PAPER – 6: INTEGRATED BUSINESS SOLUTIONS

The Question Paper comprises five case study questions.

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

CASE STUDY - 1

KLM Private Ltd., Jaipur (KLM)

KLM Private Ltd., Jaipur is a wholly owned subsidiary of MNO Ltd., Mumbai. KLM is engaged in manufacture of textile goods and beverages. It was incorporated on 15th July 2020.

KLM placed order for 2 passenger vehicles (vans) for ₹ 25 lakhs each with seating capacity of each vehicle being 16 persons (excluding driver). It paid ₹ 50 lakhs plus GST @28%. It used one passenger vehicle (van) from 1st December 2023 for bringing its staff from their home to factory and for dropping them back. It donated another passenger vehicle (van) to Mother Charitable Trust (after getting the invoice and delivery of the vehicle in its name). Mother Charitable Trust is registered under section 12AB of the Income-tax Act, 1961.

KLM acquired on 5th July 2023, one fork-lift truck for transport of textile goods inside the factory premises for ₹ 20 lakhs (excluding GST @18%).

Fake /false figures in GST returns

The GST return of KLM for the financial year 2020-21 contained some fake/false figures regarding inward supply and consequent input tax credit availed in respect of inter-state transactions. Penalty proceedings were also initiated against the GST consultant A & Co (firm) who has filed the GST returns of KLM, on a charge of abetment and aiding for filing false return.

Change in inventory cost formula

KLM changed its inventory cost formula for the year ended 31st March 2024. The change resulted in understatement of inventory by ₹ 50 lakhs.

Proposal for investment

KLM proposes to invest ₹ 500 lakhs in a new project in FY 2024-25. The risk- free rate of return is 7%. The risk premium expected by the management is 7%. The life of the project is 5 years. The estimated cash flows over the life of the project are given below:

Year 1 = ₹ 120 lakhs; Year 2 = ₹ 180 lakh; Year 3 = ₹ 300 lakhs; Year 4 = ₹ 210 lakhs; and Year 5 = ₹ 130 lakhs.

Present Value of ₹ 1 @ 14%

Year	***1***	***2***	***3***	***4***	***5***
Present Value	*0.877*	*0.769*	*0.675*	*0.592*	*0.519*

Applying Throughput Accounting

KLM has adopted Throughput Accounting to determine the profitability of the three beverages which are manufactured and marketed throughout India. The material cost, selling price and bottleneck resource details per unit are as follows:

Particulars	***Product A***	***Product B***	***Product C***
Selling price (₹)	*90*	*60*	*75*
Material and variable cost (₹)	*40*	*20*	*30*
Bottleneck resource time (minutes)	*20*	*15*	*15*

Budgeted factory cost for the period is ₹ 2,70,000. The bottleneck resource time available is 1,20,000 minutes per period.

MNO Limited (MNO)

MNO is engaged in execution of construction contracts for its clients in India. Mittal & Co., Delhi is the statutory auditor of MNO. For the year ended 31st March 2023, MNO has non-current receivables amounting to ₹ 200 crores. The bills raised by the company represent cost overruns necessitated by delays caused by clients, change in work specifications and other related matters. There was no omission or default committed by MNO. As the company could not get positive response from the clients regarding cost overrun, it has gone for arbitration. The management of MNO claims that it can recover the cost overruns fully. The audit firm Mittal & Co. has relied on management representation in this regard.

MNO had acquired a building at Mumbai for its administrative purposes and has held it as owner occupied property and shown as property, plant and equipment (PPE) up to the financial year ended 31st March 2023. In April 2023, as it relocated to its own newly constructed building at Thane, it leased out the building located at Mumbai to a third party. The Board of directors of the company are in a dilemma as to how the let-out building at Mumbai should be classified for the year ended 31st March 2024.

Multiple Choice Questions

[Provide the correct option to the following questions]

1.1. *How much could be the maximum penalty levied on the GST consultant A & Co for aiding and abatement in furnishing of the GST return with fake/false information?*

- (A) *No penalty is leviable on CA firm*
- (B) *₹ 50,000 under IGST*
- (C) *₹ 25,000 under CGST and ₹ 25,000 under SGST / UTGST*
- (D) *₹ 50,000 under CGST and ₹ 50,000 under SGST/UTGST*

1.2. *What is the net present value of the proposed project of KLM adopting risk adjusted rate to consider the new proposal in financial year 2024-25?*

- (A) *₹ 637.95 lakhs*
- (B) *₹ 121.70 lakhs*
- (C) *₹ 137.95 lakhs*
- (D) *₹ 440.00 lakhs*

1.3. *How much depreciation and additional depreciation under Income-tax Act, 1961 would be allowed to KLM in respect of passenger vehicles and fork-lift truck acquired during the financial year 2023-24?*

- (A) *₹ 4,87,500*
- (B) *₹ 6,75,000*
- (C) *₹ 8,87,500*
- (D) *₹ 10,75,000*

1.4. How much of GST input tax credit will be available to KLM in respect of passenger vehicles and fork-lift truck acquired by it during the financial year 2023-24?

(A) ₹ 17,60,000

(B) ₹ 10,60,000

(C) ₹ 7,00,000

(D) ₹ 3,60,000

1.5. What would you say when KLM has changed its inventory cost formula?

(A) Change in accounting estimate

(B) Change in accounting policy

(C) Neither a change in accounting estimate nor a change in, accounting policy

(D) Change in method of accounting ***(5 x 2 = 10 Marks)***

Descriptive Questions

1.6. In the given facts of the case, whether MNO Ltd. should reclassify the leased-out building at Mumbai as investment property instead of PPE which was the case up to 31st March 2023? Will this amount to change in accounting policy? Your answer must be with reference to applicable Ind AS. ***(5 Marks)***

1.7. Mittal & Co based on management representation- decides to include the outstanding amounts receivable by MNO Ltd. as 'Emphasis of Matter' paragraph in the audit report. Whether the disclosure given by the auditor is proper? ***(5 Marks)***

1.8. Select the highest rank product for KLM Private Limited by computing 'product return per minute'. Also, calculate Throughput Accounting (TA) ratio to state your conclusion. ***(5 Marks)***

ANSWER TO CASE STUDY 1

1.1 Option (B): ₹ 50,000 under IGST

1.2 Option (C): ₹ 137.95 lakhs

1.3 Option (C): ₹ 8,87,500

1.4 Option (B): ₹ 10,60,000

1.5 Option (B): Change in accounting policy

1.6 Requirement of Ind AS 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.

Definition of Property, Plant and Equipment as per Ind AS 16:

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.

Definition of Investment Property as per Ind AS - 40:

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."

ANALYSIS

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.

CONCLUSION

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.**

1.7 In accordance with **SA 706, 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.

As per SA 706, the objective of the auditor, having formed an opinion on the financial statements, is to draw users' attention, when in the auditor's judgment it is necessary to do so, by way of clear additional communication in the auditor's report, to: -

(a) A matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is fundamental to users' understanding of the financial statements or

(b) As appropriate, any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Further, the auditor shall include an Emphasis of Matter paragraph in the auditor's report provided the auditor would not be required to modify the opinion in accordance with SA 705 as a result of the matter.

ANALYSIS

In the given situation, auditor has relied upon management representation letter only. He has not performed any other audit procedures like verifying contracts with customers, status of arbitration proceedings etc. Since management representations by themselves do not constitute sufficient appropriate evidence, performing necessary audit procedures may lead auditor to conclude that modification in opinion is necessary. **In such circumstances, matter cannot be included in Emphasis of Matter Paragraph.**

CONCLUSION

Therefore, Mittal & Co., the Statutory Auditor should form his opinion by performing necessary audit procedures and obtaining sufficient appropriate evidence. **It is only when the Auditor concludes that modification of opinion is not required as a result of said matter in terms of SA 705, the said matter may be included in Emphasis of Matter paragraph.**

In view of the above, the disclosures given by Mittal & Co., the statutory Auditor is not proper.

