax Act, 1961 unlike his father CA Vivek or his CA firm. He is -
- (a) Guilty of Professional Misconduct under CA Act, 1949.
 - (b) Not Guilty as the relevant Section doesn't apply on him.
 - (c) Guilty both under the CA Act, 1949 & the Income Tax Act, 1961.
 - (d) Guilty of Professional Negligence.
4. One of Ankit's Clients has displayed his Business name along with the GST Act requirements through Glow Sign Boards outside his Premises and has claimed the expense as a Revenue Expenditure. They seek Ankit's advice as to such Accounting treatment. What is the nature of expenditure incurred on glow-sign boards displayed at the premises of Ankit's client as to be suggested by Ankit?
- (a) Capital Expenditure.
 - (b) Revenue Expenditure as accounted for by the Client.
 - (c) Deferred Revenue Expenditure.
 - (d) Can be claimed as any as per the facts of the case.
5. One of CA Ankit's Clients states that Interest was payable to Goods and Services Tax Department but could not be paid before the due date specified in section 139(1). What should be CA Ankit's Reporting during the Tax Audit of such client?
- (a) Allowable as an expense.
 - (b) Disallowed u/s 43B.
 - (c) Disallowed u/s 37.
 - (d) Allowable but to the extent of 30% only.

II. Descriptive Questions

6. Compute the income chargeable to tax for Assessment Year 2023-24 of Ranjan Pvt. Ltd, ignoring MAT and provisions of section 115BAA. Support your answer with working notes for CA Ankit.

7. (a) CA Vivek bags a contract of providing financial and management consultancy to a group of companies for an annual retainership fee of ₹ 15 lakh. He is given a room in the head office of the group for its exclusive use. CA Vivek pays GST on the amount of ₹ 15 lakh. Is the value for the service provided by him correct under GST laws? If not, please elaborate.
- (b) CA Ankit has provided various Consultancy and Assurance services during the year as follows. Determine the time of supply in the following cases assuming that rate of GST changes from 18% to 20% w.e.f. June 1:

S. No.	Date of supply of services	Date of issue of invoice	Date of receipt of payment
(i)	May 28	June 9	July 25
(ii)		May 28	July 25
(iii)		June 9	May 26
(iv)	June 10	May 28	June 25
(v)		May 28	May 16
(vi)		June 9	May 28

ANSWERS TO THE CASE STUDY 30

I. Answers to the Multiple Choice Questions

1. (c) Self-Interest Threats.
Reason: Being offered gift or special treatment from a supplier of the employing organization, is an example of Self-Interest Threats.
2. (a) His name only with designation "Chartered Accountant".
Reason: With regard to the use of name-board, the Council of the Institute has decided a member of the Institute may put up a name board in the place of his/her residence with the designation of CA, provided it is a name-Plate or Board of an Individual member and not of the firm.
3. (a) Guilty of Professional Misconduct under CA Act, 1949.
Reason: As per the Council General Guidelines 2008, under Chapter 5 on maintenance of books of accounts, it is specified that if a chartered accountant in practice or the firm of Chartered Accountants of which he is a partner fails to maintain and keep in respect of his/its professional practice, proper books of

account including the Cash Book and Ledger, he is deemed to be guilty of professional misconduct. Accordingly, it does not matter whether section 44AA of the Income Tax Act, 1961 applies or not.

4. (b) Revenue Expenditure as accounted for by the Client.

Reason: On this issue, the Delhi High Court noted the following observations of the Punjab and Haryana High Court in CIT v. Liberty Group Marketing Division [2009] 315 ITR 125, while holding that such expenditure was revenue in nature -

- (i) The expenditure incurred by the assessee on glow sign boards does not bring into existence an asset or advantage for the enduring benefit of the business, which is attributable to the capital.
- (ii) The glow sign board is not an asset of permanent nature. It has a short life.
- (iii) The materials used in the glow sign boards decay with the effect of weather. Therefore, it requires frequent replacement. Consequently, the assessee has to incur expenditure on glow sign boards regularly in almost each year.
- (iv) The assessee incurred expenditure on the glow sign boards with the object of facilitating the business operation and not with the object of acquiring asset of enduring nature.

5. (b) Disallowed u/s 43B.

Reason: Interest payable to Goods and Services Tax department is part of Goods and Services Tax. Therefore, interest payable to Goods and Services Tax department, which is not paid before the "due date" of filing of return of income, would attract disallowance under section 43B [Mewar Motors v. CIT (2003) 260 ITR 218 (Raj)]

II. Answers to the Descriptive Questions

6.

		Amount (₹)
Net profit as per profit and loss account		33,90,000
Add:	Difference in the value of stocks detected on survey under section 133A on 31.03.2023 chargeable as income (See Note 1)	3,75,000
		37,65,000
Less:	Income-tax refund credited in the profit and loss account, out of which interest is to be considered separately under the head "Income from other sources"	20,000

Add:	Expenses either not allowable or to be considered separately but charged in the profit & loss account		37,45,000
	Repair expenses on rented premises where assessee is under no obligation to incur such expenses are not allowable as per section 30(a)(i). However, if such expenses are required for carrying on the business efficiently, the same are allowable under section 37. In this case, assuming that such expenses are required for carrying on business efficiently, the same are allowable under section 37.		-
	Advertisement in the souvenir of political party not allowable as per section 37(2B) (See Note 3)		2,500
	Payment made to the wife of a director examined as per section 40A(2) and the excess payment made to be disallowed (See Note 5)		75,000
	Payment made to electoral trust by cheque (See Note 6)		1,00,000
	Penalty levied by the Goods and Services tax department for delayed filing of returns not allowable as being paid for infraction of law (See Note 7)		5,300
	Depreciation as per books		71,500
	30% of interest paid on loan without deduction of tax at source not allowable as per section 40(a)(ia)		24,000
			40,23,300
Less:	Depreciation allowable as per Income-tax Act, 1961		65,000
Less:	Income from specified business (warehousing charges) credited to profit and loss account, to be considered separately (See Note 8)		39,58,300
			15,00,000
	Income from business (other than specified business)		24,58,300
	Computation of income/ loss from specified business (See Note 8)		
	Income from specified business	₹ 15,00,000	
Less:	Deduction under section 35AD @ 100% of ₹ 25 lakhs	₹ 25,00,000	
	Loss from specified business to be carried forward as per section 73A	₹ (10,00,000)	
	Income from Other Sources		
	Interest on income-tax refund		4,570
	Gross Total Income		24,62,870
Less:	Deduction under section 80GGB		
	Contribution to political party (See Note 3)	₹ 2,500	
	Contribution to an Electoral trust (See Note 3)	₹ 1,00,000	1,02,500
	Total Income		23,60,370

Notes:

- (1) The business premises were surveyed and differences in the figures of opening and closing stocks and sales were found which have not been disputed and accepted by the assessee. Therefore, the trading account for the year is to be re-cast to arrive at the correct amount of the gross profit/ net profit for the purpose of return of income to be filed for the previous year ended on 31.3.2023.

Revised Trading Account

Particular	(₹)	Particular	(₹)
Opening Stock	8,75,000	Sales(₹ 1,55,50,000 +₹ 75,000)	1,56,25,000
Purchases	1,25,75,000	Closing Stock	12,50,000
Freight and Cartage	1,26,000		
Gross Profit	32,99,000		
	1,68,75,000		1,68,75,000

The difference of gross profit of ₹ 32,99,000 – ₹ 29,24,000 = ₹ 3,75,000 is to be added as income of the business for the year.

- (2) Bonus for the previous year 2021-22 paid after the due date for filing return for that year would have been disallowed under section 43B for the P.Y.2021-22. However, when the same has been paid in December 2021, it should be allowed as deduction in the P.Y.2022-23 (A.Y.2023-24). Since it is already included in the figure of bonus to staff debited to profit and loss account of this year, no further adjustment is required.
- (3) The amount of ₹ 2,500 paid for advertisement in the souvenir issued by a political party attracts disallowance under section 37(2B). However, such expenditure falls within the meaning assigned to “contribute” under section 293A of the Companies Act, 1956, and is hence, eligible for deduction under section 80GGB. Any contribution to the political party or electoral trust made by way of cash is not allowed as deduction under section 80GGB. Since in the present case, the payment to the political party is made by way of an account payee cheque, it is allowed as deduction under section 80GGB.
- (4) The penalty of ₹ 15,000 paid for non-fulfilment of delivery conditions of a contract for reasons beyond control is not for the breach of law but was paid for breach of contractual obligations and therefore, is an allowable expense.
- (5) It has been assumed that ₹ 25,000 is the reasonable payment for the wife of Director, working as a junior lawyer, since junior advocates of High Courts normally charge only ₹ 25,000 for the same opinion and therefore, the balance ₹ 75,000 has been disallowed.

- (6) Payment to an electoral trust qualifies for deduction under section 80GGB since the payment is made by way of a cheque. However, since the amount has been debited to profit and loss account, the same has to be added back for computing business income.
- (7) The interest of ₹ 12,750 paid on the delayed deposit of goods and services tax is for breach of contract and hence, is allowable as deduction. However, penalty of ₹ 5,300 for delay in filing of returns is not allowable since it is for breach of law.
- (8) Deduction @ 100% of the capital expenditure is available under section 35AD in respect of specified business of setting up and operating a warehouse facility for storage of agricultural produce which commences operation on or after 1.04.2013. It is presumed that ₹ 25 lacs does not include expenditure on acquisition of any land. The loss from specified business under section 35AD (warehousing) should be segregated from the income from other businesses, since, as per section 73A(1), any loss computed in respect of any specified business referred to in section 35AD shall not be set off except against profits and gains, if any, of any other specified business. In view of the provisions of section 73A(1), the loss of ₹ 10 lacs from the specified business cannot be set-off against income from other businesses. Such loss has to be carried forward to be set-off against profit from specified business in the next assessment year. The return should be filed on or before the due date under section 139(1) for carry forward of such losses.
7. (a) CA Vivek gets an office room free of cost, which is an additional non-monetary consideration for his services. The market value of the rent of the room must be added to the retainer fee (₹ 15 lakh) in order to arrive at the value of the taxable service provided by him as per rule 27 of the CGST Rules relating to valuation.
- (b)

S. No.	Date of supply of services	Date of issue of invoice	Date of receipt of payment	Time of supply	Applicable rate
(i)		June 9	July 25	June 9	20%
(ii)	May 28	May 28	July 25	May 28	18%
(iii)		June 9	May 26	May 26	18%
(iv)		May 28	June 25	June 25	20%
(v)	June 10	May 28	May 16	May 16	18%
(vi)		June 9	May 28	June 9	20%

CASE STUDY 31

M/s Mahaveer Medical based at Andheri in Mumbai is in the business of retail medical store. M/s Mahaveer Medical is registered under GST. As on 25th May, 2022, it returned the expired medicines to the whole-seller Radhika Drugs. M/s Mahaveer Medical issued an invoice to Radhika Drugs of ₹ 25,00,000 plus GST @ 5% totalling to ₹ 1,25,000. Radhika Drugs is also registered under GST. Radhika Drugs took the credit of input tax on accepting the expired goods from Mahaveer Medical.

Radhika Drugs issued the goods to Abbott & Co at a price of ₹ 30,00,000 plus GST @ 5%. Abbott & Co have availed input tax credit of ₹ 2,00,000 when it had manufactured the said goods. Abbott & Co have decided to destroy all the expired goods received from Radhika Drugs.

Abbott & Co's sister concern, Rabbot & Co is a resident Indian company, is engaged in the business of plantation and manufacture of coffee. Rabbot & Co submitted an application to the Advance Authority of Advance ruling seeking advance ruling in relation to the determination of tax liability of a non-resident i.e., Baron Holdings, Plc, U.K., pertaining to a transaction undertaken by Rabbot & Co with such non-resident.

Rabbot & Co purchased 15,20,000 (fifteen lakh twenty thousand) equity shares of Baron Coffee Company (India) Ltd. from Baron Holdings Plc, U.K., a non-resident company, as per the sale and purchase agreement (in short SPA) executed between Rabbot & Co and seller Baron Holdings Plc, U.K.) on April 18, 2022, wherein the purchaser agreed to purchase the said shares of Baron Tea Company held by the seller at ₹ 273 per share.

Mr. Hari, employee of Rabbot & Co works in Japan for the Japanese operations of the company. Mr. Hari had left India 5 years ago. In India, he has deposits in Dyka Bank, a nationalized bank in Mathura. He earned ₹ 12,00,000 from the deposits during FY 2022-23.

Mr. Hari has sold the flat at Worli, Mumbai for a price of ₹ 5 crores on 19.02.2021. The buyer had not deducted TDS while paying the sale consideration. Mr. Hari did not pay any tax on the capital gains arising on the sale of flat. The Assessing Officer issued a notice to Mr. Hari asking him to pay the tax, but he did not respond. The Assessing Officer decided to recover the tax due from the fixed deposits held in Dyka Bank.

There were different cases which were seeking opinion from the Chartered Accountant of Abbot Ltd:

- ◆ Ratio International Inc was a tax transparent entity established in the Netherlands. As trustee, it was the legal owner of the assets held by a fund which, under the Dutch law, was structured as a legal entity known as FGR (i.e. *fonds voor gemene rekening*, which means funds for joint account). The fund is registered with SEBI as a sub-account of a SEBI-registered FII. The fund had three investors. The fund was a tax transparent entity,

fiscally domiciled in the Netherlands, and the income earned by it was taxable in the hands of its beneficiaries. All beneficiaries under the fund were taxable in respect of their shares of income in the Netherlands. Under the Dutch law, FGR is in the nature of a contractual arrangement between the investors, fund manager and its custodian. Since an FGR is not a legal entity, it does not hold any assets on its own and the assets are held by a custodian (i.e. Ratio International Inc). The clarifications issued by the Government of Netherlands also noted that the fund was a tax transparent entity.

Ratio International Inc was the trustee of the fund and also the legal owner of the assets owned by the fund. The fund had earned short term capital gains of ₹ 23,38,08,365 and long term capital gain of ₹ 12,60,91,050, on sale of shares in India.

- ◆ Sabyaschi Ltd was an Indian company engaged in the business of export of software and providing consultancy services. It had branches in various tax jurisdictions in which it had paid tax on profits of branches. Sabyaschi Ltd had claimed deduction of taxes paid in overseas countries. These taxes were paid in USA and in Canada.

The taxes paid in USA and Canada are with respect to income which is exempt under Income Tax Act, 1961. Sabyaschi Ltd has evidence of statements of tax paid in each jurisdiction.

- ◆ There is a Chartered Accountant firm by the name "Aashit & Co" based at Mumbai. M/s Aashit & Co is registered under GST. Mr. Raju from Bengaluru approaches the CA Firm to file its return of income in India. Mr. Raju is a salaried employee who is unregistered under GST. Aashit & Co charged a fee of ₹ 15,000 to Mr. Raju. Aashit & Co has all the KYC details of Mr. Raju required to file the return of income.
- ◆ M/s Aashit & Co 's client who stays in UK wanted to get designed a flat in Dubai. M/s Aashit & Co gave him the contact details of a leading architect in Chennai. The client in UK gave the work of designing the layout of the flat in Dubai. The architect charged a fee of ₹ 5,00,000 for the said service.

I. Multiple Choice Questions

1. What is the place of supply in case of Aashit & Co assisting Mr. Raju to file the return of income in India?
 - (a) Bengaluru.
 - (b) Mumbai; as the services are rendered in Mumbai.
 - (c) Bengaluru; as the recipient of service is in Bengaluru.
 - (d) Mumbai.
2. One tax expert pointed out to Rabbot & Co that it cannot seek ruling from AAR on the said issue. Kindly let us know what the actual position of law is-

- (a) Resident, who is liable to withhold tax on the payment to be made to non-resident can apply for an advance ruling.
 - (b) Resident, who is liable to withhold tax on the payment to be made to non-resident cannot apply for an advance ruling.
 - (c) Only non –resident can apply for advance ruling.
 - (d) Only Baron Coffee Company (India) Ltd. can apply for Advance Ruling.
3. What is the place of supply in case of services rendered by architect?
- (a) Chennai.
 - (b) UK.
 - (c) Mumbai.
 - (d) Dubai.
4. How will the interest on fixed deposits be taxable in India in the hands of Mr. Hari?
- (a) Mr. Hari cannot claim the benefit of special provisions applicable to non -residents.
 - (b) Mr. Hari can claim the benefit of special provisions applicable to non-residents and pay tax @20%.
 - (c) Mr.Hari will have to pay tax as per the new income tax slabs as effected by Finance Act,2021.
 - (d) Mr.Hari will have to pay tax as per the income tax slabs applicable to a non-resident.
5. Is the Assessing Officer correct in recovering the taxes due from Mr. Hari from his fixed deposits lying in India?
- (a) Yes, it can recover the taxes due from the fixed deposits.
 - (b) It cannot recover the tax dues from the fixed deposits.
 - (c) It can recover the taxes due only from the consideration received on the sale of the property.
 - (d) It can recover the taxes due from the agent of the non-resident.

II. Descriptive Questions

6. Kindly tell Abbott & Co, Radhika Drug and M/s Mahaveer Medical as to how to deal with the input tax credit by them in the month of May, 2022.
7. Kindly inform Sabyaschi Ltd how much credit of tax paid in USA and Canada be obtained in India.

8. One tax expert opined Ratio International Inc that the capital gain earned by it shall be assessed as an AOP. As the said AOP was not a tax resident entity of Netherlands, benefits under the India-Netherlands DTAA would not be available. Kindly give your opinion on the same.

ANSWERS TO THE CASE STUDY 31

I. Answers to the Multiple Choice Questions

1. (a) Bengaluru.

Reason: As per Section 12(2) of IGST Act, 2017, The place of supply of services, except the services specified in sub-sections (3) to (14),– (a) made to a registered person shall be the location of such person; (b) made to any person other than a registered person shall be,– (i) the location of the recipient where the address on record exists; and (ii) the location of the supplier of services in other cases.

Since Aashit & Co has the address of Mr. Raju, the place of supply shall be Bengaluru.

2. (a) Resident, who is liable to withhold tax on the payment to be made to non-resident can apply for an advance ruling.

Reason: Sub-clause (ii) of Clause (b) of Section 245N refers to a resident applicant who has entered into a transaction with a non-resident. In relation to the tax liability of such non-resident arising out of such transaction, the resident applicant can very well file the application. It stands to reason that a resident applicant who is directly concerned with the issue of tax deduction at source in respect of payments made to the non-resident, is specified as one of the eligible applicants.

3. (d) Dubai.

Reason: As per Section 13(4) of IGST Act, The place of supply of services supplied directly in relation to an immovable property, including services supplied in this regard by experts and estate agents, supply of accommodation by a hotel, inn, guest house, club or campsite, by whatever name called, grant of rights to use immovable property, services for carrying out or co-ordination of construction work, including that of architects or interior decorators, shall be the place where the immovable property is located or intended to be located.

Thus, since place of immovable property on which services of architect are utilised is in1 Dubai, the location of supply shall be Dubai.

4. (b) Mr. Hari can claim the benefit of special provisions applicable to non-residents and pay tax @20%.

Reason: Every nationalized bank is deemed to be an Indian Company for purpose of the Income tax Act and assets deposited in such a bank would be specified assets within meaning of section 115C. Thus, Mr. Hari can claim the benefit of special provisions applicable to non-residents and pay tax @20%.

5. (a) Yes, it can recover the taxes due from the fixed deposits.

Reason: As per Section 173 of Income Tax Act, 1961,

“Without prejudice to the provisions of sub-section (1) of section 161 or of section 167, where the person entitled to the income referred to in clause (i) of sub-section (1) of section 9 is a non-resident, the tax chargeable thereon, whether in his name or in the name of his agent who is liable as a representative assessee, may be recovered by deduction under any of the provisions of Chapter XVII-B and any arrears of tax may be recovered also in accordance with the provisions of this Act from any assets of the non-resident which are, or may at any time come, within India.”

Since sale of flat is covered u/s9(1)(i), the Assessing Officer is correct in recovering the taxes due from the Indian asset of the Mr. Hari who is a non – resident.

II. Answers to the Descriptive Questions

6. Circular No. 72/46/2018 GST dated 26.10.2018 has clarified that the retailer/ wholesaler can return the time expired goods, either by treating the same as fresh supply or by issuing credit notes.

As per Clause h of Section 17(5) of CGST Act, in case the person returning the time expired goods is a registered person (other than a composition taxpayer), he may, at his option, return the said goods by treating it as a fresh supply and thereby issuing an invoice for the same (hereinafter referred to as the, “return supply”). The value of the said goods as shown in the invoice on the basis of which the goods were supplied earlier may be taken as the value of such return supply. The wholesaler or manufacturer, as the case may be, who is the recipient of such return supply, shall be eligible to avail ITC of the tax levied on the said return supply subject to the fulfillment of the conditions specified in section 16.

Where the goods returned by the retailer/wholesaler as a fresh supply, are destroyed by the manufacturer, he/she is required to reverse the ITC availed on the return supply in terms of section 17(5)(h). It is pertinent to mention here that the ITC which is required to

be reversed in such scenario is the ITC availed on the return supply and not the ITC that is attributable to the manufacture of such time expired goods.

As per above, Radhika Drugs is entitled to avail ₹ 1,25,000 credit for input tax paid by them and Abbott & Co is required to reverse input tax credit of ₹ 1,50,000.

7. **Tax paid in USA:**

As per Article 25(2)(a) of DTAA between India and USA,

“2. (a) Where a resident of India derives income which, in accordance with the provisions of this Convention, may be taxed in the United States, India shall allow as a deduction from the tax on the income of that resident an amount equal to the income-tax paid in the United States, whether directly or by deduction. Such deduction shall not, however, exceed that part of the income-tax (as computed before the deduction is given) which is attributable to the income which may be taxed in the United States”

Income tax is chargeable under the Act, but it is open to the Parliament to grant exemption under the Act from payment of tax for any specified period, normally, to incentivize the assessee to carry on manufacturing activities or providing services. After referring to the treaty provisions with USA, it is held that it is not the requirement of law that the assessee before he claims credit under the Indo-US convention or under the provision of the Act must pay tax in India on such income.

As per above DTAA, it does not require that to claim credit of tax, Sabyaschi Ltd must have paid tax in India on such income.

A careful reading of the above DTAA and provisions of Section 90 of the Act, it shows that if a DTAA provides credit for foreign tax paid even in respect of income on which the assessee has not paid tax in India, it would qualify for tax credit u/s 90.

Thus, Sabyaschi Ltd will take the credit of tax paid in USA though the said income is not subject to tax in India.

Tax paid in Canada:

As per Article 23(3) of DTAA between India and Canada, in the case of India, double taxation shall be avoided as follows:

(a)	<i>The amount of Canadian tax paid, under the laws of Canada and in accordance with the provisions of the Agreement, whether directly or by deduction, by a resident of India, in respect of income from sources within Canada which has been subjected to tax both in India and Canada shall be allowed as a credit against the Indian tax payable in respect of such income but in an amount not exceeding that proportion of Indian tax which such income bears to the entire income chargeable to Indian tax.</i>
-----	---

After analysing the above provision of DTAA between India-Canada, it allows credit for tax paid in Canada only if income is subjected to tax in India. Thus, since income is exempt from tax u/s 10A, Sabyaschi Ltd cannot claim the credit of taxes paid in Canada in India.

8. The role of Ratio International Inc was that of custodian of investments. The fund was organised as an FGR in the Netherlands (i.e., funds for joint account). Under the Dutch law, FGR is in the nature of a contractual arrangement between the investors, fund manager and its custodian. Since an FGR is not a legal entity, it does not hold any assets on its own and the assets are held by a custodian (in this case, the assessee). The clarifications issued by the Government of Netherlands also noted that the fund was a tax transparent entity.

The question that was to be addressed was - who was the actual beneficiary of the trust, in whose representative capacity Ratio International Inc was to be taxed, and whether those beneficiaries were fiscally domiciled in the Netherlands (i.e., 'liable to taxation by reasons of his domicile, residence, place of management or any other criterion of similar nature'). There are two reasons for following this approach.

First, the fund was not a legal entity. Hence, it was to be seen as to which legal entities the income belonged to. The income belonged to the three investors in the fund, who were tax residents of the Netherlands. Hence, benefits under the India-Netherlands DTAA could not be denied.

Second, even if one accepts that it is a tax transparent entity *simpliciter*, following the principles laid down in **Linklaters LLP vs. Income Tax Officer [(2010) 9 ITR (Trib.) 217 (Mum.)]**, what is important is the fact that income should be taxable in the Netherlands and not the manner in which it is taxable. In such an asymmetrical taxation situation, as long as income is liable to tax in the Netherlands, whether in the hands of the Ratio International Inc or in the hands of its beneficiaries (since it is a tax transparent entity), benefits under DTAA should be granted in India.

After considering the facts, Article 13(5) of the treaty being the residuary provision would apply. As Article 13(5) allocates taxing rights to the Netherlands, capital gain would not be chargeable to tax in India in the hands of Ratio International Inc.

For Reference Purpose**INDIA- NETHERLANDS DTAA**

ARTICLE 13

CAPITAL GAINS

1. Gains derived by a resident of one of the States from the alienation of immovable property referred to in Article 6 and situated in the other State may be taxed in that other State.
2. Gains from the alienation of movable property forming part of the business property of a permanent establishment which an enterprise of one of the States has in the other State or of movable property pertaining to a fixed base available to a resident of one of the States in the other State for the purpose of performing independent personal services, including such gains from the alienation of such permanent establishment (alone or with the whole enterprise) or of such fixed base, may be taxed in that other State.
3. Gains from the alienation of ships or aircraft operated in international traffic or movable property pertaining to the operation of such ships or aircraft, shall be taxable only in the State in which the place of effective management of the enterprise is situated. For the purposes of this paragraph, the provisions of paragraph 3 of Article 8A shall apply.
4. Gains derived by a resident of one of the States from the alienation of shares (other than shares quoted on an approved stock exchange) forming part of a substantial interest in the capital stock of a company which is a resident of the other State, the value of which shares is derived principally from immovable property situated in that other State other than property in which the business of the company was carried on, may be taxed in that other State. A substantial interest exists when the resident owns 25 per cent or more of the shares of the capital stock of a company.
5. Gains from the alienation of any property other than that referred to in paragraphs 1, 2, 3 and 4 shall be taxable only in the State of which the alienator is a resident.

However, gains from the alienation of shares issued by a company resident in the other State which shares form part of at least a 10 per cent interest in the capital stock of that company, may be taxed in that other State if the alienation takes place to a resident of that other State. However, such gains shall remain taxable only in the State of which the alienator is a resident if such gains are realised in the course of a corporate organisation, reorganization, amalgamation, division or similar transaction, and the buyer or the seller owns at least 10 per cent of the capital of the other.

6. The provisions of paragraph 3 shall not affect the right of each of the States to levy according to its own law at tax on gains from the alienation of shares or 'jouissance' rights in a company, the capital of which is wholly or partly divided into shares and which under the laws of that State is a resident of that State, derived by an individual who is a resident of the other State and has been a resident of the first-mentioned State in the course of the last five years preceding the alienation of the shares or 'jouissance' rights

INDIA –CANADA DTAA

ARTICLE 23

ELIMINATION OF DOUBLE TAXATION

1. The laws in force in either of the Contracting States will continue to govern the taxation of income in the respective Contracting States except where provisions to the contrary are made in this Agreement.
2. In the case of Canada, double taxation shall be avoided as follows:
 - (a) Subject to the existing provisions of the law of Canada regarding the deduction from tax payable in Canada of tax paid in a territory outside Canada and to any subsequent modification of those provisions - which shall not affect the general principle hereof - and unless a greater deduction or relief is provided under the laws of Canada, tax payable in India on profits, income or gains arising in India shall be deducted from any Canadian tax payable in respect of such profits, income or gains.
 - (b) Subject to the existing provisions of the law of Canada regarding the determination of the exempt surplus of a foreign affiliate and to any subsequent modification of those provisions - which shall not affect the general principle hereof - for the purpose of computing Canadian tax, a company which is a resident of Canada shall be allowed to deduct in computing its taxable income any dividend received by it out of the exempt surplus of a foreign affiliate which is a resident of India.
 - (c) Where a resident of Canada owns capital which, in accordance with the provisions of the Agreement may be taxed in India, Canada shall allow as a deduction from the tax on capital of that resident an amount equal to the capital tax paid in India. Such deduction shall not, however, exceed that part of the capital tax (as computed before the deduction is given) which is attributable to the capital which may be taxed in India.
 - (d) Where in accordance with any provision of the Agreement, income derived or capital owned by a resident of Canada is exempt from tax in Canada, Canada may nevertheless, in calculating the amount of tax on the

remaining income or capital of such resident, take into account the exempted income or capital.

3. In the case of India, double taxation shall be avoided as follows:
- (a) The amount of Canadian tax paid, under the laws of Canada and in accordance with the provisions of the Agreement, whether directly or by deduction, by a resident of India, in respect of income from sources within Canada which has been subjected to tax both in India and Canada shall be allowed as a credit against the Indian tax payable in respect of such income but in an amount not exceeding that proportion of Indian tax which such income bears to the entire income chargeable to Indian tax.
 - (b) Where a resident of India owns capital, which, in accordance with the provisions of the Agreement, may be taxed in Canada, India shall allow as a deduction from the tax on the capital of that resident an amount equal to the capital tax paid in Canada. Such deduction shall not, however, exceed that part of the capital tax (as computed before the deduction is given) which is attributable to the capital which may be taxed in Canada:

Provided that income which in accordance with the provisions of the Agreement is not to be subjected to tax may be taken into account in calculating the rate of tax imposed.

- 4 For the purposes of paragraph 2(a), the term 'tax payable in India' shall, with respect to a company which is a resident of Canada, be deemed to include any amount which would have been payable as Indian tax but for a deduction allowed in computing the taxable income or an exemption or reduction of tax granted for that year under:
- (a) sections 10(15)(iv), 10A, 32A (but not the part dealing with ships and aircraft), 80HH, 80HHD and 80-IA (but not the part dealing with ships) of the Income-tax Act, 1961, as amended, so far as they were in force on and have not been modified since the date of signature of the Agreement, or have been modified only in minor respects so as not to affect their general character.
 - (b) any other provision which may subsequently be made granting an exemption or reduction from tax which is agreed by the competent authorities of the Contracting States to be of a substantially similar character, if it has not been modified thereafter or has been modified only in minor respects so as not to affect its general character:

Provided that relief from Canadian tax shall not be given by virtue of this paragraph in respect of income from any source if the income relates to a period

starting more than ten fiscal years after the exemption from, or reduction of, Indian tax is first granted to the resident of Canada, in respect of that source.

5. For the purposes of this Article, profits, income or gains of a resident of a Contracting State which are taxed in the other Contracting State in accordance with the Agreement shall be deemed to arise from sources in that other State.

INDIA-USA DTAA

ARTICLE 25

RELIEF FROM DOUBLE TAXATION

1. In accordance with the provisions and subject to the limitations of the law of the United States (as it may be amended from time to time without changing the general principle hereof), the United States shall allow to a resident or citizen of the United States as a credit against the United States tax on income—
 - (a) the income-tax paid to India by or on behalf of such citizen or resident; and
 - (b) in the case of a United States company owning at least 10 per cent of the voting stock of a company which is a resident of India and from which the United States company receives dividends, the income-tax paid to India by or on behalf of the distributing company with respect to the profits out of which the dividends are paid.

For the purposes of this paragraph, the taxes referred to in paragraphs 1(b) and 2 of Article 2 (Taxes Covered) shall be considered as income taxes.

2.
 - (a) Where a resident of India derives income which, in accordance with the provisions of this Convention, may be taxed in the United States, India shall allow as a deduction from the tax on the income of that resident an amount equal to the income-tax paid in the United States, whether directly or by deduction. Such deduction shall not, however, exceed that part of the income-tax (as computed before the deduction is given) which is attributable to the income which may be taxed in the United States.
 - (b) Further, where such resident is a company by which a surtax is payable in India, the deduction in respect of income-tax paid in the United States shall be allowed in the first instance from income-tax payable by the company in India and as to the balance, if any, from surtax payable by it in India.
3. For the purposes of allowing relief from double taxation pursuant to this article, income shall be deemed to arise as follows:
 - (a) income derived by a resident of a Contracting State which may be taxed in the other Contracting State in accordance with this Convention [other than

solely by reason of citizenship in accordance with paragraph 3 of article 1 (General Scope)] shall be deemed to arise in that other State;

- (b) income derived by a resident of a Contracting State which may not be taxed in the other Contracting State in accordance with the Convention shall be deemed to arise in the first-mentioned State.

