Mock Test Paper - Series II: April, 2024

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FINAL COURSE: GROUP – II

PAPER – 6: INTEGRATED BUSINESS SOLUTIONS

SUGGESTED ANSWERS

ANSWERS TO THE CASE STUDY 1

I. Answers to the Multiple Choice Questions

1. (b) Under Rule 12 of the FCRA Registration rules, an application for renewal of certificate of registration shall be made to Central Government in electronic form in form FC-3C within six months before the date of expiry of the certificate of registration. FCRA is administered by Union Ministry of Home Affairs. Therefore, application for registration of trust may be made in month of June, 2023.

Further under section 17(1) of the FCRA, 2010, every person who has been granted certificate or prior permission under section 12, shall receive foreign contribution only in an account designated as "FCRA Account" by bank, which shall be opened by him for the purpose of remittances of foreign contribution in such branch of State Bank of India, New Delhi, as Central Government may, by notification, specify in this behalf.

2. (c) Section 8 of the FCRA stipulates that every person who is granted a certificate or given prior permission to receive foreign contributions shall utilize such contribution for the purposes for which the contribution has been received. It further provides that such person shall not defray as far as possible such sum, not exceeding 20% of such contribution received in a financial year to meet administrative expenses. It further states that administrative expenses exceeding 20% of such contribution may be defrayed with prior approval of Central Government. Rule 5 of FCRA rules states that cost of writing and filing reports is in nature of administrative expenses.

3. (c) Section 7 of the FCRA states that no person who is registered and granted a certificate or has obtained prior permission under this Act and receives any foreign contribution shall transfer such foreign contribution to any other person. Keeping in view above, it is clear that foreign contribution received by DBS Trust cannot be transferred to any other person. It is immaterial whether such person is FCRA registered or not.

4. (b) It is clear from case study that trust had complied with changed requirements of registration in 2021 and had registered itself under section 12AB of the Income Tax Act, 1961. In accordance with section

12A(1)(ac)(ii), where trust is registered under section 12AB, it shall make an application to Principal Commissioner or Commissioner at least six months prior when said registration is due to expire.

Rule 17A states that application made under section 12A(1)(ac)(ii) shall be in Form No.10AB. It also requires that applications shall be accompanied by self-certified copy of registration under the FCRA, 2010, if the applicant is registered under the Act.

5. (a) Under the FCRA Rules, every person who receives foreign contribution under the Act is required to submit a report in Form FC-4 accompanied by income and expenditure statement, receipt and payment account and balance sheet for every financial year within 9 months of closure of financial year. Under the rules, FC-4 is an annual return. Submission of a NIL return, even if there is no receipt/utilization of foreign contribution during the year, is mandatory. However, in such case, certificate from Chartered Accountant and audited statement of accounts is not required to be uploaded.

II. Answers to the Descriptive Questions

6. The Central Government may, before renewing the certificate, make such inquiry, as it deems fit, to satisfy itself that such person has fulfilled all conditions specified in Section 12(4) of the FCRA, 2010. The conditions are as under: -

(a) The person making such application: -

i. is not fictitious or benami

ii. has not been prosecuted or convicted for indulging in activities aimed at conversion through inducement or force, either directly or indirectly, from one religious faith to another

iii. has not been prosecuted or convicted for creating communal tension or disharmony in any specified district or any other part of the country.

iv. has not been found guilty of diversion or mis-utilisation of its funds

v. is not engaged or likely to engage in propagation of sedition or advocate violent methods to achieve its ends

vi. is not likely to use the foreign contribution for personal gains or divert it for undesirable purposes

vii. has not contravened any of the provisions of this Act

viii. has not been prohibited from accepting foreign contribution

(b) the person making an application has undertaken reasonable activity in its chosen field for the benefit of the society for which the foreign contribution is proposed to be utilized.

(c) the person making an application has prepared a reasonable project for the benefit of the society for which the foreign contribution is proposed to be utilized.

(d) the person being an individual, such individual has neither been convicted under any law for the time being in force nor any prosecution for any offence is pending against him.

(e) the person being other than an individual, any of its directors or office bearers has neither been convicted under any law for the time being in force nor any prosecution for any offence is pending against him.

(f) the acceptance of foreign contribution by the association/ person is not likely to affect prejudicially

i. the sovereignty and integrity of India

ii. the security, strategic, scientific or economic interest of the State

iii. the public interest

iv. freedom or fairness of election to any Legislature,

v. friendly relation with any foreign State

vi. harmony between religious, racial, social, linguistic, regional groups, castes or communities.

(g) the acceptance of foreign contribution

i. shall not lead to incitement of an offence

ii. shall not endanger the life or physical safety of any person.

The matters highlighted in case study pertain to an environmental agitation turning violent. There are also allegations of using foreign contributions by a trust member for personal jaunts which is in nature of personal gains. Central Government has power to make inquiry in respect of such matters as discussed above.

7. (a) For assessing audit risk, the auditor shall consider and examine all components of audit risk. DBS Trust is in receipt of substantial foreign contributions. It may make transactions inherently risky. The credibility and integrity of persons behind NGO is important.

