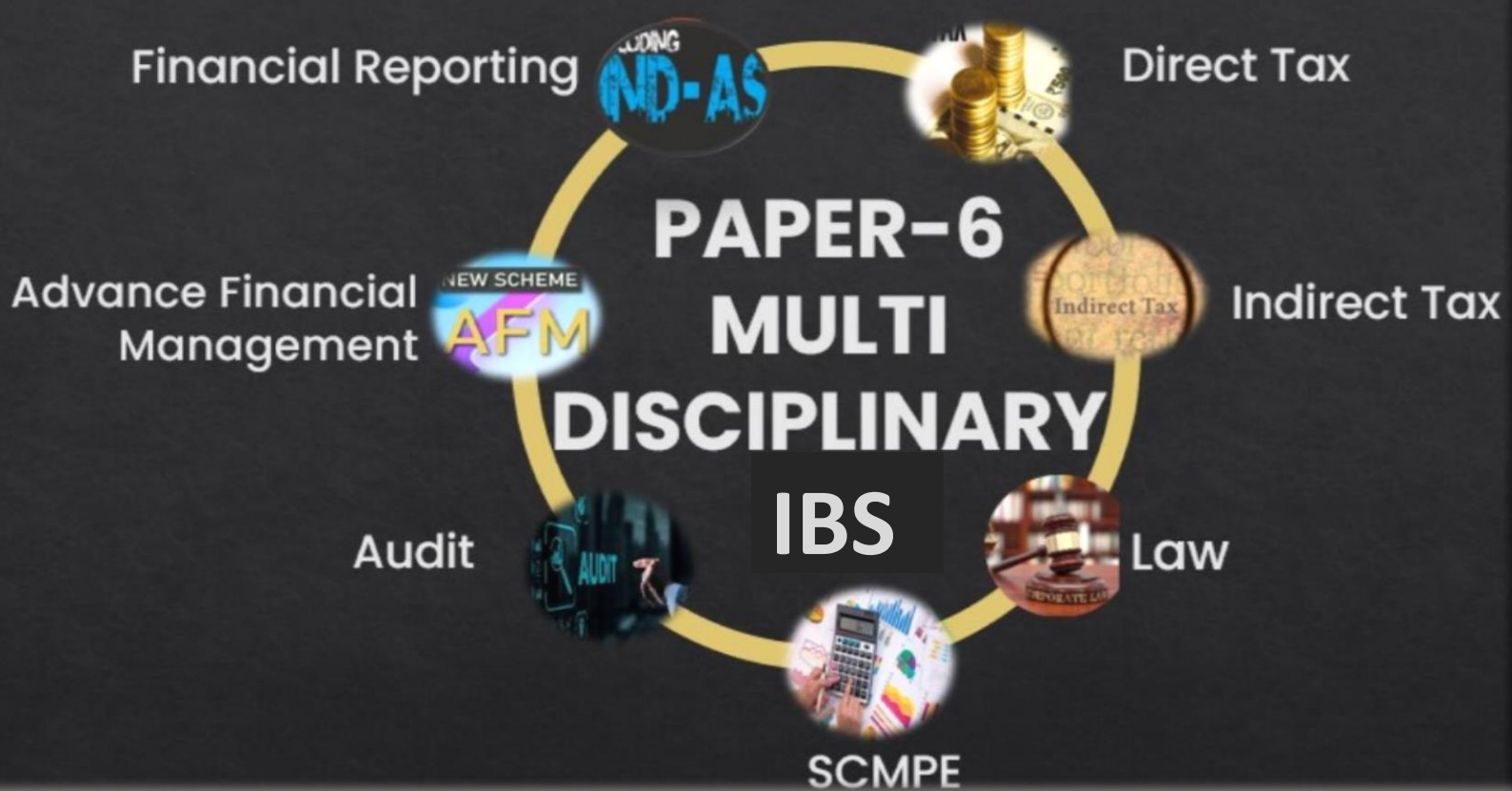




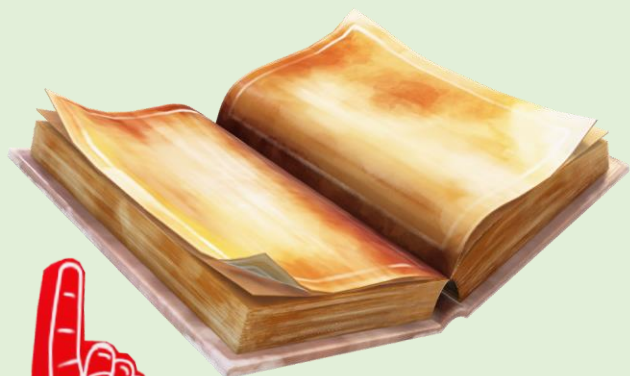
PAPER 6- Integrated Business Solutions (IBS)

This file contains the Newly issued

- Case Study Digest of Nov'24 & Nov'23
- Feb'24 ICAI CA Student Journal

Initial 15 case studies issued are covered in this compilation.

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CASE STUDY 1

Caber Cabs, which is better known by the name Caber, is an Indian startup company (privately held) which provides online cab services to the greater population of the country. It was founded in the year 2008 by Ikshit Bothra (current CTO) and Saurabh Jain (current CEO). Caber initiated its operations and services from Chennai and now the headquarters of this startup company is based in Pune. Within a span of few years, Caber Cabs have expanded its base to as many as 85 cities across the country with around 2 lakh cars operational in its online cab services. In 2012, the startup company also went forward to provide auto-rickshaw services to the middle-class clan of the Indian families through its mobile app in few selected cities like Mumbai, Hyderabad, Jaipur and so more.

In FY 2022, Caber's market share accounted for approximately 55%, and it reached a valuation of 6.5 billion US dollars in 2023. Caber's business model disrupted the traditional taxi industry by offering a more convenient and efficient way to hail rides. The company utilized a technology-driven approach, using algorithms to match riders with nearby drivers and optimize routes, dynamic pricing model, known as "surge pricing," adjusted fares based on demand, allowing the company to maximize revenue during peak hours. It faced regulatory challenges and opposition from taxi unions in many cities, leading to legal battles and protests. Major customer segments of Caber are individuals who do not own a car or can't drive on their own. A segment of people who need an affordable ride – they share cab services by pooling a group of people from a common area. Various customers who need a premium ride or a quick ride also book rides with Caber. Overall, it serves the people who are looking for convenient cab bookings. Caber Cabs is amongst the fastest growing online cab service providers in India and aims to dominate the Indian market with its innovative and customer-oriented business strategy which includes - Mobile App awareness to the common people through the launch of a customized mobile-specific technique named as "App Analytics" with the help of which the app can track and measure the overall performance of the services in particular city or through the drivers. Providing Ad campaigns on various social media platforms. Targeting the right audience which as per a recent study has confirmed that the average customers were of 20-25 years of age who were working in the corporate companies and needed cab services to pick them up and drop them at their office premises.

Caber works as a digital aggregator app platform, connecting passengers who need a ride from point A to point B with drivers that are willing to serve them. "Passengers" generate the demand, "Drivers" supply the demand and "Caber" acts as the marketplace/facilitator to make this all happen seamlessly on a mobile platform. Caber has been able to generate strong value propositions for both passengers and drivers to get onboard on its platform and create disruption in the taxi/ cab industry.