1.8 Calculation of Rank According to 'Product Return *per minute*'

Particulars	**A**	**B**	**C**
Selling Price (₹)	90	60	75
Variable Cost (₹)	40	20	30
Throughput Contribution (₹)	50	40	45
Minutes *per unit*	20	15	15
Contribution *per minute* (₹)	2.5	2.67	3
Ranking	**III**	**II**	**I**

Ranking Based on 'Throughput Accounting (TA) Ratio'

Contribution *per minute*	2.50	2.67	3.00
Factory Cost *per minute* (2,70,000 / 1,20,000)	2.25	2.25	2.25
TA Ratio (Cont. *per minute* / Cost *per minute*)	1.11	1.18	1.33
Ranking Based on TA Ratio	**III**	**II**	**I**

Comment

Product C yields more contribution compared to the contribution of Products A and B, after accounting for the factory cost per minute.

CASE STUDY-2

Enterprising State of Indian Agriculture Industry

The innovation and government support has put the agriculture industry on a growth trajectory. The Indian agricultural sector is predicted to increase to US$ 24 billion by 2025. Indian food and grocery market is the world's sixth largest, with retail contributing 70% of the sales. India's agricultural and processed food products exports stood at US$ 43.37 billion in FY23 (April 2022-January 2023).

Rabi crop area has increased by 3.25% from 697.98 lakh hectares in 2021-22 to 720.68 lakh hectares in 2022-23. This is a 22.70 lakh hectare, a 13.71% increase over the average sown area in 2021-22. In the current crop year (July 2022-June 2023), India's horticulture output is expected to have hit a record 350.87 million tonnes (MT), as production of fruits, vegetables, spices, and plantation crops surged dramatically.

Manju Agri Products Limited (MAPL)

Manju, a postgraduate in agricultural sciences and management, was always interested in organic cultivation and she also had some 50 acres of agricultural land. She along with five other friends set up a company, Manju Agri Products Limited (MAPL) which was mainly into agriculture related products, specially millet based products.

Wafer thin Margins and Bank Funding

Though the Company has a good turnover, yet there have been lower margins due to inherent challenges specific to this industry. The Company has been evaluating to expand its operations and has borrowed ₹ 75 crores from Agri Bank as a credit facility. As the Company is agri based, it has challenges in making payment to farmers and other traders for procurement of millets.

Finance Committee

The Company has a Finance Committee which is chaired by Manju, as she is the Managing Director of the Company. This Committee meets every three months to discuss the concerns and key points relating to finance and reporting.

In the Committee's meeting held in March 2024, the following points were discussed:

Purchase of a Millet Processing Machinery

MAPL wants to purchase millet processing machinery from KPL Limited, to increase its capacity of millet processing. As a part of the Government policies to provide impetus to agriculture and allied industry, government grants have been provided to eligible companies for procurement of machinery. MAPL, being also eligible for such government grant, has received an amount of ₹ 10 lakhs as grant. The following are the details of purchase:

List price of machinery (exclusive of taxes and discount)	*₹ 50,00,000*
Corrugated Boxes used for packing the equipment (not included in price above)	*₹ 1,00,000*
Discount offered on the list price of the machine (recorded in the invoice of the machine).	*@2%*

As per the accounting policy, MAPL 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.

Special Review of Internal Controls

As the operations of the Company expanded, the Management is willing to strengthen its processes and procedures including documentation. The Company as such has not yet appointed any internal auditor for FY 2023-24 and is of the opinion that it will suffice if special review of controls is done and no other internal auditor is required to be appointed. The company was having turnover of ₹ 250 Crores in financial year 2022-23.

Accordingly, it has appointed M/s AB & Co., Chartered Accountants for carrying out special review of the internal controls implemented in its processes and suggest them solutions to improve deficiencies in controls, or any management in competencies, if any, which may need improvement or refinement. The company is also not sure whether the company is required to have an internal auditor and if required, who should be appointed as an internal auditor.

Gift to Manju

Joey, a foreign citizen, is Manju's friend and has been her MBA classmate in University of Stanford. Joey has visited Manju's village when he had come to India for a friend's wedding. Since Joey is meeting his friend Manju, after a decade, he has gifted her a smart watch having a value of ₹ 75,000/-. However, before *accepting his gift, she wants to confirm whether she can take such gift for her personal purposes without violating the provisions of Foreign Contribution (Regulation) Act, 2010.*

Sponsoring a Sports Event

During the financial year 2023-24, MAPL sponsored a sports event for farmers by Jnaneshwar Shramik Club in Bellary. Jnaneshwar Shramik Club was established in the year 1995 for protecting and promoting the rights of farmers. The Company paid an amount of ₹ 25 lakhs for such sponsorship of the event.

Employee Benefit Plans

MAPL was evaluating the employee benefit related obligation funding for the current year:

(In ₹)

Contribution by employer during the year	*95,000*
Benefits paid during the year from the fund	*65,000*
Fair value of Plan Assets at the beginning of the year	*2,75,000*
Return expected on Plan Assets	*35,000*
Fair value of Plan Assets at the end of the year	*4,00,000*

Acquisition Proposal

There is a proposal of ABC Limited (a subsidiary of MAPL) to acquire XYZ Limited and has offered a swap ratio of 1 : 2 (0.5 shares for every one share of XYZ Limited).

The following are the financial information in this regard.

Particulars	***ABC Ltd.***	***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*

Hedging Forex Risk

The CFO of MAPL wants to decide whether to hedge with currency risks derivatives and what types of hedge instruments to choose for the same.

There is an urgent need to address this issue as last year there has been breach on loan covenants due to currency exposures.

MAPL has taken a loan of 50 billion JPY from a leading Bank, repayable in 10 years. The exposure is unhedged and hence it needs to be hedged so that both interest risks and currency risk is taken care of.

For export transactions, MAPL wants 40% of the exposure to be hedged in a manner that should allow them to take advantage of favourable movement in exchange rate also and within that bracket some portion should be zero cost hedge.

Lease

MAPL has executed a 12 years lease of a machine with the following terms on 1st January 2023 with XYZ Ltd. (lessor):

- The lease commencement date is 1st February 2023.

MAPL must pay XYZ Ltd. the first monthly rental payment of ₹ 25,000 upon execution of the lease.

XYZ Ltd. will pay MAPL ₹ 75,000 cash incentive to enter into the lease payable upon lease execution.

MAPL incurred ₹ 2,000·of initial direct costs, which are payable on 1st February 2023. MAPL calculated the initial lease liability of ₹ 10,00,000 as the present value of the future lease payments discounted using its incremental borrowing rate because the rate implicit in the lease could not be readily determined.

Multiple Choice Questions

[Provide the correct option to the following questions]

2.1. Joey, a foreign citizen, has made gifts in kind to his friend Manju for her personal use. As per provisions of Foreign Contribution (Regulation) Act, 2010, when such gift shall be excluded from the definition of 'foreign contribution' considering the relevant provisions of the Foreign Contribution (Regulation) Act, 2010:

(A) A donation in kind by a foreign citizen to a resident Indian shall be excluded from the definition of 'foreign contribution', if the market value, in India, of such article, on the date of such gift, is more than ₹ 1,00,000 but less than ₹ 5,00,000.