Shady NGOs can be involved in money laundering activities or in mis-utilizing funds received from donors. Besides, trust is over-zealous in in its approach and has been accused of stalling development projects. The auditor needs to assess whether trust continues to comply with conditions for registration under the FCRA. Non-compliance with provisions of the FCRA can make activities of NGO risky. It can have serious implications for the trust as it could lead to cancellation of FCRA certificate and other regulatory consequences. Drying up of foreign donations due to cancellation of FCRA certificate can hamper its activities badly as such donations are its main source of funding. Therefore, it requires proper assessment of control risk that control systems and procedures are operating effectively to comply with provisions of the FCRA.

The auditor is conducting audit of trust for the first time. Therefore, it may lead to higher detection risk due to inappropriate sampling procedures or faulty application of audit procedures.

(b) In accordance with SA 250, 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.

8. Under provisions of section 11(1A), where a capital asset, being property held under trust wholly for charitable or religious purposes, is transferred and the whole or any part of the net consideration is utilised for acquiring another capital asset to be so held, then, the capital gain arising from the transfer shall be deemed to have been applied to charitable or religious purposes to the extent specified hereunder, namely: —

(i) where the whole of the net consideration is utilised in acquiring the new capital asset, the whole of such capital gain

(ii) where only a part of the net consideration is utilised for acquiring the new capital asset, so much of such capital gain as is equal to the amount, if any, by which the amount so utilised exceeds the cost of the transferred asset

In the given case, since whole of proposed net consideration is to be utilized in acquiring new capital asset to be so held, the whole of the capital gain arising from proposed sale shall be deemed to have been applied for charitable purposes.

ANSWERS TO THE CASE STUDY 2

I. Answers to the Multiple Choice Questions

1. **(c)** Any sum including bonus received under Keyman Insurance Policy is taxable in the hands of Fresh Foods and insurance paid under Keyman Insurance Policy pertaining to life of partners of Fresh Foods is a deductible expenditure.

2. **(b)** statements (ii) and (iii) are not true regarding examination of prospective financial statements by CA Anil.

CA Anil cannot express an opinion on whether the results shown in the prospective financial information can be achieved or not. CA Anil cannot vouch for the accuracy of projections while examining the prospective financial statements.

3. **(c)** Relevant costing is used for short-run tactical decision making, where one course of action has to be taken amongst various feasible options. These are business decisions are made concerning very specific business situations which exist over a very short time horizon. Yearly budgeting planning has a longer time frame and requires strategic decision making rather than tactical decision making. Hence, relevant costing techniques may not be very useful here. Standard costing techniques may be used to determine the standard rate of material, labor, overheads etc. while determining the price of individual products.

4. **(a)** (i), (iii) and (iv)

Inspection utilizes time and resources to ensure that products meet specifications. While it is essential, it does not add additional value to the product itself and has to be minimize by following quality management techniques. Rework on the order due to not meeting customer specifications is a waste of time and resources and does not add value to the product. Wait time lost due to non availability of ovens arises due to bottlenecks in the process and hence is a waste, non value adding activity.

Kaizen costing methodologies aim to eliminate waste in business processes. Reduction in the turnaround time in delivering the order to the customer ensures shorter customer response time, builds efficiency and add value for customer. Hence, this is value adding activity.

5. **(b)** These factors are fundamental to strategic success. CSF provide information that can be used to outperform competitors and improve on its core competencies.

II. Answers to the Descriptive Questions

6. **(i)** As per *Explanation 3* to section 40(b), “book profit” shall mean the net profit as per the profit and loss account of the previous year computed as laid down in Chapter IV-D as increased by the aggregate amount of the remuneration paid or payable to the partners of the firm if the same has been already deducted while computing the net profit.

In the present case, the net profit given is before deduction of depreciation on plant and machinery, interest on capital of partners and salary to the working partners. Therefore, the book profit will be computed as follows:

Particulars	**₹**	**₹**
Net Profit (before deduction of depreciation, interest and salary)		30,00,000
Less		

Depreciation on plant and machinery as per section 32	5,00,000	
Interest @ 12% p.a. (maximum allowable as per section 40(b))		
Ajay – 12% of ₹10,00,000 = 1,20,000		
Biren – 12% of ₹10,00,000 = 1,20,000		
Chan – 12% of ₹50,00,000 = 6,00,000		
Total interest deductible	8,40,000	
Total deductions		13,40,000
Book Profit		16,60,000

(ii) As per section 40(b), remuneration paid to non-working partner whether in the form of salary, bonus, commission or whatever name called is not allowed to be deducted in computing business income. Hence, remuneration of ₹10,000 per month i.e. ₹ 1,20,000 per annum paid to non-working partner Chand is not allowed as a deduction.

Ajay and Biren, the working partners were each paid ₹50,000 per month. Hence, the working partners totally received ₹12,00,000 per annum as salary.

As per section 40(b)(v) the salary paid to working partners will be allowed subject to the following limits:

On the first ₹ 3,00,000 of book profit or in case of loss	₹1,50,000 or 90% of book profit, whichever is more
On the balance of book profit	60% of the balance book profit

Therefore, the maximum allowable working partner's salary for the A.Y. 2024-25 would be:

Particulars	**₹**
On the first ₹ 3,00,000 of book profit (₹1,50,000 or 90% of book profit, whichever is more)	2,70,000
On the balance book profit (60% of (₹16,60,000 - ₹ 3,00,000) = 60% of ₹13,60,000	8,16,000
Total	10,86,000

Hence, the allowable partner salary for the A.Y. 2024-25 as per the provisions of section 40(b) would be ₹10,86,000 as against an actual payout of ₹12,00,000 to Ajay and Ben and ₹ 1,20,000 to Chand.