Notwithstanding the preceding sentence, the determination of the source of income for purposes of this article shall be subject to such source rules in the domestic laws of the Contracting States as apply for the purpose of limiting the foreign tax credit. The preceding sentence shall not apply with respect to income dealt with in article 12 (Royalties and Fees for Included Services). The rules of this paragraph shall not apply in determining credits against United States tax for foreign taxes other than the taxes referred to in paragraphs 1(b) and 2 of article 2 (Taxes Covered).

CASE STUDY 32

Rahul is the manager in a consultancy firm of chartered accountants namely, M/s ABC chartered accountants. Over the period of seven years since his qualification as a chartered accountant, he has worked on various assignments in diversified specialisations. Rahul's expertise has not been limited to a particular profile only, due to his versatile experience with number of engagements across the industry segments.

Recently, Rahul has been looking on assignments related to Ind AS. So, he has been appointed for a project by his consultancy firm to work on the project to prepare a report for one of its clients, HIM Limited relating to Ind AS Impact analysis.

HIM Limited's finance team does not have any experience in the preparation of financials as per Indian accounting standards. However, some employees of HIM Limited finance's team have recently done a refresher course on Ind AS to understand its principles in general and to have a fair idea for the transition period adjustments. Rahul is required to coordinate with them accordingly.

HIM Limited being a listed entity and having net worth above ₹ 500 crores is required to adopt Ind AS from April 1, 2021 in accordance with the Companies (Indian Accounting Standard) Rules 2015.

After doing extensive research, Rahul has identified some issues which need specific attention of management so that opening Ind AS balance sheet as on the date of transition can be prepared accordingly. Those issues which require consideration, after consultation and working with management are identified as follows, whose impact is going to be carved in the opening Ind AS balance sheet.

Issue 1:

As part of Property, Plant and Equipment, company has elected to measure land at its fair value and want to use this fair value as deemed cost on the date of transition.

The carrying value of land as on the date of transition is ₹ 5,00,000.

However, the fair value of land as on the date of transition is ₹ 8,00,000.

Issue 2:

Under Ind AS, the company has designated mutual funds as investments at fair value through profit or loss. The value of mutual funds as per previous GAAP is ₹ 4,00,000. However, the fair value of mutual funds as on the date of transition is ₹ 5,00,000.

Issue 3:

You have already calculated the deferred tax impact on financials due to Ind AS adjustments as on the date of transition. After consideration of possible effects as per Ind AS, the deferred tax impact is amounting to ₹ 25,000. This amount will further increase the portion of Deferred tax liability. There is no requirement to carry out the separate calculation of Deferred tax on account of Ind AS adjustments.

Issue 4:

Company had taken a loan from another entity. The loan carries an interest rate of 7% and it had incurred certain transaction costs while obtaining the same. It was carried at cost in its initial recognition. The principal amount is to be repaid in equal instalments over the period of loan. Interest is also payable at each year end. The fair value of loan as on the date of transition is ₹ 1,80,000 as against the carrying amount of loan which at present amounts ₹ 2,00,000.

Issue 5:

The company has declared the dividend of ₹ 30,000 for last financial year. As on the date of transition, the declared dividend has been already deducted by accountant from the company's reserves & surplus and the dividend payable has been grouped under Provisions. The dividend had been only declared by board of directors at that time and it was not approved in the annual general meeting of shareholders. However, subsequently when the meeting was held it was ratified by the shareholders.

Issue 6:

The company has Intangible Assets as brands and trademarks amounting to ₹ 2,50,000 as on the date of transition to Ind AS. The fair value of those intangible assets as on the date of transition is ₹ 3,00,000. However, company wants to carry the intangible assets at ₹ 2,50,000 only.

Management wants to ascertain the impact of Ind AS in the financial statements of company for its general understanding. A presentation needs to be developed in this regard so that preliminary impact analysis exercise can be carried out for the management apprise.

The presentation would have the objective to provide information on the expected impact of transition to Ind AS on the Company's reported equity and reported profit against each of the stated issues separately.

Impacts contained therein would be preliminary as full compliance with Ind AS would be implemented at later stages. The financial information represented should correspond with the current best estimates based on principles and regulations known to date.

Once the assignment related to Ind AS was over, Rahul was told to supervise the internal audit of a company Rudra Private Limited. A freshly qualified chartered accountant, Mukesh and another three articled clerks are already working on this assignment. Mukesh has presented two noted issues which require the consideration of Rahul too for reporting the same in internal audit observations and to inform the management to take right decision accordingly.

Issue 1:

Rudra Private Limited is considering expansion of its operations in other parts of the country. For this purpose, it wants to purchase few properties there by the sale of existing properties which do not hold much significance in operations or other administrative matters. The company has identified a building for sale which is situated at another area than its present office. During the financial year 2022-23, company has sold that building amounting to ₹ 1,00,00,000 in the month of July, 2022 to another corporate for its office use. Company had purchased this building 5 years ago which is having WDV as on 01.04.2022 at ₹ 40,00,000. Apart from the said building, Rudra Private Limited has also purchased one more building during the year in its portfolio in the same block of building for ₹ 60,00,000.

The purchaser of said building has agreed to pay ₹ 50,00,000 in the first installment in the month of October 2022 and amount therefore was paid on 29th October 2022. The balance payment of ₹ 50,00,000 is to be done in the next financial year as per the agreement between purchaser and seller. The accountant of purchaser of building thinks that the seller being a company, its TDS is required to be deducted at the rate of 5%. Later, as per the discussion held with both finance teams in a meeting, it was decided that TDS is to be deducted at the rate mentioned in the Income tax Act and its corresponding Income tax rules in force and not necessarily at the rate recommended by the accountant of Purchaser Company. The purchaser company has deposited the TDS amount to the credit of central government on 27th November 2022, although the TDS has been deducted as per the rates defined in statue for the time being in force i.e. neither less nor more TDS has been deducted and thereafter the same has been deposited accordingly. Assume that rate on long term capital gain is 20%, as per Income tax rules for the time being in force.

During the review of transactions in company's books of accounts, a team member of internal audit has raised an objection for the sale of land by company. According to him, the company should have levied the GST at the time of sale; however, the company has not levied any GST at that time. He believes since the company has defaulted in charging the GST and depositing the same to the credit of central government, it may attract further interest and penalties in future.

Issue 2:

During the year, Rudra Private Limited has transferred 10,000 units of its finished stock from its factory located in Delhi's Kirti Nagar to its retail showroom in Delhi's Chandni chowk so that the same can be sold from there. It has taken one registration in the State of Delhi declaring Delhi's Kirti Nagar factory as its principal place of business and Chandni chowk showroom as its additional place of business.

According to Mukesh, the company should have taken two separate registrations in the state of Delhi as the scope of GST is very complex and wide and it mandates to take GST registration from each place from where the company is doing business.

Rahul has resolved both outstanding issues pertaining to Rudra Private Limited accordingly by doing appropriate consultations with his team to reach on conclusions for the aforesaid matters.

After the completion of assignment related to Rudra Private Limited, Rahul was back in office to assume other consultancy roles. Meanwhile, the partner of firm Mr. Virendra has a doubt for the appointment of M/s ABC as an auditor in one of the companies 'Big Private Limited' which has proposed M/s ABC to conduct its audit. Further, there would be requirement for mandatory rotation of auditors after the term of 5 years. Mr. Virendra is keen to seek the opinion of Rahul in this regard for settlement of outstanding issue.

Big Private Limited's share capital is ₹ 10 lakhs and turnover as per its last financials is ₹ 100 lakhs. M/s ABC, Chartered accountants is already doing the statutory audit of many companies which aggregate to 58 in number, so Mr. Virendra thinks that there is restriction on getting more number of taking statutory audit assignments than prescribed in the Companies Act, 2013.

However, the management of Big Private Limited believes that since the Companies Act, 1956, specifically excluded all private companies from the ceiling of number of audits to be conducted by an auditor i.e. an auditor/audit firm was allowed to conduct audit of any number of private companies under the 1956 Act. Similarly, the Companies Act, 2013 does not put any restriction for taking the statutory audit assignments of any number of companies.

The statutory audit assignments taken by M/s ABC at the current date (excluding Big Private limited) are as follows:

Nature of company	Number of already assigned audits
Public limited companies	15
Dormant companies	5
One Person companies	18
Small companies	12

Private companies having paid up capital more than 100 crore	3
Private companies having paid up capital less than 100 crore	5

Assume that you are Rahul and accordingly you are required to analyze the above scenarios and then answer the following questions on the basis of your understanding.

I. Multiple Choice Questions

- Calculate the amount of capital gains for sale of building as per Income-tax Act, 1961 which the Rudra Private Limited needs to compute for A.Y. 2023-24?
 - ₹ 16,00,000
 - ₹ 12,00,000
 - NIL
 - ₹ 2,00,000
- Calculate the amount of TDS which should have been deducted by the purchaser towards purchase of property from Rudra Private Limited for A.Y. 2023-24?
 - ₹ 1,00,000
 - ₹ 37,500
 - ₹ 50,000
 - ₹ 2,00,000
- In which form, the details regarding transaction for sale of building and its corresponding TDS is required to be furnished by purchaser of building and how much time is to be taken for its filing?
 - Form 26QB is required to be filed within 30 days of making the payment.
 - Form 16B is required to be filed by 31.03.2023.
 - Form 26QB is required to be filed by 30.11.2022.
 - Form 16B is required to be filed within 30 days of making the transfer.
- Calculate the amount of interest, Rudra Private Limited is required to pay for late payment of TDS to the credit of Central Government.
 - ₹ 75,000
 - ₹ 1,50,000
 - NIL
 - ₹ 50,000

5. Calculate the GST liability which Rudra Private Limited should have levied at the time of sale of land, as per the contention of Internal audit team member.
- (a) ₹ 6,00,000
 - (b) ₹ 9,00,000
 - (c) ₹ 12,00,000
 - (d) No GST Liability.

II. Descriptive Questions

6. Prepare Ind AS Impact analysis report of HIM Limited for presentation to the management wherein you are required to show the corresponding differences between Earlier IGAAP (AS) and New GAAP (Ind AS) against each identified issue in its first-time adoption and its appropriate treatment thereon at the transition date. Also show its corresponding impact on the company's financials by measuring its end result in monetary terms due to transition by supporting your presentation with Journal entry which is to be done at the time of transition, so as to give effect in the company's financials.
7. Whether M/s ABC can accept the new statutory audit assignment of Big Private Limited as suggested by the management of Big Private Limited. Explain the answer with relevant provisions of Companies Act, 2013.
8. Whether stock transfers between Kirti Nagar factory and Chandni chowk showroom would be considered as supply in the light of GST provisions.

ANSWERS TO THE CASE STUDY 32

I. Answers to the Multiple Choice Questions

1. (c) Nil

Reason: Section 50 of the Income Tax Act, 1961 provides for the computation of capital gains in case of depreciable assets. Where all assets in a block are transferred during the previous year, the block itself will cease to exist. In such a situation, the difference between the sale value of the assets and the WDV of the block of assets at the beginning of the previous year together with the actual cost of any asset falling within that block of assets acquired by the assessee during the previous year will be deemed to be the capital gains arising from the transfer of short-term capital assets.

In this case, since the block of assets still continues to exist as the company has other buildings also in its portfolio, hence there would be no capital gains on the asset sold.

2. (c) ₹ 50,000

Reason: TDS is applicable on sale of immovable property wherein the sale consideration of the property exceeds or is equal to ₹ 50,00,000 (₹ Fifty Lakhs). Sec 194 IA of the Income Tax Act, 1961 states that for all transactions, Tax @ 1% should be deducted by the purchaser of the property at the time of making payment of sale consideration.

As per Section 194IA, TDS is to be deducted at the time of payment. The date of transfer is not relevant as TDS is not required to be deducted at the time of transfer but is required to be deducted at the time of payment.

Since amount paid during the financial year 2022-23 is ₹ 50,00,000; hence the amount of TDS which is required to be deducted for the given period is ₹ 50,000 (₹ 50,00,000 x 1%).

3. (c) Form 26QB is required to be filed by 30.11.2022

Reason: The online form available on the TIN website for furnishing information regarding TDS on property is termed as Form 26QB.

Taxpayer is required to furnish challan-cum-statement in Form No. 26QB electronically within 30 days from the end of the month in which the tax deduction is made. Hence, taxpayer have to furnish Form No. 26QB by 30.11.2021

4. (c) Nil

Reason: Taxpayer is required to furnish challan-cum-statement in Form No. 26QB electronically within 30 days from the end of the month in which the tax deduction is made..

Since due date to furnish 26QB along with payment of TDS is 30.11.2022 and the purchaser company has deposited the TDS amount on 27th November 2022; hence no interest for late payment on TDS is required to be paid.

5. (d) No GST Liability.

Reason: By the nature of its definition, the Goods and Services Tax (GST) is applicable only on the sale and purchase of goods and services. As per the Section 2 (52) of the GST Act, 2017, 'goods' imply every form of movable property, actionable claims, growing crops, grass and things attached to or forming a part

of the land which will be severed from the land before supplying as per the contract of supply. Whereas 'services' mean anything other than goods, money and securities, for instance, activities relating to the use of money or its conversion by cash or by any other mode, from one form, currency or denomination, to another form, currency or denomination, for which a separate consideration is charged.

"Purchase or sale of land does not attract GST. GST is not applicable to the sale of land because it is neither treated as supply of goods nor the supply of services as per Schedule III of the CGST Act, 2017. Land is identified as immovable property, and so, it does not attract GST."

II. Answers to the Descriptive Questions

6. Issue 1: Fair Value as Deemed Cost for Property Plant and Equipment: (Ind AS 101)

Issue	Accounting Standard (Erstwhile IGAAP)	Ind AS (New IGAAP)	Impact on Company
1	As per Accounting Standard, Property, Plant and Equipment is recognised at cost less depreciation.	Ind AS 101 allows entity to elect to measure Property, Plant and Equipment on the transition date at its fair value or previous GAAP carrying value (book value) as deemed cost.	The company has decided to adopt fair value as deemed cost in this case. Since fair value exceeds book value, so the book value is brought up to fair value. The resulting impact of fair valuation of land is ₹ 3,00,000 and is adjusted in other equity accordingly.

Journal Entry as on the date of transition:

Particulars	Debit (₹)	Credit (₹)
Property Plant and Equipment	3,00,000	
To Revaluation Surplus (Other Equity)		3,00,000

Issue 2: Fair valuation of Financial Assets: (Ind AS 109)

Issue	Accounting Standard (Erstwhile IGAAP)	Ind AS (New IGAAP)	Impact on Company
2	As per Accounting Standard, investments are measured at lower of cost and net realizable value.	On transition, financial assets including investments are measured at fair values except for investments in subsidiaries, associates and JVs' which are recorded at cost.	<p>All financial assets (other than Investment in subsidiaries, associates and JVs' which are recorded at cost) are initially recognized at fair value.</p> <p>The subsequent measurement of such assets is based on its categorization either Fair Value through Profit & Loss (FVTPL) or Fair Value through Other Comprehensive Income (FVTOCI) or at Amortised Cost based on business model assessment and contractual cash flow characteristics.</p> <p>Increase of ₹ 1,00,000 in mutual funds is to be given effect by increase in value of investments with corresponding increase to Retained earnings, since they are designated as FVTPL.</p>

Journal Entry as on the date of transition:

Particulars	Debit (₹)	Credit (₹)
Investment in mutual funds	1,00,000	
To Retained earnings		1,00,000

Issue 3: Deferred tax

Issue	Accounting Standard (Erstwhile IGAAP)	Ind AS (New IGAAP)	Impact on Company
3	As per Accounting Standard, Deferred taxes are accounted as per income statement approach.	As per Ind AS, Deferred taxes are accounted as per balance sheet approach.	Company has recognised the deferred tax impact on account of GAAP adjustments identified on transition to Ind AS. Further, as per Ind AS 12 the Company has recognised the deferred tax following the principles of 'Balance Sheet Approach'. On transition, deferred tax liability is expected to increase by ₹ 25,000.

Journal Entry as on the date of transition:

Particulars	Debit (₹)	Credit (₹)
Retained earnings	25,000	
To Deferred tax liability		25,000

Issue 4: Borrowings - Processing fees/transaction cost:

Issue	Accounting Standard (Erstwhile IGAAP)	Ind AS (New IGAAP)	Impact on Company
4	As per Accounting Standard, such expenditure is charged to Profit and loss	As per Ind AS, such expenditure is	Fair value as on the date of transition is ₹1,80,000 as against its book value of

	account or capitalised as the case may be.	amortised over the period of the loan. Ind AS 101 states, If it is impracticable for an entity to apply retrospectively the effective interest method in Ind AS 109, the fair value of the financial asset or the financial liability at the date of transition to Ind ASs shall be the new gross carrying amount of that financial asset or the new amortised cost of that financial liability at the date of transition to Ind ASs.	₹ 2,00,000. Accordingly, the difference of ₹ 20,000 is adjusted through retained earnings.
--	--	--	--

Journal Entry as on the date of transition:

Particulars	Debit (₹)	Credit (₹)
Borrowings	20,000	
To Retained earnings		20,000

Issue 5: Proposed dividend:

Issue	Accounting Standard (Erstwhile IGAAP)	Ind AS (New IGAAP)	Impact on Company
5	As per Accounting Standard, provision for Proposed dividend is made in the year when it has been declared and approved.	As per Ind AS, liability for proposed dividend is recognised in the year in which it has been declared and approved.	Since dividend should be deducted from retained earnings during the year when it has been declared and approved. Accordingly, the provision declared for preceding year should

			be reversed (to rectify the wrong entry). Retained earnings would increase proportionately due to such adjustment
--	--	--	---

Journal Entry as on the date of transition:

Particulars	Debit (₹)	Credit (₹)
Provisions	30,000	
To Retained earnings		30,000

Issue 6: Intangible assets:

Issue	Accounting Standard (Erstwhile IGAAP)	Ind AS (New IGAAP)	Impact on Company
6	The useful life of an intangible asset cannot be indefinite under IGAAP principles. The Company amortised brand/trademark on a straight line basis at 25% amortisation rate.	The useful of an intangible asset like brand/trademark can be indefinite. Not required to be amortised and only tested for impairment. Company can avail the exemption given in Ind AS 101 as on the date of transition to use the carrying value as per previous GAAP.	Consequently, there would be no impact as on the date of transition since company intends to use the carrying amount instead of book value at the date of transition.

7. Big Private Limited is a 'small company' per the provisions of Companies Act, 2013.

As per section 2 of Companies Act, 2013, "small company" means a company, other than a public company,-

- (a) paid-up share capital of which does not exceed two crore rupees or such higher amount as may be prescribed which shall not be more than ten crore rupees; and
- (b) turnover of which as per its last profit and loss account for the immediately preceding financial year does not exceed twenty crore rupees or such higher amount as may be prescribed which shall not be more than one hundred crore rupees:

Provided that nothing in this clause shall apply to-

- (a) a holding company or a subsidiary company;
- (b) a company registered under section 8; or
- (c) a company or body corporate governed by any special Act;

Mandatory rotation of auditors:

Section 139(2) of the 2013 Act read with Rule 5 of the Companies (Audit and Auditors) Rules, 2014 (Audit Rules) provides that the following class of companies cannot appoint or reappoint an individual as an auditor for more than one term of five years or an audit firm as an auditor for more than two consecutive terms of five years each:

- (a) Listed companies
- (b) All unlisted public companies having paid-up share capital of ₹ 10 crore or more
- (c) All private limited companies having paid-up share capital of ₹ 50 crore or more
- (d) All companies having paid-up share capital of below threshold limit mentioned in (b) and (c) above, but with public borrowings from financial institutions, banks or public deposits of ₹ 50 crore or more.

The mandatory rotation of auditors' requirement is not applicable to small companies and one person companies.

Eligibility/qualifications/ disqualifications of auditors:

Section 141(3)(g) specifically prohibits a person who is in full time employment elsewhere or a person or a partner of a firm holding appointment as an auditor of more than 20 companies, from being appointed as an auditor of a company.

However, while calculating the limit of 20 companies, following companies should be excluded:

- One person company
- Dormant companies
- Small companies and
- Private companies having paid-up share capital less than ₹ 100 crore.

In the given case, if the companies which are outside the scope of limit as defined in section 141(3)(g) of Companies Act, 2013, the total number comes to 18.

Further, Big Private limited is a small company as per the provisions of Companies Act, 2013. Hence the appointment for statutory audit of Big Private Limited would not be considered in the cap of maximum number of audits which M/s ABC can accept.

Hence, the appointment of M/s ABC as an auditor in 'Big private limited' is valid in the light of above provisions and the given assignment can be accepted accordingly.

8. Since no consideration is charged, supply of goods from factory to retail showroom in same State under single registration does not constitute supply.

Transfer between two units of a legal entity under single registration (apparently within same State) will not be considered as supply.

However, in the above example, if the Company obtains separate registrations for factory and showroom, stock transfer between the factory and showroom will constitute supply.

CASE STUDY 33

You are a chartered accountant and following clients have come to you to take the consultancy in the concerned areas and you are required to advise them as per your knowledge and experience in the backdrop of statutory framework of relevant laws and regulations.

Client 1: Ram Chander is a senior citizen and retired employee of Punjab government. He was employed in the Public works department of the state government wherein he served for 40 years. His pension income is not subject to income tax. He gets the monthly pension of ₹ 25,000 per month. In the recent years, he has invested in fixed deposits of a bank wherein his interest on fixed deposits is being credited after the deduction of tax at source. He has approached the bank authorities with a request to not deduct TDS on the interest income of fixed deposits since his income after considering all sources is below the maximum amount chargeable to tax; however, bank authorities are silent on the issue and not cooperating accordingly. Since Ram Chander has never filed the return in past, he wants to know the appropriate course of action to not let the bank deduct TDS.

Client 2: Rohit is a regular employee of consultancy firm of engineers, M/s ABC and has been associated with M/s ABC for last 2 years. During the financial year 2022-23, his salary details and the expenses incurred by him are as under:

Particulars	Amount (₹)
Gross salary (Note 1)	50,000 per month
Diwali Bonus	10,000
Conveyance expenses incurred for official purposes reimbursed by M/s ABC	50,000
Rental expenses (Note 2)	9,000 per month
Travelling expenses in connection with Home to office and vice-versa	48,000
Mess expenses	4,000 per month
Other miscellaneous expenses	3,000 per month
Interest income on savings bank account	3,000
Interest income on fixed deposits	5,000

Note 1: M/s ABC is paying the salary on consolidated basis. Hence there is no breakup or bifurcation of other allowances in it. Apart from the gross salary, Rohit is eligible for Diwali bonus only from M/s ABC.

Note 2: Rohit is currently staying in Delhi alone for the sake of job. His family is based at Jabalpur city of Madhya Pradesh. He has filed Form 10BA with details of payment of rent.

Note 3: Rohit has invested the sum of ₹ 75,000 in a fixed deposit for the said financial year. Rohit sends 50 percent of money received to his parents.

Note 4: Rohit during the year has donated refrigerator (₹ 25,000 spent) to one of the organisations, which is registered under the income tax act, to issue 80G receipts against the contributions received.

Note 5: Rohit has taken a medical insurance of his parents amounting to ₹ 15,000

Note 6: M/s ABC has deducted the TDS on salary amounting to ₹ 50,000 during the year.

Note 7: Rohit has chosen to let his income tax be assessed with the available option against deductions.

Client 3: A person has the business of goods transportation across the nation. Apart from the said business, he does not deal in any other forms of business. He had the turnover of ₹ 50 lakhs during the preceding financial year and it is expected to cross ₹ 60 lakhs in the current financial year. Till the date, he has not registered the business in Goods and services act. However, the owner of business is reluctant to get his business registered on the contention that no recipient has ever expected a GST tax invoice out of his business.

Client 4: Mr. Shashank, an Indian Resident individual desires to obtain Foreign Exchange for the following purposes:

- (A) US\$ 120,000 for studies abroad on the basis of estimates given by the foreign university.
- (B) Gift Remittance amounting US\$ 10,000.

Client 5: Following data is presented to you for ascertaining the non-taxable income of Mr. Raj:

Particulars	(₹)
Interest on fixed deposits with public sector bank	16,000
Gift received on occasion of marriage	99,500
Interest on savings bank account	9,500
Interest on PPF	20,000

Client 6: The Individual audit firm M/s PQR, Chartered Accountants, is the auditor of a company. M/s PQR is not expert in company law matters, hence it is seeking your help for same. The company has sent a notice to the auditor to attend its annual general meeting. However, the auditor is not present in the same town as on the date of annual general meeting as he is out of country in the vacation for said period. On receipt of such notice, the auditor instead has proposed another person of firm, Suraj Tripathi (articled assistant) as his representative in the annual general meeting.

Client 7: Reshma is getting a fixed salary of ₹ 15,000 per month. She had invested in certain non-tax saver fixed deposits of ₹ 1,00,000 three years ago. Recently, she had gone to the bank for opening of another fixed deposit, but she has been told by the bank authorities to deposit her PAN card. She has not applied for PAN yet so there does not arise any question of intimating the same to bank authorities. On further interrogation, it is revealed that TDS has been deducted by bank against her interest income on fixed deposits.

Client 8: Mr. Shinde wants to know the cash flow arising out of investing activities from following information:

Particulars	Amount (₹)
Proceeds from issue of equity share capital	15,00,000
Proceeds from sale of investments held for capital appreciation	5,00,000
Realisation from debtors for sale of goods	3,50,000
Purchase of heavy machinery	5,00,000
Interest income from debtors	50,000

Client 9: Motiana Ltd. is an exporter of precious and semi-precious stones. The turnover of the company is ₹ 150 crore, out of which ₹ 105 crore is from export business and remaining ₹ 45 crore from domestic sales. Amount received from export business is all in foreign currency. Directors of Motiana Ltd. are of the opinion that cost audit is not applicable to their company as maximum revenue has been generated from export business.

I. Multiple Choice Questions

- What Ram Chander should do to not let the bank deduct TDS for following years to avoid hardship?
 - He cannot do anything, let the bank do whatever they want.
 - Obtain a certificate under section 197 from assessing officer to allow the TDS to be deducted at Nil rate.
 - Let the tax be deducted and then file the return thereon.
 - He should file an application to the state government to intervene in the said matter.
- For client 7, at what rate, TDS would have been deducted by Bank in case of Reshma's income in fixed deposit?
 - 10%
 - 5%
 - 20%
 - Exempt from tax

3. Calculate the exempt income in case of client 5- Mr. Raj.
 - (a) ₹ 1,29,000
 - (b) ₹ 1,45,000
 - (c) ₹ 20,000
 - (d) ₹ 1,19,500
4. Should the person engaged in goods transportation as mentioned in the case of client 3, is required to get his business registered under GST?
 - (a) GTA does not have to register under GST if he is exclusively transporting goods where the total tax is required to be paid by the recipient under reverse charge basis and the turnover does not exceed ₹ 40 lakhs.
 - (b) GTA needs to register under GST if he is exclusively transporting goods where the total tax is required to be paid by the recipient under reverse charge basis and the turnover exceeds ₹ 40 lakhs.
 - (c) GTA does not have to register under GST if he is exclusively transporting goods where the total tax is required to be paid by the recipient under reverse charge basis and even if the turnover exceeds ₹ 40 lakhs.
 - (d) A GTA always need to register irrespective of the turnover.
5. Calculate the cash flow arising out of investing activities in case of Client 8- Mr. Shinde.
 - (a) ₹ 50,000
 - (b) Nil
 - (c) ₹ 4,00,000
 - (d) ₹ 3,50,000

II. Descriptive Questions

6. Calculate the income tax payable by client 2 - Rohit for assessment year 2023-24.
7. Advise Shashank (client 4) whether he can get Foreign Exchange and if so, under what condition(s)?
8. In case of client 6, the auditor has proposed another person of firm as his representative in the annual general meeting. Whether auditor can do such kind of arrangement?

9. Motiana Ltd. (Client 9) asks your opinion to confirm whether or not cost audit is applicable to company.

ANSWERS TO THE CASE STUDY 33

I. Answers to the Multiple Choice Questions

1. (b) Obtain a certificate under section 197 from assessing officer to allow the TDS to be deducted at Nil rate.

Reason: The Income-tax laws permit certain taxpayers to get relief from TDS at a lower or nil rate under Section 197 of the Income Tax Act. An Assessing Officer can grant relief from TDS provisions, if the Officer is satisfied that the existing and estimated tax liability of a person will be lower than the amount of TDS deducted and provide sufficient grounds for the same. For availing this benefit, assessee whose income would be liable for a tax deduction at source (TDS) need to furnish an application before assessing officer having jurisdiction over the assessee. The AO considers the total income of assessee and the estimated tax liability thereon, and then as per the case, grant a certificate for TDS at Nil or lower rate to such applicant.

2. (c) 20%

Reason: A recipient who fails to furnish PAN to the person making a payment would suffer TDS at the higher of the rates mentioned below:

- At the rate specified in the relevant provision of the Act;
- At the rate or rates in force, i.e., the rate prescribed in the Finance Act (10%);
- At the rate of 20%

3. (a) ₹ 1,29,000

Reason: Calculation of exempt income-

Particulars	(₹)	Remarks
Interest on fixed deposits with public sector bank	16,000	Taxable
Gift received on occasion of marriage	99,500	Exempt
Interest on savings bank account	9,500	Exempt (Sec 80TTA)
Interest on PPF	20,000	Exempt

4. (c) GTA does not have to register under GST if he is exclusively transporting goods where the total tax is required to be paid by the recipient under reverse charge basis and even if the turnover exceeds ₹ 40 lakhs.

Reason: As per Notification No. 5/2017- Central Tax dated 19/06/2017, a person who is engaged in making only supplies of taxable goods/services on which reverse charge applies is exempted from obtaining registration under GST.

Thus, a GTA does not have to register under GST if he is exclusively transporting goods where the total tax is required to be paid by the recipient under reverse charge basis (even if the turnover exceeds the specified limit).

5. (b) Nil

Reason: Cash flow from investing activities-

Particulars	Amount (₹)	Activity
Proceeds from issue of equity share capital	-	Financing
Proceeds from sale of investments held for capital appreciation	5,00,000	Investing
Realisation from debtors for sale of goods	-	Operating
Purchase of heavy machinery	(5,00,000)	Investing
Interest income from debtors	-	Operating
Net cash flow from investment activities	Nil	

II. Answers to the Descriptive Questions

6. Computation of Taxable Income & Income tax for assessment year 2023-24:

Particulars	Amount (₹)
Income from Salary (Note-1)	5,60,000
Income From Other Sources (Note-2)	<u>8,000</u>
Gross Total Income [A]	<u>5,68,000</u>
Deductions (Note-3) [B]	71,000
Net Taxable Income [C] = [A] – [B]	4,97,000
Income Tax on [C]	12,350
Less: Relief under section 87A	(12,350)
Net Income tax payable [D]	Nil
Health and Education Cess @ 4% on [D]; [E]	Nil
Total Tax Liability [D] + [E]; [F]	Nil
TDS [G]	50,000
Tax payable/(refundable) [F] – [G]	(50,000)

Note 1 - Income from Salary:

Particulars	Amount (₹)
Gross salary	6,00,000
Diwali Bonus	<u>10,000</u>
Total	6,10,000
Less: Standard deduction	<u>(50,000)</u>
Income from Salary	5,60,000

Note 2 - Income from Other Sources:

Particulars	Amount (₹)
Interest on savings bank account	3,000
Interest on fixed deposits	<u>5,000</u>
Total	<u>8,000</u>

Note 3 - Deductions:

Particulars	Amount (₹)
Medical insurance premium paid under section 80D [A]	15,000
Deductions under section 80GG (Note 4) [B]	53,000
Interest from savings account in bank under section 80TTA [C]	<u>3,000</u>
Grand Total [A] + [B] + [C]	<u>71,000</u>

Note 4:

Particulars	Amount (₹)
Quantum of deduction shall be the least of the following:	
₹ 5000 per month	60,000
25% of Adjusted Total Income (5,50,000 x 25%)	1,37,500
Actual Rent paid minus 10 percent the adjusted total income (1,08,000-55,000)	53,000

Adjusted Total Income = salary + other sources income - deductions u/s 80C to 80U but before making deduction under this section

$$₹ 5,60,000 + ₹ 8,000 - ₹ 15,000 - ₹ 3,000 = ₹ 5,50,000$$

Note 5: Donation in form of kind i.e. refrigerator is not allowed as deduction under section 80G.

7. (a) **Remittance of Foreign Exchange for studies abroad:** Foreign exchange may be released for studies abroad up to a limit of US \$ 250,000 for the studies

abroad without any permission from the RBI. Above this limit, RBI's prior approval is required. Further proviso to Para I of Schedule III states that individual may be allowed remittances exceeding USD 250,000 based on the estimate received from the institution abroad. In this case since US \$ 120,000 is the drawal of foreign exchange, so permission of the RBI is not required.