(B) A donation in kind by a foreign citizen to a resident Indian shall be excluded from the definition of 'foreign contribution', if the market value, in India, of such article, on the date of such gift, is more than ₹ 5,00,000 but less than ₹ 10,00,000.

(C) Any donation in kind given by a foreign citizen to a resident Indian for personal use is always excluded.

(D) A donation in kind by a foreign citizen to a resident Indian for personal use shall be excluded from the definition of 'foreign contribution', if the market value, in India, of such article, on the date of such gift, is not more than ₹ 1,00,000.

2.2. Which of the following statement is correct, in connection with the payment made by MAPL, for the sponsorship of the event:

(A) GST shall be payable by MAPL, a body corporate, being the recipient of the sponsorship service, under the reverse charge mechanism

(B) GST shall be payable by the Club, being the supplier of sponsorship service

(C) GST-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 Club

2.3. What should be the value of supply for KPL Limited for the machinery supplied to MAPL?

(A) ₹ 51,00,000

(B) ₹ 40,00,000

(C) ₹ 50,00,000

(D) ₹ 49,00,000

2.4. The amount of initial measurement of right of use asset by MAPL will be:

(A) ₹ 9,52,000

(B) ₹ 9,50,000

(C) ₹ 10,27,000

(D) ₹ 10,25,000

2.5. What would be the amount required to be recognized in the 'Other Comprehensive Income' of the financial statements for the year ended on 31 March 2024, without considering the effect of deferred tax:

(A) Actuarial gain - ₹ 60,000

(B) Actuarial loss - ₹ 5,000

(C) Actuarial gain - ₹ 95,000

(D) Nil, as all the expenses/income relating to employee benefits are recognized in the Statement of Profit and Loss. ***(5 x 2 = 10 Marks)***

Descriptive Questions

2.6. In respect of the acquisition by ABC Ltd. (another subsidiary of MAPL) of XYZ Ltd., you are required to calculate:

(i) The number of equity shares to be issued by ABC Ltd., for acquisition of XYZ Ltd.

(ii) What is the EPS of ABC Ltd., after the acquisition?

(iii) Determine the equivalent earnings per share of XYZ Ltd.

(iv) What is the expected market price per share of ABC Ltd., after the acquisition, assuming its PIE multiple remains unchanged?

(v) Determine the market value of the merged firm. ***(1 x 5 = 5 Marks)***

2.7. State the broad procedures that should be followed to decide whether to hedge forex risk and in selection of the hedge instruments. ***(5 Marks)***

2.8. MAPL wants to know as per Company Law, when a company is required to appoint an internal auditor and who shall be appointed as internal auditor. In the given facts, from which year MAPL will be required to have an internal auditor. ***(5 Marks)***

ANSWER TO CASE STUDY 2

2.1 Option (D): A donation in kind by a foreign citizen to a resident Indian for personal use shall be excluded from the definition of 'foreign contribution', if the market value, in India, of such article, on the date of such gift, is not more than ₹ 1,00,000.

2.2 Option (A): GST shall be payable by MAPL, a body corporate, being the recipient of the sponsorship service, under the reverse charge mechanism.

2.3 Option (C): ₹ 50,00,000

2.4 Option (A): ₹ 9,52,000

2.5 Option (A): Actuarial gain – ₹60,000

2.6 (i) The number of shares to be issued by ABC Ltd.:

The Exchange ratio is 0.5.

So, new Shares = 1,80,000 x 0.5 = **90,000 shares.**

(ii) EPS of ABC 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** or ₹1.56

(iv) New Market Price of ABC Ltd. (P/E remaining unchanged):

Present P/E Ratio of ABC 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**
Or		
PAT after acquisition (₹ 18,00,000 + ₹ 3,60,000)	=	₹ 21,60,000
PE Ratio	=	10
Market Value of Merged Firm (₹ 21,60,000 x 10)	=	**₹ 2,16,00,000**

2.7 BROAD PROCEDURES TO BE FOLLOWED TO HEDGE FOREX RISK AND IN SELECTION OF HEDGE INSTRUMENTS

STEP - 1

Select forecasts of distribution of exchange rates in order to determine the probability of adverse movement or use services of forex forecasters.

STEP - 2

Decide whether dynamic hedging or conservative hedging or mixed approach is required.

STEP- 3

Assess the impact of exchange rate changes on financial performance and position under various scenarios.

STEP -4

Decide how much to hedge considering overall risk limits and likely adverse impacts during impact on loan covenants.

STEP- 5

Select appropriate hedging instrument. Decide currency forwards (date for date hedging), currency futures (timing mismatch hedging), currency options (allows favorable advantage) and currency swaps (JPY loan hedging), zero cost collar (zero cost hedging) depending on the type of exposures mentioned.

Alternative Solution

Since the MAPL wants to hedge both interest risk and currency risk it should go CIRCUS Swap or Currency Coupon Swap.

To hedge 40% exposure in a manner that allows them to take advantage of favorable movement in exchange rate and within that bracket some portion should be zero cost hedge, they should go for Collar option, a combination of selling (short) Put and buying (long) Call Option.

2.8 When a Company is required to appoint an Internal Auditor?

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.

Who shall be Appointed as an Internal Auditor?

As per Section 138, the internal auditor shall either be a chartered accountant or a cost accountant (whether engaged in the practice or not), or such other professional as may be decided by the Board to conduct an internal audit of the functions and activities of the company. The internal auditor may or may not be an employee of the company.

To be effective, the internal auditor must be regarded as a part of the management and not merely as an assistant thereto. Furthermore, he or she must have the authority to investigate every organizational activity to meet the objectives and scope of the internal audit.

From which year MAPL will be required to have an Internal Auditor

In the given situation, MAPL is having turnover of rupees 250 crores in the financial year 2022-23, which is exceeding the prescribed limit of two hundred crore rupees. **Therefore, MAPL is required to appoint the internal auditor for the year 2023-24 as per the abovementioned provisions of Section 138 of the Companies Act, 2013.**

CASE STUDY- 3

A group of four practicing chartered accountants namely P, Q, R, and S living in Kandivali in Mumbai decided to form a brainstorming group to meet on every Saturday evening to discuss the important and typical professional matters to have consensus for the mutual benefit of the members of the group.

First Meeting

(i) CA. opened up the discussion on evaluation of the impact of changes in variable consideration based on the Indian Accounting Standard. He pointed out that one of his clients has a fixed fee contract for ₹ 12,00,000 to develop a product that meets specified performance criteria. Estimated cost to complete the contract is ₹ 11,20,000. The entity will transfer control of the product over five years and the client uses the cost-to-cost input method to measure progress on the contract. An incentive award is available if the product meets the following weight criteria:

Weight(kg)	***Award % of fixed fee***	***Incentive fee (₹)***
251 or greater	*0*	*-*
151-250	*20%*	*2,40,000*
150 or less	*50%*	*6,00,000*

(a) The client has extensive experience creating products that meet the specific performance criteria. Based on its experience, the client has identified five engineering alternatives that will achieve 20% incentive and two alternatives that will achieve 50% incentive. In this case, the client determined that it has 95% confidence that it will ·achieve 20% incentive and 25% confidence that it will achieve the 50 percent incentive.