7. (I) **Dimensions at Fresh Foods:** Dimensions (goals) include financial and non-financial goals. Dimensions are further categorized as into results and determinants. Results are tracked as (a) financial performance and (b) competitive performance. Determinants are tracked as (a) quality, (b) flexibility (c) innovation and (d) resource utilization. Determinants influence results.

Results:

(a) Financial performance (result): Fresh Foods is a closely held partnership with 3 partners. Partners are interested in earning profits that have been benchmarked at an overall return on investment of at least 18% each year. Partners want to retain the current capital structure. They may take loans from banks for funding their expansion. They expect certain conditions to be laid down in terms of the debt service ratio and interest service ratio that may need to be maintained for the period that the loan is outstanding.

Profits margins under the industry are under pressure due to inflationary trends. Hence, despite having the leverage of charging premium prices to customers due the nature of the menu offered, Fresh Food has to track the profitability of business very closely.

Profits will be derived from the periodic financial statements that get prepared as part of the accounting function. In addition, other financial performance dimensions like profitability ratios like gross profit ratio, net profit ratio, operating margin, return of capital employed, cash profit and changes in cash reserves will provide information about the business profitability.

(b) Competitive performance (result): Fresh Foods wants to be a niche joint in a highly competitive segment. Their basis for competition is providing healthier food choices to customers based on vegetarian and vegan diet. However, comparison of peer performance is restricted on account of limitation in terms of availability of information due to the unorganized nature of the food industry. All the same, to begin with, one of the measures that can be helpful, will be the utilization of their 50 seat capacity at their restaurant. The benchmark capacity utilization of at least 90% would indicate that there is sufficient demand for their product offerings. In due course, based on popularity and profitability of the venture, it can consider further expansion plans. Segregation of its offerings into various classes such as A, B, C and D would help the management identify a good mix of popular and profitable items. This will help it develop its competitive edge.

Since the restaurant is a proposed trend setter within the industry, it will retain a competitive edge until its peers start replicating the same. Therefore, as this segment develops within the industry, one other measure for competitive performance could be re-engineer the menu to maintain variety and uniqueness as compared to its peers. Information to develop a robust menu offering could be gathered from published / researched sources like trade magazines as well as informal sources like customer feedback / word of mouth.

Determinants:

(c) Quality (determinant): The firm is focused on offering high quality food to its customers. High quality standards drive growth. Periodic weekly quality checks, external certifications from government food inspectors and other recognized agencies would also be required to be met. A formal record of quality issues identified by either the customer or team would help identify quality related issues. Non-compliance may require immediate attention of the management. For customer facing staff, periodic training programs can be initiated to educate the staff with people management skills. Therefore, Fresh Foods should focus on both product and service quality parameter and continuously work on improving them.

(d) Innovation (determinant): Healthy yet delectable vegetarian and vegan food choices is the unique selling point of Fresh Foods. This requires innovative efforts from qualified and skilled chefs. Segregation of the menu into various classes such as A, B, C and D based on popularity and profitability would help the management identify the food choices to focus on.

Innovation has to be constant and not a onetime exercise. Management may review the number of new variants that have been introduced in the menu, regularity of these introductions and customer feedback of the same.

(e) Flexibility (determinant): Growth in scale of operations combined with a competitive business environment implies that the firm should have some flexibility in its operations. The ability to build a robust supply chain that can deal with disruptions is very important for continuity of business operations as well as its future growth. For critical resources such as raw material, labour etc. the firm should have multiple partners who can provide for the requirements reliably. Appropriate investment in infrastructure in the kitchen, design and décor of the restaurant should be done to build flexibility in operations in order to scale up operations if customer demand picks up.

(f) Resource utilization (determinant): The ability to deliver food within 15 minutes of placing the order requires a high level co-ordination of order taking and food delivery systems. Errors in order taking process, stock outs due to unavailability of material should be avoided at all costs as it causes customer dissatisfaction. Not just this, chefs have to prepare the food economizing costs and minimizing food wastage. They would not just require the requisite skill, but also the right tools in the kitchen to make this happen. Appropriate kitchen infrastructure that can support this providing them with appropriate space, machines and tools for cooking and storage would be needed.

Therefore, some non-financial indicators to be tracked can be overtime / idle time of kitchen, ordering and delivery staff, turnaround time in these functions, table occupancy rate, breakage or wastage of material etc.

Social media platform represents another resource that may need to be used optimally to reach out to the maximum possible existing customers as well as potential ones. This will increase the market share of Fresh Foods.

(II) Standards at Fresh Foods:

(a) Standards are the benchmarks or targets related to the performance metric that is being tracked under each dimension. To be useful, standards should have the following characteristics:

Ownership: A clearly defined organization structure with well-defined roles will help Fresh Food assign authority and responsibility among its staff. This creates ownership for different functions.

