CASE STUDY 12

Wanton Terun Limited (WTL) is a fast growing listed company focussing on innovation in the Textile and Garments Industry. The Company has grown in last one decade from Punjab (India) to the homes of millions of customers across 50 countries and is aiming the target of becoming the most trusted brand that takes conscious care of its customers, employees and all stakeholders, and treats them 'the best.' Company also has 5 subsidiaries operating outside India in the same business line of garments and trading of some special types of yarns. Financial Statements of the Company for the financial year 2023-2024 have already been prepared and audit was completed as per all regulatory requirements.

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

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

Issue 1

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

Issue 2

One of the overseas subsidiaries SSS Inc. has provided financial assistance to WTL. The said financial assistance is outstanding in the books of accounts of the Company as Foreign

Currency Loan (FCL) on which it paid an interest of ₹ 32 Crores in the last financial year. The amount of TDS, as applicable, has been deducted and deposited within the due date. Profits before interest, taxes, depreciation and amortization (EBITDA) of the borrower in the previous year were ₹ 100 Crores and the amount of depreciation was ₹ 15 Crores.

Issue 3

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

Issue 4

Arunima is woman director of the Company. Due to her other engagements, she tendered her resignation from directorship with effect from 1stMarch 2024, vide her letter dated 15thFebruary 2024, which was received by the Company on 20thFebruary 2024. The Board took note of the resignation in its meeting held on 15thMarch 2024.

Issue 5

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

I. Multiple Choice Questions

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

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

(b) GST will be applicable on these services and the value of services will be ₹ 7,400. GST amount will be ₹ 1,332

(c) GST will be applicable on these services and the value of services will be ₹ 5,200. GST amount will be ₹ 936

(d) GST on transactions below US $ 10,000 is specifically exempted, so GST will not be applicable.

2. With respect to facts given in Issue 2 above, the interest to be reported by tax auditor under the form 3CD of Income-tax Act, 1961 would be:

(a) ₹ 30 Crores and ₹ 2 Crores under clause 30B

(b) ₹ 32 Crores and ₹ 2 Crores under clause 30B

(c) ₹ 32 Crores and ₹ 34.50 Crores under clause 30A

(d) ₹ 32 Crores under clause 30A

3. In the background of circumstances described in Issue 3, the Company Secretary contends that the Audit Committee should be reconstituted, even if Q is appointed as an independent director. Is the Company Secretary's contention appropriate?

(a) Contention of Company Secretary is correct and the Audit Committee should be reconstituted, as it should have majority of members as independent directors.

(b) Contention of Company Secretary is not correct and the existing Audit Committee can continue as independent directors constitute more than two third of the total number of directors of audit committee.

(c) Contention of Company Secretary is correct and the Audit Committee shall be reconstituted, as it should have only independent directors as members.

(d) Contention of Company Secretary is not correct and the Audit Committee is not required to be reconstituted due to change in its members.

4. WTL shall appoint another woman director on the Board of the Company on or before:

(a) 1st June 2024

(b) 20th May 2024

(c) 15th June 2024

(d) 15th May 2024

II. Descriptive Questions

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

6. In the background· of facts stated in issue 5, compute the value of option under the share based payment as per Ind AS 102.

7. In case you are appointed as CFO of the company:

   (i) Indicate the areas for establishing and maintaining internal controls for financial reporting which will be certified by you.

   (ii) Mention the aspects that you would certify to the Board of directors along with the Chief Executive Officer of the Company.

ANSWERS TO THE CASE STUDY 12

I. Answers to the Multiple Choice Questions

1. **(b)** GST will be applicable on these services and the value of services will be & ₹ 7,400

Rule 32 — Determination of value in respect of certain supplies

The value of supply is difference between buying rate or selling rate of currency and RBI reference rate for that currency at the time of exchange multiplied by total units foreign currency.

However, if RBI reference rate for a currency is not available then value of supply is 1% of the gross amount of Indian Rupees provided/ received by the person changing the money.

Currency purchased	=	₹ 7.4 Lakhs/$9,900= 74.74
Less: Bank exchange rate		74
Difference		0.74
Value of Services	=	0.74*9,900= 7400

18% GST thereon 1,332

2. **(b)** Clause 30B requires reporting for the purposes of examining allowability of expenditure by way of interest in respect of debt issued by non-resident associated enterprise under section 94B, while computing income under the head 'Profits and Gains of Business or Profession."

The excess interest to be computed as lower of:

(i) Total interest paid or payable in excess of 30% of earnings before interest, taxes, depreciation and amortization (EBITDA) of the borrower in the previous year or

(ii) Interest paid or payable to the associated enterprise for that previous year

3. **(c)** In case of listed Companies having Outstanding Superior Rights equity shares, the audit committee shall only comprise of independent directors. As the Company has issued SR equity shares during the current year, it should ensure that the audit committee consists of all independent directors.

4. **(a)** Proviso to Rule 3 of the Companies (Appointment of Directors) Rules, 2014 provides any intermittent vacancy of a woman director shall be filled up by the Board at the earliest but not later than immediate next board meeting or three months from the date of such vacancy whichever is later.

II. Answers to the Descriptive Questions

5. Services provided by the independent directors who are notemployees of the said company to such company, in lieu of remuneration as the consideration for the said services, are clearly outside the scope of Schedule III of the CGST Act and are **therefore taxable.**

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

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

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

6. Computation of Value of Option under the share based payment

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

ALTERNATE ANSWER

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

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

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

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

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

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

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

(a) They have reviewed financial statements and the cash flow statement for the year and that to the best of their knowledge and belief:

(i) These statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;

(ii) These statements together present a true and fair view of the listed entity's affairs and are in compliance with existing accounting standards, applicable laws and regulations.

(b) There are, to the best of their knowledge and belief, no transactions entered into by the listed entity during the year which are fraudulent, illegal or violative of the listed entity's code of conduct.

(c) They accept responsibility for establishing and maintaining internal controls for financial reporting and that they have evaluated the effectiveness of the internal control systems of the listed entity pertaining to financial reporting and they have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of internal controls, if any, of which they are aware and the steps they have taken or propose to take to rectify these deficiencies.

(d) They have indicated to the auditors and the Audit Committee:

(i) Significant changes in internal control over financial reporting during the year;

(ii) Significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and

(iii) Instances of significant fraud of which they have become aware and the involvement therein, if any, of the management or an employee having a significant role in the listed entity's internal control system over financial reporting.