Certain facilities provided by Caber to its passenger customers are convenient cab bookings. Real-time tracking, the ride hailing service refers to the ability of passengers to track the location of their assigned vehicle in real time using the mobile app. This feature provides passengers with an estimated time of arrival and allows them to see the route the driver is taking to reach their location. It promotes cashless rides by giving the option for passengers to pay for their rides using digital payment methods such as debit cards, mobile wallets or Caber Money (Caber's digital wallet). This eliminates the need for passengers to pay in cash at the end of their ride, offering a convenient and secure payment experience. Further, the passengers using the Caber app experience shorter waiting times. This could be due to factors such as the availability of nearby drivers, efficient routing and effective matching algorithms that quickly connect passengers with available drivers. Lower wait times contribute to a better overall experience for passengers, reducing the time they spend waiting for their ride to arrive. Its app provides an upfront pricing feature, it shows the estimated fare for the trip before confirming the booking. This estimated fare is calculated based on factors such as distance, time, and any surge pricing that may be applicable at the time of booking. By providing upfront pricing, Caber aims to offer transparency to passengers regarding the cost of their ride, helping them make informed decisions before booking a ride. In the Caber app, "multiple ride options" typically refers to the various categories or types of rides available for users to choose from when booking a ride. These options may include Caber micro offers small and affordable cars for short trips or solo travelers. These multiple ride options cater to the diverse needs and preferences of Caber users, providing flexibility in terms of vehicle type, comfort level, and pricing. Users can select the option that best suits their requirements for each specific journey.

The hiring department at Caber undertakes an extensive search to hire experienced drivers, who can be further trained to professionally handle high-end luxury segment customers. For this, the company plans to approach a staffing agency that will provide candidates based on Caber's specific requirements for an experienced driver. They will also do the background check for these drivers to ensure their fitness and safety record. Caber plans to have regular maintenance done on the cars to ensure

that they are in working condition. They also have approached insurance companies for car and accident insurance.

After hiring its Drivers, they provide flexibility to drive on their own terms like setting their own schedule based on their preferences – day shift, night shift, full time or part time. Drivers can also decide where they want to operate within the service area. They may prefer to work in specific neighborhoods, cities, or regions based on factors such as demand, traffic conditions, or familiarity with the area. Caber training sessions for drivers are comprehensive and focused on enhancing professionalism, safety, and customer satisfaction. Covering a range of topics including safety protocols, customer service skills, navigation techniques, vehicle maintenance, company policies, technology usage, and financial management, these sessions aim to equip drivers with the necessary knowledge and skills to excel in their role. By providing education and guidance in these key areas, Caber ensures that its drivers can deliver a reliable, safe, and enjoyable experience for passengers while also empowering them to manage their work effectively as independent contractors in the ride-hailing industry.

Caber supports its drivers by facilitating access to vehicle loans, enabling them to become vehicle owners and enhance their earning potential. Through partnerships with financial institutions, Caber offers specialized loan programs with competitive interest rates and flexible repayment terms tailored to the needs of ride-hailing drivers. Additionally, Caber runs a vehicle leasing program in many cities to help new drivers get onboard faster. Drivers pay an upfront security deposit for the vehicle, and payments are automatically deducted on a weekly basis from their earnings. Caber purchases motor vehicles or motor cars from Shakti Motors and leases out to its drivers. The lease agreement states that in case of default by drivers for payment of lease rent or other terms and conditions, Caber has power to repossess the motor cars/vehicles leased out. The registration of vehicles is in the name of lessee as per the provisions of Motor Vehicles Act, 1988. Caber has claimed a depreciation of ₹ 5.00 crores during the previous year 2023-24 on the motor cars leased out.

Caber makes money by taking a cut on each ride (shared or individual) from the drivers. Caber provides the drivers on its platform with a robust supply of ride requests to accept, fulfill, and make income. While making a booking, the passenger pays Caber for the ride through the app. Caber then transfers the payment to the driver's account after taking some amount of trip commission for doing the job of a broker. The commission rates may vary from 15-30 % depending on the market.

Dynamic pricing/ surge pricing is charged whenever there is a higher demand for cabs than what can be served at that moment (for example, at the airport after a flight lands), the fare goes up based on a surge price calculation algorithm. If a passenger cancels a ride after a certain time frame, say five minutes, he/she is charged a cancellation fee.

Caber App is a very popular app with millions of active users. This makes it a good option for brands to do promotions. Its current app interface pushes a feed style layout for intuitive content consumption. Over the period, it may go on to become a strong revenue source by becoming a channel for sponsored content.