Ajay in charge of restaurant operations, Biren in charge of finance, administration and marketing while Chand giving strategic direction and capital infusion clearly defines the role of each of the partners in the firm. They must now decide on the key performance metric that will help them track actual business performance.

Ajay, representing the concerned departments like kitchen and customer service staff, will be accountable for the quality of food and service (Dimension: Determinant; Quality). The formal record of food and service quality issues can be the basis for setting up appropriate metrics. Stock-outs due to supply chain management issues, non-availability of personnel etc. may also be assigned to Ajay (Dimension: Determinant; Flexibility).

Brien in charge of marketing will be in charge of generating maximum coverage for the business through social media. Number of promotional campaigns and the resultant conversion of potential customers into actual customers, may be a metric for marketing (Dimension: Determinant; Resource utilization). Similarly, ability to get the maximum credit period from suppliers, managing loans at effective rates (Dimension: Determinant; Flexibility*) etc. will be performance parameters Biren regarding the finance function.

(*Can also be related with financial performance)

(b) Achievability: Benchmarks and targets will be useful only if they are achievable. Being a partnership firm, each of the partners have a stake in the performance of the firm. Hence, they would need to have a clear understanding of the benchmarks and targets.

For example, Certain other parameters like the quantity sold and turnover of food choices under each of the Class A, Class B, Class C and Class D categories can also be tracked. (Dimension: Results; Financial Performance and Competitive Performance). Benchmarks can be set as to how many new food choices have been developed (Dimension: Determinants; Innovation) and of those how many have been Class A categories that ones that are profitable as well as popular (Dimension: Results; Competitive Performance).

Being the strategist, Chand can give inputs as to whether these benchmarks and targets are aligned with the firm's overall strategy.

If the target is set very high staff can get de-motivated. If set too low, will not raise the bar for performance. If not in line with the firm's overall strategy, there will be discord or gap between the firm's performance and what it wants to achieve.

(c) Equity: Benchmarks should be equally challenging for all parts of the business. Fresh Foods should customize its performance measure for each function like kitchen staff, order and customer service staff, finance staff, advertising staff etc.

For example, while turnaround time to meet a customer's order would be relevant metric to the kitchen, the effectiveness of promotional campaigns would be the relevant metric for the marketing department. The rigor of the target should be uniform across departments. Otherwise, the staff would view the benchmark system as being biased towards select functions within the firm.

Similarly, while Ajay and Biren are working partners, they should not view Chand, the non-working partner as a non-contributory resource. As per the current capital structure, Chand equally high stakes in business performance since his capital contribution is five times more than each of the other two partners.

(III) Rewards at Fresh Foods:

This relates to the reward structure within the firm that includes compensation package, bonus, rewards, awards, facilities provided to employees etc. Proper reward system is required for achievement of standards while maintaining costs at optimum levels. Fresh Foods should have a well defined HR policy for compensation, bonus, promotion and reward. A good system should have the following characteristics:

(a) Motivation: Does the reward system drive the people to achieve targets and standards? It is mentioned that high staff attrition is a perennial problem within the industry. Hence, a low reward system for the sake of keeping costs low, would not induce staff to work towards the goal.

While some part of compensation may be fixed, other parts can be made variable. For this, the performance measurement indicators have to be communicated and understood by the staff. For example, bonus of the marketing staff can be aligned to the sales generated, Chefs can be rewarded bonus based on turnover generated by the various categories of food choice as well quality measures etc. Keyman Insurance on key personnel is also a way of motivating and can help stem attrition to a certain extent.

Better job prospects in a growing environment would also be a good motivator. Fresh Foods plans to hire specialist chefs who have scope for innovation within the business mode. Similarly, customer facing staff are going to be given period training on customer management. Management should track various metric in this regard. Reward and recognition systems should act as a good motivator for all of them.

(b) Clarity: Communication and clarity are must for the staff to understand how their compensation package will be driven by the various performance measurement metrics. As regards the partners, they should also have clarity about how each of them will be individually compensated based on the performance measurement metrics. These can be defined within the partnership deed. Disputes about remuneration (salary, bonus, commission etc.) among the partners can even lead to dissolution of the partnership, which can negatively affect the continuity of business.

(c) Controllability: Unlike the traditional understanding, rewards need not be based only on the financial element that the staff can control. There may be other non-financial elements for which rewards can be given. Both aspects however need to be controllable by the staff concerned. For example, the chef can come up with a popular menu. If the pricing of the product, managed by the partners, is such that it results in a loss to Fresh Foods, the chef may not get the much deserved bonus. This is not a good reward system and might lead to attrition.

In the case of Fresh Foods, the partners have more control over the outcome of results than the staff. This should be used well in order keep the staff motivated while also ensuring requisite business performance.

ANSWERS TO THE CASE STUDY 3

I. Answers to the Multiple Choice Questions

1. **(b)** The current market price is the basis of exchange of equity shares, in the proposed merger, shareholders of JML will get only 2,00,000 shares in all or 4 shares of RPL for every 5 shares held by them, i.e., = (2,50,000 60)/ 75 = 2,00,000

The total number of shares in RPL will then be 12,00,000 and, ignoring any synergistic effect, the profit will be ₹ 13,00,00,000. The new earning per share (EPS) of RPL will be ₹ 108.33, i.e., ₹ 13,00,00,000/12,00,000.