(b) *Based on this analysis, the client believes 20% incentive to be the most likely amount when estimating the transaction price. Therefore, the client includes 20% award in the transaction price while calculating the revenue because the entity has concluded that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved due to its 95% confidence in achieving the 20% award.*

(c) *The client reassesses its production status quarterly to determine whether it is on the track to meet the criteria for the incentive award. At the end of the year four, it becomes apparent that this contract will fully achieve the weight-based criterion. Therefore, the client revises its estimate of variable consideration to include the entire 50% incentive fee in the year four because, at this point, it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when including the entire variable consideration in the transaction price.*

(d) *The client informed that the cost incurred is as follows and expect to remain same throughout the contract period:*

Year	₹
1	60,000
2	2,00,000
3	5,00,000
4	3,00,000
5	60,000

(ii) *CA. Q opened up discussion and pointed out that one of his clients has inventory of 200 finished cars on 31st March 2024 which are having a cost of ₹ 6,00,000 each. On 30th April 2024, as per new government rules, higher road tax and penalties are to be paid by the buyers for such cars (which has been expected to come) and hence the selling price of a car has come down and the demand dropped drastically. The selling price has come down to ₹ 4,50,000 each. The financial statements of the company for the year 2023-24 are not yet approved. His client wants to know the value at which the stock should be valued assuming the estimated costs necessary to make the sale is ₹ 25,000 per car.*

(iii) CA. R is running a partnership firm 'CDR' in practice and develops a website "CDR.com". The colours chosen for the website were very bright and the website was to run on a "Push" technology where the names of the partners of the firm and the major clients were to be displayed on the website without any disclosure obligation from any regulator.

Second Meeting

(i) CA. R informed that the internal auditor of a company of which he is doing statutory audit has pointed out two deficiencies in internal control of the company viz. (i) receivables not reconciled at regular intervals (i.e.) quarterly; and (ii) the buyers / customers are given credit limit based on their past track record but no review of such credit limits was undertaken during the year. The management of the company has also not taken any action on the deficiencies pointed out by the internal auditor.

(ii) One of the clients of CA. S received the rectification order under section 254 of the Income Tax Act, 1961 passed by the Income Tax Appellate Tribunal (ITAT) beyond 6 months from the end of the month in which the order sought to be rectified was passed. The rectification of application was moved by the income-tax department after 6 months from the end of the month in which order sought to be rectified was passed. CA. S wants to check whether ITAT is empowered to do so.

(iii) CA. S discusses that ABC is a registered supplier in Bhopal (MP) and is engaged in the manufacture of taxable goods. The goods valued at ₹ 12,50,000 were supplied by ABC to FPL, a registered supplier located at Indore (MP), without the cover of an invoice with a fraudulent intent. Since ABC evaded tax by not issuing the invoice for the supply, a show cause notice was issued by the proper officer under section 74 requiring ABC to pay tax@ 12% [₹ 1,50,000 and applicable interest and penalty]. ABC paid the tax, interest and penalty after the order was passed by the proper officer.

Third Meeting

In this meeting CA. S pointed out that in an order dated 20th December issued to SNPL, the Joint Commissioner, CGST has confirmed IGST demand of 320 crores. SNPL is disputing the entire demand of IGST. The Appellate Authority has confirmed the order of the Joint Commissioner and SNPL wants to file an appeal before the Appellate Tribunal against the order of the Appellate Authority.

Fourth Meeting

CA. Q states that Rajan was appointed as Provisional Liquidator for ST Ltd. against which an application for winding up was filed before the Tribunal. It is noteworthy that Rajan was having a shareholding in the same company.

Multiple Choice Questions

[Provide the correct option to the following questions].

3.1. At what amount the client of CA. Q should value its stock of cars based on the facts provided in case study (ii) of the first meeting?

(A) ₹ 6,00,000

(B) ₹ 4,50,000

(C) ₹ 4,25,000

(D) ₹ 5,75,000

3.2. Is the website developed by CDR in compliance with guidelines issued by ICAI in this regard?

(A) Yes, because there is no restriction for the development of website.

(B) Yes, because it has complied all the conditions in this regard.

(C) No, but CDR would not be liable for professional misconduct since it would not amount to soliciting work by advertisement.

(D) No, CDR would be liable for professional misconduct since it would amount to soliciting work by advertisement.

3.3. CA. S wishes to clarify where FPL is entitled to ITC and if yes, what will be the amount thereof based on the facts provided in the case study (iii) of second meeting.

(A) Yes, ₹ 1,50,000

(B) Yes, ₹ 150,000, and applicable interest.

(C) Yes, ₹ 150,000, and applicable interest and penalty.

(D) No, FPL cannot avail ITC of such tax.

3.4. What is the amount of additional pre-deposit to be made by SNPL for filing the second appeal based on the facts provided in the third meeting?

(A) ₹ 32 crores

(B) ₹ 64 crores

(C) ₹ 96 crores

(D) ₹ 100 crores

3.5. CA. S wants to know from other members which of the following options is correct as per the Companies Act, 2013 for the issue regarding Rajan to be appointed as liquidator raised by him in the fourth meeting?

(A) Rajan cannot be appointed in ST Ltd. because he has a shareholding in the same company.

(B) Rajan can be appointed in ST Ltd. irrespective of his interest in the company because of his prior shareholding in the company before appointment.

(C) Rajan can be appointed in ST Ltd. with the prior intimation to the Tribunal.

(D) Rajan can be appointed in ST Ltd. by disclosing his shareholding by filing of declaration within 7 days from the date of his appointment by the Tribunal. ***(5 x 2 = 10 Marks)***

Descriptive Questions

3.6. CA. P wants other members to guide him how the variable consideration on the basis of inputs provided in the case study will be recognized during contract period, as per relevant Indian Accounting Standard. ***(5 Marks)***

3.7. How CA. R, the statutory auditor would react to the findings of internal auditor about the deficiencies in internal control of receivables? ***(5 Marks)***

3.8. In the facts given· in the case study of second meeting, can a rectification order under section 254 of the Income-tax Act, 1961 be passed by the Appellate Tribunal (ITAT) beyond 6 months from the end of the month in which the order sought to be rectified is passed? CA. S wants to check from other members of the group in what circumstances Income-tax Appellate Tribunal is empowered to pass rectification order after 6 months? ***(5 Marks)***

ANSWER TO CASE STUDY 3

3.1 Option (C): ₹ 4,25,000

3.2 Option (D): No, CDR would be liable for professional misconduct since it would amount to soliciting work by advertisement.

3.3 Option (D): No, FPL cannot avail ITC of such tax.

3.4 Option (B): ₹ 64 crores

3.5 Option (D): Rajan can be appointed in ST Ltd. by disclosing his shareholding by filing of declaration within 7 days from the date of his appointment by the Tribunal.

3.6 The members of the group suggested CA. P, the evaluation of the impact of changes in variable consideration as per Indian Accounting Standard 115 as under:

(Amount in ₹)

Fixed Consideration	A	12,00,000				
Estimated Costs to Complete	B	11,20,000				
		Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Total Estimated Variable Amount	C	2,40,000	2,40,000	2,40,000	6,00,000	6,00,000
Fixed Revenue	D=A x H/B	64,286	2,14,285	5,35,714	3,21,429	64,286
Variable Revenue	E=C x H/B	12,857	42,857	1,07,143	1,60,714	32,143
Cumulative revenue adjustment	F (see below)	—	—	—	2,46,429	—
Total Revenue	G=D+E+F	77,143	2,57,142	6,42,857	7,28,572	96,429
Costs	H	60,000	2,00,000	5,00,000	3,00,000	60,000
Operating Profit	I=G–H	17,143	57,142	1,42,857	4,28,572	36,429
Margin (rounded off)*	J=I/G	22%	22%	22%	59%	38%

**Computation of margin in percentage has been rounded off to absolute figure.*

Note:

For simplicity, it is assumed there is no change to the estimated costs to complete throughout the contract period.

In practice, under the cost-to-cost measure of progress, total revenue for each period is determined by multiplying the total transaction price (fixed and variable) by the ratio of cumulative cost incurred to total estimated costs to complete, less revenue recognized to date.