- (b) **Gift remittance exceeding US \$ 10,000:** Under the provisions of Section 5 of FEMA 1999, certain Rules have been made for drawal of foreign exchange for current account transactions. Gift remittance is a current account transaction. Gift remittance exceeding US \$ 250,000 can be made after obtaining prior approval of the RBI. In the present case, since the amount to be gifted by an individual, Mr. Shashank is USD 10,000, there is no need for any permission from the RBI.

8. **As per Section 146 of Companies Act, 2013,** all notices of, and other communications relating to, any general meeting shall be forwarded to the auditor of the company, and the auditor shall, unless otherwise exempted by the company, attend either by himself or through his authorised representative, who shall also be qualified to be an auditor, any general meeting and shall have right to be heard at such meeting on any part of the business which concerns him as the auditor.

Hence, an auditor either by himself or through his representative, who is qualified to be an Auditor should have attended the general meeting, unless exempted by the Company. Further, the authorised representative should also have been qualified to be an auditor.

In the given case, since the authorised representative Suraj Tripathi is not qualified to be an Auditor, he cannot attend the general meeting.

9. **Cost Audit Rules not to apply in certain cases:** The requirement for cost audit shall not be applicable to a company whose revenue from exports, in foreign exchange, exceeds seventy-five per cent of its total revenue (as per Rule 3 of the Companies (Cost Records and Audit) Rules, 2014).

In the instant case, Motiana Ltd. is an exporter of precious and semi-precious stones and the turnover of the company is ₹ 150 crore out of which ₹ 105 crore i.e. 70% is from export business and remaining ₹ 45 crore i.e. 30% from domestic sales.

Thus, opinion of director is not tenable as revenue from exports in foreign exchanges is below prescribed limit. Therefore, cost audit is applicable on Motiana Ltd. as per Rule 3 of the Companies (Cost Records and Audit) Rules, 2014. Motiana Ltd. has to appoint cost auditor to get the cost accounts of the company audited.

CASE STUDY 34

Stable and Efficient Limited is an industrial undertaking situated in the urban area of State H of India. The company is a registered person under CGST Act and is into manufacturing business of various types of carry bags and storage bags. During the financial year 2022-23, the manufacturing business of the said industrial undertaking was shifted from urban area of State H to rural area of State H. Land of the company was sold for ₹ 2.25 crore on 04.07.2022 because of the shifting. The said land was purchased on 13.11.2021 for ₹ 1.75 crore. The new land was purchased (not an agriculture land) for ₹ 1.30 crore on 07.11.2022, for the purpose of manufacturing business of various types of carry bags and storage bags in the rural area of State H of India.

Stable and Efficient Limited is an unlisted public limited company, having a paid-up share capital of ₹ 56 crore during the financial year 2022-23. An individual Chartered Accountant named Mr. H or a Partnership Firm of Chartered Accountants named WY and Associates was to be appointed as auditor of the company.

During the financial year 2022-23, the management of Stable and Efficient Limited was planning regarding acquiring the business of one of its competitors by the name of Competent and Capable Limited. Before acquiring the business of Competent and Capable Limited, the management of Stable and Efficient Limited thought of undertaking the process of Due Diligence for the purpose of evaluating whether the acquisition of business of Competent and Capable Limited would be beneficial or not. Three types of due diligence were undertaken, the information regarding which is provided as follows:

- (1) A Due Diligence was performed in order to analyze the financial information and account books of Competent and Capable Limited.
- (2) In order to understand what would be the advantage or disadvantage from the point of view of tax after the business of Competent and Capable Limited is acquired, another Due Diligence was performed.
- (3) A third type of Due Diligence was performed to understand the complete working environment of Competent and Capable Limited.

Certain transactions of Stable and Efficient Limited happened during the financial year 2022-23, the information of which is provided as below:

- (1) An amount of ₹ 15,300 was received in form of cash from one of the trade receivables of the company.
- (2) The equipment named Equipment 22 was purchased for an amount of ₹ 14,600 which was paid in cash.
- (3) A trade payable of ₹ 13,700 was not paid in form of cash, rather the equipment named Equipment 94 was given to settle the whole amount.

- (4) An amount of ₹ 2,72,000 was received for equity shares issued, during the beginning of financial year 2022-23 by the company.

Mr. T one of the directors of the company was of the opinion that the company was required to develop and maintain production records and accounts on half yearly basis.

Another director of the company, named Mr. N, was of the opinion that the company was not required to develop and maintain production records and accounts showing quantitative details of various types of carry bags and storage bags manufactured and also quantitative details of raw materials used in the manufacturing of the carry bags and storage bags.

I. Multiple Choice Questions

1. The amount of capital gain before exemption arising on transfer of Land for Stable and Efficient Limited for the A.Y. 2023-24 will be:
 - (a) Long Term Capital Gain of ₹ 50 lakhs.
 - (b) Short Term Capital Gain of ₹ 50 lakhs.
 - (c) Short Term Capital Gain of ₹ 40 lakhs.
 - (d) Long Term Capital Gain of ₹ 40 lakhs.
2. If Mr. H, an individual Chartered Accountant, is appointed as an auditor of Stable and Efficient Limited, for how many terms of five consecutive years it can be so appointed:
 - (a) 2 terms.
 - (b) 4 terms.
 - (c) 3 terms.
 - (d) 1 term.
3. If WY and Associates, a Partnership Firm of Chartered Accountants, is appointed as an auditor of Stable and Efficient Limited, for how many number of terms of five consecutive years it can be so appointed:
 - (a) 3 terms.
 - (b) 2 terms.
 - (c) 1 term.
 - (d) 4 terms.
4. What type of Due Diligence was performed regarding Competent and Capable Limited for analyzing its financial information and account books:
 - (a) Financial Due Diligence.

- (b) Environmental Due Diligence.
 - (c) Operational Due Diligence.
 - (d) Tax Due Diligence.
5. In order to understand the complete working environment of Competent and Capable Limited a type of Due Diligence was performed. This type of due diligence is known as:
- (a) Operational Due Diligence.
 - (b) Tax Due Diligence.
 - (c) Financial Due Diligence.
 - (d) Environmental Due Diligence.

II. Descriptive Questions

6. In the financial year 2022-23, there was a shifting of industrial undertaking of Stable and Efficient Limited from urban area of State H to rural area of State H of India. In this regard answer the questions that follow:
- (a) In respect of Land sold on 04.07.2022, what is the amount of exemption available to Stable and Efficient Limited for the A.Y. 2023-24?
 - (b) Consider that stamp duty paid with respect to purchase of the land was ₹ 11,50,000. In this situation, what is the amount of exemption available to Stable and Efficient Limited for Land sold on 04.07.2021 for the A.Y. 2023-24?
 - (c) If during the financial year 2023-24, new Land purchased on 07.11.2022 is sold then in that situation what would happen?
7. With respect to applicability of Rotation of Auditor, answer the questions that follow:
- (a) Assume that Mr. H, an individual Chartered Accountant, is appointed as an auditor of Stable and Efficient Limited. After completion of term as an auditor as mentioned in Rotation of Auditor, for how many years Mr. H cannot be re-appointed as an auditor of the said company?
 - (b) Suppose WY and Associates, a Partnership Firm of Chartered Accountants is appointed as an auditor of Stable and Efficient Limited, after completion of that term as an auditor as is mentioned for Rotation of Auditor, for how many years WY and Associates cannot be re-appointed as an auditor of the company that is mentioned above?
8. Explain in words what the below mentioned transactions represent in relation to Cash Flow Statement of Stable and Efficient Limited for the financial year ended on 31.03.2023:
- (a) When amount of ₹ 15,300 was received in cash from a trade receivable.
 - (b) When payment of ₹ 14,600 was made in cash for purchase of Equipment 22.

- (c) When Equipment 94 was given to settle the whole amount of ₹ 13,700 of a trade payable.
- (d) When equity shares were issued and an amount of ₹ 2,72,000 was received.
9. Identify whether the opinions formed by Mr. T and Mr. N w.r.t. maintenance of production records and accounts are correct or incorrect in the context of CGST Rules. Also give reason in order to explain your answer.

ANSWERS TO THE CASE STUDY 34

I. Answers to the Multiple Choice Questions

1. (b) Short Term Capital Gain of ₹ 50 lakhs.
- Reason:** Amount of capital gain before exemption arising on transfer of Plant and Machinery for Stable and Efficient Limited for the A.Y. 2023-24 will be calculated in the following manner-
- | Particulars | Amount (₹) |
|--|------------------|
| Net Sale Consideration of Land Sold | 2,25,00,000 |
| Less: Cost of Acquisition of Land | (1,75,00,000) |
| Short Term Capital Gain | 50,00,000 |
2. (d) 1 term.
- Reason:** According to Section 139(2) of the Companies Act, 2013 an individual Chartered Accountant can be appointed as an auditor of a company on which Rotation of Auditor is applicable for 1 term of five consecutive years.
3. (b) 2 terms.
- Reason:** According to Section 139(2) of the Companies Act, 2013 a partnership firm of Chartered Accountants can be appointed as an auditor of a company on which Rotation of Auditor is applicable for 2 terms of five consecutive years.
4. (a) Financial Due Diligence.
- Reason:** In Financial Due Diligence, the financial information and account books of a company are analyzed when the business of that company is acquired by another company.
5. (d) Environmental Due Diligence.
- Reason:** Environmental Due Diligence is performed for the purpose of understanding working environment of a company by another company.

II. Answers to the Descriptive Questions

6. (a) According to Section 54G of the Income Tax Act, 1961 in respect of Land sold on 04.07.2022, the amount of exemption available to Stable and Efficient Limited for the A.Y. 2023-24 will be as follows:

Particulars	Amount (₹)
Net Sale Consideration of Land Sold	2,25,00,000
Less: Cost of Acquisition of Land	(1,75,00,000)
Short Term Capital Gain	50,00,000

Cost of new land purchased by Stable and Efficient Limited = ₹ 1,30,00,000.

As the cost of new land is more than Short Term Capital Gain, therefore whole amount of the short term capital gain of ₹ 50,00,000 is exempt.

- (b) Cost of new land, which was purchased by Stable and Efficient Limited = ₹ 1,30,00,000. Stamp duty paid with respect to purchase of land = ₹ 11,50,000.

Total of cost of new land and stamp duty paid = 1,30,00,000 + 11,50,000 = **₹ 1,41,50,000.**

As per Section 54G of the Income Tax Act, 1961 as the cost of new land and expenses incurred is equal to ₹ 1,41,50,000 which is more than Short Term Capital Gain of ₹ 50,00,000, therefore complete amount of Short Term Capital Gain of ₹ 50,00,000 is exempt.

- (c) If the new land purchased on 07.11.2022 is sold during the financial year 2023-24 then according to Section 54G of the Income Tax Act, 1961 the Short Term Capital Gain of ₹ 50,00,000 which was earlier exempted would be reduced from cost of purchase of new land of ₹ 1,30,00,000 for the purpose of calculating the capital gain in respect of new land of Stable and Efficient Limited sold during the financial year 2023-24.

7. **According to the Section 139(2) of the Companies Act, 2013 relating to the concept of Rotation of Auditor, the answers to the questions are provided as follows:**

- (a) If Mr. H, an individual Chartered Accountant, is appointed as an auditor of Stable and Efficient Limited, then after completion of term as an auditor of the company as is mentioned in Rotation of Auditor, Mr. H cannot be re-appointed as an auditor of Stable and Efficient Limited for 5 years from the completion of term as an auditor of the company.
- (b) If WY and Associates, a Partnership Firm of Chartered Accountants, is appointed as an auditor of Stable and Efficient Limited, then after completion of term as an auditor as is mentioned in Rotation of Auditor, WY and Associates cannot be re-

appointed as an auditor of Stable and Efficient Limited for 5 years from the completion of term as an auditor of the company.

8. **According to the Cash Flow Statement of Stable and Efficient Limited for the financial year ended on 31.03.2023, the transactions mentioned above represent as follows:**
- (a) This represents Cash Inflow of ₹ 15,300 from operating activities because according to Indian Accounting Standard 7 relating to Statement of Cash Flows, an amount received from a trade receivable represents inflow of cash from operating activities.
 - (b) This represents cash outflow of ₹ 14,600 from investing activities because according to Indian Accounting Standard 7 relating to Statement of Cash Flows, an amount paid for purchase of an equipment represents outflow of cash from investing activities.
 - (c) According to Indian Accounting Standard 7 relating to Statement of Cash Flows, this represents non-cash transaction and hence it will not be included in Cash Flow Statement of Stable and Efficient Limited for the financial year ended on 31.03.2023 because an equipment was given to settle the whole amount of ₹ 13,700 of a trade payable and no cash is involved in this transaction.
 - (d) This represents Cash Inflow of ₹ 2,72,000 from financing activities because according to Indian Accounting Standard 7 relating to Statement of Cash Flows, an amount received for issue of equity shares represents inflow of cash from financing activities.
9. (a) The opinion of Mr. T is incorrect because according to Rule 56(12) of the Section 35 and Section 36 read with Chapter VII relating to Accounts and Records of CGST Rules, 2017, each and every registered person who is involved in manufacturing of goods is required to develop and maintain production records and accounts on monthly basis. Similarly, Stable and Efficient Limited is a registered person, which is involved in manufacturing of various types of carry bags and storage bags is required to develop and maintain production records and accounts on monthly basis.
- (b) The opinion of Mr. N is incorrect because according to Rule 56(12) of the Section 35 and Section 36 read with Chapter VII relating to Accounts and Records of CGST Rules, 2017, each and every registered person involved in manufacturing of goods is required to develop and maintain production records and accounts on monthly basis showing quantitative details of goods manufactured and quantitative details of raw materials used in manufacturing of goods. Similarly, Stable and Efficient Limited is a registered person, who is involved in manufacturing business of various types of carry bags and storage bags is required to develop and maintain production records and accounts on monthly basis showing quantitative details of various types of carry bags and storage bags manufactured and quantitative details of raw materials used in the manufacturing of those carry bags and storage bags.

CASE STUDY 35

“PQRST & Co.” is a CA Firm having partners “Mr. P”, “Mr. Q”, “Mr. R”, “Mr. S” and “Mr. T”, Chartered Accountants. This firm was established 10 years ago by these partners who were friends since college days and has made a remarkable success in Auditing & Taxation work till now. They have clients ranging from small traders to big multinational companies. They have practice of meeting and sitting together once a month to discuss and sort out various issues of their clients with each other as well as any issues related to their profession. This time when they met, 3 major issues were scheduled to be discussed as follows-

- (i) Accounting & Taxation issues w.r.t. Hamba Manufacturers Ltd., one of their old clients.
- (ii) Accounting & Taxation issues w.r.t. Talktime Telecom Pvt. Ltd., one of their prime clients.
- (iii) Their eligibility as partners to carry out various audits & ceiling limits.

Hamba Manufacturers Ltd. is in the business of manufacturing and trading in electronics and it has its own sale depots as well apart from being a part of the wholesale and distribution channel. It also enters into contracts with different customers for overhauling and renovation services and has also set up a separate unit in its factory for research related to biotechnology.

One of the issues being discussed at the meeting is that this company has its manufacturing unit in the State of Maharashtra. It stores the finished goods manufactured by it at a depot located in the State of Gujarat. The depot is owned by Punyabhumi Ltd. – a related person of Hamba Manufacturers Ltd. Punyabhumi Ltd. has not charged any consideration from it for usage of depot for storage purpose. There is a doubt raised by Mr. Q regarding such transactions as if they form supply or not under the GST law. They discussed about the term supply under the GST law and Mr. S helped to resolve this issue.

Mr. Q further tells them that he is currently having query with one of the supplies affected by Hamba Manufacturers Ltd. as to how to account for it in the books of accounts for revenue recognition purpose. He tells them that the Company has entered into an agreement on 1st January, 2023 with a customer for renovation of hospital and installation of new air-conditioners for total consideration of ₹ 1,00,00,000. The promised renovation service, including the installation of new air-conditioners is a single performance obligation satisfied over time. Total expected costs are ₹ 80,00,000 including ₹ 20,00,000 for the air conditioners.

The Company determines that it acts as a principal because it obtains control of the air conditioners before they are transferred to the customer. The customer obtains control of the air conditioners when they are delivered to the hospital premises. Company uses an input method based on costs incurred to measure its progress towards complete satisfaction of the performance obligation. As at 31st March, 2023, other costs incurred excluding the air conditioners are ₹ 12,00,000. This problem is solved by Mr. T, who is an expert in Ind AS matters.

Moving on, Mr. R, who is working on the case of Hamba Manufacturers Ltd. with Mr. Q jointly is struggling with certain issues to be handled while calculating profits from business for the Previous Year 2022-23 for the Company for taxation purpose and puts forward the relevant information for discussion among them. Mr. S who is an expert in Income tax matters offers help in this case.

He tells them that Hamba Manufacturers Ltd. has disclosed a net profit of ₹ 10 lakhs for the year ended 31st March, 2023.

- ✓ Advertisement expenditure debited to profit and loss account includes the sum of ₹ 60,000 paid in cash to the sister concern of a company, the market value of which is ₹ 52,000.
- ✓ Repairs of plant and machinery debited to profit and loss account include ₹ 1.50 lakhs towards replacement of worn out parts of machineries. Such expenditure does not increase the future benefit from the asset beyond its previously assessed standard of performance.
- ✓ A sum of ₹ 8,000 on account of liability foregone by a creditor has been taken to general reserve. The original purchase was debited to the Profit & Loss Account in the A.Y. 2018-19.
- ✓ Sale proceeds of import entitlements amounting to ₹ 1.1 lakh has been credited to Profit & Loss Account, which the company claims as capital receipt not chargeable to income-tax.
- ✓ Being also engaged in the biotechnology business, the company incurred the following expenditure on in-house research and development as approved by the prescribed authority:
 - (a) Research equipment purchased ₹ 1,50,000.
 - (b) Remuneration paid to scientists ₹ 50,000.

The total amount of ₹ 2,00,000 is debited to the profit and loss account.

Now, Mr. P comes up with the case of Talktime Telecom Pvt. Ltd. He tells them :-

- (a) this company entered into an agreement with B Ltd. which is engaged in generation and supply of power. The agreement provided that Talktime Telecom Pvt. Ltd. will provide 2,00,000 minutes of talk time to employees of B Ltd. in exchange for getting power equivalent to 40,000 units. Talktime Telecom Pvt. Ltd. normally charges ₹ 0.50 per minute and B Ltd. charges ₹ 2.5 per unit. Mr. P is unable to account for recognize revenue from this transaction and Mr. T helps to resolve this issue.
- (b) this Company is to provide telecom services in Mumbai, obtained a licence on 1.4.2020 for a period of 10 years ending on 31.3.2030 against a fee of ₹ 54 lakhs to be paid in 3 installments of ₹ 18 lakhs each by April, 2020, April, 2021 and April, 2022, respectively. The company has commenced business on 1.4.2021. He is struggling with the treatment of such transaction under the Income tax law and Mr. S, comes forward to help.

- (c) the company has entered into a contract with an actor – Chandragupta - to act as their brand ambassador. The duration of the contract is 5 years and the contract fee payable to Chandragupta for being a brand ambassador is ₹ 10 lakh per annum. As per the terms of the contract, in case the contract is terminated by Chandragupta before the end of the contract period, Chandragupta will have to repay to the company, 50% of the contract fee received by him till the time of termination of contract.
- (d) the Board of Directors of Talktime Telecom Pvt. Ltd. decided to declare Interim Dividend @10% and did not consider to transfer any amount of profit to reserves.

Now, at last, Mr. T has this issue to be discussed among them all as to the ceiling applicable on each one of them and their firm w.r.t different types of audits, especially company audit. They discuss that before appointment is given to any auditor, the company must obtain a certificate from him to the effect that the appointment, if made, will not result in an excess holding of company audit by the auditor concerned over the limit laid down in section 141(3)(g) of the Companies Act, 2013. Mr. P, Mr. Q, Mr. R, Mr. S and Mr. T are holding appointment as an auditor in 3, 6, 6, 10 and 15 Companies respectively.

I. Multiple Choice Questions

- Whether the services rendered by Punyabhumi Ltd. to Hamba Manufacturers Ltd. qualify as supply under GST?
 - No, as no consideration has been charged.
 - No, as they are related persons.
 - Yes, it qualifies as a Supply even though no consideration has been charged for the same.
 - Yes, it qualifies as a Supply because the related person is situated in different state.
- How should revenue be measured in the case of Talktime Telecom Pvt. Ltd.'s contract with the company B Ltd. in the books of Talktime Telecom Pvt. Ltd.?
 - ₹ 25,000
 - ₹ 50,000
 - No, Revenue recognition as it is a contract involving consideration in kind and just to be disclosed in the Notes to accounts.
 - ₹ 1,00,000
- What amount of payment made for licence fees by Talktime Telecom Pvt. Ltd. shall be deductible, under the Income-tax Act, 1961 for A.Y. 2023-24?
 - ₹ 54,00,000
 - ₹ 18,00,000

- (c) ₹ 6,25,000
- (d) ₹ 4,00,000
4. At the end of 3rd year, Chandragupta terminates the contract with Talktime Telecom Pvt. Ltd. He has received the contract fee for 3 years at the time of termination of contract. You are required to determine whether the given transaction(s) qualifies(y) as supply(ies) under the GST Law.
- (a) Only services as a brand ambassador by Chandragupta is a Supply.
- (b) Both services as a brand ambassador by Chandragupta & act of tolerating the non-performance of a contract by Chandragupta by company qualify as two legs of one single supply.
- (c) Only act of tolerating the non-performance of a contract by Chandragupta by company is a Supply.
- (d) Both services as a brand ambassador by Chandragupta & act of tolerating the non-performance of a contract by Chandragupta by company qualify as two different supplies.
5. Assume that Talktime Pvt. Ltd. has complied with the depreciation requirement, comment upon the decision of its Board of Directors with respect to dividend.
- (a) The decision of the Board of Directors is appropriate.
- (b) The Company should transfer an amount out of profits to reserves equivalent to the dividend declared.
- (c) The Board of Directors should ratify such decision of declaration of dividend by taking approval from the shareholders of the company in the subsequent general meeting.
- (d) The Company should transfer an amount out of profits to reserves as it may consider appropriate but such transfer is mandatory.

II. Descriptive Questions

6. Whether Hamba Manufacturers Ltd. should include cost of the air conditioners in measure of its progress of performance obligation? How should revenue be recognised for the year ended March, 2023?
7. You are required to compute the income from business or profession (ignore the provisions of section 115BAA) of Hamba Manufacturers Ltd. for the Assessment year 2023-24, after considering the information as provided in the above case scenario, duly explaining the reasons for each item of adjustment.

8. (i) Provide the maximum number of Audits remaining in the name of "PQRST & Co."
- (ii) Provide the maximum number of Audits remaining in the name of individual partner i.e. "Mr. P", "Mr. Q", Mr. R, Mr. S and Mr. T.
- (iii) Can PQRST & Co. accept the appointment as an auditor in 80 private companies having paid-up share capital less than ₹ 100 crore which has not committed default in filing its financial statements under section 137 or annual return under section 92 of the Companies Act with the Registrar, 2 small companies and 1 dormant company?
- (iv) Would your answer be different, if out of those 80 private companies, 65 companies are having paid-up share capital of ₹ 125 crore each?

ANSWERS TO THE CASE STUDY 35

I. Answers to the Multiple Choice Questions

1. (c) Yes, it qualifies as a Supply even though no consideration has been charged for the same.

Reason: As per section 7(1)(c) read with Schedule I of the CGST Act, supply of goods or services or both between related persons without consideration when made in the course or furtherance of business qualifies as supply. Thus, the storage services provided by Punyabhumi Ltd. to Hamba Manufacturers Ltd. in course or furtherance of business qualifies as supply under GST even though no consideration has been charged for the same.

2. (d) ₹ 1,00,000

Reason: Paragraph 5(d) of Ind AS 115 excludes non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers. For example, this Standard would not apply to a contract between two oil companies that agree to an exchange of oil to fulfil demand from their customers in different specified locations on a timely basis.

However, the current scenario will be covered under Ind AS 115 since the same is exchange of dissimilar goods or services. As per paragraph 47 of Ind AS 115, -an entity shall consider the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both. Paragraph 66 of Ind AS 115 provides that

to determine the transaction price for contracts in which a customer promises consideration in a form other than cash, an entity shall measure the non-cash consideration (or promise of noncash consideration) at fair value. On the basis of the above, revenue recognised by Talktime Telecom Pvt. Ltd. will be the consideration in the form of power units that it expects to be entitled for talktime sold, i.e. ₹ 1,00,000 (40,000 units x ₹ 2.5). The revenue recognised by B Ltd. will be the consideration in the form of talk time that it expects to be entitled for the power units sold, i.e., ₹ 1,00,000 (2,00,000 minutes x ₹ 0.50).

3. (c) ₹ 6,25,000

Reason: The payment made for acquiring the licence to operate telecom services shall be subject to deduction as per the scheme in Section 35ABB. As per Section 35ABB, any amount actually paid for obtaining licence to operate telecommunication services shall be allowed as deduction in equal instalments during the number of years for which the licence is in force.

If the payment is made before the commencement of business: The deduction shall be allowed beginning with the year of commencement of business.

In any other case: It will be allowed commencing from the year of payment. Deduction shall be allowed up to the year in which the license shall cease to be in force.

The amount of deduction available for A.Y. 2023-24 is worked out below-

(1)	(2)	(3)	(4) = (3)/(2)
Previous year of payment	Unexpired period of license	Instalment paid (₹)	Deduction in respect of each instalment (₹)
2020-21	9 years	18,00,000	2,00,000
2021-22	9 years	18,00,000	2,00,000
2022-23	8 years	18,00,000	2,25,000
		54,00,000	6,25,000

The deduction under section 35ABB from assessment year 2023-24 shall be ₹ 6,25,000.

4. (d) Both services as a brand ambassador by Chandragupta & act of tolerating the non-performance of a contract by Chandragupta by company qualify as two different supplies.

Reason: As per section 7(1)(a), supply includes all forms of supply of goods or services or both made or agreed to be made for a consideration by a person in the course or furtherance of business. In the given case, Chandragupta has agreed to provide his services as a brand ambassador of the Company at an agreed annual consideration. Thus, his services fall within the purview of the

term “supply” under GST where the consideration charged for such supply is ₹ 10 lakh per annum. Further, section 7(1A) provides that when certain activities or transactions constitute a supply in accordance with the provisions of section 7(1), they shall be treated either as a supply of goods or supply of services as referred to in Schedule II of the CGST Act. Tolerating non-performance of a contract is an activity or transaction which is treated as a supply of service as per Schedule II and the person is deemed to have received the consideration in the form of fines or penalty and is, accordingly, required to pay tax on such amount. In the given case, since the company is tolerating the act of Chandragupta of terminating the contract before the expiry of its contract period, 50% of contract fee for 3 years amounting to ₹ 15 lakh is being received by it as a penalty for the same. The act of tolerating the non- performance of a contract by Chandragupta by the company is a supply of service where the consideration charged for such supply is ₹ 15 lakh [50% of (₹ 10 Lakh × 3 years)].

5. (a) The decision of the Board of Directors is appropriate.

Reason: Section 123(3) of the Companies Act, 2013 provides that the Board of Directors of a company may declare interim dividend during any financial year out of the surplus in the Statement of Profit and Loss and out of profits of the financial year in which such interim dividend is sought to be declared. The amount of dividend including interim dividend should be deposited in a separate bank account within five days from the declaration of such dividend for the compliance of Section 123(4) of the said Act. Based on Section 2(35) of the Act, it can be said that since interim dividend is also a dividend, companies should provide for depreciation as required by Section 123 before declaration of interim dividend. However, the first proviso to Section 123(1) provides that a company may, before the declaration of any dividend in any financial year, transfer such percentage of its profit for that financial year as it may consider appropriate to the reserves of the company irrespective of the size of the declared dividend i.e. the company is not mandatorily required to transfer the profit to the reserves, it is an option available to the company to transfer such percentage. In the instant case, the Board has decided to pay interim dividend @10% of the paid-up capital. As given in the question, the company has complied with the depreciation requirement, the interim dividend can be declared without transferring such percentage of its profits to the reserves of the company.

II. Answers to the Descriptive Questions

6. Paragraph B19 of Ind AS 115 inter alia, states that, 'an entity shall exclude from an input method the effects of any inputs that, in accordance with the objective of measuring progress in paragraph 39, do not depict the entity's performance in transferring control of goods or services to the customer.'

In accordance with the above, the company assesses whether the costs incurred to procure the air conditioners are proportionate to the entity's progress in satisfying the

performance obligation. The costs incurred to procure the air conditioners (₹ 20,00,000) are significant relative to the total costs to completely satisfy the performance obligation (₹ 80,00,000). Also, the Company is not involved in manufacturing or designing the air conditioners.

Hamba Manufacturers Ltd. concludes that including the costs to procure the air conditioners in the measure of progress would overstate the extent of the entity's performance. Consequently, in accordance with paragraph B19 of Ind AS 115, the entity adjusts its measure of progress to exclude the costs to procure the air conditioners from the measure of costs incurred and from the transaction price. The entity recognises revenue for the transfer of the air conditioners at an amount equal to the costs to procure the air conditioners (i.e., at a zero margin).

The Company assesses that as at March, 2023, the performance is 20 per cent complete (i.e., ₹ 12,00,000 / ₹ 60,00,000). Consequently, the Company should recognise the following-

As at 31st March, 2023

	Amount in ₹
Revenue	36,00,000
Cost of goods sold	32,00,000
Profit	4,00,000

Revenue recognised is calculated as (20 per cent × ₹ 80,00,000) + ₹ 20,00,000.

(₹ 80,00,000 = ₹ 1,00,00,000 {transaction price} – ₹ 20,00,000 {costs of air conditioners}.)

Cost of goods sold is ₹ 12,00,000 of costs incurred + ₹ 20,00,000 costs of air conditioners.

7. Computation of taxable income from business or profession of Hamba Manufacturers Ltd. for the A.Y. 2023-24

Particulars	Amount (₹)
Net profit as per profit and loss account	10,00,000
Add: Items debited to profit and loss A/c but not deductible or income to be taxed	
1. Payment of advertisement expenditure of ₹ 60,000	
(i) ₹ 8,000, being the excess payment to a relative disallowed under section 40A(2)	8,000
(ii) As the payment is made in cash and since the remaining amount of ₹ 52,000 exceeds ₹ 10,000, 100% shall be disallowed under section 40A(3)	52,000

2. Under section 31, expenditure relatable to current repairs regarding plant, machinery or furniture is allowed as deduction. The test to determine whether replacement of parts of machinery amounts to repair or renewal is whether the replacement is one which is in substance replacement of defective parts or replacement of the entire machinery or substantial part of the entire machinery [<i>CIT v. Darbhanga Sugar Co. Ltd. [1956] 29 ITR 21 (Pat)</i>]. Here expenditure on repairs does not bring in any new asset into existence. Such replacement can only be considered as current repairs. Hence, no adjustment is required. Further, as per ICDS V on Tangible Fixed Assets, only an expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance has to be added to the actual cost.	
3. Liability foregone by creditor chargeable as business income but not credited to profit and loss account [taxable under section 41(1)]	8,000
4. Sale proceeds of import entitlements. The sale of the rights gives rise to profits or gains taxable under section 28(iia). As the amount has already been credited to profit and loss account, no further adjustment is necessary.	-
5. Expenditure on in-house research and development is entitled to a weighted deduction of 100% of the expenditure (both capital and revenue) so incurred under section 35(2AB)(1). As the amount has already been debited to profit and loss account, no further adjustment is necessary	-
Taxable Income from business or profession	10,68,000

8. **Facts of the Case:** In the instant case, Mr. P is holding appointment in 3 companies, Mr. Q is holding appointment in 6 companies, Mr. R is holding appointment in 6 companies, whereas Mr. S is having appointment in 10 Companies and Mr. T is having appointment in 15 Companies. In aggregate all five partners are having 40 audits.

Provisions and Explanations: As per section 141(3)(g) of the Companies Act, 2013, a person shall not be eligible for appointment as an auditor if he is in full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor, if such person or partner is at the date of such appointment or reappointment holding appointment as auditor of more than twenty companies other than one person companies, dormant companies, small companies and private companies having paid-up share capital less than ₹ 100 crore (private company which has not committed a default in filing its financial statements under section 137 of the said Act or annual return under section 92 of the said Act with the Registrar).

As per section 141(3)(g), this limit of 20 company audits is per person. In the case of an audit firm having 5 partners, the overall ceiling will be $5 \times 20 = 100$ company audits.

Sometimes, a Chartered Accountant is a partner in a number of auditing firms. In such a case, all the firms in which he is partner or proprietor will be together entitled to 20 company audits on his account.