2. **(c)** Permanent consolidation adjustments are those adjustments that are made only on the first occasion or subsequent occasions <u>in which there</u>

is a change in the shareholding of a particular entity which is consolidated.

3. (c) SA 710 - Para 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.

Here, CA Devanshi had identified that there was a misstatement last year pertaining to export revenues of the company and the same is still not corrected. Although an unmodified audit report was issued last year by her. In accordance with SA 710, CA Devanshi should modify current period audit report with respect to corresponding figures only.

4. (a) As per section 43B, interest payable by the assessee on interest on loan from a public financial institution is allowable as deduction only in the year in which such interest is actually paid by the assessee. The proviso to section 43B permits deduction if such sum is paid on or before the due date of filing of return under section 139(1) in respect of the previous year in which the liability to pay such sum was incurred.

Explanation 3C to section 43B clarifies that if any sum payable by the assessee as interest on any such loan is converted into a loan or borrowing or advance or debenture on any other instrument by which the liability to pay is deferred to a future date, the interest so converted and not "actually paid" shall not be deemed as actual payment, and hence, would not be allowed as deduction.

In this case, since RPL has converted the interest of ₹ 1 crore payable to BFCI Ltd. on loan borrowed from it, the interest so converted into debentures shall not be deemed as actual payment, and hence, would not be allowed as deduction while computing its profits and gains of business for A.Y.2024-25. Accordingly, the action of the Assessing Officer in rejecting the deduction of interest on loan claimed by RPL while computing its profits and gains of business for A.Y.2024-25, is correct.

5. (b) Equity Value of Company

	(₹ 000)
EBITDA (₹ 18,00,00,0000 - ₹ 4,00,00,000)	140000
EBITDA Multiple	4
Capitalized Value	560000
Less: Debt	(30000)
Add: Surplus Funds	50000
Equity Value	580000 (i.e. ₹ 58 crores)

II. Answers to the Descriptive Questions

6. Paragraph 56 of Ind AS 115 states that an entity shall include in the transaction price some or all of an amount of variable consideration estimated in accordance with paragraph 53 only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Further, paragraph 57 of Ind AS 115 state that in assessing whether it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur once the uncertainty related to the variable consideration is subsequently resolved, an entity shall consider both the likelihood and the magnitude of the revenue reversal.

RPL estimates that the consideration in the above contract is variable. Therefore, in accordance with paragraphs 56 and 57 of Ind AS 115, RPL is required to consider the constraints in estimating variable consideration. RPL determines that it has significant experience with this product and with the purchasing pattern of the JML. Thus, if RPL concludes that it is highly probable that a significant reversal in the cumulative amount of revenue recognised (i.e. ₹ 600 per unit) will not occur when the uncertainty is resolved (i.e. when the total amount of purchases is known), then the RPL will recognise revenue of ₹ 1,14,000 (190 T-shirts x ₹ 600 per T-shirt) for the half year ended 30th September, 2023.

Further, paragraphs 87 and 88 of Ind AS 115 states that after contract inception, the transaction price can change for various reasons, including the resolution of uncertain events or other changes in circumstances that change the amount of consideration to which an entity expects to be entitled in exchange for the promised goods or services.

An entity shall allocate to the performance obligations in the contract any subsequent changes in the transaction price on the same basis as at contract inception.

Consequently, an entity shall not reallocate the transaction price to reflect changes in stand-alone selling prices after contract inception. Amounts allocated to a satisfied performance obligation shall be recognised as revenue, or as a reduction of revenue, in the period in which the transaction price changes.

In accordance with the above, in the month of October 2023, due to change in circumstances on account of JML acquiring DCL and consequential increase in sale of T-shirts to JML, RPL estimates that JML's purchases will exceed the 2,000 T-shirts threshold till March 2024 for the period and therefore, it will be required to retrospectively reduce the price per T-shirt to ₹ 540.

Consequently, the RPL will recognise revenue of ₹ 6,36,600 for the quarter ended December 2023 which is calculated as follows:

Particulars	Amount in ₹
Sale of 1,200 T-shirts (1,200 T-shirts x ₹ 540 per T-shirt)	6,48,000
Change in transaction price (190 T-shirts x ₹ 60* price reduction) for the reduction of revenue relating to units sold till September 2023	(11,400)
Revenue recognised for the quarter ended December 2023	**6,36,600**

*₹ 600 - ₹540 = ₹ 60

7. She can obtain reliable audit evidence by going through GST returns filed by the company on GST portal and correlating the same with e-way bills. She can obtain audit evidence about how company has reflected its export sales in its GST returns and whether export sales pertaining to four invoices having total value of ₹ 125 lakhs are reflected in such returns.

Further, e-way bills generated on the portal would provide evidence that goods have moved out of the company's premises. The export revenue should have been booked at the time the goods moved out of the company's premises. The company is claiming an IGST refund. The refund is linked to the monthly sales return. This aspect can also be verified. "Bill of Lading" is only a document issued by the carrier to the shipper of goods that goods have been taken on board.

She should challenge and counter management's assertion on the above grounds and point out violations of relevant accounting standards and principles. In this way, she can obtain reliable audit evidence. Highlighting such digital and other evidence, she can challenge management's assertion regarding the completeness of export revenues and point out that export revenues are understated.