Calculation of Cumulative Catch-up Adjustment:

(Amount in ₹)

Updated variable consideration	L		6,00,000
Percentage complete in Year 4 (rounded off)	M=N/O		95%*
Cumulative costs till Year 4 (60,000+2,00,000+5,00,000+3,00,000)	N	10,60,000	
Estimated costs to complete	O	11,20,000	
Cumulative variable revenue till Year 4	P		3,23,571
Cumulative catch-up adjustment	F= (L x M)–P		2,46,429

**Computation of percentage of completion in year 4 has been rounded off to absolute figure.*

3.7 Management failing to remedy known significant deficiencies in internal control on a timely basis is a fraud risk factor for misstatements arising from fraudulent financial reporting.

When management does not correct significant deficiencies in internal control on a timely basis, it reflects an attitude, character or set of ethical values that allow them knowingly and intentionally to commit a dishonest act.

Failure to rectify known control deficiencies pertaining to reconciliation of receivables has the potential to fraud. Lack of timely reconciliation of receivables may lead to intentional misstatements.

CA. R should communicate such material weaknesses to the management or the audit committee through a letter of weakness or management letter. Further, CA. R should ensure the management has taken corrective action for such deficiency. He is also required to comply with the provisions of SA 705 for issuance of audit report, if the deficiency in the internal control persist.

Alternative Solution

During the course of audit work, the auditor may notice material weaknesses in the internal control system.

SA 265 on "Communicating Deficiencies in Internal Control to Those Charged with Governance and Management" deals with the auditor's responsibility to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified in an audit of financial statements.

The auditor shall determine whether, on the basis of the audit work performed, the auditor has identified one or more deficiencies in internal control. If the auditor has identified one or more deficiencies in internal control, the auditor shall determine, on the basis of the audit work performed, whether, individually or in combination, they constitute significant deficiencies.

However, responsibility of auditor will not be reduced by writing a letter to the management about the weaknesses in the system. Further, the auditor is not absolved from his duty to report the shortcomings in the accounts by way of qualification where the defects have not been corrected to the auditor's satisfaction weighing the materiality of weaknesses and their impact, if considered necessary.

In the given situation, internal auditor informed about the deficiencies in internal control of the company to CA. R, statutory auditor, that receivables were not reconciled at regular intervals (i.e.) quarterly.

CA. R should communicate such material weaknesses to the management or the audit committee through a letter of weakness or management letter. Further, CA. R should ensure the management has taken corrective action for such deficiency. He is also required to comply with the provisions of SA 705 for issuance of audit report, if the deficiency in the internal control persist.

3.8 The issue under consideration in this case is whether a rectification order can be passed by the Income-tax Appellate Tribunal under Section 254 if the application for rectification was made by the Assessing Officer beyond 6 months from the end of the month in which order sought to be rectified was passed. This issue was addressed in *Sree Ayyanar Spinning and Weaving Mills Ltd. v. CIT (2008) 301 ITR 434 (SC).*

As per section 254(2) of the Income-tax Act, 1961, the Appellate Tribunal may, at any time within 6 months from the end of the month in which order is passed, with a view to rectifying any mistake apparent from record, amend any order passed by it.

Where the application for rectification is made by the Assessing Officer or the Assessee, the Tribunal is bound to rectify the same. However, the application for rectification by the Assessee or Assessing Officer cannot be filed belatedly after 6 months from the end of the month in which the order sought to be rectified was passed. *[Ajith Kumar Pitaliya vs ITO (2009) 318 ITR 182 (M.P.)]*

In the present case, since the application for rectification was filed by the income-tax department after 6 months from the end of the month in which order sought to be rectified, the application is not maintainable, and the Appellate Tribunal cannot pass a rectification order under section 254(2).

Circumstances where Income-tax Appellate Tribunal is empowered to pass rectification order after 6 months.

Where the application for rectification is made by the Assessing Officer or the Assesseee within 6 months from the end of the month in which the order sought to be rectified was passed, the Appellate Tribunal is bound to decide the application on merits and not on the ground of limitation i.e. order can be passed after expiry of 6 months from the end of the month in which the order sought to be rectified was passed.

CASE STUDY- 4

CA. Rajesh - An experienced Practicing Chartered Accountant

Rajesh is a practicing Chartered Accountant and has struggled in initial days but put in hard work and now has established well in the field of Audit and Indirect Taxes. Rupesh, son of Shyam, a close friend of Rajesh has recently qualified his CA Final exam and has obtained certificate of practice and wants to join Rajesh. Shyam discussed his son's desire with Rajesh. Rajesh advised Shyam that it will not be proper for Rupesh to directly join him as a partner as he lacks practical experience and moreover, he wants to add other areas of practice to diversify so that the firm is equipped with providing solution in different fields such as Finance, Direct Tax and Insolvency & Bankruptcy Law under one umbrella. Thus, Rupesh joins Rajesh as a paid assistant to begin with. Rajesh asks him to study new and emerging field in the Profession - Financial planning, Tax planning and Insolvency and Bankruptcy Law with the help of other staff. Rajesh has asked Rupesh to hone his knowledge in these areas. He also tells him that since he is a newly qualified professional, he needs to know the practical aspects of Professional Ethics of CA Profession, though he might have read about it during his studies and therefore, Rajesh suggests Rupesh to discuss the practical aspects *of Professional Ethics of CA profession with him as the time permits. Rupesh agrees to abide by the advice of Rajesh and starts working on it.*

GNT Limited

GNT Limited, one of the clients of CA. Rajesh is in the process of buying a machine to support the existing machines and therefore, approached for consultancy. The company informs Rajesh that it is required to choose between two machines A and B. The two machines are designed differently but have identical capacity and do exactly the same job. Machine A costs ₹ 1,70,000 and will last for 3 years. It costs ₹ 50,000 per year to run. Machine B is an 'Economy Model' costing only ₹ 1,15,000 but will last only for 2 years and costs ₹ 70,000 per year to run. These are real cash flows. The costs are forecasted in rupees of constant purchasing power. Ignore tax. Opportunity cost of capital is 10%. The company wants to know which machine it should buy? Rajesh asks Rupesh to advise the company suitably.

Present value factor @ 10% of annuity: for 3 years 2.487 and for 2 years 1.736.

Swayam

Swayam - an institution having its main object as "advancement of general public utility" approached Rajesh for an advice on the tax consequence of receipt of ₹ 32 lakhs in aggregate during the previous year 2023-24 from an activity in the nature of trade carried out in the course of actual carrying out of its object of advancement of general public utility. The total receipts of the institution, including donations were ₹ 150 lakhs. It has applied 85% of its total receipts from such activity during the same year for its main object i.e. advancement of object of general public utility.

During his tenure of 1 year as an employee, Rupesh would discuss various matters relating to Professional Ethics with Rajesh on various occasions. Rajesh 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 categorized 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. Rupesh understands the reason now why Rajesh having an opportunity, once refused to manipulate information in a prospectus in order to obtain favorable financing to Delta Ltd.

Rupesh during his employment with Rajesh, asks Rajesh to practice in his name ITC as Rajesh has allowed Ramesh, his brother-in-law who is not a Chartered Accountant to practice in the name of Rajesh, but Rajesh did not allow Rupesh to do so citing ethics and tells him that it will be a professional misconduct on his part.

ABC Limited, one of Rupesh's clients, has displayed their business name along with the GST Act requirements through Glow Sign Boards outside its premises and has claimed the expense as a revenue expenditure income-tax computation. They seek Rupesh's advice as to such claim in income tax computation.