The company offer discounts and promotions to end-users (that are not our customers) to encourage use of the platform. These are offered in various forms of discounts and promotions and include:

- ◆ Targeted end-user discounts and promotions: These discounts and promotions are offered to a limited number of end-users in a market to acquire, re-engage, or generally increase end-users use of the Platform, and are akin to a coupon.
- ◆ End-user referrals: These referrals are earned when an existing end-user (the referring end-user) refers to a new end-user (the referred end-user) to the platform and the new end-user who is not our customer takes their first ride on the platform. These referrals are typically paid in the form of a credit given to the referring end-user. These referrals are offered to attract new end-users to the Platform. The company records the liability for these referrals and corresponding expenses as sales and marketing expenses at the time the referral is earned by the referring end-user.
- ◆ Market-wide promotions: These promotions are pricing actions in the form of discounts that reduce the end-user fare charged by Drivers to end-users. This also includes any discounts offered under our subscription offerings and certain discounts within the Caber Rewards programs, which enable End-users to receive a fixed fare or a discount on all eligible rides. Accordingly, Caber records the cost of these promotions as a reduction of revenue at the time the transaction is completed.
- ◆ Refunds and credits to end-users due to end-user dissatisfaction with the Platform are recorded as marketing expenses or as a reduction of revenue.

Caber offers 24x7 customer support to ensure that passengers and drivers receive assistance at any time, enhancing the overall user experience. Caber's value proposition revolves around providing convenient, safe, and reliable transportation solutions for passengers while offering flexible earning opportunities and support for its driver-partners.

Recently Caber is planning to introduced customized luxury rides to attract high end customers in all metropolitan cities in India best known for their fast-paced lifestyle. Due to expansion of business in various segments requiring restructuring in leadership team for effective management the board has decided to increase the number of directors. Caber wishes to diversify its current business in various segments to enhance its portfolio. As per the Board, new hands are required for decision-making for which qualified and experienced personnel are required to be appointed as directors. Currently, the company already has 7 directors. Now with the revised strategy, the Board of Directors desires to increase the number of directors from 7 to 16.

In FY 2022, Caber's market share accounted for approximately 55%. It has reached a valuation of 6.5 billion US dollars in the year 2023.

Sample Fare Break-up: X books an auto for travelling from Jhotwara, Jaipur to Sanganer, Jaipur. Y an auto driver, a resident of Rajasthan accepted the ride. On completion of trip the operator received fare from X, a probable break-up of it can be as under:

Driver Fees – ₹ 800

Booking and convenience Charge – ₹ 200

I. Multiple Choice Questions

- Which of the following statements accurately describe characteristics of disruptive innovations of Caber?
 - Caber initially targeted niche markets to establish its presence
 - Caber offered competitive performance and quality compared to existing products or services
 - Caber immediately dominated the market upon introduction
 - Established companies did not align with the preferences of their current customers and overlooked Caber's disruptive innovations
 - Caber's innovations tend to evolve and improve over time, eventually surpassing existing products or services

(a) a, b, and d only (b) a, c, and e only (c) b, d, and e only (d) a, c, and d only
- With reference to fare break-up, what should be the total amount of fare and GST assuming the rate of GST as 5%, if X hailing the ride is not claiming ITC on above and also who is the person liable to pay GST in the given case?

(a) Rs 1,050, CGST Rs 25, SGST Rs 25; Caber cabs (b) Rs 1,010, CGST Rs 5, SGST Rs 5; X

(c) Rs 1,120, CGST Rs 60, SGST Rs 60; Y (d) Rs 1,096, CGST Rs 48, SGST Rs 48; X
- Caber charging a premium for instant booking of prime cars had provided a new value to customers by making service access easier and more convenient than its basic version. Adaptability to which model created a significant advantage for the organization.

(a) Experience Model (b) Subscription Model (c) On Demand Model (d) Free Model
- Analysing the facts from the above, determine which classification best describes Caber's current growth stage?