8. Since the direct quote for ¥ and ₹ is not available it will be calculated by cross exchange rate as follows:

₹/$ x $/¥ = ₹/¥

62.22/102.34 = 0.6080

Spot rate on date of export 1¥ = ₹ 0.6080

Expected Rate of ¥ for March 2024 = ₹ 0.5242 (₹ 65/¥124)

Forward Rate of ¥ for March 2024 = ₹ 0.6026 (₹ 66.50/¥110.35)

(i) Calculation of expected loss without hedging

Value of export at the time of export (₹ 0.6080 x ¥10,00,000)	₹ 6,08,000
Estimated payment to be received on March 2024 (₹ 0.5242 x ¥10,00,000)	₹ 5,24,200
Loss	₹ 83,800

Hedging of loss under Forward Cover

Value of export at the time of export (₹ 0.6080 x ¥10,00,000)	₹ 6,08,000

Payment to be received under Forward Cover (₹ 0.6026 x ¥10,00,000)	₹ 6,02,600
Loss	₹ 5,400

By taking forward cover loss is reduced to ₹ 54,00

(ii) Actual Rate of ¥ on March 2024 = ₹ 0.5977 (₹ 66.25/¥110.85)

Value of export at the time of export (₹ 0.6080 x ¥10,00,000)	₹ 6,08,000
Estimated payment to be received on March 2024 (₹ 0.5977 x ¥10,00,000)	₹ 5,97,700
Loss	₹ 10,300

The decision to take forward cover is still justified.

ANSWERS TO THE CASE STUDY 4

I. Answers to the Multiple Choice Questions

1. (c) For determining the CIF price of the imported goods, certain additions have to be made to the value of imported goods under rule 10(2) of the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007. If cost of insurance is not ascertainable from the documents submitted before the customs authorities, then such amount is determined as follows:

1.125% of free on board value of imported goods;

Where free on board value is not ascertainable, but sum of free on board value and cost of transport, loading, unloading and handling charges up to place of importation is ascertainable; then 1.125% of such sum.

2. (d) According to Section 151 of the Companies Act, 2013, a listed company may have one director elected by the small shareholders. This 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 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.

However, if the person being proposed does not hold any shares in the company, the details of shares held and folio number need not be specified in the notice. This implies that such Director is not required to own shares of any nominal value in the company prior to his appointment as small shareholders' director.

3. **(a)** Yes, as per Para 38C of Ind AS 1, an entity may present comparative information in addition to the minimum comparative financial statements required by Ind AS, as long as that information is prepared in accordance with Ind AS. This comparative information may consist of one or more statements referred to in paragraph 10 but need not comprise a complete set of financial statements. When this is the case, the entity shall present related note information for those additional statements.

4. **(a)** Yes, as per Para 38C of Ind AS 1, an entity may present comparative information in addition to the minimum comparative financial statements required by Ind AS, as long as that information is prepared in accordance with Ind AS. This comparative information may consist of one or more statements referred to in paragraph 10 but need not comprise a complete set of financial statements. When this is the case, the entity shall present related note information for those additional statements

5. **(a)** According to Rule 2 (1) (d) of the Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Rules, 2015, 'Extensible Business Reporting Language (XBRL)' means a standardised language for communication in electronic form to express, report or file financial information by the companies under the Companies Act, 2013.

According to Rule 3 (1) of the Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Rules, 2015, the following class of companies shall file their financial statements and other documents under section 137 of the Companies Act, 2013 with the Registrar in e-Form AOC-4 XBRL as per Annexure-I:

(i) Companies listed with stock exchanges in India and their Indian subsidiaries;

(ii) Companies having paid-up capital of five crore rupees or above;

(iii) Companies having turnover of one hundred crore rupees or above;

(iv) All companies which are required to prepare their financial statements in accordance with

Companies (Indian Accounting Standards) Rules, 2015.

Here, MTL is listed as well as Ind AS compliant company. It has a paid-up capital of ₹ 50 crores and turnover of ₹ 500 crores.

II. Answers to the Descriptive Questions

6. (i) Section 15(1)(b) of the Customs Act, 1962 provides that in the case of goods cleared from a warehouse, rate of duty applicable is the rate of duty in force on the date on which a bill of entry for home consumption in respect of such goods is presented.

In the given case, since, MTL has filed the bill of entry for home consumption on 1st September, rate of duty is the rate prevalent on the said date viz. 30%.

(ii) Third proviso to section 14 of the Customs Act, 1962 provides that the rate of exchange notified by the CBIC as prevalent on the date of presentation of bill of entry for warehousing is the applicable rate of exchange for conversion of foreign currency into local currency.

Therefore, in the given case, rate of exchange that would be prevalent on date of presentation of bill of entry for warehousing i.e. 5th July and not the one prevalent on date of presentation of bill of entry for home consumption i.e., 1st September, would be adopted.