RMC Limited

RMC Ltd., one of the clients of Rajesh is under Corporate Insolvency Resolution Process (CIRP). Rajesh has been appointed as Resolution Professional (RP) by NCLT and is in the process of constituting Committee of Creditors (COC). The admitted financial creditors are:

(a) Bank A ₹ 100 lakhs (Secured by I charge on fixed assets)

(b) Bank B ₹ 200 lakhs (Secured by II charge on fixed assets)

(c) Bank C ₹ 100 lakhs (Secured by hypothecation of stocks and debtors)

(d) Unsecured ₹ 150 lakhs (Includes ₹ 50 lakhs from related parties)

(e) Bank D ₹ 250 lakhs (Secured on specific land and decides not to relinquish)

Rupesh works for one year as an employee and after one year joins Rajesh as a Partner with full zeal & enthusiasm after having got the relevant experience.

Ujjawal Limited

Rajesh is having a very big corporate client, Ujjawal Ltd. This year, Rajesh assigns him the audit work of Ujjawal Ltd. for the preparation of their audit report in a timely manner.

There has been material usage variance and the production manager of the company has not been able to give the valid reason for the same.

The Profit & Loss a/c of Ujjawal Ltd., having business of steel, tubes and other products for the year ended 31.03.2024 shows a net profit of ₹ 505 lakhs and other information are furnished as under:

(i) A group free air ticket was provided by a supplier for reaching a certain volume of purchase during the financial year 2023-24. The same is encashed by the company for ₹ 15 lakhs in April 2023 and credited to General Reserve Account.

(ii) A supplier of raw materials agreed for settlement of ₹ 7 lakhs against his claim of ₹ 10 lakhs for poor quality of material supplied during the previous year, effect of which has not been given in the account of the supplier.

(iii) Joya Bank - a scheduled bank, sanctioned and disbursed a term loan in the financial year 2020-21 of ₹ 100 lakhs. Interest of ₹ 16 lakh was in arrears. The bank has converted the arrear of interest into a new loan repayable in 10 equal installments. During the year, the company has paid 2 installments and the amount so paid has been reduced from funded interest in the Balance Sheet.

(iv) The company remitted ₹ 6 lakhs as interest to a company incorporated in USA on a loan taken 2 years ago. Tax deducted under section 195 from such interest has been deposited by the company before due date of the filing of the return of income. The said interest was debited to profit and loss account.

(v) Pradeep, a sales executive stationed at Head office at Delhi, was on official tour in Bangalore from 31st May 2023 to 18th July 2023 and 28th September 2023 to 15th October 2023 for the business development. The company has paid Pradeep's salary in cash, from its local office at Bangalore for the month of May 2023 (payable on 1st June) and September 2023 (payable on 1st October), amounting to ₹ 55,000 and ₹ 60,000 respectively (net of TDS and other deduction), as Pradeep has no bank account at Bangalore. These were included in the amount of salary debited to Profit and Loss Account.

(vi) The company has contributed ₹ 75,000 by account payee cheque to an electoral trust and the same stand included under the head "General expenses".

Multiple Choice Questions

[Provide the correct option to the following questions]

4.1. Had Rajesh accepted the offer to manipulate information in a prospectus in order to obtain favorable financing to Delta Ltd., he would have been subject to -

(A) Familiarity Threats

(B) Self-Review Threats

(C) Self-Interest Threats

(D) Advocacy Threat

4.2. Rupesh during his employment with Rajesh, asks Rajesh to practice in his name as Rajesh has allowed Ramesh, his brother-in-law who is not a Chartered Accountant to practice in the name of Rajesh but Rajesh did not allow Rupesh to do so citing ethics & tells him that it will be a professional misconduct on his part. Identify the correct position.

(A) Rajesh will be held guilty of professional misconduct for allowing Ramesh.

(B) Rajesh will be held guilty of professional misconduct for allowing Rupesh.

(C) Rajesh will not be held guilty of professional misconduct for allowing Ramesh.

(D) Rupesh will be held guilty for asking to do practice in the name of Rajesh.

4.3. What will be the voting share of Unsecured Financial Creditors in the Committee of Creditors constituted by Rajesh in case of RMC Ltd. based on the details provided in the case study? (Answer up to two decimals only)

(A) 13.33%

(B) 18.75%

(C) 20.00%

(D) 27.27%

4.4. ABC Limited has displayed its business name along with the GST Act requirements through Glow Sign Boards outside its premises and has claimed the expense as a revenue expenditure. They seek Rupesh's advice as to *correctness of such claim in computation of Income. What is the nature of expenditure incurred on glow-sign boards displayed at the premises of ABC Limited?*

(A) Capital Expenditure

(B) Revenue Expenditure

(C) Deferred Revenue Expenditure

(D) Can be claimed as per choice of ABC Limited.

4.5. The Material usage variance will not be affected by:

(A) Change in method of production/design

(B) Increased efficiency in production can help in bringing down wastage rate

(C) Changes made in the material mix

(D) Purchase price of inferior quality material.

Descriptive Questions

4.6. Compute the income chargeable to tax for Assessment Year 2024-25 of Ujjawal Ltd. indicating reasons for treatment of each item for the benefit of Rupesh, assuming that the company has not opted for special provisions under section 115BBA or 115BAB. ***(8 Marks)***

4.7. Prepare a statement showing evaluation of two machines as may be prepared by Rupesh to advise GNT Ltd.to buy machine. ***(4 Marks)***

4.8. Prepare an advice by Rajesh to Swayam, an institution on the tax consequence of receipt of ₹ 32 lakhs and application thereof by it based on the facts provided in the case study. ***(3 Marks)***

ANSWER TO CASE STUDY 4

4.1 Option (D): Advocacy Threat

4.2 Option (A): Rajesh will be held guilty of professional misconduct for allowing Ramesh.

4.3 Option (A): 13.33%

4.4 Option (B): Revenue Expenditure

4.5 Option (D): Purchase Price of Inferior Quality Material

4.6 Computation of income chargeable to tax for A.Y. 2024-25 of Ujjawal Ltd.

Particulars	₹ (in lakhs)	
Profits and gains from business or profession		
Net profit as per profit and loss account		505.00
Add: **Items debited to profit and loss account, but to be disallowed and items not considered in accounts but to be taxed**		
- **Value of group free air ticket provided by a supplier**	15	
[The value of any benefit or perquisite arising from business or the exercise of any profession, whether convertible into money or not or in cash or in kind or partly in cash and partly in kind is taxable as business income under section 28(iv)]		
- **Amount waived by the supplier of raw materials**	3	
[Since the expenditure of raw material was allowed as deduction and there is a benefit by way of remission or cessation of a trading liability, waiver of the amount by the supplier is deemed income under section 41(1)]		
- **Payment of Interest to a company incorporated in USA**	-	
[Since the tax has been deducted on interest payable outside India to a foreign company during the previous year 2023-24 and the same has been deposited before the due date of filing return of income under section 139(1), no disallowance would be attracted under section 40(a)(i)]		
- **Salary paid to employee Pradeep in cash**	-	
[In respect of payment of salary to sales executive in cash, no disallowance under section 40A(3) is to be made as the payments fall within the scope of Rule 6DD(i). Salary paid to him in cash is allowable as the executive was temporarily posted for a continuous period of more than 15 days in Bangalore which is not the place of his normal duty. Further tax was deducted from such salary under section 192 and he does not maintain any bank account in Bangalore. No disallowance under section 40A(3) is attracted in respect of such salary]		