Conclusion:

- (i) Therefore, PQRST & Co. can hold appointment as an auditor of 60 more companies:

Total Number of Audits available to the Firm = $20 \times 5 = 100$

Number of Audits already taken by all the partners

In their individual capacity = $3+6+6+10+15 = 40$

Remaining number of Audits available to the Firm = 60

- (ii) With reference to above provisions, an auditor can hold more appointment as auditor

= ceiling limit as per section 141(3)(g)- already holding appointments as an auditor. Hence,

(1) Mr. P can hold: $20 - 3 = 17$ more audits. (2) Mr. Q can hold: $20 - 6 = 14$ more audits. (3) Mr. R can hold: $20 - 6 = 14$ more audits. (4) Mr. S can hold $20 - 10 = 10$ more audits and (5) Mr. T can hold $20 - 15 = 5$ more audits.

- (iii) In view of above discussed provisions, PQRST & Co. can hold appointment as an auditor in all the 80 private companies having paid-up share capital less than ₹ 100 crore (private company which has not committed a default in filing its financial statements under section 137 of the said Act or annual return under section 92 of the said Act with the Registrar), 2 small companies and 1 dormant company as these are excluded from the ceiling limit of company audits given under section 141(3)(g) of the Companies Act, 2013.

- (iv) As per fact of the case, PQRST & Co. is already having 40 company audits and they can accept only 60 more company audits. In addition, they can also conduct the audit of one person companies, small companies, dormant companies and private companies having paid up share capital less than ₹ 100 crores (private company which has not committed a default in filing its financial statements under section 137 of the said Act or annual return under section 92 of the said Act with the Registrar). In the given case, out of the 80 private companies PQRST & Co. is being offered, 65 companies have paid-up share capital of ₹ 125 crore each.

Therefore, PQRST & Co. can accept the appointment as an auditor for 2 small companies, 1 dormant company, 15 private companies having paid-up share capital less than ₹ 100 crore (private company which has not committed a default in filing its financial statements under section 137 of the said Act or annual return under section 92 of the said Act with the Registrar.) and 60 private companies having paid-up share capital of ₹ 125 crore each in addition to above 40 company audits already held.

CASE STUDY 36

Varsha Dutta is a Post-Graduate from IIM, Guwahati. She set up a business of her own in 2020 in the field of construction material manufacturing to substantiate & support his father's construction business, which is almost 30 years old. Until now, she was able to manage the accounting & taxation part of her business really good all by herself, but now, as the business is expanding, she hires the services of a taxation consultant, CA Amit Garg, her friend, for accounting & taxation related issues so as to make all required compliances good.

CA Amit has set up his own Proprietorship Firm and has been practicing in Audit & Taxation since the past 7 years. Amit & Varsha, both meet where Amit tells her that times have changed and so have the ways of presenting accounts of any business as per the Financial Reporting Framework (FRF). He also tells her about the Income tax and GST aspects w.r.t businesses. After a brief deliberation on accounting & taxation aspects, he asks Varsha to tell him in brief about her business.

Varsha tells him that her company, Varsha Pvt. Ltd., specializes in manufacturing & trading of construction material. She asks her accountant to show Amit how they present the various matters in their company's Balance Sheet and the accountant lays down a draft Balance sheet in front of Amit to show the presentation of financial items with relevant figures as follows:

Heading	Note No.	31 st March, 2023	31 st March, 2022
Equity & Liabilities			
Share Capital	1	XXX	XXX
Reserves & Surplus	2	0	0
Employee stock option outstanding	3	XXX	XXX
Share application money refundable	4	XXX	XXX
Non-Current Liabilities		XXX	XXX
Deferred tax liability (Arising from Indian Income Tax)	5	XXX	XXX
Current Liabilities			
Trade Payables	6	<u>XXX</u>	<u>XXX</u>
Total		<u>XXXX</u>	<u>XXXX</u>
Assets			
Non-Current Assets			
Fixed Assets-Tangible	7	XXX	XXX
CWIP (including capital advances)	8	XXX	XXX

Current Assets			
Trade Receivables	9	XXX	XXX
Deferred Tax Asset (Arising from Indian Income Tax)	10	XXX	XXX
Debit balance of Statement of Profit and Loss		<u>XXX</u>	<u>XXX</u>
Total		<u>XXXX</u>	<u>XXXX</u>

Varsha tells Amit that her father's company, Carp Pvt. Ltd., is a prime and regular purchaser of the construction material from her company. She finds it hard on how to deal with various accounting & taxation matters and discusses some of the issues as follows:

1. **ISSUE 1:** Presenting Inventories in the Financial Statements.

She asks Amit to provide guidance in presentation relating to inventories in the financial statements. Her Company is having inventory amounting to ₹ 100,000 in total with the details as below:-

Spare parts	₹ 30,000
Finished goods	₹ 25,000
Work in progress	₹ 40,000
Tools	₹ <u>5,000</u>
TOTAL	₹ <u>1,00,000</u>

2. **ISSUE 2:** Just recently, they have entered into a contract with *Customer E* to build an asset. Depending on when the asset is completed, her company will receive either ₹ 2,20,000 or ₹ 2,60,000. Providing the following details, she asks for Amit's help in determining the transaction price of this contract.

Outcome	Consideration (₹)	Probability
Project completes on time	2,60,000	90%
Project is delayed	2,20,000	10%

3. **ISSUE 3:** She tells Amit that her company is GST registered under regular scheme but now with the expanding business, they find it hard to deal with GST matters and need his services as a GST Consultant. She provides her with some data relating to recent transactions to understand the GST impact & compliance-

Their company supplies the following goods and services for construction of buildings and complexes -

- excavators for required period at a per hour rate

- manpower for operation of the excavators at a per day rate
- soil-testing and seismic evaluation at a per sample rate.

The excavators are invariably hired out along with operators. Similarly, excavator operators are supplied only when the excavator is hired out.

For a given month, their receipts (exclusive of GST) are as follows:

- | | |
|--|-------------|
| - Hire charges for excavators - | ₹ 36,00,000 |
| - Service charges for supply of manpower for operation of the excavator - | ₹ 40,000 |
| - Service charges for soil testing and seismic evaluation at three sites - | ₹ 5,00,000 |

4. **ISSUE 4:** Varsha's accountant tells Amit that while filing Income Tax return last year, they faced issues and doubts w.r.t. allowability of certain expenses and couldn't resolve them out. Similarly, this year as well, they face the similar issues, major two of them are as follows:

- a. A bank guarantee given by Varsha Pvt. Ltd. towards disputed tax liabilities.
- b. Their company paid dollars equivalent to ₹ 25 lakhs as sales commission for the year ended 31.03.2023, without deducting tax at source, to Mr. Rodrigues, a citizen of UK and non-resident who acted as agent for booking orders, from various customers who are outside India.

After a healthy discussion with Amit regarding various issues, Varsha is facing in her business, she feels satisfied that Amit can help her out in the Accounting & Taxation aspects of her business leading to better compliances. She gets him appointed as an auditor for the company for the current financial year. Further the company offered him if he could also provide the services of actuarial, investment advisory and investment banking which would be duly approved by the Board of Directors.

I. Multiple Choice Questions

1. W.r.t the Presentation of Inventories, what should be the presentation requirement as per Schedule III?
 - (a) All the aforesaid Inventory items to be shown separately.
 - (b) Spare Parts & Work-in-Progress items be clubbed together under one head.
 - (c) Finished goods & Tools items be clubbed together under one head.
 - (d) No separate Presentation, the total of all Inventory items be shown under the Inventory head without any bifurcation.

2. What shall be the transaction price w.r.t. the contract entered into with customer E by Varsha Pvt. Ltd.?
 - (a) ₹ 2,60,000
 - (b) ₹ 2,20,000
 - (c) ₹ 2,34,000
 - (d) ₹ 2,56,000
3. What should be CA Amit's reply to his appointment for other miscellaneous services apart from appointment as the Statutory auditor as duly approved by the Board of Directors of Varsha Pvt. Ltd.?
 - (a) Accept his appointment as would be approved by the Board of Directors.
 - (b) Should not accept such appointment.
 - (c) Should not accept the appointment and resign as the Statutory auditor as well.
 - (d) Should ask for an approval in the AGM of the company as well for such appointment.
4. Examine the taxability and/ or allowability of the guarantee furnished by Varsha Pvt. Ltd. under the provisions of the Income-tax Act, 1961, for the A.Y. 2023-24.
 - (a) Allowable u/s 43B.
 - (b) Disallowed and not covered u/s 43B.
 - (c) Disallowed but to the extent of 30% only.
 - (d) Allowable u/s 37.
5. Examine the taxability and/ or allowability of the payment made to Mr. Rodrigues by Varsha Pvt. Ltd. under the provisions of the Income-tax Act, 1961, for the A.Y. 2023-24.
 - (a) Not be disallowed u/s 40 (a)(i).
 - (b) Be disallowed u/s 40 (a)(i).
 - (c) Be disallowed but to the extent of 30% only.
 - (d) Can't be determined in absence of required information w.r.t. Mr. Rodrigues.

II. Descriptive Questions

6. Comment on the presentation of the Balance Sheet as laid before CA Amit by Varsha's accountant w.r.t. Varsha Pvt. Ltd. in terms of Division II of Schedule III.
7. Compute the GST payable by Varsha Pvt. Ltd. for the given month. Assume the rates of GST to be as under:
Hiring out of excavators – 12%
Supply of manpower services and soil-testing and seismic evaluation services – 18%

ANSWERS TO THE CASE STUDY 36**I. Answers to the Multiple Choice Questions**

1. (a) All the aforesaid Inventory items to be shown separately.

Reason:

As per Division II of Schedule III:-

Inventories **shall** be classified as-

(a) Raw materials; (b) Work in-progress; (c) Finished goods; (d) Stock-in-trade (in respect of goods acquired for trading); (e) stores and spares; (f) Loose tools; and (g) Others (specify nature).

2. (a) ₹ 2,60,000

Reason: Because there are only two possible outcomes under the contract, Company determines that using the most likely amount provides the best prediction of the amount of consideration to which it will be entitled. Company estimates the transaction price to be ₹ 2,60,000, which is the single most likely amount.

3. (b) Should not accept such appointment.

Reason: Services not to be Rendered by the Auditor- Section 144 of the Companies Act, 2013 prescribes certain services not to be rendered by the auditor. An auditor appointed under the Act shall provide to the company only such other services as are approved by the Board of Directors or the audit committee, as the case may be, but which shall not include any of the following services (whether such services are rendered directly or indirectly to the company or its holding company or subsidiary company), namely:

- (a) accounting and book keeping services;
- (b) internal audit;
- (c) design and implementation of any financial information system;
- (d) actuarial services;
- (e) investment advisory services;
- (f) investment banking services;
- (g) rendering of outsourced financial services;
- (h) management services; and

(i) any other kind of services as may be prescribed.

Further section 141(3)(i) of the Companies Act, 2013 also disqualifies a person for appointment as an auditor of a company who is engaged as on the date of appointment in consulting and specialized services as provided in section 144. In the given case, CA Amit Garg was appointed as an auditor of Varsha Pvt. Ltd. He was offered additional services of actuarial, investment advisory and investment banking which would also be approved by the Board of Directors. The auditor is advised not to accept the services as these services are specifically notified in the services not to be rendered by him as an auditor as per section 144 of the Act.

4. (b) Disallowed and not covered u/s 43B.

Reason: For claiming deduction of any expense enumerated under section 43B, the requirement is, the actual payment and not deemed payment. Furnishing of bank guarantee cannot be equated with actual payment. Actual payment requires that money must flow from the assessee to the public exchequer as specified in section 43B. Therefore, deduction of an expense covered under section 43B cannot be claimed by merely furnishing a bank guarantee [*CIT v. McDowell & Co Ltd (2009) 314 ITR 167 (SC)*]

5. (a) Not be disallowed u/s 40 (a)(i).

Reason: A foreign agent of an Indian exporter operates in his own country and no part of his income accrues or arises in India. His commission is usually remitted directly to him and is, therefore, not received by him or on his behalf in India. The commission paid to the non-resident agent for services rendered outside India is, thus, not chargeable to tax in India. Since commission income for booking orders by non-resident who remains outside India is not subject to tax in India, disallowance under section 40 (a)(i) is not attracted in respect of payment of commission to such non-resident outside India even though tax has not been deducted at source. Thus, the amount of ₹ 25 lakhs remitted to Mr. Rodrigues outside India in foreign currency towards commission would not attract disallowance under section 40(a)(i) for non-deduction of tax at source.

II. Answers to the Descriptive Questions

6. Following errors have been noticed in presentation, as per Division II of Schedule III:

- (i) Balance sheet should begin with Assets on top and then, Equity and Liabilities should be presented.
- (ii) Under the main heading of Non-Current Assets, following sub-headings are provided in the format as per Division II:

- (a) Property, plant and equipment
- (b) Capital work-in-progress

In view of the above, the Fixed asset- Tangible should be presented as "Property, Plant and Equipment". CWIP should be presented as "Capital Work in Progress". Under Ind AS Schedule III, 'Capital Advances' are not to be classified under 'Capital Work in Progress', since they are specifically to be disclosed under 'Other non-current assets'.

- (iii) Deferred Tax Asset should be presented under "Non-Current Asset". It should be the net balance of Deferred Tax Asset, after adjusting the balance of deferred tax liability, if the enterprise has a legally enforceable right to set off assets against liabilities representing current tax; and it relates to the same governing tax laws.
- (iv) Trade receivables shall be presented under sub-heading "Financial assets" under heading "Current Assets".
- (v) Share capital and Reserves & Surplus need to be presented under the heading "Equity". The heading Equity is missing in the balance sheet given in the question. Reserves & Surplus would form part of sub-heading "Other Equity" in the notes to accounts and such balance of "Other Equity" would be presented on face of balance sheet under the heading "Equity".
- (vi) Debit balance of statement of profit and loss would be presented as negative balance under "Retained Earnings" in sub-heading "Other Equity" in the notes to accounts. Such balance of "Other Equity" even if negative, would be presented on face of balance sheet under the heading "Equity".
- (vii) Division II of Schedule III requires that Employee Stock Option outstanding should be disclosed under the sub-heading "Other Equity" in the notes to accounts which should be presented on face of balance sheet under the heading "Equity".
- (viii) Share application money refundable should be presented under the sub-sub-heading "Other Financial Liabilities" under the sub-heading "Financial Liability". As this is refundable and not pending for allotment, hence, it should not form part of equity.
- (ix) Deferred Tax Liability has been correctly presented under "Non-Current Liabilities". But Deferred tax assets and deferred tax liabilities, both, cannot be presented in balance sheet since only the net balance of Deferred Tax Liability or Asset is to be disclosed if the enterprise has a legally enforceable right to set off assets against liabilities representing current tax; and it relates to the same governing tax laws.

- (x) Trade payables should be presented under sub-heading “Financial liabilities” under the heading “Current liabilities” and should be disclosed as follows:
- total outstanding dues of micro enterprises and small enterprises; and
 - total outstanding dues of creditors other than micro enterprises and small enterprises.

7. Computation of GST liability

Particulars	Value of Supply (₹)	Rate of GST	GST (₹)
Hiring charges for excavators	36,00,000	12%	4,32,000
Service charges for supply of manpower for operation of excavators [Refer Note 1]	40,000	12%	4,800
Service charges for soil testing and seismic evaluation [Refer Note 2]	5,00,000	18%	90,000
GST liability			5,26,800

Notes:

- Since the excavators are invariably hired out along with operators and excavator operators are supplied only when the excavator is hired out, it is a case of composite supply under section 2(30) wherein the principal supply is the hiring out of the excavator.

As per section 8(a), the composite supply is treated as the supply of the principal supply. Therefore, the supply of manpower for operation of the excavators will also be taxed at the rate applicable for hiring out of the excavator (principal supply), which is 12%.
- Soil testing and seismic evaluation services being independent of the hiring out of excavator will be taxed at the rate applicable to them, which is 18%.

CASE STUDY 37

A person namely Deepak is a marketing person who is working in mid-sized corporate company, Iktara limited in Noida. Deepak is married and he is exploring the options to do his own business. One day his brother-in-law, Aakash, was in Delhi/NCR at Deepak's residence as his flight to his hometown Jaipur, Rajasthan was scheduled. Aakash is currently working in Universal bank, a reputed bank in South Africa. After being known to the condition of Deepak, Aakash decided to help Deepak by suggesting him an idea of business which could be done after due research and appropriate consultation. Deepak responded in affirmative to proceed further. Aakash is a person who is friend of Dujon Sobers, the purchase manager of Universal bank. Dujon generally acquires his purchase orders from India as import of bank electronic accessories such as biometric machines, cash counting machines etc. Aakash immediately called Dujon to know the prospects of acquiring material from other suppliers in India as Aakash was desperate to include Deepak in the list of those prospective sellers and even Dujon provided assurance to Aakash that he would do his level best to procure material from the reference of Aakash provided the material meets the quality standards and other terms which are framed as per the bank's policies. Dujon apprised Aakash of all the formalities which are needed to be done like bid price, quality, time of shipment etc. Deepak has the apprehensions that if 100% exports are done, there may not be the need for GST registration if separate sales in domestic market are lower than ₹ 40 lakhs.

Aakash on the perusal of Dujon first suggested Deepak to send free samples of Biometric fingerprint machines. Deepak enquired and researched for the same in domestic market and after due scrutiny and research, he decided to choose the manufacturer, Biotechno private limited from Mumbai to be the one from whom he would supply the material. At first, he procured 3 machines from company at market price and sent the same as sample to South Africa. As per estimates of Deepak and Aakash, there would come fixed operational expenses of around ₹ 3,60,000 and variable expenses of 1,000 per unit. Further selling and administrative expenses are expected at ₹ 2,00,000, irrespective of quantum of units sold.

After having received the biometric machines, the purchase department of Universal bank was satisfied with the quality of machines and since it was being offered at lower price than other bidders, Dujon called upon Deepak to send the first formal consignment of 1,000 biometric machines at ₹ 1,600 per machine. One of the conditions of Universal bank was that the supplier should be registered as a company as per the law of land and thereafter imports would be from India through designated official channels.

Meanwhile, Deepak made up mind to resign from the company. First, he decided to meet the directors in this regard and then send a formal resignation letter. He approached directors and described his intention to resign so that he could start his new business and concentrate fully thereon. Since Deepak was very hardworking, loyal and trustworthy, the directors were reluctant to leave such kind of person from company; the directors instead offered him a proposal to form the new company under 55:45 shareholding. The investment of 55% is to be done by Iktara limited and rest by Deepak. Voting powers are to be given as per the proportionate share of capital contribution. In this manner, new company which would be formed will be the subsidiary of Iktara limited. The directors saw it as an opportunity to diversify their operations and make their operations global, although very small in the initial stage. Since Deepak was always short of funds in the past and he had the obvious reasons for the future too, so he came under the influence of directors to go along. For this purpose, it was decided to form a company with two directors and Deepak eventually becomes one of the directors of company. A consultant was hired, and he decided to charge ₹ 30,000 for the incorporation of company and to do other necessary statutory registrations. ₹ 30,000 is to be charged as an expense in the books after incorporation of company.

The company namely, Softbharti private limited was incorporated on 1st April, 2022 and thereafter its first board meeting was done on 10th May, 2022 wherein resolution for appointment of auditor was passed. The auditor who is appointed is the same as of Iktara limited. Deepak attended the board meeting through video conferencing as he was in his hometown, Rajasthan at that time, although another director was physically present at the board meeting. Further, the Company secretary is of doubt that whether quorum for the purpose of board meeting would be held as void ab initio.

For the year ending 31st March, 2023, Softbharti private limited on the insistence of Deepak has made donations amounting ₹ 25,000 in cash to Seva Jagriti Sansthan.

It is worthwhile to note that the financials of Iktara limited are prepared as per Ind AS since the same are applicable on it.

During the year, Iktara Ltd. has further acquired 60% of the ordinary shares of another company, Maya private limited for ₹ 80 lacs. The fair value of its identifiable net assets is ₹ 135 lacs. The fair value of the 40% of the ordinary shares owned by non-controlling shareholders is ₹ 55 lacs. Carrying amount of Maya private ltd.'s net assets is ₹ 105 lacs.

Following are the draft results of Softbharti private limited for the year ending 31st March, 2023

Profit and Loss account

Particulars	Amount (₹)
Revenue from operations	10,00,000
Other Income	1,00,000
Total Revenue	11,00,000
Expenses:	
Purchase of stock in trade	5,00,000
(Increase)/Decrease in stock in trade	(50,000)
Employee benefits expense	1,75,000
Depreciation	30,000
Other expenses	90,000
Total	7,45,000
Profit before tax	3,55,000
Current tax	1,06,500
Deferred tax	6,000
Total tax expense	1,12,500
Profit for the year	2,42,500

Balance Sheet

Particulars	Amount (₹)
EQUITY AND LIABILITIES	
(1) Shareholders' Funds	
(a) Share Capital	1,00,000
(b) Reserves & Surplus	2,27,500
(2) Non-Current Liabilities	
(a) Long Term Provisions	25,000
(b) Deferred tax liabilities	6,000
(3) Current Liabilities	
(a) Trade Payables	11,000
(b) Other Current Liabilities	45,000

(c) Short Term Provisions	1,06,500
TOTAL	5,21,000
ASSETS	
(1) Non Current Assets	
(a) Fixed Assets (net)	1,00,000
(b) Long Term Loans and Advances	40,000
(c) Other Non Current Assets	50,000
(2) Current Assets	
(a) Current Investments	30,000
(b) Inventories	80,000
(c) Trade Receivables	55,000
(d) Cash and Bank Balances	1,15,000
(e) Other Current Assets	51,000
TOTAL	5,21,000

Additional Information of Softbharti private limited:

Deferred tax of ₹ 6,000 is created due to following temporary difference:

Difference in depreciation amount as per Income tax and Accounting profit = ₹ 6,000 (DTL)

There is only one fixed asset in the company, whose closing balance as at 31st March, 2023 is as follows:

Asset description	As per Books	As per Income tax
Fixed asset	₹ 1,00,000	₹ 80,000

Current tax is calculated at 30% on PBT- ₹ 3,55,000 without doing any adjustments related to Income tax.

The directors have recommended dividend of ₹ 15,000 for year ending March, 2023 which has been deducted from reserves and surplus. Dividend payable of ₹ 15,000 has been grouped under 'other current liabilities'.

The company has **defaulted** in certain payment, the details of which is as follows:

Government statutory dues – ₹ 15,000 (which is grouped under 'other current liabilities')

This amount has not been paid till the date.

The capital advances amounting ₹ 50,000 are grouped under 'Other non-current assets'.

Other current assets of ₹ 51,000 comprise Interest receivable on debtors.

Current investments of ₹ 30,000 are in shares of a company which was done with the purpose of trading, current investments have been carried at cost in the financial statements. The fair value of current investments in this case is ₹ 50,000 as at March 31, 2023. Assume that increase in fair value through profit and loss is also taxable.

Following transaction has been **omitted** in the financials of Softbharti private limited for the year ending 31st March, 2023:

Actuarial gain on employee benefit measurements = 1,000

Please note that financial statements for FY 2022-23 have not been yet approved and you are required to ignore the MAT calculations.

I. Multiple Choice Questions

- At which minimum price, Deepak should accept the offer of selling one machine to Universal bank?
 - ₹ 1,600
 - ₹ 1,560
 - ₹ 1,000
 - None of the above.
- By which time the company, Softbharti private limited, should have held its first board of directors meeting?
 - By 31 May, 2022
 - Private limited company is exempted of first meeting of board of directors.
 - By 30 April, 2022
 - Within 30 days of the appointment of auditor.
- Which Ind AS/AS does the Iktara limited is required to apply for consolidation of Softbharti private limited's financials?
 - Ind AS 110
 - Ind AS 28
 - Ind AS 27
 - AS 21
- Whether the quorum required for conduct of board meeting of Softbharti private limited has been met on 10th May, 2022?

- (a) Quorum has been met.
- (b) Quorum has not been met.
- (c) Quorum is not met but it can be ratified by the shareholders.
- (d) Quorum is not met but it can be ratified by the registrar of companies.
5. As Deepak thinks that export sales are not included in the definition of aggregate turnover under the GST law since export sales are exempt from tax. Whether export sales should also be added along with the domestic sales while checking the aggregate turnover in such a situation?
- (a) Export sales should be added along with domestic sales barring SAARC nations.
- (b) Export sales should not be added along with domestic sales.
- (c) Export sales should not be added if central government's permission in the form of certificate has been taken to exclude export sales from criteria of 'aggregate turnover'.
- (d) Export sales should be added along with domestic sales.

II. Descriptive Questions

6. Whether the financial statements of Softbharti private limited are correctly presented as per the applicable financial reporting framework. If not, prepare the revised financial statements of Softbharti private limited after the careful analysis of facts and information mentioned in the case study.
7. Calculate the non-controlling interest in the books of Iktara limited for the investment made in Maya private limited by both the methods mentioned in Ind AS 103.

ANSWERS TO THE CASE STUDY 37

I. Answers to the Multiple Choice Questions

1. (b) ₹ 1,560

Reason: Since Deepak has received the order for selling 1000 biometric machines

Variable expenses	=	₹ 1,000 x 1,000 units	=	₹ 10,00,000
Fixed expenses	=	₹ 3,60,000 + ₹ 2,00,000	=	₹ <u>5,60,000</u>
Total cost			=	₹ <u>15,60,000</u>

Cost per unit = ₹ 15,60,000/1,000 = ₹ 1,560

Selling price per unit = ₹ 1,600

Since selling price per unit is greater than cost per unit, Deepak may accept offer.

2. (c) By 30 April, 2022.

Reason: As per section 173(1) of Companies Act, 2013, every company shall hold the first meeting of the Board of Directors within thirty days of the date of its incorporation.

3. (a) Ind AS 110

Reason:

- Ind AS 110 'Consolidated Financial Statements' is applied in establishing principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.
- Ind AS 28 'Investments in Associates and Joint Ventures' is applied in the accounting for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.
- Ind AS 27 'Separate financial statements' is applied in accounting for investments in subsidiaries, joint ventures and associates when an entity elects, or is required by law, to present separate financial statements.
- Since Iktata limited prepares its financials as per Ind AS, so AS are not applicable on it, even in the case of consolidation.

4. (a) Quorum has been met.

Reason: As per section 174(1) of Companies Act, 2013, quorum for a meeting of the Board of Directors of a company shall be one third of its total strength or two directors, whichever is higher, and the participation of the directors by video conferencing or by other audio visual means shall also be counted for the purposes of quorum under this sub-section.

Further, as per section 173(2) of Companies Act, 2013, the participation of directors in a meeting of the Board may be either in person or through video conferencing or other audio visual means, as may be prescribed, which are capable of recording and recognising the participation of the directors and of recording and storing the proceedings of such meetings along with date and time.

However, following matters shall not be dealt with in any meeting held through video conferencing or other audio visual means-

- (i) the approval of the annual financial statements;
 - (ii) the approval of the Board's report;
 - (iii) the approval of the prospectus;
 - (iv) the Audit Committee Meetings for consideration of financial statement including consolidated financial statement if any, to be approved by the board under sub-section (1) of section 134 of the Act and
 - (v) the approval of the matter relating to amalgamation, merger, demerger, acquisition and takeover.
5. (d) Export sales should be added along with domestic sales.

Reason: As per section 2(6) of the CGST Act, 2017, "aggregate turnover" means the aggregate value of all taxable supplies (excluding the value of inward supplies on which tax is payable by a person on reverse charge basis), exempt supplies, exports of goods or services or both and inter-state supplies of persons having the same Permanent Account Number, to be computed on all India basis but excludes Central tax, State tax, Union territory tax, integrated tax and compensation cess.

Hence, exports sales would also be considered along with domestic sales to check whether aggregate turnover is below 40 lakhs or not.

II. Answers to the Descriptive Questions

6. If IND AS becomes applicable to any company, then IND AS shall automatically be made applicable to all the subsidiaries, holding companies, associated companies, and joint ventures of that company, irrespective of individual qualification of such companies.

In the given case it has been mentioned that the financials of Iktara limited are prepared as per Ind AS. Accordingly the results of its subsidiary, Softbharti private limited, should also have been prepared as per Ind AS. However, the financials of Softbharti private limited have been presented as per earlier accounting standards along with erstwhile Division to schedule III applicable to it.

Hence it is necessary to revise the financial statements of Softbharti private limited as per Ind AS after the incorporation of necessary adjustments mentioned in the question.

Accordingly, the revised financial statements of Softbharti private limited as per Ind AS and Division II to Schedule III of Companies Act, 2013 are presented as follows:

IND-AS STATEMENT OF PROFIT AND LOSS for the year ended 31st March, 2023

Particulars	Amount (₹)
Revenue from operations	10,00,000
Other Income (1,00,000 + 20,000) (refer note -5)	1,20,000
Total Revenue	11,20,000
Expenses: Purchase of stock in trade	5,00,000
(Increase)/Decrease in stock in trade	(50,000)
Employee benefits expense	1,75,000
Depreciation	30,000
Other expenses	90,000
Total Expenses	7,45,000
Profit before tax	3,75,000
Current tax (W.N.1)	1,25,700
Deferred tax (W.N.2)	(1,200)
Total tax expense	1,24,500
Profit for the year (A)	2,50,500
Other Comprehensive Income	
Items that will not be reclassified to Profit or Loss	
Remeasurements of net defined benefit plans	1,000
Income tax relating to items that will not be reclassified to Profit or Loss	
Remeasurements of net defined benefit plans (tax) [1000 x 30%]	(300)
Other Comprehensive Income for the period (B)	700
Total Comprehensive Income for the period (A+B)	2,51,200

IND-AS BALANCE SHEET as at 31st March, 2023

Particulars	Amount (₹)
ASSETS	
Non-current assets	
Property, plant and equipment	1,00,000
Financial assets	
Other financial assets (Long term Loans & Advances)	40,000
Deferred tax assets (1200-300)	900
Other non-current assets (capital advances) (refer note-1)	50,000
Current assets	
Inventories	80,000
Financial assets	
Investments (30,000 + 20,000) (refer note -5)	50,000
Trade receivables	55,000
Cash and cash equivalents/Bank	1,15,000
Other financial assets (Interest receivable on debtors)	51,000
TOTAL ASSETS	5,41,900
EQUITY AND LIABILITIES	
Equity	
Equity share capital	1,00,000
Other equity	2,51,200
Non-current liabilities	
Provisions (25,000 – 1,000)	24,000
Current liabilities	
Financial liabilities	
Trade payables	11,000
Other financial liabilities (Refer note 3)	15,000
Other current liabilities (Govt. statutory dues) (Refer note 2)	15,000
Current tax liabilities	1,25,700
TOTAL EQUITY AND LIABILITIES	5,41,900

STATEMENT OF CHANGES IN EQUITY for the year ended 31st March, 2023**A. EQUITY SHARE CAPITAL**

	Balance (₹)
As at 31 st March, 2022	-
Changes in equity share capital during the year	1,00,000
As at 31 st March, 2023	1,00,000

B. OTHER EQUITY

	Reserves & Surplus
	Retained Earnings (₹)
As at 31 st March, 2022	-
Profit for the year	2,50,500
Other comprehensive income for the year	700
Total comprehensive income for the year	2,51,200
Less: Dividend on equity shares (refer note – 4)	-
As at 31 st March, 2023	2,51,200

Disclosure forming part of financial statements:

Proposed dividend on equity shares is subject to the approval of the shareholders of the company at the annual general meeting and not recognised as liability as at the Balance Sheet date.

(refer note-4)

Notes:

- Assets for which the future economic benefit is the receipt of goods or services, rather than the right to receive cash or another financial asset, are not financial assets.
- Liabilities for which there is no contractual obligation to deliver cash or other financial asset to another entity, are not financial liabilities.
- Other current financial liabilities

Particulars	Amount (₹)
Balance of other current liabilities as per financial statements	45,000
Dividend declared for FY 2022-23 (Note – 4)	(15,000)

Reclassification of government statutory dues payable to 'other current liabilities'	(15,000)
Closing balance	15,000

4. As per Ind AS 10, 'Events after the Reporting Period', If dividends are declared after the reporting period but before the financial statements are approved for issue, the dividends are not recognised as a liability at the end of the reporting period because no obligation exists at that time. Such dividends are disclosed in the notes in accordance with Ind AS 1, Presentation of Financial Statements.
5. ₹ 20,000 has been added due to increase in fair value of investments which are classified as FVTPL since they are held for the purpose of trading.