(iii) As per explanation to rule 12 of the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007, the chief reasons on the basis of which the proper officer can raise doubts on the truth or accuracy of the declared value may include:-

(a) the significantly higher value at which identical or similar goods imported at or about the same time in comparable quantities in a comparable commercial transaction were assessed;

(b) the sale involves an abnormal discount or abnormal reduction from the ordinary competitive price;

(c) the sale involves special discounts limited to exclusive agents;

(d) the misdeclaration of goods in parameters such as description, quality, quantity, country of origin, year of manufacture or production;

(e) the non declaration of parameters such as brand, grade, specifications that have relevance to value;

(f) the fraudulent or manipulated documents

7. 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, MTL received an amount of rupees ₹ 20 crore on account of incentives pertaining to year 2023-24 in the month of May 2024 i.e. after finalisation of financial statements and signing of audit report. The management of MTL amended the accounts, approved the same and requested DRT & Co. (auditor) to consider this event and issue a fresh audit report on the financial statements for the year ended on 31.03.2024.

After applying the conditions given in SA 560, DRT & Co. 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.

8. The issue under consideration is whether, in a case where debentures are issued with maturity at the end of five years, and the debenture holders are given an option of upfront payment of interest in the first year itself, can the entire upfront interest paid, be claimed as deduction by the company in the first year or should the same be deferred over a period of five years; and would the treatment of such interest as deferred revenue expenditure in the books of account have any impact on the tax treatment.

The facts of the case are similar to the facts in *Taparia Tools Ltd. v. JCIT (2015) 372 ITR 605*, wherein the above issue came up before the Supreme Court. In that case, it was observed that under section 36(1)(iii), the amount of interest paid in respect of capital borrowed for the purposes of business or profession, is allowable as deduction.

The moment the option for upfront payment was exercised by the subscriber, the liability of MTL to make the payment in that year had arisen. Not only had the liability arisen in the previous year in question, it was even quantified and discharged as well in that very year.

As per the rationale of the Supreme Court ruling in Taparia Tools Ltd.'s case, when the deduction of entire upfront payment of interest is allowable as per the Income-tax Act, 1961, the fact that a different treatment was given in the books of account could not be a factor which would bar the company from claiming the entire expenditure as a deduction.

Accordingly, the action of the Assessing Officer in spreading the upfront interest paid over the five year term of debentures and restricting the deduction in the P.Y. 2023-24 to one-fifth of the upfront interest paid is not correct. The company is eligible to claim the entire amount of interest paid upfront as deduction under section 36(1)(iii) in the P.Y. 2023-24.

ANSWERS TO THE CASE STUDY 5

I. Answers to the Multiple Choice Questions

1. **(a)** [Section 186(5) of the Companies Act, 2013]: 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.

2. **(b)** The Present Value of the Cash Flows for all the years by discounting the cash flow at 7% is calculated as below:

Year	Cash flows (₹ in lakhs)	Discounting Factor@ 7%	Present value of Cash Flows (₹ in lakhs)
1	250	0.935	233.8
2	600	0.873	523.8
3	750	0.816	612.0
4	800	0.763	610.4
5	650	0.713	463.5
Total of Present value of Cash flows			2443.5
Less: Initial investment			1000.00
Net Present Value (NPV)			1443.5

3. **(c)** When the risk-free rate is 7% and the risk premium expected by the Management is 7%, then risk adjusted discount rate is 7% + 7% = 14%.

Discounting the cash flows using the Risk Adjusted Discount Rate would be as below:

Year	Cash flows (₹ in lakhs)	Discounting Factor @ 14%	Present value of Cash Flows (₹ in lakhs)
1	250	0.877	219.3
2	600	0.769	461.4
3	750	0.675	506.3
4	800	0.592	473.6
5	650	0.519	337.4
Total of Present value of Cash flows			1998
Less: Initial investment			1000
Net Present Value (NPV)			998

4. **(b)** The company shall not waive the recovery of any sum refundable to it under Section 197 (9) of the Companies Act, 2013. However, the waiver is possible only if it is approved by the company by passing a special resolution within two years from the date the sum becomes refundable.

5. **(c)** Any person other than a company or a firm, who is not required to furnish a return under section 139(1), would have to file income-tax return in the prescribed form and manner on or before the due date if, during the previous year, such person –

(a) has deposited an amount or aggregate of the amounts exceeding ₹ 1 crore in one or more current accounts maintained with a banking company or a co-operative bank; or

(b) has incurred expenditure of an amount or aggregate of the amounts exceeding ₹ 2 lakh for himself or any other person for travel to a foreign country; or

(c) has incurred expenditure of an amount or aggregate of the amounts exceeding ₹ 1 lakh towards consumption of electricity: or

(d) fulfils such other prescribed conditions

II. Answers to the Descriptive Questions

6. As per Ind AS 116, Leases, at the inception of a contract, an entity shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

In accordance with the above definition, Subham Ltd. must recognise a right-of-use asset representing the property and a corresponding lease liability for the obligation to make lease payments. At the commencement date, the right-of-use asset so recognised would include:

- The amount of the initial measurement of lease liability.
- Any initial direct costs.
- Any costs to be incurred for dismantling or removing the underlying asset or restoring the site at the end of the lease term.

The liability for the lease obligation would be measured as the present value of future lease payments including payments that would be made towards any residual value guarantee, discounted using the rate implicit in the lease or the incremental rate of borrowing of the lessor, whichever is available.