- **Contribution to electoral trust** [Contribution to electoral trust is not allowable as deduction while computing business income of the company. Hence, the same has to be added back, since it is included in general expenses]	0.75	18.75
		523.75
***Less:* Amount of deduction allowable**		
Under section 43B, interest on loan due to any scheduled bank, etc. is allowed as deduction, if such interest is actually paid irrespective of the method of accounting followed by the Assessee. Conversion of arrear interest into a fresh loan by a bank cannot be considered as actual payment of interest. However, the amount of funded interest (i.e., converted loan) actually paid is allowable as deduction. Hence, ₹ 3,20,000, being two instalments of ₹ 1,60,000 each, actually paid is deductible.		3.20
Business Income		520.55
Gross total income		520.55
***Less:* Deduction under Chapter VI-A**		
Under section 80GGB [Contribution by a company to an electoral trust is allowable as deduction, since payment is made otherwise than by cash]		0.75
Total Income/ Income chargeable to tax		519.80

4.7 Statement showing the evaluation of two machines:

Machines	**A**	**B**
Purchase cost (₹): (i)	1,70,000	1,15,000
Life of machines (years)	3	2
Running cost of machine per year (₹): (ii)	50,000	70,000
PVF for 1-3 years @ 10% of annuity (iii)	2.487	–
PVF for 1-2 years @ 10% of annuity (iv)	–	1.736
Present value of running cost of machines (₹): (v)	1,24,350 [(ii) × (iii)]	1,21,520 [(ii) × (iv)]

Cash outflow of machines (₹): (vi) = (i) + (v)	2,94,350	2,36,520
Equivalent present value of annual cash outflow	1,18,355.45 Or 1,18,355 [(vi) ÷ (iii)]	1,36,244.24 1,36,244 [(vi) ÷ (iv)]

Decision:

GTN Ltd (Company) should buy Machine A since its equivalent cash outflow is less than Machine B.

4.8 As the main object of the Swayam – an institution is "advancement of object of general public utility", the institution will lose its "charitable" status for the P.Y.2023-24, since it has received ₹ 32 lakhs from an activity in the nature of trade, which exceeds ₹ 30 lakhs, being 20% of the total receipts of the institution undertaking that activity for the previous year.

The application of 85% of such receipt for its main object during the year would not help in retaining its "charitable" status for that year. The institution will lose its charitable status and consequently, the benefit of exemption of income for the P.Y.2023-24, irrespective of the fact that its approval is not withdrawn, or its registration is not cancelled.

CASE STUDY - 5

Magic Ltd. received an order for supply of service to a UK based client by name Botham Ltd. for £ 10 lakhs. Magic Ltd. was unable to provide the entire services from India and therefore after providing 60% of service, it asked Mini Ltd. of UK to provide balance 40% of services to Botham Ltd. The payment for 40% service was received by Mini Ltd. directly from Botham Ltd. Magic Limited has obtained all the required approvals for the same. Assume exchange rate as 1 £ = ₹ 105. Magic Ltd. has followed standard costing since April 2020. The Board of Directors of the company based on the advice of a foreign consultant wants to follow Kaizen Costing instead of standard costing.

Mano (age 45) is a renowned expert in mechanical engineering and a person of Indian origin with non-resident status under the Income-tax Act, 1961 up to the assessment year 2023-24. He came to India on 2nd January 2024 to render his expert service to the company in its manufacturing activity. The agreement with Mano is in accordance with Industrial Policy of Government of India. He was paid

₹ 50 lakhs by Magic Ltd. for the services rendered in India. Mano returned to his native country on 25th March 2024. Magic Ltd. had agreed with Mano to bear the tax liability in this regard and accordingly made deduction of tax at source. Assume that there is no DTAA between India and the Country to which Mano belongs.

Stock market indices

Manish, Managing Director of Magic Ltd. wants to know whether the stock market is bullish or not. He has furnished you the closing values of Sensex from 12th to 22nd of March 2024.

Days	Date	Day	Sensex
1	12.03.2024	Tuesday	20,100
2	13.03.2024	Wednesday	19,950
3	14.03.2024	Thursday	19,900
4	15.03.2024	Friday	20,050
5	16.03.2024	Saturday	No Trading
6	17.03.2024	Sunday	No Trading
7	18.03.2024	Monday	20,600
8	19.03.2024	Tuesday	20,650
9	20.03.2024	Wednesday	20,700
10	21.03.2024	Thursday	20,900
11	22.03.2024	Friday	21,100

The Exponential Moving Average (EMA) of Sensex was 20,400 on the previous day i.e. 11.3.2024. The value of exponent for 31 days EMA is 0.081.

Moon & Co., Noida

Moon & Co, a partnership firm in which Magic Ltd. is a partner with 50% share. Moon & Co. acted as a wholesale distributor of electrical appliances manufactured by Lion (P) Ltd., Delhi. There was a mix up of data, relevant for GST returns, maintained in the computer system of Moon & Co for the financial year 2022-23 with GST data for financial year 2023-24. The annual turnover of Moon & Co. was always less than ₹ 4 crores. The GSTR 3B of the month of March 2023 contained, some errors by omitting to claim ITC because of corruption in data *kept in the computer system by Moon & Co. This was found only on 15.11.2023 and the GSTR 3B has been filed upto month of September 2023 and annual return is yet to be filed.*

Similarly, in the income-tax return filed by Moon & Co for the assessment year 2023-24 under section 44AD, the turnover was stated as ₹ 173 lakhs instead of the correct figure of ₹ 190 lakhs. This was detected only in April, 2024.

Santosh, one of the directors of Lion Private Limited- an associate of Magic Limited, who had 25% shareholding in Lion Private Limited, is in urgent need of ₹ 25 lakhs for completing the construction of his residential house. The said company arranged overdraft facility from a bank on the security of its asset and advanced ₹ 25 lakhs to its director Santosh on 1st August 2023. The said company had accumulated profit of ₹ 40 lakhs as on 31st March 2023 and was the same till the date of loan availed from bank and advanced to Santosh.

Multiple Choice Questions

[Provide the correct option to the following questions]

5.1. *What is the legal remedy available to Moon & Co to set right the error in turnover and the ITR filed for the assessment year 2023-24?*

(A) *Seek rectification*

(B) *File belated return*

(C) *File updated return*

(D) *File revised return*

5.2. *How much is the amount of tax deductible at source on the loan amount granted by the company to its director Santosh and the amount of loan to be taxed in the hand of Santosh as deemed dividend?*

(A) *TDS of ₹ 1,00,000 and deemed dividend of ₹ 10,00,000*

(B) *TDS of ₹ 2,50,000 and deemed dividend of ₹ 25,00,000*

(C) *TDS of ₹ 4,00,000 and deemed dividend of ₹ 40,00,000*

(D) *No TDS and Deemed dividend of ₹ 25,00,000*

5.3. *Which of the following is not a feature of Kaizen Costing contemplated for adoption by Magic Ltd.?*

(A) *Cost reduction technique*

(B) Achieve cost reduction target

(C) Assumes continuous improvement of conditions

(D) Meant for a longer period, usually year on year

5.4. How Moon & Co can claim ITC which was omitted to be claimed in March, 2023? What is the maximum time limit available to Moon & Co for making, claim of ITC through GSTR 3B in respect of the omission of the month of March, 2023?

(A) It must have been claimed in GSTR 3B of the immediate subsequent month i.e. of April, 2023 and since it was not claimed, the ITC shall lapse.

(B) It must have been claimed in GSTR 3B of the month of September 2023 being the maximum time of 6 months after the end of the financial year and since it was not claimed, the ITC shall lapse.

(C) It must be claimed in GSTR3B of the month of October 2023 which is yet to be filed and should be filed before 30th November 2023 and before filing of the annual return in order to make the said claim.

(D) It must be claimed in the annual return which is to be filed before 31st December 2023.