Working note no 1: Calculation of Current tax (Provision for tax) for FY 2022-23

Particulars	Amount (₹)	Remarks
Profit before tax	3,75,000	
Adjustments:		
Add: Pre incorporation expenses	24,000	(30,000/5) x 4; As per section 35D of Income Tax Act, 1961
Add: Cash donations to Seva Jagriti Sansathan	25,000	As per section (Section 40(A)3) of Income Tax Act, 1961
Add: Depreciation as per Companies Act	30,000	Disallowed as per Income Tax Act, 1961
Less: Depreciation as per Income Tax Act (W.N.3)	(50,000)	Allowed as per Income Tax Act, 1961
Add: Government statutory dues	15,000	As per section 43B of Income Tax Act, 1961
Taxable Profit	4,19,000	
Tax on taxable profit (₹ 4,19,000) at the rate of 30% = ₹ 1,25,700		

Working note no 2: Calculation of Deferred tax on Temporary differences as per Ind AS-12 for FY 2022-23

Item	Carrying amount (₹)	Tax base (₹)	Difference (₹)	DTA/DTL @ 30% (₹)
Property, Plant and Equipment	1,00,000	80,000	20,000	6,000-DTL

Pre-incorporation expenses	Nil	24,000	24,000	7,200-DTA
Net DTA/DTL				1,200-DTA

Working note no 3: Calculation of Depreciation as per Income Tax Act, 1961

Closing balance of fixed assets as at 31st March, 2023 as per company's books is ₹ 1,00,000. During the year, ₹ 30,000 has been charged as depreciation as per Companies Act, 2013. Hence, in the beginning of asset acquisition during the year, fixed asset opening balance would have been ₹ 1,30,000 (₹ 1,00,000 + ₹ 30,000).

In the additional information provided for Softbharti private limited, it is given that closing balance of fixed asset at the year-end as per Income Tax is ₹ 80,000.

It implies that during the year, ₹ 50,000 [₹ 1,30,000 (opening balance as per Income Tax) - ₹ 80,000 (closing balance as per Income Tax)] was charged as depreciation as per Income Tax Act, 1961.

7. Paragraph 19 of **Ind AS 103** states that for each business combination, the acquirer shall measure at the acquisition date components of non-controlling interest in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either:

- (a) fair value; or
- (b) the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets.

Accordingly, non-controlling interests will be measured in either of the following manner in the books of Iktara limited:

- (a) **If non-controlling interests are measured at fair value:**

(₹ in lacs)

Identifiable net assets at fair value	Dr	135	
To Non-controlling interest			55
To Investment in Maya private ltd.			80

NCI = ₹ 55 lacs

- (b) If non-controlling interests are measured at proportionate share of identifiable net assets:

(₹ in lacs)

Identifiable net assets at fair value	Dr	135	
To Non-controlling interest			54
To Investment in Maya private ltd.			80
To Capital Reserve			1

NCI = ₹ 54 lacs

CASE STUDY 38

Sudarshan Limited is a listed company engaged in the business of manufacture of LED products. It is one of the most renowned and trusted LED manufacturers of India. The company has been manufacturing high end, eco- friendly LED bulbs and lights that are cost effective and energy efficient. The company has remained consistent in manufacturing long lasting LED products. It is having its corporate office in Delhi. The company has recently doubled its revenue under the supervision of the owner founder of the company, Mr. Raj Sudarshan, who is also the CEO of the company. Mr. Raj graduated from Riverdale Country College in New York City. He started this company with a very less capital and today the company's net worth has increased manyfold. At present the company enjoys good market share and reputation. The company has a vast range of LED products for-

- Indoor
- Outdoor
- Solar
- Architectural and Linear Lighting

The company continues to cherish its ultimate passion for LED lighting innovations. It has a team consisting of skilled members who have decades of experience in the lighting industry. The company values innovation, research, learning and adapting to change. The company has a policy of giving priority to innovation and younger talent and during the year the company hired fresh talent at managerial as well as administrative positions.

During the month of April 2022, the company appointed Mr. Rahul & Ms. Shweta as executive director and non-executive director of the company, respectively. Mr. Rahul is an MBA from IIM, Ahmedabad and has 10 years industry experience. He is an exceptional Financial professional and his experience spans around various finance domains as Regional CFO, Finance Controller. He has been part of various teams starting Biz from scratch in the new markets.

Furthermore Ms. Shweta, a Chartered Financial Analyst, holds an experience of 8 years in the similar industry. Apart from her vast experience in the finance field, Ms. Shweta is a philanthropist who also believes that focusing on creating a culture where workers are encouraged to stay with the company is the need of the hour.

Mr. Rahul joined the company with the vision to expand the business of the company so as to include manufacture of LED lights for cars and motorbikes also. For this purpose, the company opens a new branch office in Faridabad (Haryana). It purchases a building for the branch office from RPS Builders (Faridabad). RPS builders has diversified asset classes of townships, residential, commercial- shopping malls and office spaces. It is one of the leading

and trusted real estate companies. RPS builders is one of the fastest growing conglomerate in the field of real estate and infrastructure. It is committed to mark its excellence in the field of real estate since its inception. Sudarshan Limited enters into a separate contract with RPS builders for purchase of pre -installed office furniture and fixtures in the building.

During the year, the company also entered into a contract with RTS Ltd. (Delhi) to supply a machine which is required to be assembled in one of its factories in Chennai.

Om Krishan and Associates are the statutory auditors of Sudarshan Limited for the FY 2022-23. The said Chartered Accountant firm was established in 1987 with offices in New Delhi, Chennai & Mumbai. With its head office in Delhi, the firm currently has a diversified team lead by talented partners and directors having vast professional experience. CA Om, one of the senior partners in the firm, is the engagement partner for this audit engagement. While interacting with CA Om, Mr. Rahul informed him that the company is in discussion with a supplier in Korea for the purchase of raw material required for manufacturing LED lights for car. He further told CA Om that such import of raw material from Korea will help the company to procure the raw materials at very less cost compared to the cost at which the company is currently procuring. Mr. Rahul told CA Om that such raw material can be procured from China, Japan and Korea and the cost of importing the raw material from Korea works out to be the least. Mr. Rahul also told CA Om that the company is planning to export its products as the demand for the products of their company is high in foreign market. He asked CA Om to brief him about the GST implications with respect to the place of supply for import and export and also with respect to the purchase of machine from RTS Ltd. as mentioned above. Further, Mr. Rahul also discussed the following prospective export transaction of the company with CA Om:

Sudarshan Limited will be entering into an agreement, for sale of its products, with Brit Ltd., a company based in Australia. Brit Ltd. requires the goods to be delivered by Sudarshan Limited to Casper Ltd., a company based in Kerela.

Mr. Rahul asked CA Om to clarify as to whether the transaction will qualify as exports of goods under GST.

In order to promote its overseas sales/ exports, Sudarshan Limited has launched an advertisement campaign of its products. For the purpose of the online advertisement, the company has utilised the services of Techno Inc., a Germany based company. During the financial year 2022-23, Sudarshan Limited paid ₹ 2,35,000 to Techno Inc. for such services.

Further, Mr. Rahul is also sceptical regarding the provisions of the Companies 2013, applicable with respect to the constitution of the audit committee. He accordingly discussed his understanding with CA Om and asked him to rectify in case he is not correct. He told CA Om that he has the following understanding with respect to the provisions applicable for Audit Committee.

- (a) Any senior member of the company having expertise of accounting and financial management can be appointed as the chairperson of the Audit Committee.
- (b) The Audit Committee of the company shall meet at least twice in a year.

CA Om briefed Mr. Rahul, the following provisions of Audit Committee as per the Companies Act, 2013:

“Every listed entity shall constitute a qualified and independent audit committee in accordance with the terms of reference, subject to the following:

1. *The Audit Committee shall have minimum three directors as members. Two-thirds of the members of audit committee shall be independent directors, however, in case of a listed entity having outstanding SR (Superior Rights) equity shares, the audit committee shall only comprise of independent directors.*
2. *All members of Audit Committee shall be financially literate and at least one member shall have accounting or related financial management expertise.*

Further, the term “financially literate” means the ability to read and understand basic financial statements i.e. balance sheet, profit and loss account, and statement of cash flows. A member will be considered to have accounting or related financial management expertise if he or she possesses experience in finance or accounting, or requisite professional certification in accounting, or any other comparable experience or background which results in the individual’s financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.”

CA Om continued discussing various other provisions of Audit Committee in detail with Mr. Rahul and cleared all the confusions of the latter with respect to such provisions applicable to the company.

Further, the annual remuneration of Ms. Shweta is ₹ 3.5 crores and the annual remuneration payable to all the non- executive directors is ₹ 15 crores. This amount of ₹ 15 crores include the annual remuneration payable to Ms. Shweta also. The annual remuneration of Ms. Shweta has been recommended by the Board of Directors and approved by the shareholders in the general meeting. However, no special resolution was passed for the same.

Mr. Rahul discussed with CA Om about the various disclosures made in the Management Discussion and Analysis Report. He asked CA Om to verify the various non- financial information mentioned in the report viz a viz the information related to Industry structure and development, opportunities and threats etc.

I. Multiple Choice Questions

1. With respect to the purchase of building and pre- installed office furniture and fixture, which of the following is correct regarding the GST liability?
 - (a) There will be no GST liability on purchase of building while office furniture and fixtures will be liable to GST.
 - (b) GST liability will be there on purchase of building as well as office furniture and fixtures.
 - (c) GST liability will be there on purchase of building while office furniture and fixtures will be not be liable to GST.
 - (d) There will be no GST liability on purchase of building and on purchase office furniture and fixtures.
2. What is the place of supply of pre- installed office furniture and fixtures?
 - (a) Delhi
 - (b) Faridabad
 - (c) Question of place of supply does not arise as purchase of pre- installed office furniture and fixture is not chargeable to GST .
 - (d) Delhi or Faridabad as per the discretion of the company. However, option once exercised cannot be changed in later years.
3. Whether the understanding of Mr. Rahul is correct with respect to the appointment of chairperson of the Audit Committee?
 - (a) No, as only the company secretary of the company can be appointed as the chairperson of the Audit Committee.
 - (b) No, as the Chairperson of the Audit Committee shall be an independent director.
 - (c) Yes
 - (d) Partly correct as the chairperson should have expertise of accounting and financial management, however he should be a Chartered Accountant also.
4. How should CA Om correct Mr. Rahul with respect to the latter's understanding about the meetings of Audit Committee of the company?
 - (a) There is no need to correct Mr. Rahul as his understanding is correct with respect to the meetings of Audit Committee of the company.
 - (b) CA Om should inform Mr. Rahul that the Audit Committee of the company shall meet at least four times in a year and not more than 180 days should lapse between two meetings.

- (c) CA Om should inform Mr. Rahul that the Audit Committee of the company shall meet at least six times in a year and not more than 60 days should lapse between two meetings.
 - (d) CA Om should inform Mr. Rahul that the Audit Committee of the company shall meet at least four times in a year and not more than 120 days should lapse between two meetings.
5. Which of the following statements is correct with respect to the approval of the annual remuneration of Ms. Shweta?
- (a) The approval of the annual remuneration of Ms. Shweta is in conformity with the relevant provisions of the Companies Act, 2013.
 - (b) The approval of the annual remuneration of Ms. Shweta is not as per the provisions of the Companies Act, 2013, as the approval of the shareholders by special resolution is required.
 - (c) The approval of the annual remuneration of Ms. Shweta is not as per the provisions of the Companies Act, 2013, as the recommendation by the Board of Directors of the company is not required.
 - (d) The approval of the annual remuneration of Ms. Shweta is not as per the provisions of the Companies Act, 2013, as the approval of the Registrar of Companies is required.

II. Descriptive Questions

6. What all matters are discussed in the Management Discussion and Analysis Report? What is the responsibility of CA Om with respect to the request of Mr. Rahul asking CA Om to verify the non-financial information mentioned in such report of the company?
7. What should CA Om tell Mr. Rahul about the latter's query about the GST implication with respect to place of supply? Also, what clarifications should CA Om give with respect to the prospective export transaction to be entered by the company with Brit Ltd.?
8. Discuss the tax implications/ TDS implications of the payment made to Techno Inc. by Sudarshan Ltd. if:
- (i) Techno Inc. has no permanent establishment in India.
 - (ii) Techno Ltd. has a permanent establishment in India, and the service is effectively connected to the permanent establishment in India.

ANSWERS TO THE CASE STUDY 38**I. Answers to the Multiple Choice Questions**

1. (a) There will be no GST liability on purchase of building while office furniture and fixtures will be liable to GST.
Reason: There will be no GST liability on purchase of building as sale of building is covered under Schedule III to CGST Act. However, office furniture and fixtures will be liable to GST.
2. (b) Faridabad
Reason: Since there is no movement of office furniture and fixtures, the place of supply of such goods is their location at the time of delivery to the recipient i.e. Faridabad.
3. (b) No, as the Chairperson of the Audit Committee shall be an independent director.
Reason: As per Regulation 18(1) of LODR Regulations, the chairperson of the Audit Committee shall be an independent director and he shall be present at Annual General Meeting to answer shareholder queries.
4. (d) CA Om should inform Mr. Rahul that the Audit Committee of the company shall meet at least four times in a year and not more than 120 days should lapse between two meetings.
Reason: As per Regulation 18(2) of LODR Regulations, the Audit Committee shall meet at least four times in a year and not more than one hundred and twenty days shall lapse between two meetings.
5. (a) The approval of the annual remuneration of Ms. Shweta is in conformity with the relevant provisions of the Companies Act, 2013.
Reason: As per Regulation 17(6) of LODR Regulations, all fees/ compensation, if any paid to non- executive directors, including independent directors, shall be recommended by the Board of Directors and shall require approval of shareholders in general meeting. The shareholders' resolution shall specify the limits for the maximum number of stock options that can be granted to non- executive directors, in any financial year and in aggregate. However, approval of shareholders by special resolution shall be obtained every year, in case the annual remuneration payable to a single non- executive director exceeds fifty percent of the total annual remuneration payable to all non- executive directors, giving details of the remuneration thereof.

II. Answers to the Descriptive Questions

6. **As part of the directors' report or as an addition thereto, a Management Discussion and Analysis report should form part of the Annual Report to the shareholders.** This Management Discussion & Analysis should include discussion on the following matters within the limits set by the company's competitive position:
- (a) Industry structure and developments.
 - (b) Opportunities and Threats.
 - (c) Segment-wise or product-wise performance.
 - (d) Outlook
 - (e) Risks and concerns.
 - (f) Internal control systems and their adequacy.
 - (g) Discussion on financial performance with respect to operational performance.
 - (h) Material developments in Human Resources / Industrial Relations front, including number of people employed.
 - (i) Details of significant changes (i.e. change of 25% or more as compared to the immediately previous financial year) in key financial ratios, along with detailed explanations therefor, including:
 - (i) Debtors Turnover
 - (ii) Inventory Turnover
 - (iii) Interest Coverage Ratio
 - (iv) Current Ratio
 - (v) Debt Equity Ratio
 - (vi) Operating Profit Margin (%)
 - (vii) Net Profit Margin (%) or sector specific equivalent ratios, as applicable.
 - (j) Details of any change in Return on net worth as compared to the immediately previous financial year along with a detailed explanation thereof.

The above information presented by the management is likely to include non-financial information, which may be outside the auditor's area of expertise. In such situations, the auditor may keep in mind SA 315 relating to "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment" and the fact that he is only required to review the compliance with disclosure requirements and not verify the particular facts as disclosed by the management.

So, in the present case CA Om may review the compliance with disclosure requirements. He is not required to verify such facts related to non- financial information like Industry structure, threats and opportunities in detail.

7. CA Om should explain to Mr. Rahul the following about the **GST implications with respect to the place of supply** as asked by Mr. Rahul:

(i) Import of goods [Section 11(a)]:

The import of goods has been defined in section 2(10) of the IGST Act as bringing goods into India from a place outside India. All imports are deemed as inter-State supplies and accordingly IGST is levied in addition to the applicable custom duties. If the goods have been imported in India, the place of supply of goods is the place where the importer is located.

Accordingly, the place of supply in present case would be Chennai.

(ii) Export of goods [Section 11(b)]

Section 2(5) defines export of goods to mean taking goods out of India to a place outside India. Under the GST Law, export of goods has been treated as:

- inter-State supply
- zero rated supply (i.e. the goods exported are relieved of GST levied upon them either at the input stage or at the final product stage.)

The place of supply in case of export of goods is the place where they have been exported, i.e. the destination outside India.

(iii) Machine to be installed in factory at Chennai:

As per Section 10(1)(d), if the supply involves goods which are to be installed or assembled at site, the place of supply is the place of such installation or assembly. Therefore, the place of supply in case of purchase of machine from RTS Ltd. is Chennai, i.e. the place of installation of such machine.

(iv) Prospective export transaction with Brit Ltd.:

As per the definition of export of goods provided by section 2(5) of IGST Act, export of goods means taking goods out of India to a place outside India.

Since in the prospective export transaction, the goods remain in India, i.e. with Casper Ltd. located in Kerela, the transaction between Sudarshan Limited and Brit Ltd. will not be treated as export of goods under GST.

8. Chapter VIII of the Finance Act, 2016, "**Equalisation Levy**", provides for an equalisation levy of 6% of the amount of consideration for specified services received or receivable by a non-resident not having permanent establishment in India, from a resident in India who carries out business or profession, or from a non-resident having permanent establishment in India.

"Specified Service" means

- (1) online advertisement;
- (2) any provision for digital advertising space or any other facility or service for the purpose of online advertisement and
- (3) any other service as may be notified by the Central Government.

However, equalisation levy shall not be levied-

- where the non-resident providing the specified services has a permanent establishment in India and the specified service is effectively connected with such permanent establishment;
- the aggregate amount of consideration for specified service received or receivable during the previous year does not exceed ₹ 1 lakh; or
- where the payment for specified service is not for the purposes of carrying out business or profession.

(i) Where Techno Inc. has no permanent establishment in India:

In the present case, equalisation levy @ 6% is chargeable on the amount of ₹ 2,35,000 received by Techno Inc., a non-resident not having a PE in India, from Sudarshan Limited, an Indian company. Accordingly, Sudarshan Limited is required to deduct equalisation levy of ₹ 14,100 i.e., @ 6% of ₹ 2.35 lakhs, being the amount paid towards online advertisement services provided by Techno Inc., a non-resident having no permanent establishment in India. Non-deduction of equalisation levy would attract disallowance under section 40(a)(ib) of 100% of the amount paid while computing business income.

Since equalisation levy is attracted on the amount of ₹ 2.35 lakhs, the said amount is exempt from income-tax by virtue of section 10(50) of the Income-tax Act, 1961.

(ii) **Where Techno Inc. has permanent establishment in India and the service is effectively connected to the permanent establishment in India:**

Equalisation levy would not be attracted where the non-resident service provider (Techno Inc., in this case) has a permanent establishment in India and the service is effectively connected to the permanent establishment in India. Therefore, Sudarshan Limited is not required to deduct equalisation levy on ₹ 2.35 lakhs, being the amount paid towards online advertisement services to Techno Inc, in this case.

Since equalisation levy is not attracted in this case, exemption under section 10(50) of the Income-tax Act, 1961 would not be available. Therefore, tax has to be deducted by Sudarshan Limited at the rates in force under section 195 in respect of such payment to Techno Inc. Non deduction of tax at source under section 195 would attract disallowance under section 40(a)(i) of 100% of the amount paid while computing business income.

CASE STUDY 39

Mr. B K Gupta is the Managing Director of Beta Ltd., a company set up just 3 years ago and is growing rapidly in the field of Heavy Electronics and equipment. Mr. Gupta has a vast experience in this field as he had been doing the same business as a Sole Proprietor since the last 15 years. With an increase in his business activities, he decided to float a Company to carry on the same success at a bigger level and rest what they say is History as the Company has been doing very well in its field of Electronics within just 3 years. Now, the Company is also planning to expand globally.

He approached CA Kumar Mishra, who got qualified 7 years back as a CA and is practicing successfully in the field of auditing, taxation & providing consultancy regarding legal compliances to be made by companies with respect to various laws and standards. Mr. Gupta calls for a meeting with the Accounts, Internal Audit and the Taxation department in the presence of CA Kumar so as the latter could provide the requisite knowledge about all such statutory requirements which are applicable to the Company.

In the meeting with CA Kumar Mishra-

Mr. Anand, the Head accountant is having query as to the treatment of a certain expense in the books of account. He tells CA Kumar that their company has incurred an amount of ₹ 1,00,000 on a land surfacing and at the later part of the year, it was found that the title of land was not transferred in the name of the Company due to some legal restrictions. Hence, the deal to purchase that land will have to be cancelled. Now, his dilemma is as to how should he recognise this expense of land surfacing. Also, he wants to know from Mr. Kumar if there are any circumstances which demand for a deviation from the IND AS by their company Beta Ltd., whether they can do so and what should be the presentation & disclosure requirements in that case.

Mr. Sharma, from the Legal Department, tells him that a legal case has been filed against the entity and there was an order which was yet to be received. There was a reliable estimation made to arrive at an amount which is expected to flow to the company at the end of year but there was no recognition of asset during that period of financial statements because the accounts department was of the view that in subsequent periods, once the amount of such claim can be received reliably, then the recognition of asset can be established.

Mr. Dutta, one of the Directors, requests CA Kumar to not strictly adhere to such standards while carrying out the audit of their company as he is scared of some serious qualifications that CA Kumar would have to give in his Audit Report, if he follows such standards to which CA Kumar replies, *“Mr. Dutta! There are many Professional responsibilities envisaged upon me as a member of the Institute of Chartered Accountants of India under the Chartered Accountants Act, 1949 and certain Disciplinary Proceedings may be initiated against me under*

this Act if I don't perform my duties as per such Standards and other accepted statements owing to a linkage between the SA's and Disciplinary Proceedings".

Mrs. Bhalla, assistant to the Tax Compliance Officer of the Company contends on one of the issues where the application of ICDS is in contradiction to the Income tax Act and that ICDS cannot prevail over Income tax Act and such contention is suitably resolved by CA Kumar. Also, her colleague in the same department, Mrs. Dave wants to know about the application and disclosure requirements of ICDS 1 w.r.t an error made in the percentage of provision from 10% to 12% during the year on Doubtful Debts as they have accounted for it in computing the Income on a Prospective basis and not given any retrospective effect.

Mr. Praveen Dhakal, the Tax Compliance Officer had been very curious to seek CA Kumar's suggestion on the following tax related issues and their treatment-

- a. *Their Company Beta Ltd. paid IDBI (a public financial institution) a lump sum pre-payment premium of ₹ 1.4 lakhs on 7.4.2022 for restructuring its debts and reducing its rate of interest. It claimed the entire sum as business expenditure for the P.Y. 2022-23. The Assessing Officer, however, held that the pre-payment premium should be amortised over a period of 10 years (being the tenure of the restructured loan), and thus, allowed only 10% of the pre-payment premium in the P.Y. 2022-23.*
- b. *The Company acquired some emergency spares (of plant and machinery) during the year which, even though kept ready for use, have not actually been used during the relevant previous year.*

CA Kumar is also duly appointed as the Statutory Auditor of the Company and he conducts the audit of Beta Ltd. for the Financial Year 2022-23. He duly issues his Audit report with two very important qualifications, the extracts of which are reproduced below:

"The statement of profit and loss and balance sheet comply with the accounting standards referred to in Section 133 of the Companies Act, 2013, except the following:

- Other significant accounting policies, relating to treatment of research and development costs have not been disclosed nor have all the policies been disclosed at one place.
- The company has not disclosed in its accounts the fact of change, from this year, in the method of providing depreciation on plant and machinery from straight-line method to written-down value method, as also the effect of this change. As a result of this change, the net profit for the year, the net block as well as the reserves and surplus are lower by ₹ each as compared to the position which would have prevailed had this change not been made.

Subject to the above, we report that..... "

I. Multiple Choice Questions

1. Mr. Sharma's contention w.r.t the recognition of assets is:
 - (a) Wrong, as it is just a deferment of period till the cost/value of the asset can be reliably received.
 - (b) Wrong, as it can be recognised only on the basis of receipt.
 - (c) Right, as the amount of probable economic benefit had been estimated reliably to recognise the asset in the books of account.
 - (d) Right, as it should be recognised irrespective of any reliable estimation or receipt but when the fact has come into the knowledge of the Company.
2. The contention of Mrs. Bhalla as to the conflict she faces while computing the income of the Company is:
 - (a) Correct as it has been stated in the Preamble at the beginning of each ICDS.
 - (b) Incorrect as ICDS are mandatory and should be applied in priority while computing Income.
 - (c) Incorrect as ICDS do not apply to their Company being in existence for just less than 5 years.
 - (d) Doesn't matter as it has been left to the discretion of the Companies as which option to choose.
3. What should be CA Kumar's professional advice to resolve the dilemma of Mr. Anand regarding the expense incurred on Land?
 - (a) Immediate recognition of ₹ 1,00,000 in Statement of Profit & Loss as an expense.
 - (b) He should treat it as a Deferred Revenue Expenditure and recognise only ₹ 25,000 for the current financial year.
 - (c) He should make a provision for ₹ 1,00,000 to be recognised at a future date.
 - (d) He should treat ₹ 1,00,000 as a Contingent liability.
4. CA Kumar resolves Mrs. Dave's query by guiding her that -
 - (a) She is right in her approach and should make adjustments prospectively.
 - (b) She is wrong in her approach and she should make adjustments retrospectively.

- (c) Such revision cannot be made during the year as per ICDS 1 and should be made on 1st April, next year.
 - (d) She should not worry about this issue as ICDS 1 doesn't apply here.
5. CA Kumar's 2 qualifications in the Audit report relate to -
- (a) IND AS 1, IND AS 38 & IND AS 8
 - (b) IND AS 1 & IND AS 5
 - (c) IND AS 1 & IND AS 38 only.
 - (d) IND AS 8 only.

II. Descriptive Questions

6. Comment on the reply given by CA Kumar to Mr. Dutta in response to his request of not following Standards on Auditing while carrying out the audit of their Company in terms of provisions of the Chartered Accountants Act, 1949.
7. Discuss, with reasons, whether the contention of the Assessing Officer in the case explained to CA Kumar by Mr. Praveen Dhakal is correct or not. Also, explain the tax treatment of the emergency spares issue as narrated by Mr. Dhakal.
8. What advice should CA Kumar give to Mr. Anand on the question posed by him regarding deviation from the IND AS?

ANSWERS TO THE CASE STUDY 39

I. Answers to the Multiple Choice Questions

1. (c) Right, as the amount of probable economic benefit had been estimated reliably to recognise the asset in the books of account.
- Reason:** An item will be recognized as an asset in the Balance sheet when it is probable that the future economic benefit will flow to the entity and the asset has a cost or value that can be measured reliably
2. (a) Correct as it has been stated in the Preamble at the beginning of each ICDS.
- Reason:** In the case of conflict between the provisions of the Income-tax Act, 1961 and the notified ICDSs, the provisions of the Act shall prevail to that extent. This is also stated in the Preamble at the beginning of each ICDS.

3. (a) Immediate recognition of ₹ 1,00,000 in Statement of Profit & Loss as an expense.
Reason: The amount that has been incurred relating to surfacing the land will have no future economic value and hence there is no allocation of expenses for any future benefits. Hence this cost of ₹ 1,00,000 will be expensed out immediately in full.
4. (d) She should not worry about this issue as ICDS 1 doesn't apply here.
Reason: This is a change due to Accounting Error and not policy. Errors are not covered by ICDS.
5. (a) IND AS 1, IND AS 38 & IND AS 8.
Reason: The qualification relates to IND AS 1, IND AS 38 and IND AS 8.

II. Answers to the Descriptive Questions

6. The SAs (as well as other statements on auditing) represent the generally accepted procedure(s) of audit. As such, a member who does not perform his audit in accordance with these statements and fails to disclose the material departures there from, becomes liable to the disciplinary proceedings of the Institute as follow:
- (a) **Under Clause 5 of Part I of the Second Schedule** to the Chartered Accountants Act, 1949, according to which a chartered accountant in practice shall be deemed to be guilty of professional misconduct, if he fails to disclose a material fact known to him which is not disclosed in a financial statement, but disclosure of which is necessary in making such financial statement where he is concerned with that financial statement in a professional capacity
- (b) **Under Clause 7 of Part I of the Second Schedule** to the Chartered Accountants Act, 1949 according to which a chartered accountant in practice shall be deemed to be guilty of professional misconduct, if he does not exercise due diligence, or is grossly negligent in the conduct of his professional duties;
- (c) **Under Clause (9) of Part I of the Second Schedule** to the Chartered Accountants Act, 1949 (as amended by the Chartered Accountants (Amendment) Act, 2006), according to which a member of the Institute engaged into practice shall be guilty of professional misconduct if he "fails to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances".

7. (a) This issue came up before the Delhi High Court in *CIT v. Gujarat Guardian Ltd* (2009) 177 Taxman 434. The Court observed that the assessee company's claim for deduction has to be allowed in one lump sum keeping in view the provisions of section 43B(d), which provide that any sum payable by the assessee as interest on any loan or borrowing from any financial institution shall be allowed to the assessee in the year in which the same is paid, irrespective of the periods, in which the liability to pay such sum is incurred by the assessee according to the method of accounting regularly followed by the assessee. The High Court concurred with the Tribunal's view supporting the assessee that in terms of section 36(1)(iii) read with section 2(28A), the deduction for pre-payment premium was allowable. Since there was no dispute that the pre-payment premium was nothing but interest and that it was paid to a public financial institution i.e. IDBI, the Court held that, in terms of section 43B(d), the assessee's claim for deduction has to be allowed in the year in which the payment has actually been made.

Therefore, applying the ratio of the above case, the contention of Mr. Dhakal is correct and not that of the Assessing Officer.

Note – Section 36(1)(iii) provides for deduction of interest paid in respect of capital borrowed for the purposes of business or profession. Section 2(28A) defines interest to include, inter alia, any other charge in respect of the moneys borrowed or debt incurred. Section 43B provides for certain deductions to be allowed only on actual payment. From a combined reading of these three sections, it can be inferred that –

- pre-payment premium represents interest as per section 2(28A);
 - such interest is deductible as business expenditure as per section 36(1)(iii);
 - such interest is deductible in one lump-sum on actual payment as per section 43B(d).
- (b) As per ICDS V on Tangible Fixed Assets, machinery spares shall be charged to the revenue as and when consumed. When such spares can be used only in connection with an item of tangible fixed asset and their use is expected to be irregular, they shall be capitalised. Where the spares are capitalised as per the above requirement, the issue as to provision of depreciation arises – whether depreciation can be provided where such spares are kept ready for use or is it necessary that they are actually put to use. This issue was dealt with by the Delhi High Court in *CIT v. Insilco Ltd* (2010) 320ITR 322. The Court observed

that the expression “used for the purposes of business” appearing in section 32 also takes into account emergency spares, which, even though ready for use, yet are not consumed or used during the relevant period. This is because these spares are specific to a fixed asset, namely plant and machinery, and form an integral part of the fixed asset. These spares will, in all probability, be useless once the asset is discarded and will also have to be disposed of. In this sense, the concept of passive use which applies to standby machinery will also apply to emergency spares. Therefore, once the spares are considered as emergency spares required for plant and machinery, the assessee would be entitled to capitalize the entire cost of such spares and claim depreciation thereon.

Note – *One of the conditions for claim of depreciation is that the asset must be “used for the purpose of business or profession”. In the past, courts have held that, in certain circumstances, an asset can be said to be in use even when it is “kept ready for use”. For example, depreciation can be claimed by a transport company on spare engines kept in store in case of need, though they have not actually been used by the company. Hence, in such cases, the term “use” embraces both active use and passive use for business purposes.*

8. In the extremely rare circumstances in which management concludes that compliance with a requirement in an Ind AS would be so misleading that it would conflict with the objective of financial statements set out in the Framework, the entity shall depart from that requirement if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure.

When an entity departs from a requirement of an Ind AS, it shall disclose:

- (a) that management has concluded that the financial statements present a true and fair view of the entity’s financial position, financial performance and cash flows;
- (b) that it has complied with applicable Ind AS, except that it has departed from a particular requirement to present a true and fair view;
- (c) the title of the Ind AS from which the entity has departed, the nature of the departure, including the treatment that the Ind AS would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in the Framework, and the treatment adopted; and
- (d) for each period presented, the financial effect of the departure on each item in the financial statements that would have been reported in complying with the requirement.

When an entity has departed from a requirement of an Ind AS in a prior period, and that departure affects the amounts recognised in the financial statements for the current period, it shall make the disclosures given above. For example, when an entity departed in a prior period from a requirement in an Ind AS for the measurement of assets or liabilities and that departure affects the measurement of changes in assets and liabilities recognised in the current period's financial statements.

In the extremely rare circumstances in which management concludes that compliance with a requirement in an Ind AS would be so misleading that it would conflict with the objective of financial statements set out in the Framework, but the relevant regulatory framework prohibits departure from the requirement, the entity shall to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing:

- (a) the title of the Ind AS in question, the nature of the requirement, and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in the Framework; and
- (b) for each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to present a true and fair view.