(a) Startup (b) Scale-up (c) Unicorn (d) Incumbent
- Which statement is correct regarding the increase in the number of directors in accordance with the provisions of the Companies Act, 2013?

(a) The increase in the number of directors can be implemented by passing a general resolution in the general meeting.

(b) The company should pass a special resolution in the general meeting to increase the maximum number of directors to 16.

(c) The company cannot increase the number of directors beyond 10.

(d) The company cannot increase the number of directors beyond 15.
- Based on the scenario, how did Caber address customer pains and generate gains, and what specific strategies and features did it implement to enhance the overall customer experience and contribute to social and environmental benefits? DISCUSS.
- DRAW a business model canvas for Caber.
- With reference to Case, the depreciation claim is rejected by the Assessing Officer on the ground that the Caber had only financed for purchase of leased vehicles and hence it is neither owner nor used the same motor cars in his business. Comment on the contention of the Assessing Officer.

ANSWERS TO THE CASE STUDY 1

1. (i) a, b, and d only

Reason:

- a. Caber initially targeted niche markets to establish its presence: This statement accurately reflects Caber's strategy of targeting specific cities or areas where traditional taxi services were inadequate. By focusing on niche markets initially, Caber established its presence and gradually expanded its operations.
- b. Caber offered competitive performance and quality compared to existing products or services: Caber aimed to provide a competitive alternative to traditional taxi services by offering features such as surge pricing, real-time tracking, and cashless payments. This allowed Caber to meet or exceed the performance and quality expectations of customers.
- d. Established companies did not align with the preferences of their current customers and overlooked Caber's disruptive innovations: Traditional taxi companies overlooked Caber's disruptive innovations, such as surge pricing and dynamic pricing algorithms. They didn't align with the preferences of their existing customer base. This oversight gave Caber an advantage in capturing market share and disrupting the industry.

2. (a) Rs 1,050, CGST Rs 25, SGST Rs 25; Caber cabs

Reason: Section 9 (5) of the CGST Act 2017 is a charging section under GST for supply of notified services. This section deals with taxability of supply of services, the output tax of which shall be paid by the electronic commerce operator (E- COM) if such services are supplied through it, (even though E-COM is not an actual supplier).

Here, Notified services includes Services by way of Transportation of passengers by a Radio Taxi, Motor Cab, Maxi Cab, Motor Cycle or any other motor vehicle except omnibus therefore provisions of Section 9(5) of CGST is applicable on Caber Cabs. Therefore, the person liable to pay GST is Caber Cabs.

To find the fare and GST amount if X hailing the ride is not claiming Input Tax Credit (ITC), we'll calculate as follows:

Driver Fees = Rs 800

- Booking and Convenience Charge = Rs 200

GST rate is CGST 2.5% and 2.5% SGST

Step 1: Calculate the taxable value.

Taxable value = Driver Fees + Booking and Convenience Charge
Taxable value = 800 + 200

Taxable value = Rs 1,000

Step 2: Calculate the GST amount. GST amount = Taxable value x

GST rate
CGST = Rs 25 (1,000 x 2.5/100)

SGST = Rs 25 (1,000 x 2.5/100)

Step 3: Calculate the total fare.

Total fare = Taxable value + GST amount
Total fare = Rs 1,000 + Rs 25 + Rs 25

Total fare = Rs 1,050

- The fare charged to the passenger is Rs 1,050, which includes driver fees & booking/convenience charge.
- The GST amount on this fare, when not claiming ITC, is Rs 50, calculated at a rate of 5% on the taxable value of Rs 1,000.

3. (c) On Demand Model.

Reason: Caber's strategy of charging a premium for instant booking of prime cars aligns with the On Demand Model. This model focuses on providing immediate access to products or services, often at a premium price, to meet the immediate needs and demands of customers. By offering instant booking of prime cars, Caber enhances its value proposition by providing convenience and accessibility to customers, thereby creating a significant advantage for the organization within the On Demand Model.