The fact that there is no 'invoice' evidencing transfer of the asset cannot be a reason to avoid recognition of the right-of-use asset. In fact, what is being recognised is not an asset, since ownership rights are not transferred. What is sought to be recognised under Ind AS 116 is the right to use the asset in the manner required by the lessee Subham Ltd. Further, since the lease represents an obligation to pay lease rentals in the future, a corresponding lease liability should be recognised. Not recognising the right-of-use asset or lease liability would not only be a violation of Ind AS 116, Leases, but would also be an incorrect presentation of the financial position, which is critical given that Subham Ltd. is interested in taking a loan for its operations.

Ethical issues:

The managing director's threat to the finance manager results in an ethical dilemma for the finance manager. This pressure is greater because the finance manager is new.

Threats to fundamental principles

The fact that the position of the finance manager has been threatened if the treatment suggested by the managing director is not followed indicates that there is an intimidation threat to the fundamental principles of objectivity and integrity. Further, as the managing director has flagged the risk that the company may not obtain loan financing if the lease obligation is recorded in the balance sheet, there is an advocacy threat because the finance manager may be compelled to follow an incorrect treatment to maximise the chances of obtaining the loan. This pressure again is greater because the finance manager is new.

Professional competence

When preparing the financial statements, the finance manager should ensure that the fundamental principle of professional competence should be followed, which requires that accounts should be prepared in compliance with Ind AS. Thus, since the arrangement meets the Ind AS 116 criteria for a lease, the right-of-use asset and a corresponding lease liability should be recognised, as otherwise the liabilities of Subham Ltd. would be understated. The ICAI Code of Ethics sets boundaries beyond which accountants should not act. If the managing director refuses the application of Ind AS 116, Leases, the finance manager should disclose this to the appropriate internal governance authority, and thus feel confident that his actions were ethical.

If the finance manager to bend under pressure and accept the managing director's proposed treatment, it would contravene Ind AS 116 and breach the fundamental principle of professional competence. In such a case, he would be subject to professional misconduct under Clause 1 of Part II of Second Schedule of the Chartered Accountants Act, 1949, which states that a member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he contravenes any of the provisions of this Act or the regulations made thereunder or any guidelines issued by the Council. As per the Guidelines issued by the Council, a member of the Institute who is an employee shall exercise due diligence and shall not be grossly negligent in the conduct of his duties.

7. Computation of deduction available to Ms. Disha for A.Y.2024-25

Particulars	**₹**
Life Insurance Premium (See Note 1)	20,000
Contribution to Public Provident fund (See Note 2)	Nil
Tuition fee of 2 sons for graduation course (See Note 3)	16,000
Housing loan principal repayment (See Notes 4 & 5)	Nil
Post Office Time Deposit Scheme (See Note 6)	60,000
Investment in National Savings Certificate (See Note 6)	60,000
Total Investment	**1,56,000**
Deduction under section 80C restricted to	**1,50,000**

Notes:

1. Any amount of life insurance premium paid in excess of the specified percentage of actual capital sum assured shall be ignored for the purpose of deduction under section 80C. In the given case, since the insurance policy has been issued before 1.04.2012, therefore, premium paid upto 20% of actual capital sum assured i.e., ₹52,000 shall be allowed as deduction. Hence, the premium of ₹ 20,000 paid during the year is allowable as deduction under section 80C.

2. In the case of an individual, contribution to PPF can be made in his name or in the name of his spouse or children to qualify for deduction under section 80C. As the contribution was made in the name of his father, deduction is not allowable.

3. Tuition fee paid is eligible for deduction under section 80C for a maximum of two children. Therefore, ₹16,000 shall be allowed as deduction. Tuition fee paid to an educational institution situated outside India is not eligible for deduction.

4. In order to claim the principal repayment on loan borrowed for house property as deduction, the construction of such property should have been completed and should be chargeable to tax under the head "Income from house property". In the given case, since the property is under construction, principal repayment does not qualify for deduction.

5. Repayment of principal on housing loan is not allowed as deduction in case the loan is borrowed from friends, relatives etc. In order to qualify for deduction, the loan should have been obtained from Central Government / State Government / bank /specified employer / institution.

6. The following investments are also eligible for deduction under section 80C:-

   (1) five year time deposit in an account under Post Office Time Deposit Rules, 1981; and

   (2) investment in National Savings Certificate

8. Section 192 requires deduction of tax from salary at the time of payment. Thus, the employer, i.e. Subham Ltd., is not required to deduct tax at source when salary has not been paid but is merely credited to the account of the employee in its books of account. Subham Ltd., therefore, is not required to deduct tax at source in respect of the salary of March, 2024 which is merely credited to the account of employee, Ms. Disha, and not paid.

If salary has been paid during the year to Ms. Disha, then, Subham Ltd. a deductor, being an employer, shall seek information from each of its employees having income under section 192 regarding their intended tax regime and each such employee shall intimate the same to the deductor, being his employer, regarding his intended tax regime for each year and upon intimation, the deductor shall compute his total income, and deduct tax at source thereon according to the option exercised.

If intimation is not made by the employee, it shall be presumed that the employee continues to be in the default tax regime and has not exercised the option to opt out of the new tax regime. Accordingly, in such a case, Subham Ltd. shall deduct tax at source, on income under section 192, in accordance with the rates provided under section 115BAC(1A).