CASE STUDY 40

MSNV Pvt. Ltd. is an Indian Company which is into manufacturing of Kitchen products, mainly utensils. Mr. Kapoor the CEO of the Company had started this company 21 years ago with the help of his wife. Today, the company enjoys a good market share and reputation. It has involved itself not only into its objects but also in philanthropic activities. It is Mrs. Kapoor, who believes that what businesses take from the society should give back in the form of their social responsibility, howsoever they may.

To support Mrs. Kapoor's thoughts, Mr. Kapoor has got incorporated and registered two charitable organizations – The first one is an NGO by the name "*Serving the Poor*" and the other one is a Section 8 company formed with charitable objects by the name "*ABC Foundation Ltd.*" Although Mr. Kapoor is a man with a vast business experience but when it comes to the case of charitable organizations, he finds it hard to understand many matters and has therefore approached CA Lalita to help Mrs. Kapoor in working out the various issues involved in the structure, organization & working of these two organizations. CA Lalita has entered into a contract with MSNV Pvt. Ltd. to provide consultancy w.r.t. these two organizations which have been set up under the "Corporate Social Responsibility" initiatives of the Company MSNV Pvt. Ltd.

ABC Foundation Ltd. is formed with charitable objects under Section 8 of the Companies Act, 2013 and as a result Mrs. Kapoor believes that as all the activities of the company will be with the intent of charity, the CSR provisions are not applicable to it as these activities are activities in normal course of business. Mrs. Kapoor takes consultancy of CA Lalita in this matter and also further tells her that ABC Foundation Ltd. was to receive some donations from MSNV Pvt. Ltd. during the year.

MSNV Pvt. Ltd. manufactures consumable goods like bath soap, toothbrushes, soap cases etc. As part of its CSR policy, it has decided that for every pack of these goods sold, ₹ 0.80 will go towards 'ABC Foundation Ltd.' which will qualify as a CSR spend as per Schedule VII to the Companies Act, 2013. Consequently, at the year end, the company sold 2,50,000 such packs and a total of ₹ 2,00,000 was recognised as CSR expenditure. However, this amount was not paid to ABC Foundation Ltd. at the end of the financial year.

MSNV Pvt. Ltd. carries out some other CSR activities from rented premises in Pune. The rent paid for such premises is disclosed as CSR expenditure and subsequently MSNV Pvt. Ltd. also claimed deduction of the same under the Income-tax Act, however the accountant of the company opposes this move of the Company. Mr. Kapoor consults CA Lalita on this treatment of rent expense by the company & whether the contention of the accountant is correct or not.

CA Lalita is also consulted upon the tax treatment of following transactions that have been effected into by ABC Foundation Ltd. during the P.Y. 2022-23:

- (a) The organization acquires a building to use for charitable purposes and office activities. Mr. Kapoor wants to claim the cost of the building while the accountant suggests that they can claim only depreciation thereon in the current year and the subsequent year.
- (b) The accountant of ABC Foundation Ltd. is having queries in computing the capital gains in the case of a capital asset transferred by ABC Foundation Ltd. during the year and in computing the amount that would be deemed as application out of such capital gains, for which he seeks CA Lalita's help.

The relevant details are as follows:-

Original cost of capital asset transferred	₹ 10,00,000
Consideration for which it is transferred	₹ 15,00,000
Cost of new capital asset acquired	₹ 15,00,000

- (c) The Board of Directors of MSNV Pvt. Ltd. want to get the Books of Account of ABC Foundation Ltd. audited under the Income tax law and seek CA Lalita's services for the same at a desired professional fee to which CA Lalita agrees.

Mr. & Mrs. Kapoor tell CA Lalita that the other Charitable organization "*Serving the Poor*" which was registered u/s 12AA of the Income tax Act, 1961, was not doing well since 3 years and they planned to merge it with their Company MSNV Pvt. Ltd. on 01.04.2022. They also seek her help w.r.t the treatment of this merger under the Income tax law and furnished the following information:-

All the assets and liabilities of the erstwhile trust became the assets and liabilities of M/s. MSNV Pvt. Ltd which is not entitled for registration under section 12AB of the Act. The trust appointed a registered valuer for the valuation of its assets and liabilities.

- Stamp duty value of land held ₹ 15 lakhs. However, if this land is sold in the open market, it would ordinarily fetch ₹ 18 lakhs. The book value of the land is ₹ 20 lakhs.
- 70,000 equity shares in Ink Ltd. traded in Delhi Stock Exchange. The lowest price per share on 1.4.2022 was ₹ 75 and the highest price on that day was ₹ 85. The book value was ₹ 67 lakhs.
- 50,000 preference shares held in N Ltd. The shares will fetch ₹ 44 lakhs, if they are sold in the open market on 1.4.2022. Book value was ₹ 25 Lakhs.
- Corpus fund as on 1.4.2022 – ₹ 19 Lakhs.

- Outside liabilities – ₹ 87 lakhs
- Provision for taxation – ₹ 7 lakhs.
- Liabilities in respect of payment of various utility bills – ₹ 6 lakhs.

I. Multiple Choice Questions

1. Comment on the contention of Mrs. Kapoor as to the applicability of CSR Provisions to ABC Foundation Ltd., provided it fulfils the criteria of Section 135 of the Companies Act, 2013.
 - (a) It is exempted from applicability of CSR provisions if prior approval of shareholders is taken in this regard.
 - (b) It is itself a Section 8 Company formed with charitable objects & need not do separate CSR activities.
 - (c) It is applicable to every company & therefore ABC Foundation Ltd. as well.
 - (d) It is not an independent organization and is governed by MSNV Pvt. Ltd. so CSR Provisions are applicable.
2. Will the amount that was to be paid by MSNV Pvt. Ltd. towards ABC Foundation Ltd. qualify to be a CSR Expenditure?
 - (a) Yes, as it has been earmarked separately.
 - (b) No, as it has not been actually spent.
 - (c) No, as this amount has not been specifically provided for but contributed out of sale receipts only.
 - (d) Yes, it can be claimed as it is a material amount being contributed as a proportion of the Sales made by the Company.
3. The accountant's contention w.r.t. rent expense is:
 - (a) Incorrect, as the Rent expense can be claimed as deduction u/s 30 of the Income tax Act, 1961.
 - (b) Incorrect, as the Rent expense can be claimed as deduction u/s 37 of the Income tax Act, 1961.
 - (c) Correct, as CSR expenses cannot be claimed as deduction under the Income tax law.
 - (d) Correct, as it is not related to any business purpose of the company.

4. What should be CA Lalita's advice w.r.t the correct treatment of the cost of new building purchased by ABC Foundation Ltd. in its books of account under the Income tax law?
 - (a) She should second Mr. Kapoor's opinion.
 - (b) She should second the Accountant's opinion.
 - (c) Both Mr. Kapoor & the accountant are wrong in their opinions as no deduction can be claimed in respect of such cost.
 - (d) She should suggest going either way – The Accountant's way or Mr. Kapoor's, way, but not both.
5. What would be the amount of capital gains arising as a result of transfer of capital asset by ABC Foundation Ltd. and what proportion would be deemed as application of Income towards charitable objects during the previous year out of such capital Gains?
 - (a) Nil and ₹ 15,00,000 would be deemed as application of income towards charitable purposes.
 - (b) Nil and ₹ 10,00,000 would be deemed as application of income towards charitable purposes.
 - (c) ₹ 5,00,000 and no amount would be deemed as application of income towards charitable purposes.
 - (d) Nil and ₹ 5,00,000 would be deemed as application of income towards charitable purposes.

II. Descriptive Questions

6. Explain about the Income tax audit provisions applicable to a charitable trust & help CA Lalita in chalking out an Audit Programme to carry out the audit of "Serving the Poor" as requested to her by the Board of Directors of MSNV Pvt. Ltd.
7. You are required to calculate the tax liability in the hands of "Serving the Poor" trust arising as a result of merger with MSNV Pvt. Ltd. with the help of the information given in the Case scenario as discussed.

ANSWERS TO THE CASE STUDY 40

I. Answers to the Multiple Choice Questions

1. (c) It is applicable to every company & therefore ABC Foundation Ltd. as well.

Reason: Section 135 of the Companies Act is applicable to every company meeting the specified criteria. As per section 2(20) of the Companies Act,

'company' means a company incorporated under the Companies Act or under any other previous company law. This would imply that companies set up for the purposes of CSR/public welfare are also required to comply with the provisions of CSR.

2. (b) No, as it has not been actually spent.

Reason: By earmarking the amount from such sale for CSR expenditure, the company cannot show it as CSR expenditure. To qualify the amount to be CSR expenditure, it has to be spent. Hence, ₹ 2,00,000 will not be automatically considered as CSR expenditure until and unless it is spent on CSR activities.

3. (a) Incorrect, as the rent expense can be claimed as deduction u/s 30 of the Income tax Act, 1961.

Reason: CSR expenditure which is of the nature described under the section 30 to 36 of the Income-tax Act shall be allowed as a deduction. Rent expenses can be claimed under section 30 of the Act and hence it can be claimed as a deduction.

4. (d) She should suggest going either way – The Accountant's way or Mr. Kapoor's, way, but not both.

Reason:

- 15% of income from property held for charitable purposes is exempt from tax under section 11. The remaining 85% of such "income" would be exempt if it is "applied" for charitable purposes in India.
- Application of the amount can be for revenue or capital purposes. As long as the expenditure is incurred out of income earned by the trust and for the purposes of carrying on the objects of the trust, it would be treated as application of income even if such expenditure is for capital purposes. Therefore, since the building is acquired by the organization for holding classes and office activities, which is for the purposes of carrying on the objects of the charitable institution i.e., for providing education in hotel management, the cost of the building would be treated as application of income.

However, section 11 provides that where the cost of building is claimed as application, no other deduction for depreciation or otherwise would be allowed as an application of income in respect of such asset for the same or any other previous year.

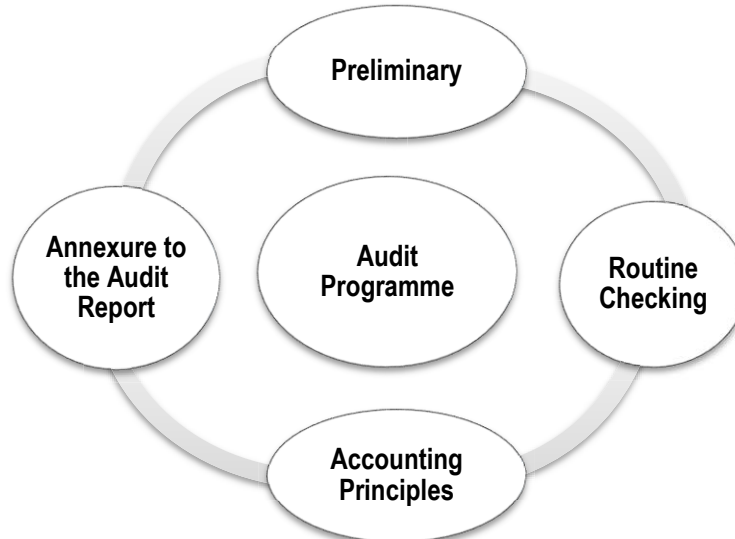
5. (d) Nil and ₹ 5,00,000 would be deemed as application of income towards charitable purposes.

Reason: Transfer of a capital asset held under trust wholly for charitable or religious purposes [Section 11(1A)(a)]- Where the whole of the net consideration from the transfer of the capital asset is utilised for acquiring a new capital asset which is held under trust wholly for charitable or religious purposes, the entire amount of capital gains arising from the transfer would be deemed to have been applied for charitable or religious purposes. If, however, only a part of the net consideration is utilised in acquiring the new capital asset, the amount of capital gains deemed to have been utilised for charitable or religious purposes shall be equal to the excess of the proceeds utilised over the cost of the asset transferred.

II. Answers to the Descriptive Questions

6. **AUDIT PROGRAMME** - Section 12A of the Act deals with the conditions as to registration of trust etc. According to this section, exemption from Income tax would be available under sections 11 and 12 of the Income tax Act in relation to the income of any trust or institution provided the following conditions are satisfied:
- (A) Clause (ac) of section 12A requires a charitable or religious trust or institution to make an application for registration within at least one month prior to the commencement of the previous year relevant to the assessment year from which the said registration is sought of the trust or the institution.
- (B) Where the total income of the trust or institution as computed under this Act, without giving effect to the provisions of Sections 11 and 12 exceeds the maximum amount which is not chargeable to income tax in any previous year i.e. ₹ 2,50,000 for the A.Y. 2023-24, the accounts of the trust or institution for that year have been audited by an accountant as defined in the explanation below sub-section (2) of Section 288 before the specified date referred to in section 44AB and the person in receipt of the income furnishes by that date, the report of such audit in the prescribed form duly signed and verified by such accountant and setting forth such particulars as may be prescribed. Rule 17B of the Income tax Rules, 1962 provides that the report of audit of accounts of a trust or institution which is required to be furnished under Clause (b) of Section 12A should be in Form No. 10B.

The audit programme is outlined in the following paragraphs:



(a) Preliminary:

- (i) Obtain a resolution from the trust specifying the appointment as also indicating the scope of audit. In particular, the resolution should specify the duties of the auditor in relation to the items specified in the annexure to the prescribed Form No. 10B.
- (ii) Obtain a letter of appointment from the trust, before accepting the audit, communicate with such previous auditor.
- (iii) Obtain a certificate as to the opening balances of assets and liabilities and the fund.
- (iv) Obtain a list of books of accounts which are maintained by the trust.
- (v) Obtain a certificate from the trust as to the system of accounting and internal control.
- (vi) Obtain from the trust a list of the institutions/ activities run/carried out by the trust.
- (vii) Obtain from the trust a certified true copy of the Deed of Trust or any other scheme containing the objects and conditions of the trust as operative from time to time.

(b) Routine Checking:

- (i) Check the books of account and other records having regard to the system of accounting and internal control.
- (ii) Vouch the transactions of the trust to satisfy that:
 - (a) the transaction falls within the ambit of the trust;
 - (b) the transaction is properly authorised by the trustees or other delegated authority as may be permissible in law;
 - (c) all incomes due to the trust have been properly accounted for on the basis of the system of accounting followed by the trust;
 - (d) all expenses appertaining to the trust have been recorded on the basis of the system of accounting followed by the trust; and
 - (e) amounts shown as applied towards the object of the trust are covered by the objects of the trust as specified in the document governing the trust.
- (iii) Obtain a trial balance on the closing date certified by the trustees.
- (iv) Obtain the Balance Sheet and Profit & Loss Account of the trust authenticated by the trustees and check the same with the trial balance with which they should agree.

(c) Accounting Principles: The auditor should follow, i.e., generally accepted accounting principles and ascertain the accuracy, truth and fairness of the financial statements.**In particular, the auditor will scrutinize that:**

- (i) all assets of the trust are verified;
- (ii) the assets of the trust have been properly valued and depreciation duly provided for;
- (iii) all liabilities of the trust are properly accounted for;
- (iv) the investments of the trust are properly classified and indicated and market values shown; and
- (v) outstanding due to the trust are properly accounted for and their recoverability examined and provision made for irrecoverable.

(d) Annexure to the Audit Report:

- (i) Obtain from the trustees, a certified list of persons covered by Section 13(3).

- (ii) Obtain from the trustees, a statement enlisting the various items specified in the Annexure to Form No. 10B and giving the information against each item together with explanatory or supporting schedules.
- (iii) Verify the information supplied by the trustees in the statements specified above in the light of available material. Where a list of persons specified in Section 13(3) is not available, indicate against Sections II and III of the items specified in the annexure the appropriate qualifying remarks.

The audit report is required to be furnished for the relevant year. Failure to furnish the report will disentitle the trust or institution to the benefit of Sections 11 and 12. The Auditor can accept as correct, the list of persons covered by Section 13(3) as given by the managing trustees.

7. **As per section 115TD of the Income-tax Act, 1961**, the accreted income of “Serving the poor”, a charitable trust, registered under section 12AA which is merged with M/s AP Ltd., an entity not entitled for registration under section 12AB, would be chargeable to tax at maximum marginal rate @ 34.944% [30% plus surcharge @ 12% plus cess @ 4%].

Computation of accreted income and tax liability in the hands of the trust arising as a result of merger with MSNV Pvt. Ltd. for A.Y. 2023-24

Particulars	Amount (₹)
Aggregate FMV of total assets as on 1.4.2021, being the specified date (date of merger) [See Working Note 1]	1,18,00,000
Less: Total liability computed in accordance with the prescribed method of valuation [See Working Note 2]	93,00,000
Accreted Income	25,00,000
Tax Liability @ 34.944% of ₹ 25,00,000	8,73,600
Working Notes:	
(1) Aggregate fair market value of total assets on the date of merger	
- Land, being an immovable property [The fair market value of land would be higher of ₹ 17 lakhs i.e., price that the land would ordinarily fetch if sold in the open market and ₹ 15 lakhs, being stamp duty value as on the specified date]	18,00,000
- Quoted equity shares in Ink Ltd. [70,000 x ₹ 80 per share] [₹ 80 per share, being the average of the lowest (₹ 75) and	56,00,000

highest price (₹ 85) of such shares on the date of merger]	
- 50,000 preference shares of N Ltd. [The fair market value which it would fetch if sold in the open market on the date of merger i.e. FMV on 1.4.2022]	44,00,000
	1,18,00,000
(2) Total liability	
- Outside liabilities	87,00,000
- Corpus Fund of ₹ 19 lakhs [not includible]	-
- Provision for taxation ₹ 7 lakhs [not includible]	-
- Liabilities in respect of payment of various utility bills [since this liability is an ascertained liability]	6,00,000
	93,00,000

CASE STUDY 41

Para 1

Samyen B. Ltd. (SBL) is an unlisted public company located in Nagpur and is involved in the business of lubricant products. It has a factory in the outskirts of Nagpur city for producing such products.

Krutsne (P) Ltd. (KPL) based in Bangalore had asked SBL for a special job that was required to be completed within a week and it had requested SBL to deliver the completed work order to its customer, TKF (P) Ltd. based in Bhopal city of Madhya Pradesh. The distance from SBL's factory to location of TKF (P) Ltd. was 350 kms and SBL made the delivery accordingly through its transport vehicle by generating an E-way bill, for the same, as required.

Para 2

For the purpose of performing such special job of KPL, SBL had purchased a machinery of ₹ 10 lakhs on 1st April, 2022, which had a useful life of 5 years and nil residual value. SBL adopted straight line method of depreciation for depreciating the machinery. Following information had been provided with respect to such machinery:

Financial year	Estimated future cash flows (₹ in lakhs)
2023-24	1.5
2024-25	3
2025-26	4
2026-27	1

Discount rate applicable was 10% and the fair value less costs to sell of such machinery as on 31st March, 2023 was ₹ 7 lakhs.

Para 3

There was a corporate insolvency resolution process initiated against KPL by one of its operational creditor, Halson (P) Ltd. Mr. Kailash Dave, was appointed as the interim resolution professional who is a partner of Dave & Co. a consulting firm which had transactions of following amounts with KPL during the last 5 financial years:-

Financial Year	Turnover of Dave & Co. (₹)	Total amount of Transactions with KPL during each F.Y. (₹)
2017-18	180 lakhs	10 lakhs
2018-19	180 lakhs	9 lakhs
2019-20	190 lakhs	9 lakhs

2020-21	200 lakhs	10 lakhs
2021-22	210 lakhs	9 lakhs

All the financial creditors of KPL were related parties and it had 14 operational creditors. The resolution plan of KPL contained a provision of combination as per Section 5 of the Competition Act, 2002 and it was approved by the prescribed authorities.

Para 4

There arose an obligation on SBL during F.Y. 2022-23 to restore environmental damage in the area surrounding its factory. Expert advice indicated that the restoration had to be carried out in two distinct phases; the first phase required expenditure of ₹ 10 lakhs to remove the contaminated soil from the area and the second phase, commencing from the end of first phase, to replant the area with suitable trees and vegetation. The estimated cost of replanting was ₹ 25 lakhs. SBL used a cost of capital (before taxation) of 10% and the expenditure, when incurred, will attract tax relief at the company's marginal tax rate of 30%. SBL had not recognized any provision for such costs in the past. The first phase of the cleanup will commence in a few months time and will be completed on 31st March, 2024, when the first payment of ₹ 10 lakhs made will be made. Phase 2 costs will be paid three years later from the end of first phase.

Para 5

Jaiswal & Co., a firm of Chartered Accountants, with three CA partners, was given an offer letter by SBL for appointment as its statutory auditor as well as tax auditor for F.Y. 2022-23 which was accepted by the firm after complying with the required formalities.

Jaiswal & Co. has 180 tax audits to be conducted for F.Y. 2022-23, including the tax audit of SBL, out of which 3 audits are to be conducted under section 44ADA of the Income Tax Act, 1961 and 2 audits are to be conducted under section 44AE of the Income Tax Act, 1961, respectively.

Mr. Amrit Jaiswal, was appointed as the engagement partner for conducting the statutory audit of SBL. Mr. Amrit has been holding statutory audit of 25 companies, including SBL, out of which there are 4 OPCs', 2 dormant companies and 3 private companies with paid up capital of more than ₹ 100 crore and also there is one private company with paid up capital of ₹ 70 crore which has not defaulted in filing of resolutions with MCA regarding approval of Board Report and Annual Accounts.

There was a change in the accountant of SBL and the new accountant had prepared its financial statements as per Division II of Schedule III to the Companies Act, 2013, for F.Y. 2022-23, for which Mr. Amrit observed errors in presentation of following items:-

- (1) Capital advances were classified under 'Capital Work in Progress'.

- (2) Share application money – both refundable and non-refundable has been shown under the head Equity.
- (3) Deferred tax assets and deferred tax liabilities, both, were presented in the balance sheet.
- (4) A bank deposit with a maturity period of 14 months was shown under 'Cash and Cash Equivalents'.

I. Multiple Choice Questions

1. With reference to the information given under Para 1, who could have generated the E-way bill in case of the work order to be delivered by SBL to TKL (P) Ltd. and for how many days such E-way bill would have been valid?
 - (a) The E-way could have been generated by only SBL and it would have been valid for 4 days.
 - (b) The E-way could have been generated by either SBL or KPL and it would have been valid for 2 days.
 - (c) The E-way could have been generated by either SBL or KPL or TKF (P) Ltd. and it would have been valid for 2 days.
 - (d) The E-way could have been generated by either SBL or KPL and it would have been valid for 4 days.
2. Mr. Kailash Dave would have been ineligible to be appointed as the Interim Resolution Professional of KPL if-
 - (a) Dave & Co. would have entered into transaction(s) of further amount of ₹ 1 lakh or more with KPL during any of the last 5 financial years.
 - (b) Dave & Co. would have entered into transaction(s) of further amount of ₹ 2 lakhs or more with KPL during any of the last 3 financial years.
 - (c) Dave & Co. would have entered into transaction(s) of further amount of ₹ 50,000 or more during F.Y. 2019-20 and transaction(s) of further amount of ₹ 1,50,000 or more during F.Y. 2021-22 with KPL, respectively.
 - (d) Dave & Co. would have entered into transaction(s) of further amount of more than ₹ 3 lakhs with KPL during any of the last 3 financial years.
3. Which authorities would have approved the resolution plan of KPL and in what sequence?
 - (a) Committee of Creditors and then Adjudicating Authority, respectively.

- (b) Committee of Creditors, Adjudicating Authority and then Competition Commission of India, respectively.
 - (c) Committee of Creditors, Competition Commission of India and then Adjudicating Authority, respectively.
 - (d) Competition Commission of India, Committee of Creditors and then Adjudicating Authority, respectively.
4. How many further tax audits can be accepted by Jaiswal & Co. for F.Y. 2022-23?
- (a) Nil
 - (b) 5
 - (c) 3
 - (d) 2
5. How many further audits of unlisted public companies can be held by Mr. Amrit?
- (a) 2
 - (b) 4
 - (c) It depends upon the ceiling limit of audits of the firm
 - (d) 1

II. Descriptive Questions

6. (i) With reference to the information given under Para 2, calculate the impairment loss, if any, to be provided in the books of SBL with respect to the machinery bought for performing the special job of KPL?
- (ii) With reference to the information given under Para 4, whether SBL needs to recognize provision for the costs to be made with respect to the contaminated soil area and if so, what shall be amount of provision to be provided at 31st March, 2023?
7. With reference to the information given under Para 5, what shall be the correct presentation of the items for which Mr. Amrit had observed errors?
8. (i) With reference to the information given under Para 1, determine the place of supply in respect of transactions involved in the work order delivered by SBL and also comment on the tax levy to be made for the same?
- (ii) With reference to the information given under Para 3, what would have been the constitution of committee of creditors of KPL?

ANSWERS TO THE CASE STUDY 41

I. Answers to the Multiple Choice Questions

1. (b) The E-way could have been generated by either SBL or KPL and it would have been valid for 2 days.

Reason: E-way Bill in case of 'Bill To Ship To' Model

In a "Bill To Ship To" model of supply, there are three persons involved in a transaction, namely:

'A' is the person who has ordered 'B' to send goods directly to 'C'.

'B' is the person who is sending goods directly to 'C' on behalf of 'A'.

'C' is the recipient of goods.

It is clarified that as per the CGST Rules, 2017, either A i.e. SBL, in our case or B, i.e. KPL, in our case can generate the e-Way Bill but it may be noted that **only one e-Way Bill** is required to be generated [Press Release dated 23.04.2018]

Sub-rule 10 to Rule 138 of the CGST Rules relating to E-way Bill has been amended **w.e.f. 01.01.2021**, to provide as follows:

Sl. No.	Distance	Validity period
1.	Upto 200 km	One day in cases other than Over Dimensional Cargo or multimodal shipment in which at least one leg involves transport by ship
2.	For every 200 km or part thereof thereafter	One additional day in cases other than Over Dimensional Cargo or multimodal shipment in which at least one leg involves transport by ship

Analysis:

Here, distance to travel is 350 kms, so E-way generated would be valid for 2 days.

2. (b) Dave & Co. would have entered into transaction(s) of further amount of ₹ 2 lakhs or more with KPL during any of the last 3 financial years.

Reason: As per Regulation 3 of Insolvency and Bankruptcy (Insolvency Resolution process for corporate persons) Regulation, 2016, an insolvency professional shall be eligible for appointment as a resolution professional for a

corporate insolvency process if he is not an employee or proprietor or a partner of a legal or consulting firm that has or had any transaction with the corporate debtor amounting to five per cent or more of the gross turnover of such firm in the last three financial years.

Financial Year	Turnover of Dave & Co. (₹)	Total amount of Transactions with KPL during each F.Y. (₹)
2019-20	190 lakhs	9 lakhs
2020-21	200 lakhs	10 lakhs
2021-22	210 lakhs	9 lakhs
Total	600 lakhs	28 lakhs

Here, 5% of ₹ 600 lakhs comes to ₹ 30 lakhs and Dave & Co. has already rendered transaction(s) amounting to ₹ 28 lakhs to KPL. So, Mr. Dev Sharma would have been ineligible to be appointed as the Interim Resolution Professional of KPL if Dave & Co. would have entered into transaction(s) of further amount of ₹ 2 lakhs or more with KPL during any of the last 3 financial years.

Note: Resolution Professional includes an Interim Resolution Professional as per Section 5(27) of the IBC, 2016.

3. (d) Competition Commission of India, Committee of Creditors and then Adjudicating Authority, respectively.

Reason: As per Section 31 of the Insolvency and Bankruptcy Code, 2016, if the Adjudicating Authority is satisfied that the resolution plan as approved by the committee of creditors meets the requirements as per section 30(2), it shall by order approve the resolution plan

Where the resolution plan contains a provision for combination, as per section 5 of the Competition Act, 2002, the resolution applicant shall obtain the approval of the Competition Commission of India under that Act prior to the approval of such resolution plan by the committee of creditors.

On reading of the aforesaid provisions, the authorities and the sequence of approval that can be derived is: Competition Commission of India, Committee of Creditors and then Adjudicating Authority, respectively.

4. (b) 5

Reason: Tax Audit assignments under Section 44 AB of the Income-tax Act, 1961

In the case of firm of Chartered Accountants in practice, **60 tax audit assignments per partner in the firm, in a financial year, whether in respect of corporate or non-corporate assesses.

Provided also that the audits conducted under Section 44AD, 44ADA and 44AE of the Income Tax Act, 1961 shall not be taken into account for the purpose of reckoning the "specified number of tax audit assignments".

Here, Jaiswal & Co. has 180 tax audits to be conducted for F.Y. 2022-23, including the tax audit of SBL, out of which 3 audits are to be conducted under section 44ADA of the Income Tax Act, 1961 and 2 audits are to be conducted under section 44AE of the Income Tax Act, 1961, respectively.

However, as aforesaid, the audits to be conducted under Section 44ADA and 44AE of the Income Tax Act, 1961 shall not be taken into account for the purpose of reckoning the "specified number of tax audit assignments".

Thus, further audits that can be accepted by Jaiswal & Co. will be $180 (60 \times 3) - 175 = 5$

5. (a) 2

As per section 141(3)(g) of the Companies Act, 2013, the limit of 20 company audits is per person. In the case of an audit firm having 3 partners, the overall ceiling will be $3 \times 20 = 60$ company audits other than one person companies, dormant companies, small companies and private companies having paid-up share capital less than ₹ 100 crore (private company which has not committed a default in filing its financial statements under section 137 of the said Act or annual return under section 92 of the said Act with the Registrar).

Mr. Amrit has been holding statutory audit of 25 companies, including SBL, out of which there are 4 OPCs', 2 dormant companies and 3 private companies with paid up capital of more than ₹ 100 crore and also there is one private company with paid up capital of ₹ 70 crore which has not defaulted in filing of resolutions with MCA regarding approval of Board Report and Annual Accounts.

Accordingly, further audits of unlisted public companies that can be held by Mr. Amrit = $20 - (25 - 4 - 2 - 1) = 2$

II. Answers to the Descriptive Questions

6. (i) Value in use of the machinery as on 31st March, 2023 can be calculated as follows:

Financial year	Estimated future cash flows (₹ in lakhs)	Present value factor @ 10%	Present value
2023-24	1.5	0.9091	1.364
2024-25	3	0.8264	2.479
2025-26	4	0.7513	3.005
2026-27	1	0.6830	0.683
			7.531

The recoverable amount of the machinery is ₹ 7.531 lakhs (higher of value in use of ₹ 7.531 lakhs and fair value less costs to sell of ₹ 7 lakhs). Carrying amount of the machinery is ₹ 8 lakhs (after providing for one year depreciation @ ₹ 2 lakhs). Therefore, the impairment loss of ₹ 46,900 should be provided in the books.

- (ii) Paragraph 14 of Ind AS 37 states “A provision shall be recognised when:

- an entity has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision shall be recognised.”

Given Case:

Present obligation as a result of a past obligating event- The obligating event is the contamination of the area, which gives rise to a constructive obligation because the conduct of the entity has created a valid expectation on the part of those affected by it that the entity will clean up and restore the area affected by such contamination.

An outflow of resources embodying economic benefits in settlement- Probable.

Conclusion- A provision needs to be recognized for the best estimate of the costs of removal and restoration.

Financial year	Cash flows (₹)	10% Discount factor	Present Value
2023-24	10,00,000	0.909	9,09,000
2026-27	25,00,000	0.683	17,07,500
Provision required at 31 March 2023			26,16,500

The provision is calculated using the pre-tax costs and a pre-tax cost of capital. The fact that the eventual payment will attract tax relief will be reflected in the recognition of a deferred tax asset for the deductible temporary difference (assuming that the recognition criteria for deferred tax assets are met.)

7. The correct presentation of the items for which Mr. Amrit had observed errors as per Division II of Schedule III shall be as follows:

- ✓ 'Capital Advances' are not to be classified under 'Capital Work in Progress', since they are specifically to be disclosed under 'Other non-current assets'.
- ✓ Share application money to the extent not refundable shall be shown under the head Equity and share application money to the extent refundable shall be separately shown under 'Other financial liabilities.
- ✓ Deferred tax assets and deferred tax liabilities, both, cannot be presented in balance sheet since only the net balance of Deferred Tax Liability or Asset is to be disclosed if the enterprise has a legally enforceable right to set off assets against liabilities representing current tax; and it relates to the same governing tax laws.
- ✓ Bank deposits with more than 12 months maturity shall be disclosed under 'Other financial assets'. Therefore, disclosure of deposits rupees 1.25 crores in a nationalised bank for 18 months as Cash and Cash Equivalents is not in order as per Division II of Schedule III.