4. (c) Unicorn

Reason: Caber is a privately held company with a valuation of \$6.5 billion, which meets the criteria for being classified as a unicorn. While it has already established its presence in the market, expanded its operations, and diversified its services, its valuation of \$6.5 billion indicates that it has achieved significant growth and is valued at over \$1 billion, thus meeting the criteria for being classified as a unicorn. Therefore, "unicorn" would be the most appropriate classification for Caber's current growth stage.

5. The company should pass a special resolution in the general meeting to increase the maximum number of directors to 16.

Reason: According to Section 149(1) of the Companies Act, 2013, the maximum number of directors allowed without a special resolution is 15. However, any increase beyond this limit requires the company to pass a special resolution as per the First Proviso to Section 149(1). Therefore, option B is correct as it accurately reflects the legal requirement for increasing the number of directors beyond the statutory limit.

6. **Pain & Pain Relievers:** Pains describe anything that annoys the customer before, during, or after getting a job done, including unwanted costs, situations, negative emotions, or risks. These pains can vary in severity. Pain relievers explain how products and services alleviate specific customer pains at different stages. They highlight how the value proposition addresses these pains by either eliminating or reducing them.

In the given study, customers often experienced difficulty finding a taxi during peak hours or in less busy areas. Caber relieved this pain by eliminating the hassle of waiting on the street or making phone calls to book a cab, offering a convenient and seamless booking experience. With efficient routing algorithms and effective matching mechanisms, Caber significantly reduced waiting times for passengers, ensuring a quicker and more reliable ride. Another major pain point for customers was concerns over the safety and security of rides, especially during late hours. Caber alleviates this by maintaining stringent safety protocols and conducting thorough background checks on drivers, ensuring passengers feel confident and secure when using Caber's services. Traditional taxi services often involved haggling and unpredictable pricing, which Caber relieved with upfront pricing, allowing passengers to see the estimated fare before confirming the booking, thus eliminating surprises at the end of the ride. Additionally, the inconvenience of cash payments and the need for exact change was eliminated with Caber's cashless payment options, offering a secure and hassle-free payment experience. Passengers can pay for their rides using digital payment methods such as debit cards, mobile wallets, or Caber Money (Caber's digital wallet).

Gain & Gain Creators: Gains describe the outcomes or benefits that customers require, expect, or desire, including unexpected but delightful complementary benefits. These can range from functional utilities and social gains to positive emotions and cost savings. Some benefits will be more relevant to customers than others, and these elements collectively describe the customer characteristics observable in the market. Gain creators explain how a business's products and services generate customer gains by creating these benefits and outcomes.

Caber catered to customer preferences by providing multiple ride options, including economy, premium, and shared rides, allowing customers to choose based on their needs and budget. Customers expected consistent and high-quality service, which Caber delivered through features like in-app navigation, trip sharing, and 24x7 customer support, enhancing the overall ride experience.

Caber's user-friendly app interface simplified the process of booking a ride, offering functional utility by allowing users to book rides quickly with just a few taps, providing real-time tracking, driver contact information, and estimated arrival times. Complementary benefits like Caber Rewards and other loyalty programs offered ride discounts, priority support, and other perks to frequent users, adding value and encouraging repeat usage. Caber's competitive pricing and diverse ride options made it an affordable and accessible transportation solution for passengers of all budgets.

Additionally, Caber offered flexible earning opportunities for its driver-partners, allowing them to set their own schedules, choose their preferred working locations, and accept or decline ride requests as per their preferences. This created gains by providing employment opportunities for drivers and facilitating economic transactions, thereby contributing to the growth and development of local communities. These social gains were complemented by Caber's environmental contributions. Caber's ride-sharing options and efficient routing algorithms helped in reducing traffic congestion and carbon emissions, promoting environmental sustainability.

7.