5.5. How much is the value of export of service made by Magic Ltd. under section 2(6) of the IGST Act?

(A) ₹ 1050 lakhs

(B) ₹ 630 lakhs

(C) *₹ 420 lakhs*

(D) *NIL* ***(5 x 2 = 10 Marks)***

Descriptive Questions

5.6 Calculate the Exponential Moving Average (EMA) of Sensex during the period given in the case study and suggest whether the market is bullish. ***(5 Marks)***

5.7 State whether Mano is a non-resident taxable person under the CGST Act, 2017. If so, the procedure to be complied in this regard. Also, explain whether the income earned by Mano is liable to income-tax in India and if so, at what rate and how much tax will be deducted by Magic Limited? ***(6 Marks)***

5.8 Briefly discuss the consequence of loan granted by Lion Private Limited to its director Santosh under the Companies Act, 2013. ***(4 Marks)***

ANSWER TO CASE STUDY 5

5.1 Option (C): File Updated Return

5.2 Option (B): TDS of ₹ 2,50,000 and deemed dividend of ₹ 25,00,000

5.3 Option (D): Meant for longer period, usually year on year

5.4 Option (C): It must be claimed in GSTR-3B of the month of October, 2023 which is yet to be filed and should be filed before 30th November 2023 and before filing of the annual return in order to make the said claim.

5.5 Option (A): ₹ 1,050 lakhs.

5.6

Date	1 Sensex	2 EMA for Previous Day	3 1 - 2	4 3×0.081	5 EMA 2 ± 4
12.03.2024	20,100	20,400.00	-300.00	-24.30	20,375.70
13.03.2024	19,950	20,375.70	-425.70	-34.48	20,341.22
14.03.2024	19,900	20,341.22	-441.22	-35.74	20,305.48
15.03.2024	20,050	20,305.48	-255.48	-20.69	20,284.79
18.03.2024	20,600	20,284.79	315.21	25.53	20,310.32
19.03.2024	20,650	20,310.32	339.68	27.51	20,337.83
20.03.2024	20,700	20,337.83	362.17	29.34	20,367.17
21.03.2024	20,900	20,367.17	532.83	43.16	20,410.33
22.03.2024	21,100	20,410.33	689.67	55.86	20,466.19

Conclusion – The market is bullish. The market is likely to remain bullish for the short term to medium term if other factors remain the same.

5.7 Non-resident Taxable Person (NRTP) means any person who occasionally undertakes transactions involving supply of goods and/or services, whether as principal or agent or in any other capacity, but who has no fixed place of business or residence in India.

In view of this, Mano is a non-resident taxable person (NRTP) under the CGST Act, 2017.

The procedure to be complied in this regard is as under: -

(a) He has to compulsorily get registered under GST irrespective of the threshold limit, at least 5 days prior to commencement of business.

(b) He cannot opt to pay tax under composition levy.

(c) Since Mano does not have a PAN of India, he may be granted registration on the basis of self-attested copy of his valid passport along with the duly signed/verified application.

The NRTP has to submit a self-attested copy of valid passport along with application duly signed or verified through electronic verification code by his authorized signatory who is an Indian resident having a valid PAN. Also, it can be submitted along with tax identification number or unique number on the basis of which the entity i.e. NRTP is identified by the government of that Country or its PAN, if available.

(d) Registration Certificate will be valid for period specified in the registration application, or 90 days from the effective date of registration, whichever is earlier, extendible by 90 days.

(e) At the time of submitting the registration application, Mano is also required to make an advance deposit of tax of an amount equivalent to the estimated tax liability for the period for which the registration is sought.

(f) The amount so paid shall be credited to his electronic cash ledger.

Income Tax Liability of Mano

An Indian citizen or person of Indian origin who, being outside India comes on a visit to India during the relevant previous year would be resident in India if he stayed for 182 days or more during the relevant previous year. However, such person having total income, other than the income from foreign sources, exceeding ₹ 15 lakhs during the previous year will be treated as resident in India if -

- the period of his stay during the relevant previous year amounts to 182 days or more, or

- 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 120 days in the previous year.

Since, Mano stayed in India only for 84 days during the P.Y. 2023-24, he would be a non-resident during the A.Y. 2024-25.

The amount for mechanical engineering services rendered by Mano to Magic Ltd. would be fees for technical services. Fees for technical services received by Mano, a non-resident from Magic Ltd., a resident in India would be deemed to accrue or arise in India <u>and liable to tax in India.</u>

As per section 115A, fees for technical received by Mano from Magic Ltd. would be taxable @20% plus applicable surcharge plus HEC@4% since the agreement between them is in accordance with the industrial policy of Government of India.

Tax would be deductible under Section 195 at the rates in force, i.e., 22.88% (20% + surcharge @10% + HEC@4%).

Section 195A provides that if such tax is to be borne by the person by whom the income is payable, Magic Ltd., in this case, then the net amount of ₹ 50 lakhs paid has to be grossed up in the following manner: ₹50,00,000 x 100/79.2 (100 – 22.88%) = ₹ 64,83,402.

Tax to be deducted u/s 195 and paid by Magic Ltd. = ₹ 64,83,402 x 22.88% = ₹14,83,402.

5.8 As per section 185(1) of the Companies Act, 2013 (the Act) a company is not permitted to advance any loan directly or indirectly, including any loan represented by way of book debt to, or to give any guarantee or provide any security in connection with any loan taken by, -

(i) any director of company or of a company which is its holding company or any partner or relative to any such director; or

(ii) any firm in which any such director or relative is a partner;

Exemption to a Private Company

By virtue of exemption given by **MCA vide its Notification No. GSR 464(E) dated 05.06.2015 as amended by GSR 583(E) dated 13.06.2017,** Section 185 shall not apply to a private company, if the following conditions are satisfied

(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 its paid-up share capital or fifty crore rupees, whichever is lower;

and

(c) such a company is not in default in repayment of such borrowings subsisting at the time of making transactions under this section.

Analysis

In the given case study, Lion Private Limited is an Associate Company of Magic Limited, had advanced ₹ 25 lakhs to its director, Santosh who had 25% shareholding in Lion Private Limited.

Since Lion Private Limited is an Associate Company of Magic Limited, it implies that Magic Limited (a body corporate) has invested in the share capital of Lion Private Limited and therefore does not satisfy the first condition of abovementioned three conditions and accordingly, is not eligible to avail exemption from Section 185 of the Act.

The other two conditions appear to be satisfied in a way that the loan of ₹ 25 lakhs advanced to the director Santosh, is below ₹ 50 crores and the lending company has not defaulted the repayment of overdraft facility arranged for giving loan to Santosh as no contrary information is given in this regard in the case study. The shareholding of Santosh has no implication on the conditions of exemption.

Conclusion

Lion Private Limited (the Lending Company) has advanced a loan of ₹ 25 lakhs to Santosh, Director, in contravention of condition (a) of the exemption notification and as such, violated Section 185 of the Act, for which penal provisions become applicable as per Section 185(4) of the Act.

Penalty for contravention:

Penalty for contravention of the provisions of Section 185 (*i.e.* if any loan is advanced or a guarantee or security is given or utilized contravening the provisions of Section 185) shall be as under:

(a) **Company**: punishable with minimum fine of ₹ 5,00,000 and maximum fine of ₹ 25,00,000.

(b) **Every defaulting officer:** punishable with imprisonment up to six months or with minimum fine of ₹ 5,00,000 and maximum fine of ₹ 25,00,000.

(c) **the director** or the other person to whom any loan is advanced or guarantee or security is given in connection with any loan taken by him or the other person: punishable with imprisonment up to six months or with minimum fine of ₹ 5,00,000 and maximum fine of ₹ 25,00,000, or with both.