8. (i) In case of transaction between KPL & SBL

As per section 10(1)(b) of the IGST Act, 2017, If the goods are delivered to a recipient or any other person by the supplier on the instructions of a third person (original buyer), who may be acting as an agent or on his own account before or during movement of goods (but not after the movement terminates) whether or not there is a transfer of documents of title to the goods it is deemed that the third person has received the goods and the **place of supply is the principal place of business of such third person.**

In the given instance, SBL, the supplier made the delivery of a special job order to TKF (P) Ltd. as per the instructions of KPL. Accordingly, KPL is deemed as the third person and therefore, the place of supply will be the principal place of business of KPL i.e. Bangalore. Since location of supplier, SBL, is in Nagpur Maharashtra and place of supply is in Bangalore, Karnataka, the supply is interstate supply and IGST will be levied on such transaction.

In case of transaction between KPL & TKF (P) Ltd.

This situation involves another supply between KPL and TKF (P) Ltd. The place of supply in this case will be determined in terms of section 10(1)(a) of the IGST Act, 2017.

Section 10(1)(a) stipulates that where the supply involves movement of goods, whether by the supplier or the recipient or by any other person, the place of supply of such goods shall be the location of the goods at the time at which the movement of goods terminates for delivery to the recipient.

Thus, the place of supply in second case is the location of the goods at the time when the movement of goods terminates for delivery to the recipient, TKF (P) Ltd. i.e. Bhopal city, Madhya Pradesh.

Since location of supplier, KPL, is in Bangalore, Karnataka and place of supply is in Bhopal, Madhya Pradesh, the supply is an interstate supply and IGST will be levied on such transaction.

(ii) Legal Position:

As per Regulation 16 of the IBBI (Insolvency Resolution Process for Corporate Persons) Regulations, 2016, where the corporate debtor has no financial debt or **where all financial creditors are related parties of the corporate debtor**, the committee shall be set up in accordance with this Regulation.

The committee formed under this Regulation shall consist of members as under–

(a) 18 largest operational creditors by value:

Provided that if the number of operational creditors is less than 18, the committee shall include all such operational creditors;

(b) 1 representative elected by all workmen; and

(c) 1 representative elected by all employees.

Given Case & Analysis:

Here, all the financial creditors of KPL were related parties and it had 14 operational creditors, so the committee of creditors constituted would have been as follows:

(a) All the 14 operational creditors (as it has less than 18 operational creditors);

(b) 1 representative elected by all workmen; and

(c) 1 representative elected by all employees.

CASE STUDY 42

Ease of doing business – this statement does seem to be lucrative and influencing but as they say, nothing comes to your kitty so easily. India is striving towards the ease of doing business with its new policies, less restrictions and business friendly environment which is supporting business facilitation efforts but one should always keep in mind that setting up a business and running it successfully is not a cakewalk as it seems to be. It requires a lot of efforts alongwith innovation, workforce, management, compliances and all above that, a dedication to survive in the market. These facts could be well supported by the success story of Annapurna Trading Pvt. Ltd. which is having business of agricultural produce, consumer items & other related products. Having been set up a decade ago by its Board of Directors' Chairman, Mr. Hasmukh Rawal, this company has carved a niche for itself. Mr. Rawal had started a small business in his rural village of Baddowal, near Ludhiana which he has grown into a big company in the past 10 years.

One fine evening, Mr. Rawal was sitting with his friends - Mr. Piyush Mutneja & Mr. Gorav Bhandari who are also Managing Directors in their respective companies set up by them and they discussed about Accounts, Audit & Tax over tea. CA Hariharan, who is a common Statutory Auditor and Consultant to their companies had also joined them in this discussion. During the discussion, when all of them were narrating their experiences and difficulties they were facing at present relating to Accounts & Audit, CA Hariharan suggested them on appointing an Internal Auditor in their respective companies. He makes them aware of the benefits of such an Internal Audit function as how would it help them weed out the deficiencies and weaknesses in the Internal Controls on a timely basis but would also be very helpful to him, being the Statutory Auditor in auditing the Books of Account of all their companies at year end. Out of curiosity, all the 3 of them – Mr. Rawal, Mt. Mutneja & Mr. Bhandari ask CA Hariharan to tell them in detail about this Internal Audit function and whether they are legally required to comply with the requirements of Internal Audit. CA Hariharan tells them that many modern enterprises have become huge and sophisticated. This has resulted in decentralisation of their activities and consequently the top management is remotely concerned with the day-to-day activities of the concern.

THE INTERNAL AUDIT

Internal Audit means “an independent management function, which involves a continuous and critical appraisal of the functioning of an entity with a view to suggest improvements thereto and add value to and strengthen the overall governance mechanism of the entity, including the entity’s strategic risk management and internal control system”. The internal auditing need not to be confined to financial transactions and its scope may be extended to the task of reviewing whether the resource utilisation of the enterprise is efficient and economical. This would necessitate a review of all operations of the enterprise as also an evaluation of the

effectiveness of management. One should not however lose sight of the fact that internal auditing is basically a service activity.

Applicability of Provisions of Internal Audit: As per section 138 of the Companies Act, 2013, following class of companies (prescribed in rule 13 of Companies (Accounts) Rules, 2014) shall be required to appoint **an internal auditor which may be either an individual or a partnership firm or a body corporate**, namely-

(a) every listed company;	
(b) every unlisted public company having- (i) paid up share capital of fifty crore rupees or more during the preceding financial year; or (ii) turnover of two hundred crore rupees or more during the preceding financial year; or	(iii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year; or (iv) outstanding deposits of twenty five crore rupees or more at any point of time during the preceding financial year; and
(c) every private company having- (i) turnover of two hundred crore rupees or more during the preceding financial year; or	(ii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year.

Further to this, they ask him as who could be appointed as Internal Auditor for their respective companies to which CA Hariharan replies that as per section 138, the internal auditor shall either be a chartered accountant or a cost accountant (whether engaged in practice or not), or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the companies. The internal auditor may or may not be an employee of the company.

Further, he tells them about the scope of work of an Internal auditor and also his qualifications as follows:

QUALIFICATIONS:

- I. The internal auditor should have the special expertise necessary for evaluating management control systems, especially financial and accounting controls.
- II. Accounting and finance functions provide basic data for management control of an enterprise. Therefore, the internal auditor must have accounting and financial expertise to be able to discharge his duties.

- III. The internal auditor is also expected to evaluate operational performance and non-monetary, operational controls. This requires a basic knowledge of the technology and commercial practices of the enterprise.
- IV. He should also have a basic knowledge of commerce, laws, taxation, cost accounting, economics, quantitative methods and EDP systems.
- V. An understanding of management principles and techniques is another essential qualification of an internal auditor as also the ability to deal with people.
- VI. By his conduct the internal auditor should provide an assurance to the management that confidentiality of such information would be maintained.

On hearing all this from CA Hariharan, Mr. Rawal gets really impressed and appoints CA Ravi Mehta as the Internal Auditor for his Company Annapurna Trading Pvt. Ltd., by following the applicable procedure as per the Companies Act, 2013 and the relevant rules. On a discussion related to the scope of CA Ravi's work, Mr. Rawal requests him that he pay special attention to the following 2 aspects related to the business of his company:

1. **Accounting Policies** being followed by the Company, especially related to Inventories and the Fixed assets. CA Ravi meets the Employees in the Accounts Department as well as in the Costing Department to get a knowledge about the Valuation, Presentation & Disclosure policies followed by the company w.r.t the inventories and fixed assets:
 - (a) In the factory, the Cost accountant tells him that in the case of packing Fruit beverages, they use tin cans of material DELTA and further, put them into boxes made of material GAMMA for transportation to Distributors.
 - (b) The Marketing Manager tells him that they purchase certain goods from out of India to sell them in the domestic market & incur following expenses in relation to such transaction which have been put into following accounting codes –
 - (1) Trade discounts on purchase
 - (2) Handling costs relating to imports
 - (3) Salaries of accounting department
 - (4) Sales commission paid to sales agents
 - (5) After sales warranty costs
 - (6) Import duties
 - (7) Costs of purchases (based on supplier's invoices)
 - (8) Freight expense
 - (9) Insurance of purchases
 - (10) Brokerage commission paid to indenting agents

- (c) The Sales Head tells about the following products and seeks CA Ravi's advice as to their accounting treatment w.r.t. the relevant IND-AS:
- I. One of Company's product lines – "MAGNI" is beauty products, particularly cosmetics such as lipsticks, moisturizers and compact make-up kits. The company sells hundreds of different brands of these products. Each product is quite similar, is purchased at similar prices and has a short lifecycle before a new similar product is introduced. The point of sale and inventory system is not yet fully functioning in this department. The sales manager of the cosmetic department is unsure of the cost of each product but is confident of the selling price and reliably informs him that the Company, on average, make a gross margin of 65% on each line.
 - II. The Company also sells handbags. The Company manufactures their own handbags as they wish to be assured of the quality and craftsmanship which goes into each handbag. The handbags are manufactured in India in the head office factory which has made handbags for the last fifty years. Normally, it manufactures 100,000 handbags a year in their handbag division which uses 15% of the space and overheads of the head office factory. The division employs ten people and is seen as being an efficient division within the overall company.
- (d) On a scrutiny of the Fixed Assets Register, CA Ravi finds that the Company had acquired a building for its administrative purposes and presented the same as property, plant and equipment (PPE) in the financial year 2021-22. During the financial year 2022-23, it relocated the office to a new building and leased the said building to a third party. Following the change in the usage of the building, the company reclassified it from PPE to investment property in the financial year 2022-23.
- (e) On checking the previous records of the Company, he also comes to know that the Company has an investment property with an original cost of ₹ 1,00,000 which it inadvertently omitted to depreciate in previous financial statements. The property was acquired on 1st April, 2020. The property has a useful life of 10 years and is depreciated using straight line method. Estimated residual value at the end of 10 year is Nil.
2. Mr. Rawal also wants CA Ravi to help them in calculation of the Profits of the company as per the Income Tax Act and related rules because had they been worked out & calculated properly in the past years, their company would not have been subject to a survey as had been conducted on them in the past. CA Ravi meets the Head accountant who furnishes him the following Financial statements and tells him that:

- (a) There was a survey under section 133A on the business premises on 31.3.2023 in which it was revealed that the value of closing stocks of 31.3.2022 was ₹ 8,75,000 and a sale of ₹ 75,000 made on 13.3.2023 was not recorded in the books. The value of closing stocks after considering these facts and on the basis of inventory prepared by the department as on 31.3.2023 worked out at ₹ 12,50,000, which was accepted to be correct and not disputed.
- (b) The company had made an investment of ₹50 lacs on the construction of a warehouse in rural area for the purpose of storage of agricultural produce. This was made available for use from 15.09.2022 and the income from this activity is credited in the Profit and Loss account under the head "Warehousing charges".
- (c) The Head accountant also tells him that the Financial statements as furnished below are subject to following considerations also apart from as what is furnished above:
- i. Income-tax refund includes amount of ₹5,000 of interest allowed thereon.
 - ii. Bonus to staff includes an amount of ₹7,500 paid in the month of December 2022, which was provided in the books on 31.03.2022.
 - iii. Rent of premises includes an amount of ₹5,500 incurred on repairs. The assessee company was under no obligation to incur such expenses as per rent agreement.
 - iv. Advertisement expenses include an amount of ₹2,500 paid for advertisement published in the souvenir issued by a political party. The payment is made by way of an account payee cheque.
 - v. Goods and Services Tax demand paid includes an amount of ₹5,300 charged as penalty for delayed filing of returns and ₹12,750 towards interest for delay in deposit of tax.
 - vi. Depreciation under the Income-tax Act, 1961 works out at ₹65,000.
 - vii. Interest on loans includes an amount of ₹80,000 paid to Mr. X, a resident, on which tax was not deducted.
 - viii. Miscellaneous expenses include:
 - amount of ₹15,000 paid towards penalty for non-fulfillment of delivery conditions of a contract of sale for the reasons beyond control,
 - amount of ₹1,00,000 paid to the wife of a Mr. Hasmukh rawal, who is working as junior lawyer for taking an opinion on a disputed matter. The junior advocate of High Courts normally charge only ₹25,000 for the same opinion,
 - amount of ₹1,00,000 paid to an Electoral Trust by cheque.

TRADING AND PROFIT & LOSS ACCOUNT

Particulars	Amount (₹)	Particulars	Amount (₹)
Opening Stock	3,75,000	Sales	1,55,50,000
Purchases	1,25,75,000	Closing Stock	4,50,000
Freight & Cartage	1,20,000		
Gross profit	29,30,000		
	1,60,00,000		1,60,00,000

Particulars	Amount (₹)	Particulars	Amount (₹)
Bonus to staff	47,500	Gross profit	29,30,000
Rent of premises	53,500	Income-tax refund	20,000
Advertisement	5,000	Warehousing charges	40,00,000
Bad Debts	81,000		
Interest on loans	1,67,500		
Depreciation	71,500		
Goods and Services tax demand paid	1,08,350		
Miscellaneous expenses	5,25,650		
Net profit of the year	58,90,000		
	69,50,000		69,50,000

I. Multiple Choice Questions

- Packing material "GAMMA" as per the above case should be classified as per INDAS-2 as?
 - Raw material.
 - Finished Goods.
 - Materials & Supplies awaiting for use in the Production Process.
 - Selling Costs to be excluded as per INDAS-2.
- The Marketing Manager tells CA Ravi about the Costs which they incur to sell imported goods in domestic market alongwith their accounting codes. From the following alternatives, choose the combination of codes from the above case which are allowed by INDAS-2 for inclusion in the cost of such goods?
 - 01, 02, 06, 07, 08, 09, 10.

- (b) 01, 02, 03, 05, 07, 09, 10.
- (c) 01, 02, 03, 06, 08, 09, 10.
- (d) 02, 04, 06, 07, 08, 09, 10.
3. How should "MAGNI" be measured in accordance with INDAS 2?
- (a) Standard Cost.
- (b) Retail Method.
- (c) Net Realisable Value.
- (d) Market Price.
4. How should the Handbags as made and traded by the Company be measured in accordance with INDAS 2?
- (a) Standard Cost.
- (b) Retail Method.
- (c) Net Realisable Value.
- (d) Market Price
5. How should the error be corrected in the case of Investment Property as found during checking of previous records, in the financial statements for the year ended 31st March, 2023, assuming the impact of the same is considered material? For simplicity, ignore tax effects.
- (a) Prospectively restating the Comparatives.
- (b) Retrospectively restating the Comparatives.
- (c) It is not an error and therefore correction should be avoided.
- (d) Eliminating the record of such asset from the books of account and dealt with separately.

II. Descriptive Questions

6. Differentiate between the two types of Audit functions as performed by CA Ravi Mehta and CA Hariharan as discussed in the above case of Annapurna Trading Pvt. Ltd.
7. From the information given in Para 2, compute the income chargeable to tax for Assessment year 2023-24 of Annapurna Trading Pvt. Ltd, ignoring MAT and provisions of section 115BAA. Support your answer with working notes.

ANSWERS TO THE CASE STUDY 42**I. Answers to the Multiple Choice Questions****1. (d) Selling Costs to be excluded as per INDAS-2.**

Reason: While the primary packing material may be included within the scope of the term 'materials and supplies awaiting use in the production process' but the secondary packing material and publicity material cannot be so included, as these are selling costs which are required to be excluded as per Ind AS 2. For this purpose, the primary packing material is one which is essential to bring an item of inventory to its saleable condition, for example, bottles, cans etc., in case of food and beverages industry. Other packing material required for transporting and forwarding the material will normally be in the nature of secondary packing material.

2. (a) 01, 02, 06, 07, 08, 09, 10

Reason: Items number 01, 02, 06, 07, 08, 09, 10 are allowed by Ind AS 2 for the calculation of cost of inventories. Salaries of accounts department, sales commission, and after sale warranty costs are not considered to be the cost of inventory. Therefore, they are not allowed by Ind AS 2 for inclusion in cost of inventory and are expensed off in the profit and loss account.

3. (b) Retail Method.

Reason: The retail method can be used for measuring inventories of the beauty products. The cost of the inventory is determined by taking the selling price of the cosmetics and reducing it by the gross margin of 65% to arrive at the cost.

4. (a) Standard Cost.

Reason: The handbags can be measured using standard cost especially if the results approximate cost. Given that the company has the information reliably on hand in relation to direct materials, direct labour, direct expenses and overheads, it would be the best method to use to arrive at the cost of inventories.

5. (b) Retrospectively restating the Comparatives.

Reason: The error shall be corrected by retrospectively restating the comparatives. A third balance sheet as at the beginning of the earliest period shall also be presented.

II. Answers to the Descriptive Questions

6.

BASIS FOR COMPARISON	INTERNAL AUDIT	EXTERNAL AUDIT
1. Meaning	It refers to an ongoing audit function performed within an organization by a separate internal auditing department.	It is an audit function performed by the independent body which is not a part of the organization.
2. Examination	The Internal auditor examines the Operational efficiency of the organisation.	The External auditor examines the Accuracy and Validity of Financial Statements.
3. Appointment	The Internal auditor is appointed by the Management.	The External auditor is appointed by the Members.
4. Users of Report	The user of internal audit report is Management.	The user of external audit report is Stakeholders.
5. Period	Internal audit is a Continuous Process throughout the year.	An External audit is done once in a year.
6. Opinion	The opinion is provided on the effectiveness of the operational activities of the organization.	The opinion is provided on the truthfulness and fairness of the financial statement of the company.
7. Status of Auditor	The Internal auditor could be an employee of the company.	The External auditor is mandatorily not an employee of the company.

7. **Computation of Income of Annapurna Trading Pvt. Ltd. chargeable to tax for the A.Y.2023-24:**

Particulars	₹
Net profit as per profit and loss account	58,90,000
Add: Difference in the value of stocks detected on survey under section 133A on 31.03.2023 chargeable as income (See Note 1)	3,75,000
	62,65,000

Less: Income-tax refund credited in the profit and loss account, out of which interest is to be considered separately under the head "Income from other sources"	20,000
	62,45,000
Add: Expenses either not allowable or to be considered separately but charged in the profit & loss account	
Repair expenses on rented premises where assessee is under no obligation to incur such expenses are not allowable as per section 30(a)(i). However, if such expenses are required for carrying on the business efficiently, the same are allowable under section 37. In this case, assuming that such expenses are required for carrying on business efficiently, the same are allowable under section 37.	-
Advertisement in the souvenir of political party not allowable as per section 37(2B) (See Note 3)	2,500
Payment made to the wife of a director examined as per section 40A(2) and the excess payment made to be disallowed (See Note 5)	75,000
Payment made to electoral trust by cheque (See Note 6)	1,00,000
Penalty levied by the Goods and Services tax department for delayed filing of returns not allowable as being paid for infraction of law (See Note 7)	5,300
Depreciation as per books	71,500
30% of interest paid on loan paid to Mr. X, a resident, without deduction of tax at source not allowable as per section 40(a)(ia)	24,000
	65,23,300
	65,000
Less: Depreciation allowable as per Income-tax Act, 1961	64,58,300
Less: Income from specified business (warehousing charges) credited to profit and loss account, to be considered separately (See Note 8)	40,00,000
Income from business (other than specified business)	24,58,300
Computation of income/ loss from specified business (See Note 8)	
Income from specified business	₹ 40,00,000
Less: Deduction under section 35AD @ 100% of ₹ 50 lakhs	₹ 50,00,000

Loss from specified business to be carried forward as per section 73A	₹ (10,00,000)	
Income from Other Sources		
Interest on income-tax refund		5,000
Gross Total Income		24,63,300
Less: Deduction under section 80GGB		
Contribution to political party (See Note 3)	₹ 2,500	
Contribution to an Electoral trust (See Note 6)	₹ 1,00,000	1,02,500
Total Income		23,60,800

Notes:

- (1) The business premises were surveyed and differences in the figures of opening and closing stocks and sales were found which have not been disputed and accepted by the assessee. Therefore, the trading account for the year is to be re-cast to arrive at the correct amount of the gross profit/ net profit for the purpose of return of income to be filed for the previous year ended on 31.3.2023.

Revised Trading Account

Particular	Amount (₹)	Particular	Amount (₹)
Opening Stock	8,75,000	Sales	1,56,25,000
Purchases	1,25,75,000	(₹ 1,55,50,000+₹ 75,000)	
Freight and Cartage	1,20,000	Closing Stock	12,50,000
Gross Profit	33,05,000		
	1,68,75,000		1,68,75,000

The difference of gross profit of ₹ 33,05,000 – ₹ 29,30,000 = ₹ 3,75,000 is to be added as income of the business for the year.

- (2) Bonus for the previous year 2021-22 paid after the due date for filing return for that year would have been disallowed under section 43B for the P.Y.2021-22. However, when the same has been paid in December 2022, it should be allowed as deduction in the P.Y.2023-23 (A.Y.2023-24). Since it is already included in the figure of bonus to staff debited to profit and loss account of this year, no further adjustment is required.
- (3) The amount of ₹ 2,500 paid for advertisement in the souvenir issued by a political party attracts disallowance under section 37(2B). However, such expenditure falls within the meaning assigned to “contribute” under section 293A

of the Companies Act, 1956, and is hence, eligible for deduction under section 80GGB. Any contribution to the political party or electoral trust made by way of cash is not allowed as deduction under section 80GGB. Since in the present case, the payment to the political party is made by way of an account payee cheque, it is allowed as deduction under section 80GGB.

- (4) The penalty of ₹ 15,000 paid for non-fulfilment of delivery conditions of a contract for reasons beyond control is not for the breach of law but was paid for breach of contractual obligations and therefore, is an allowable expense.
- (5) It has been assumed that ₹ 25,000 is the reasonable payment for the wife of Director, working as a junior lawyer, since junior advocates of High Courts normally charge only ₹25,000 for the same opinion and therefore, the balance ₹ 75,000 has been disallowed.
- (6) Payment to an electoral trust qualifies for deduction under section 80GGB since the payment is made by way of a cheque. However, since the amount has been debited to profit and loss account, the same has to be added back for computing business income.
- (7) The interest of ₹12,750 paid on the delayed deposit of goods and services tax is for breach of contract and hence, is allowable as deduction. However, penalty of ₹5,300 for delay in filing of returns is not allowable since it is for breach of law.
- (8) Deduction @ 100% of the capital expenditure is available under section 35AD in respect of specified business of setting up and operating a warehouse facility for storage of agricultural produce which commences operation on or after 1.04.2013. It is presumed that ₹ 50 lacs does not include expenditure on acquisition of any land.

The loss from specified business under section 35AD (warehousing) should be segregated from the income from other businesses, since, as per section 73A(1), any loss computed in respect of any specified business referred to in section 35AD shall not be set off except against profits and gains, if any, of any other specified business.

In view of the provisions of section 73A(1), the loss of ₹ 10 lacs from the specified business cannot be set-off against income from other businesses. Such loss has to be carried forward to be set-off against profit from specified business in the next assessment year. The return should be filed on or before the due date under section 139(1) for carry forward of such losses.

CASE STUDY 43

Mahajan Food Products Ltd. is an established Company in the Food Processing Industry dealing in Groceries and Processed Food Products. The Company's Board of Directors consists of 8 Directors. It has subsidiaries both in India as well as outside India. The Company has established a name for itself in the Food Processing Industry globally. Since the company has gone global, it has been facing many difficulties in Accounting & Taxation issues related to the concerns in its network, associates, joint ventures and related persons. It has also been facing some legal difficulties regarding the same due to a sudden upsurge in the business of the Company and its expansion globally with less time to manage its Internal operations. So, the Board has now approached M/s Sharma Pahwa & Co., a CA firm in their city to consult regarding such issue and scope for improvements. The Directors of the Company request CA Grace Pahwa, the Senior Partner of the Firm to conduct a Workshop for their Accounts & Taxation Department staff and deliberate on various issues and matters they have been addressing to off late so that they can get the right training on such issues to minimise any problems that may spur up during Finalisation of Accounts and further audit by CA Grace. CA Grace agrees to their Proposal and asks them that she would be happy to conduct two workshops at a 6 month Interval for their employees in the first year of their audit and later on, one workshop every year in future to keep them updated about the latest developments to be taken care of in future while compiling the Financial statements and addressing the Tax issues.

THE DAY OF THE WORKSHOP

On the day of the workshop, CA Grace, as decided deliberates the Accounts & Taxation department of the Company on Accounting & Taxation aspects of Related Party Transactions. Following is an Extract of her Speech:

"Good Morning Dear Friends! I am CA Grace Pahwa and today I will be sharing with you the aspects to be kept in mind by you all while handling the Accounting and Taxation work of the Company so that we could carry out the Audit Process during the year as well as the Statutory Audit with the least difficulties and complexities. Mahajan Food Products is basically facing issues owing to the growing span of network and more and more concerns becoming a part of this group. For such a situation, we need to understand who are our

Related Parties, their nature, transactions with them, their accounting and disclosure requirements, their audit considerations and taxation scenario.

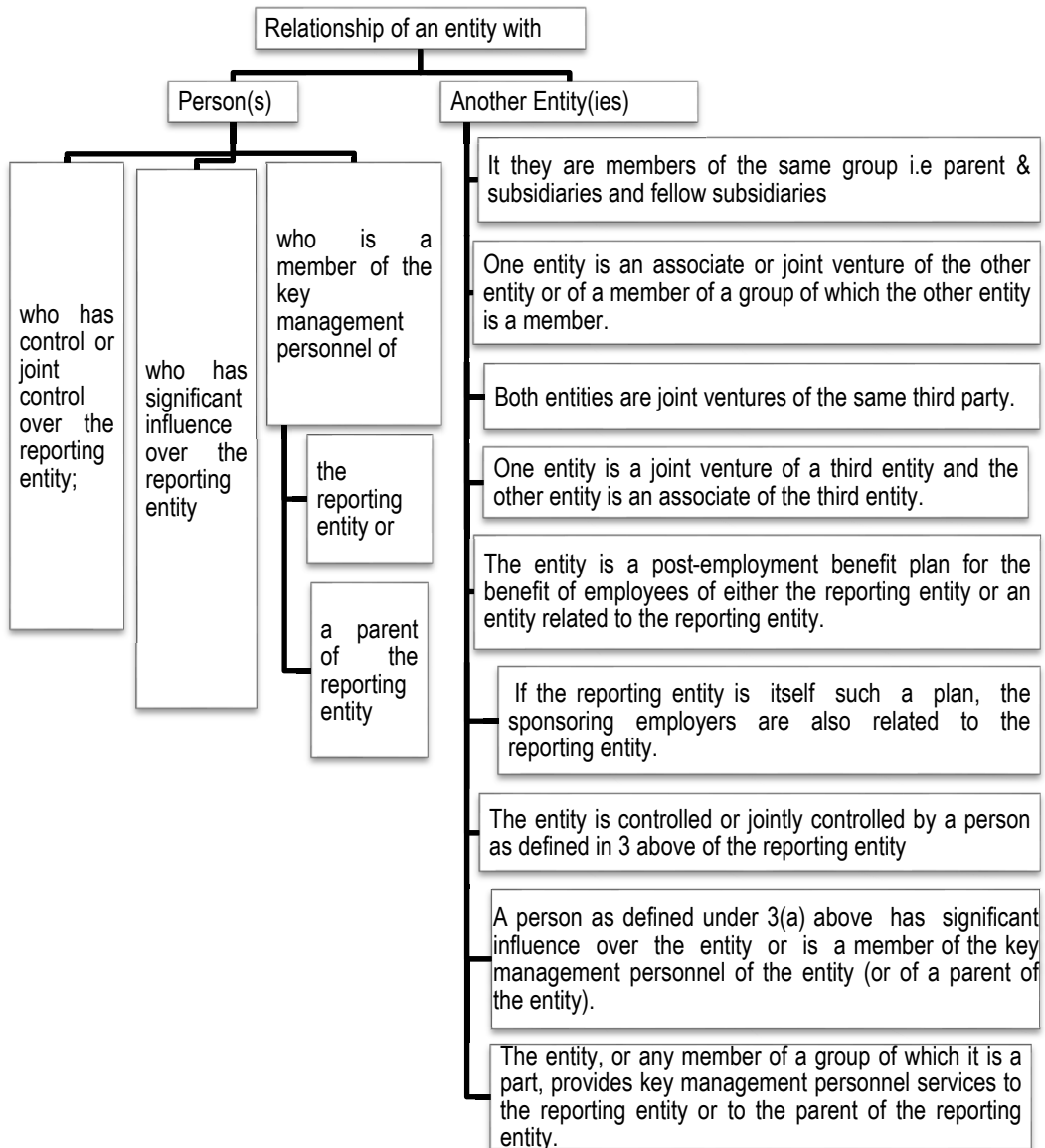
Friends! An entity in the course of its commerce and business enters into numerous transactions and gets impacted by various related party relationships. It is a normal feature of business and commerce to have related party relationships. Entities frequently carry on their business activities through subsidiaries, joint ventures or associates. The entity has the ability to affect the financial and operating policy of a subsidiary as it has control over it. In the case of joint venture, it has joint control whereas in the case of an associate it has significant influence. It is quite probable that related party relationship may have an effect on the profit or loss and financial position of an entity. Therefore, the users of the financial statements of any entity should have:

- (a) the knowledge of:
 - related party relationships of an entity;
 - entity's transactions, outstanding balances, commitments etc. with such related parties;
- (b) as it may affect the user's assessments:
 - of operations of the entity and
 - the risks and opportunities facing the entity.

For Accounting purposes, you have to follow Ind AS 24 on RELATED PARTY DISCLOSURES.

You are all being provided with the chart as being shown on the screen in front of you and I would like you all to please write down your queries, if any to be taken up after I finish my deliberation. The following chart depicts the types of Relationships which an Entity can have with other individuals/entities in the Commercial scenario whose impact we need to study and analyse accordingly.

(CA Grace discusses the following chart in detail with thorough Practical Examples with her Audience)



However, the following are not treated as related parties:

1. Two entities are not related parties simply because they have a director or other member of key management personnel in common or because a member of key management personnel of one entity has significant influence over the other entity.

2. Two venturers are not related parties simply because they share joint control over a joint venture.
3. (i) providers of finance, (ii) trade unions, (iii) public utilities, and (iv) departments and agencies of a government that does **not** control, jointly control or significantly influence the reporting entity, are not related parties simply by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an entity or participate in its decision- making process).
4. a customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, simply by virtue of the resulting economic dependence.

Now, we all need to understand what actually is a Related Party Transaction is: A Related Party Transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged. It is not necessary for any consideration to be passed for such transactions.

RELATED PARTY TRANSACTIONS UNDER GST

Supply of goods or services or both between 'Related persons' or between 'Distinct persons' as specified in section 25, will qualify as supply provided it is made in the course or furtherance of business.

Let us understand the terms 'related persons' and 'distinct persons':-

Related persons: A person who is under influence of another Person is called a related person like members of the same family or subsidiaries of a group company etc. Under GST law various categories of related persons have been specified. The term 'related person' has been defined in explanation to section 15. Persons including legal p

Distinct persons: The establishments of a person with separate registrations whether within the same State/UT or in different States/UTs are considered as distinct persons. Where a person having one registered establishment in a State/UT has another establishment in a different State/UT [not necessarily registered], these establishments are considered as establishments of distinct persons. Statutory provisions relating to 'distinct persons' are contained in sub- sections (4) and (5) of section 25.

RELATED PARTY TRANSACTIONS UNDER INCOME TAX

Sub-section (2) of Section 40A of the Income Tax Act, 1961, effectively, disallows certain expenses or payments made to relatives or their close associates, as the case may be if found unreasonable and not at par with the Market. The term 'Relative' in relating to an individual has been defined under sub-section (41) of Section 2, as the husband, wife, brother or sister or any lineal ascendant or descendant of that individual.

Further, the Section 40A (2) defined “Related Parties and its close associates.” In a condensed form, they are as follows:

Assessee	Relatives or Associates
In case of Individual	<ul style="list-style-type: none"> • Any relative of the assessee • Any person in whose business or profession the assessee himself or his relative has a substantial interest.
In case of Company, Firm, Association of Person & Hindu Undivided Family	<p>Any –</p> <ul style="list-style-type: none"> • Director • Partner • Member of the association • Member of the Family & Relatives of them <p>Any person in whose business or profession, as said above or relative of him or her has “substantial Interest.”</p> <p>Any Individual who has “substantial interest” in the business or profession of the “Assessee.”</p> <p>A Company or Firm or AOP or HUF having a substantial interest” in the business or profession of the “Assessee.”</p> <p>Any other company carrying on business or profession in which the first mentioned has “Substantial interest”</p>

The various individuals and Associate Concerns who are associated with your Company as submitted to me are as under:-

1. Hemlata, sister of Mr. Kurla, the Non-Executive Director of the Company.
2. Naresh Kumar, the brother of Mr. Birla, the Executive Director of the Company.
3. The Company has one Air-Conditioned Restaurant in its Trade name in Mumbai and it has recently opened a Liquor shop, its first, in Uttarakhand for human consumption. It also has a Departmental Store in Delhi whose Stock is supplied from its Factory at Lucknow, UP.
4. A Limited is an ancillary of Mahajan Food Products Ltd. It supplies all its production to the company. Mahajan Food Products Ltd. has no other interest in A Limited.
5. ABC Ltd. is a long-standing customer of Mahajan Food Products Ltd. Mrs. Birla purchased a controlling interest in ABC Ltd. on 1st June, 2022.

So, these were some prominent individuals and concerns. There are more as per the List with me and given to you also. I hope you would be able to bifurcate easily now between Related and Unrelated Parties for Accounting & Taxation purposes so that the mistakes which have been being committed till now be not repeated in future. I would like to bring to your knowledge that I will be conducting your Company's Statutory Audit. To brief you, while

carrying out the Statutory Audit, my Engagement team's main thrust would be on such related Party Transactions and we will be applying SA 550 on Related Parties as issued by ICAI to carry out the Audit efficiently and effectively. CA Kashish Jain, a Partner from my CA Firm Office in Delhi itself would be carrying out the Tax Audit of the Company and will issue the relevant Tax Audit Report in Form 3CA-3CD. The GST Audit of the Company would be carried out by CA Mohan Sharma from our Kolkata Branch Office over here at your headquarters in Delhi only and he will issue GST Audit Report in Form 9C after GSTR-9 is filed by the Company.

So Friends, I would like to end here and hope that major of your doubts and queries would have been resolved by now. In case you still have any issues, I am here for another half an hour to take the Open doubts session and my Engagement team would be available during Office hours every working day to resolve any of your concerns in near future too.

Thanks for being such a Patient Audience."

I. Multiple Choice Questions

1. The management of the company wants to know whether the Food Products supplied from its Factory to its Departmental Store for sale at the store would constitute Supply under GST Law or not?
 - (a) Not a Supply as it is a Stock Transfer.
 - (b) Not a Supply as no Consideration is involved.
 - (c) It is a Deemed Supply under the GST Law.
 - (d) Not a Supply as the Factory and the Store are registered in the same State.
2. The Restaurant Manager of the company asks CA Grace that their Restaurant usually sends some packed food products to the Company's Liquor Shop on a routine basis. Whether it constitutes a Supply or not under GST?
 - (a) No, as both the Restaurant & the Liquor shop are in different states.
 - (b) No, as the Restaurant is a Registered business under GST while the Liquor shop doesn't require registration under GST, being a Non-GST Item.
 - (c) Yes, because although they belong to the same entity, but they are distinct persons under GST law.
 - (d) Yes, because now the Company will have to take GST registration for its only Liquor Shop also.
3. The Company has paid Rent to Naresh Kumar of ₹ 2,50,000 and paid interest to Hemlata ₹ 4,00,000. State the reporting requirements in the Tax Audit Report by CA Kashish Jain:

- (a) To be reported as Relative Payments under the relevant Clause u/s 40(A)(2)(b) of the Income Tax Act, 1961.
 - (b) To be reported as a Disallowed Expenditure being Relative Payments under the relevant Clause u/s 37 of the Income Tax Act, 1961.
 - (c) Need not be reported as these two individuals are not the relatives of the Company.
 - (d) Only the payment made to Naresh Kumar to be reported.
4. The Head Accountant is of the view that A Ltd. is the Related Party of Mahajan Food Products Ltd.:
- (a) Yes, as A Ltd. is the ancillary of the Company.
 - (b) Yes, as Mahajan Food Products Limited is the sole purchaser of A Ltd.'s products.
 - (c) No, as A Ltd. has no other Interest in Mahajan Food Products Ltd.
 - (d) Yes, as both are Distinct Entities.
5. GST Audit Services rendered by CA Mohan on behalf of his CA firm to the Company would be construed as a Supply under GST Law for M/s Sharma Pahwa & Co. from its Branch Office:
- (a) True, as the Firm shall be treated as Distinct Persons with separate registrations in Delhi and West Bengal.
 - (b) No, as the rule of Branch Transfer doesn't apply to Services under GST.
 - (c) True, only if, bill is raised by the Kolkata Branch of the CA Firm to the Client Company.
 - (d) No, as there is no Consideration involved and therefore it is not a supply under GST Law.

II. Descriptive Questions

6. Sales of products from Mahajan Food Products Ltd. to ABC Ltd. in the two-month period from 1st April 2022 to 31st May 2022 totaled ₹ 16,00,000. Following the share purchase by Mrs. Birla, Mahajan Food Products Ltd. began to supply the products at a discount of 20% to their normal selling price and allowed ABC Ltd. three months' credit (previously ABC Ltd. was only allowed one month's credit, Mahajan Food Products Ltd.'s normal credit policy). Sales of products from Mahajan Food Products Ltd. to ABC Ltd. in the ten-month period from 1st June 2022 to 31st March 2023 totaled ₹ 80,00,000. On 31st March 2023, the trade receivables of Mahajan Food Products Ltd. included ₹ 36,00,000 in respect of amounts owing by ABC Ltd. Analyse and show (where

possible by quantifying amounts) how the above event would be reported in the financial statements of Mahajan Food Products Ltd. for the year ended 31st March 2023 as per Ind AS. You are required to mention the disclosure requirements as well.

7. CA Grace Pahwa, at the start of the Statutory Audit of Mahajan Food Products Ltd. deliberates to her Audit team on how to conduct the audit as per the relevant requirements of the Companies Act and SA 550. You are required to outline the major points to be a part of her lecture to the Audit staff on SA 550 as per the audit requirements of the Company Mahajan Food Products Ltd. on following issues:-
- (a) Nature of Related Party Relationships and Transactions.
 - (b) In the context of this Mahajan Food Products Ltd.'s Related parties, the potential effects of inherent limitations on CA Grace's ability to detect material misstatements are greater than usual. Give 2 reasons why?
 - (c) What shall the audit team inspect for indications of the existence of related party relationships or transactions that management has not previously identified or disclosed to them?
 - (d) Audit Procedures to be followed by the Audit team for identifying significant Related Party Transactions outside the Company's Normal Course of Business.
 - (e) Matters that may be addressed in the discussion among the engagement team from time to time for understanding the entity's Related Party Relationships and Transactions.

ANSWERS TO THE CASE STUDY 43

I. Answers to the Multiple Choice Questions

1. (c) It is a Deemed Supply under the GST Law.
Reason: Transactions between different locations (with separate GST registrations) of same legal entity (eg., stock transfers or branch transfers) will qualify as 'supply' under GST as these are transactions between distinct persons. Although no consideration is charged, supply of goods from factory to retail store constitutes supply.
2. (c) Yes, because although they belong to the same entity but they are distinct persons under GST law.
Reason: Since supply of alcoholic liquor for human consumption in Uttarakhand is a non-taxable supply, the company is not required to obtain registration with respect to the same in Uttarakhand. In this case, air-conditioned restaurant in

Mumbai and liquor shop in Uttarakhand [though unregistered] shall be treated as establishments of distinct persons. Supply by Mumbai office to Uttarakhand office, in course or furtherance of business even without consideration will qualify as supply.

3. (a) To be reported as Relative Payments under the relevant Clause u/s 40(A)(2)(b) of the Income Tax Act, 1961.

Reason: A tax auditor has to report under Clause 23 of Form 3CD which deals with the particulars of payments made to persons specified under Section 40A(2)(b) of the Income Tax Act, 1961. Where the assessee is an individual, the specified persons include any relative of the assessee (i.e. Husband, Wife, Brother, Sister or any other Lineal Ascendant or Descendant). In the present case, an assessee has paid rent to his brother ₹ 2,50,000 and interest to his sister of ₹ 4,00,000 which may be disallowed if, in the opinion of the Assessing Officer, such expenditure is excessive or unreasonable having regard to:

- (1) the fair market value of the goods, services or facilities for which the payment is made; or
- (2) for the legitimate needs of business or profession of the assessee; or
- (3) the benefit derived by or accruing to the assessee from such expenditure.

4. (c) No as A Ltd. has no other Interest in Mahajan Food Products Ltd.

Reason: A customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, simply by virtue of the resulting economic dependence is not a related party as per Ind AS 24.

5. (a) True, as the Firm shall be treated as Distinct Persons with separate registrations in Delhi and West Bengal.

Reason: A person who has obtained/is required to obtain more than one registration, whether in one State/Union territory or more than one State/Union territory shall, in respect of each such registration, be treated as distinct persons [Section 25(4) of the CGST Act].

II. Answers to the Descriptive Questions

6. Mahajan Food Products Ltd. would include the total revenue of ₹ 96,00,000 (₹ 80,00,000 + ₹ 16,00,000) from ABC Ltd. received / receivable in the year ended 31st March 2023 within its revenue and show ₹ 36,00,000 within trade receivables at 31st March 2023. Mrs. Birla would be regarded as a related party of Mahajan Food Products Ltd. because she is a close family member of one of the key management personnel of the Company.

From 1st June 2022, ABC Ltd. would also be regarded as a related party of Mahajan Food Products Ltd. because from that date ABC Ltd. is an entity controlled by another related party.

Because ABC Ltd. is a related party with whom Mahajan Food Products Ltd. has transactions, then Mahajan Food Products Ltd. should disclose:

- The nature of the related party relationship.
- The revenue of ₹ 80,00,000 from ABC Ltd. since 1st June, 2022.
- The outstanding balance of ₹ 36,00,000 at 31st March, 2023.

In the current circumstances it may well be necessary for Mahajan Food Products Ltd. to also disclose the favourable terms under which the transactions are carried out.

7. (a) Many related party transactions are in the normal course of business. In such circumstances, they may carry no higher risk of material misstatement of the financial statements than similar transactions with unrelated parties. However, the nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated parties. For example:
- ◆ Related parties may operate through an extensive and complex range of relationships and structures, with a corresponding increase in the complexity of related party transactions.
 - ◆ Information systems may be ineffective at identifying or summarising transactions and outstanding balances between an entity and its related parties.
 - ◆ Related party transactions may not be conducted under normal market terms and conditions; for example, some related party transactions may be conducted with no exchange of consideration.
- (b) In the context of related parties, the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for such reasons as the following:
- ◆ Management may be unaware of the existence of all related party relationships and transactions, particularly if the applicable financial reporting framework does not establish related party requirements.
 - ◆ Related party relationships may present a greater opportunity for collusion, concealment or manipulation by management.

- (c) In particular, the auditor shall inspect the following for indications of the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor:
- ◆ Bank, legal and third party confirmations obtained as part of the auditor's procedures;
 - ◆ Minutes of meetings of shareholders and of those charged with governance; and
 - ◆ Such other records or documents as the auditor considers necessary in the circumstances of the entity.
- (d) For identified significant related party transactions outside the entity's normal course of business, the auditor shall:
- ◆ Inspect the underlying contracts or agreements, if any, and evaluate whether:
 - The business rationale (or lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets;
 - The terms of the transactions are consistent with management's explanations; and
 - The transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework; and
 - ◆ Obtain audit evidence that the transactions have been appropriately authorised and approved.
- (e) Matters that may be addressed in the discussion among the engagement team include:
- ◆ The nature and extent of the entity's relationships and transactions with related parties (using, for example, the auditor's record of identified related parties updated after each audit).
 - ◆ An emphasis on the importance of maintaining professional skepticism throughout the audit regarding the potential for material misstatement associated with related party relationships and transactions.
 - ◆ The circumstances or conditions of the entity that may indicate the existence of related party relationships or transactions that management has not identified or disclosed to the auditor (e.g., a

complex organisational structure, use of special-purpose entities for off-balance sheet transactions, or an inadequate information system).

- ◆ The records or documents that may indicate the existence of related party relationships or transactions.
- ◆ The importance that management and those charged with governance attach to the identification, appropriate accounting for, and disclosure of related party relationships and transactions (if the applicable financial reporting framework establishes related party requirements), and the related risk of management override of relevant controls.

CASE STUDY 44

Akash, Bhawanmeet & Rupali have been friends since their College days and they had decided to pursue Chartered Accountancy after Graduation. Although they didn't find success so easily but all eventually became Chartered Accountants within a period of 5 years from their graduation. The trio ventured into practice and set up their own offices at Ambala in Haryana as sole proprietors. Their plan was to obtain expertise in different fields working individually and then form a partnership firm, at an appropriate time in future with 3 of them as the partners to reap and share the fruit of each other's expertise and experience through a common platform. Where Akash ventured into Taxation matters, Bhawanmeet took upon Forensics and Rupali gained expertise in Corporate matters and Statutory Audits.

Saman Pvt. Ltd. is a company set up 7 years ago, deals in the manufacturing & trading of Electronic Appliances and is registered in the state of Haryana. The Company's Board of Directors has always made it sure that their company is fully compliant with all the laws, applicable to it and duly fulfils each and every responsibility as per the law. Due to sudden demise of their statutory auditor, the Board is on the look out to engage a new professional to look after compliance matters of the Company. CA Akash who has been associated with the Company since 2017 to look after the Income tax & GST compliance, suggested appointment of CA Rupali as the Statutory Auditor of the Company to fill the casual vacancy created by sudden demise of the previous Statutory Auditor. The Board of Directors approached CA Rupali for the same and appointed her as the Statutory Auditor of the Company till the conclusion of the next Annual General Meeting of the Company.

Aman Saini, the son of the Managing Director of the Company, Mr. Vineet Saini, has joined the Board of Directors as a new director just recently. Aman is a Post Graduate from Harvard University and is very keen to know about the Indian way of doing business and various compliances Indian businesses have to make during a financial year. He requests CA Akash and CA Rupali for a meeting to get requisite knowledge about their work and how could they work together in future for establishing the Company's reputation as a known brand in the domestic as well as global market.

On the Scheduled day and time, all 3 of them met and discussed about the working of the Company.

Aman is keen to know about GST reconciliation statement applicability on one of his separate ventures - Aman & Co. as he has heard that there were a lot of challenges faced by the Professionals since implementation of GST in India in 2017 and the due dates to get GST Return to be filed by the assesseees was being extended time and again. Aman & Co. is a footwear manufacturing firm and is registered with GST in Delhi and its branches registered in Punjab & Haryana.

Its aggregate turnover for the F.Y. ended 31st March, 2023 is:

Delhi: ₹ 1.8 crore,

Punjab: ₹ 1.2 crore and

Haryana: ₹ 2.7 crore.

However, the branch registered in Punjab is making only exempt supplies.

Aman calls upon the Head accountant of the company and asks him to discuss the issue of treatment of post supply discounts under GST Law and Income tax deductions as narrated by him to Aman. The Head accountant tells CA Akash that:-

- (a) Their Company gives a discount of 30% on the list price to its distributors. Thus, for a carton of Product X, in the invoice the list price is mentioned as ₹ 2,000, on which a discount of 30% is given to arrive at the final price of ₹ 1,400. The Head accountant is confused as to what should be the value of supply under GST law for calculation of GST liability.
- (b) The Company has appointed distributors across the country who sells the televisions manufactured by it. The maximum retail price (MRP) printed on the package of a television is ₹ 24,000. The applicable rate of GST on televisions is 18%. The Company dispatches the stock of televisions to its distributors ordered by them on a quarterly basis.

In order to promote its sales, the Sales Head of the company has formulated a sales promotion scheme. Under this scheme, it offers a discount of 10% (per television) on televisions supplied to the distributors if the distributors sell 500 televisions in a quarter. The discount is offered on the price at which the televisions are sold to the distributors (excluding all charges and taxes). It has appointed Shah Electronics (an unrelated party as per GST Law) as its distributor in Haryana on 1st April and dispatches 750 televisions on 8th April as stock for the quarter April-June. It has sold the televisions to distributor - Shah Electronics at ₹ 16,800 per television (exclusive of applicable taxes). Shah Electronics has requested the company for a special packing of the televisions delivered to it for which it has charged ₹ 2,400 per television.

Shah Electronics places a purchase order of 1,000 televisions with their company for the quarter July-September. The distributor reports sales of 700 televisions for the quarter April-June and 850 televisions for the quarter July-September. The discount policy offered by the company as explained above is also available to Shah Electronics as per the distributorship agreement.

While Shah Electronics reverses the input tax credit availed for the quarter July-September, it has failed to reverse the input tax credit availed for the quarter April-June.

- (c) He further wants to gain knowledge of the deduction available to their company to which section 44AB is applicable in respect of new employees recruited during the F.Y. 2022-23 on 20th April, 2022, due to which there was increase in the total number of employees. The additional employee cost borne by the company during the year 2022-23 was ₹ 20 lakhs. The company was already incurring employee cost of ₹ 40 lakhs till now in respect of employees recruited before two immediately previous years. The new employees recruited as well as the previous employees of the company are regular employees having monthly emoluments of ₹ 24,000 each, paid by NEFT, who do not participate in any provident fund as well as the Government do not contribute for such employees in any Employees Pension scheme, as notified.

CA Akash resolves these queries of the Head Accountant suitably.

Aman, then starts discussing with CA Rupali on Corporate matters. He puts forward the following information and extracts relating to the Company and wants to know certain facts and legal provisions regarding the Borrowings from Financial Institutions and Charitable contributions that can be made by the Company-

	As at 31.03.2021 (₹)	As at 31.03.2022 (₹)	As at 31.03.2023 (₹)
Paid up capital	50,00,000	50,00,000	74,00,000
General Reserve	40,00,000	42,50,000	49,00,000
Credit Balance in Profit & Loss Account	5,00,000	7,50,000	12,00,000
Debenture Redemption Reserve	15,00,000	20,00,000	22,00,000
Securities Premium	2,00,000	2,00,000	5,00,000
Secured Loans	10,00,000	15,00,000	33,00,000

On going through other records of the Company, the following is also determined:

Net Profit for the year (as calculated in accordance with the provisions of the Companies Act, 2013)	14,50,000	18,00,000	33,50,000
--	-----------	-----------	-----------

In the ensuing Board Meeting scheduled to be held on 18th July, 2023, among other items of agenda, following items are also appearing:

- (i) To decide about borrowing from financial institutions on long-term basis.
- (ii) To decide about contributions to be made to charitable funds.

Further, Mr. Ashok Chauhan, an employee from the Legal department brings into notice a legal query and the Head accountant seeks its solution to account for in the Books of Account. Mr. Chauhan tells them that on 1st January, 2023, Saman Pvt. Ltd. was

notified that a customer was taking legal action against the company in respect of financial losses incurred by the customer. Customer alleged that the financial losses were caused due to supply of faulty products on 30th September, 2022 by the Company. Saman Pvt. Ltd. defended the case but considered, based on the progress of the case up to 31st March, 2023, that there was a 75% probability they would have to pay damages of ₹ 20 lakhs to the customer. However, the Head accountant has not recorded this transaction in the financial statements as the case was not yet finally settled. The case was ultimately settled against the company resulting in to payment of damages of ₹ 24 lakhs to the customer on 15th May, 2023. The financial statements have been authorized by the Board of Directors in its meeting held on 18th May, 2023. CA Rupali helps them in accounting for this issue in the books of account appropriately.

Also, the accountant puts forward an accounting query to be resolved by CA Rupali. He states that the Company has sold goods to Mars Ltd. at a consideration of ₹ 100 lakhs, the receipt of which receivable in three equal installments of ₹ 33,33,333 over a two year period (receipts on 1st April, 2022, 31st March, 2023 and 31st March, 2024).

The company is offering a discount of 5 % (i.e. ₹ 5,00,000) if payment is made in full at the time of sale. The sale agreement reflects an implicit interest rate of 5.36% p.a.

The total consideration to be received from such sale is at ₹ 100 Lakhs and hence, he has recognised the revenue from sale of goods for ₹ 100 lakhs. Further, the management is of the view that there is no difference in this aspect between Indian GAAP and Ind AS. CA Rupali takes it under consideration and gives an appointment to the Head accountant to meet her in the office, the following day with all the required documents and information to sort this issue out.

Further, Aman tells them that he is suspicious of some financial irregularities he has noticed in the Company's accounts and believes that if not controlled and acted upon at the right time, it may lead to the situation of a Fraud taking place in the company and to avoid such situation to occur in future, he seeks CA Rupali's help to which she suggests Aman to hire the professional services of CA Bhawanmeet and get a Forensic Audit carried out into the Company's affairs and Books of account to which Aman agrees and does the same.

I. Multiple Choice Questions

1. Comment on the applicability of furnishing self-certified reconciliation statement under GST on Aman & Co. for the Financial Year 2022-23.
 - (a) Not applicable as the Turnover is below threshold limit in each state.
 - (b) Applicable as, the total aggregate turnover of all such branches is considered while calculating the threshold limit.

- (c) Not applicable, as the supplies being affected in Punjab are not to be counted in aggregate turnover for the purpose of applicability of furnishing self-certified reconciliation statement under GST.
- (d) Applicable as entities having multi-state/UT units have to furnish self-certified reconciliation statement under GST mandatorily irrespective of the Aggregate Turnover condition.
2. What should be the Value of supply of Product X for calculation of GST liability as asked by the Head accountant?
- (a) ₹ 2,000
- (b) ₹ 2,600
- (c) ₹ 1,400
- (d) ₹ 2,850
3. In which form reconciliation statement under GST would be required to be furnished by Aman & Co. and by what date?
- (a) GSTR-9C by 31.12.2023
- (b) GSTR-9 by 31.12.2023
- (c) GSTR-9C by 31.12.2024
- (d) GSTR-9C by 31.12.2022
4. What amount of total deduction would be available to Saman Pvt. Ltd. w.r.t. employee cost under the Income tax Act, 1961 for the Previous Year 2022-23?
- (a) ₹ 20 lakhs
- (b) ₹ 60 lakhs
- (c) ₹ 18 lakhs
- (d) Nil
5. Analyse whether the accounting treatment made by the head accountant w.r.t. the case filed by a customer as narrated by Mr. Chauhan is in compliance of the Ind AS?
- (a) No, a Provision of ₹ 15 lakhs is required to be made in the Books of account.
- (b) No, a Provision of ₹ 24 lakhs is required to be made in the Books of account.
- (c) Yes, No Provision is required to be made as the amount estimation is just a probability.
- (d) Provision should be made in the Financial Year 2023-24 of ₹ 24 lakhs.

II. Descriptive Questions

6. Compute the taxable value of televisions supplied by Saman Pvt. Ltd. to Shah Electronics during the quarters April-June and July-September assuming the rate of tax applicable on the televisions as 18%.
7. Discuss the differences between the types of audit as carried out by CA Rupali & CA Bhawanmeet.
8. Analyse whether the accounting treatment made by the accountant w.r.t. revenue recognition in the case of sale made to Mars Ltd. by Saman Pvt. Ltd., is in compliance of the Ind AS. If not, advise the correct treatment along with working for the same as might have been suggested by CA Rupali.

ANSWERS TO THE CASE STUDY 44

I. Answers to the Multiple Choice Questions

1. (b) Applicable as the total aggregate turnover of all such branches is considered while calculating the threshold limit.

Reason: Every registered person, other than those referred to in the second proviso to section 44, an Input Service Distributor, a person paying tax under section 51 or section 52, a casual taxable person and a non-resident taxable person, whose aggregate turnover during a financial year exceeds five crore rupees, shall also furnish a self-certified reconciliation statement as specified under section 44 in FORM GSTR-9C along with the annual return referred in subrule (1), on or before the thirty-first day of December following the end of such financial year, electronically through the common portal either directly or through a Facilitation Centre notified by the Commissioner.

2. (c) ₹ 1,400

Reason: The value is ₹ 1,400, as the discount is allowed at the time of supply and shown in the invoice.

Post supply discounts, i.e. the discounts that are given after supply is made are allowed as a deduction from the value of supply if the following two conditions are satisfied:

- Discount is in terms of an agreement that existed at the time of supply and can be worked out invoice-wise; and
- Proportionate input tax credit is reversed by the recipient - The buyer would have availed input tax credit of GST payable on the gross value

specified in the invoice. Thus, when a credit note is issued to him by the supplier for the discount, the buyer will reverse the proportionate credit; consequent to which, the supplier's output tax liability will be reduced by the same amount.

3. (a) GSTR-9C by 31.12.2023

Reason: Every registered person, other than those referred to in the second proviso to section 44, an Input Service Distributor, a person paying tax under section 51 or section 52, a casual taxable person and a non-resident taxable person, whose aggregate turnover during a financial year exceeds five crore rupees, shall also furnish a self-certified reconciliation statement as specified under section 44 in FORM GSTR-9C along with the annual return referred in subrule (1), on or before the thirty-first day of December following the end of such financial year, electronically through the common portal either directly or through a Facilitation Centre notified by the Commissioner.

4. (c) ₹ 18 lakhs

Reason: U/s 80 JJAA of the Income tax Act, 1961, Where the gross total income of an assessee to whom section 44AB applies, includes any profits and gains derived from business, a deduction of an amount equal to 30% of additional employee cost incurred in the course of such business in the previous year, would be allowed for three assessment years including the assessment year relevant to the previous year in which such employment is provided. Hence, total deduction under the Income tax law comes out to be ₹ 40 lakhs + ₹ 20 lakhs = ₹ 60 lakhs * 30% = ₹ 18 lakhs.

5. (b) No, a Provision of ₹ 24 lakhs is required to be made in the Books of account.

Reason: The Accountant of Saman Pvt. Ltd. has not recognised the provision and accordingly not adjusted the amounts recognised in its financial statements to reflect adjusting events after the reporting period is not correct and nor in accordance with provision of Ind AS 37 and Ind AS 10.

As per given facts, the potential payment of damages to the customer is an obligation arising out of a past event which can be reliably estimated. Therefore, following the provision of Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets' – a provision is required.

The provision should be for the best estimate of the expenditure required to settle the obligation at 31st March, 2023 which comes to ₹ 15 lakhs (₹ 20 lakhs x 75%). Further, following the principles of Ind AS 10 'Events After the Reporting Period' evidence of the settlement amount is an adjusting event. Therefore, the amount of provision created shall be increased to ₹ 24 lakhs and accordingly be recognised as a current liability.

II. Answers to the Descriptive Questions

6. Section 15(3)(a) as per CGST Act allows discounts to be deducted from the value of taxable supply if the same is given before or at the time of the supply and if such discount has been duly recorded in the invoice issued in respect of such supply. In other words, pre-supply discounts recorded in invoices are allowed as deduction.

Further, post supply discounts are also allowed as deduction from the value of supply under section 15(3)(b) if-

- (i) such discount is established in terms of an agreement entered into at or before the time of such supply and specifically linked to relevant invoices; and
- (ii) input tax credit as is attributable to the discount on the basis of document issued by the supplier has been reversed by the recipient of the supply.

In the given case, Shah Electronics is entitled for 10% discount on televisions supplied by the company Saman Pvt. Ltd. for the quarters April-June as well as July-September as it has sold more than 500 televisions in each of these quarters. However, since the sales targets are achieved after the entire stock for the respective quarters of April-June and July-September has been dispatched, the discounts on the televisions supplied to Shah Electronics for the quarters of April-June and July-September is a post-supply discount.

Such post-supply discount will be allowed as a deduction from the value of supply since the discount policy was known before the time of such supply and the discount can be specifically linked to relevant invoices (invoices pertaining to televisions supplied to Shah Electronics for the quarters of April- June and July-September) provided Shah Electronics reverses the input tax credit attributable to the discount on the basis of document issued by Saman Pvt. Ltd.

The value of supply for the quarters of April-June and July-September will thus, be computed as under:

Computation of value of supply for the quarter - April-June

Particulars	Amount (₹)
Price at which the televisions are supplied to Shah Electronics [Note 1]	16,800
Add: Packing expenses [Note 2]	2,400
Less: Discount [Note 3]	Nil
Value of taxable supply of one unit of television	19,200
Value of taxable supply of televisions for the quarter April-June [₹ 19,200 x 750]	1,44,00,000

Notes:

- (1) The value of a supply is the transaction value, which is the price actually paid or payable for the said supply, in terms of section 15(1) presuming that the supplier and the recipient of supply are not related and price is the sole consideration for the supply as the supplier and recipient are not related parties.
- (2) The value of supply includes incidental expenses like packing charges in terms of section 15(2)(c).
- (3) Since Shah Electronics has not reversed the input tax credit attributable to such discount on the basis of document issued by Saman Pvt. Ltd., the conditions specified in section 15(3)(b) have not been fulfilled. Thus, the post-supply discount will not be allowed as deduction from the value of supply.

Computation of value of supply for quarter - July-September

Particulars	Amount (₹)
Price at which the televisions are supplied to Shah Electronics [Note 1]	16,800
Add: Packing expenses [Note 2]	2,400
Less: Discount [Note 3]	(1680)
Value of taxable supply of one unit of television	17,520
Value of taxable supply of televisions for the quarter July-September [₹ 17,520 x 1,000]	1,75,20,000

Notes:

- (1) The value of a supply is the transaction value, which is the price actually paid or payable for the said supply, in terms of section 15(1) presuming that the supplier and the recipient of supply are not related and price is the sole consideration for the supply as the supplier and recipient are not related parties.
 - (2) The value of supply includes incidental expenses like packing charges in terms of section 15(2)(c).
 - (3) Since all the conditions specified in section 15(3)(b) have been fulfilled, the post-supply discount will be allowed as deduction from the value of supply. The input tax credit to be reversed will work out to be ₹ 3,02,400 [1,000 x (16,800 x 10%) x 18%].
7. While it is true that many of the financial statements and frauds could have, perhaps should have, been detected by financial auditors, the vast majority of frauds could not be detected with the use of financial audits. Reasons include the dependence of

financial auditors on a sample and the auditors' reliance on examining the audit trail versus examining the events' and activities behind the documents. The latter is simply resource prohibitive in terms of costs and time.

There are some basic differences today between the procedures of forensic auditors and those of financial auditors. In comparison, forensic accounting and audit differ in specific ways, as shown below.

A forensic accountant will often look for indications of fraud that are not subject to the scope of a financial statement audit. Forensic Accounting has **Investigative mentality" however auditing is done with "professional scepticism". A forensic accountant will often require more extensive corroboration. A forensic accountant may focus more on seemingly immaterial transactions.**

Sr. No.	Particulars	Other Audits – CA Rupali	Forensic Audit – CA Bhawanmeet
1.	Objectives	Express an opinion as to 'True & Fair' presentation.	Whether fraud has actually taken place in books.
2.	Techniques	Substantive & Compliance. Sample based	Investigative, substantive or in-depth checking.
3.	Period	Normally for a particulars accounting period.	No such limitations.
4.	Verification of stock, Estimation realisable value of assets, provisions, liability etc.	Relies on the management certificate/Management Representation.	Independent/verification of suspected/selected items where misappropriation in suspected.
5.	Off balance sheet items (like contracts etc.)	Used to vouch the arithmetic accuracy & compliance with procedures.	Regulatory & propriety of these transactions/contracts are examined.
6.	Adverse findings if any	Negative opinion or qualified opinion expressed with/without quantification.	Legal determination of fraud impact and identification of perpetrators depending on scope.

8. The revenue from sale of goods shall be recognised at the fair value of the consideration received or receivable. The fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest where the receipt is

deferred beyond normal credit terms. The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue.

The fair value of consideration (cash price equivalent) of the sale of goods is calculated as follows:

(₹)

Year	Consideration (Installment)	Present value factor	Present value of consideration
Time of sale	33,33,333	1.000	33,33,333
End of 1 st year	33,33,333	0.949	31,63,333
End of 2 nd year	<u>33,33,334</u>	0.901	<u>30,03,334</u>
	<u>1,00,00,000</u>		<u>95,00,000</u>

The Company that agrees for deferring the cash inflow from sale of goods will recognise the revenue from sale of goods and finance income as follows:

Initial recognition of sale of goods		(₹)	(₹)
Cash	Dr.	33,33,333	
Trade Receivable	Dr.	61,66,667	
To Sale			95,00,000
Recognition of interest expense and receipt of second installment			
Cash	Dr.	33,33,333	
To Interest Income			3,30,533
To Trade Receivable			30,02,800
Recognition of interest expense and payment of final installment			
Cash	Dr.	33,33,334	
To Interest Income (Balancing figure)			1,69,467
To Trade Receivable			31,63,867

Statement of Profit and Loss (extracts)
for the year ended 31st March, 2023 and 31st March, 2024

	As at 31 st March, 2023	As at 31 st March, 2024
Income		
Sale of Goods	95,00,000	-
Other Income (Finance income)	3,30,533	1,69,467

Balance Sheet (extracts) as at 31st March, 2023 and 31st March, 2024

	As at 31 st March, 2023	As at 31 st March, 2024
Assets		
Current Assets		
<u>Financial Assets</u>		
Trade Receivables	31,63,867	XXX