Key Partners 	Key Activities 	Value Proposition 	Customer Relationship 	Customer Segments 
- Technology providers - Financial Institutions - Insurance - MAP API providers - Payment processors - Local authorities - Drivers who own cars - Staffing agency	- Communication with the driver, customers, and partners - Hiring drivers and handling their insurance and payouts through secure medium - Analyzing data to rectify any shortcomings - Sales promotions to acquire new customers - Platform development	- Flexible earning opportunities for its driver- partners - Safety and security - Convenient and easier transactions - Opportunity to get an insight as to the fare and duration of the ride - Competitive pricing and diverse ride options - Complementary benefits	- Review & rating - Social media engagement - Customer Support 24x7	- Passengers - Drivers - Retailers
	Key Resources - Platform - Pricing algorithm - Brand Staff		Channels Caber App	
Cost Structure		Revenue Streams		
- Legal and settlement cost - Insurance cost - Platform development & maintenance - Customer support - Salaries - Sales & marketing cost - Data center and networking expenses - R & D expenses		- Ride transaction fees - Dynamic/ Surge pricing - Cancellation fees - Caber App interface		

8. **Issue:** The issue under consideration is whether depreciation on leased vehicles can be denied to the lessor on the ground that the vehicles are registered in the name of the lessee and that the lessor is not the actual user of the vehicles.

Provision involved: Section 32 provides the manner of calculation of depreciation and conditions to be fulfilled as follows:

- The assets must be owned, wholly or partly, by the assessee.
- The assets must be in use for the business or profession of the taxpayer. If the assets are not used exclusively for the business, but for other purposes as well, depreciation allowable would be proportionate to the use of business purpose.
The Income Tax Officer also has the right to determine the proportionate part of the depreciation under section 38 of the Act.
- Co-owners can claim depreciation to the extent of the value of the assets owned by each co-owner.
- Assessee cannot claim depreciation on the cost of land.

Analysis: Section 32 imposes a twin requirement of “ownership” and “usage for business” as conditions for claim of depreciation thereunder. As far as usage of the asset is concerned, the section requires that the asset must be used in the course of business. It does not mandate actual usage by the assessee itself. **In this case, the assessee did use the vehicles in the course of its leasing business. Hence, this requirement of section 32 has been fulfilled, notwithstanding the fact that the assessee was not the actual user of the vehicles.**

As long as the assessee-lessor has a right to retain the legal title against the rest of the world, he would be the owner of the

asset in the eyes of law. In this regard, the following provisions of the lease agreement are noteworthy —

- The assessee is the exclusive owner of the vehicle at all points of time;
- The assessee is empowered to repossess the vehicle, in case the lessee committed a default;
- At the end of the lease period, the lessee was obliged to return the vehicle to the assessee;
- The assessee had a right of inspection of the vehicle at all times.

The proof of ownership lies in the lease agreement itself, which clearly points in favour of the assessee.

Conclusion: The assessee-lessor was, therefore, entitled to claim depreciation in respect of vehicles leased out since it has satisfied both the requirements of section 32, namely, ownership of the vehicles and its usage in the course of business. Hence the contention of Assessing Officer in rejecting the depreciation claim is not valid.

Note - The facts given in the question are similar to the facts in *I.C.D.S Ltd. Vs. CIT* [2013] 350 ITR 527, wherein the above issue came up before the Supreme Court. The above answer is based on the rationale of the Supreme Court.

CASE STUDY 2

SG's adherence to its strategic vision is pivotal in maintaining its competitive advantage in the fast fashion industry. Concerns about the quality of products from fast-fashion companies are common, as these companies often aim to sell more by cutting costs. However, SG's robust quality control system ensures the delivery of high-quality products, distinguishing it from many of its competitors.

One of SG's key strategies to sustain its competitive edge is minimizing the time span between design creation and store availability. The fast fashion industry is accelerating, with companies continuously reducing the time from product design to distribution. The integration of online platforms and the normalization of one-day delivery are becoming industry standards. SG is committed to keeping pace with these developments to stay competitive.

Marketing and communication also play crucial roles. Leveraging information technology, SG can identify customer preferences and reach a broad audience. Social media is a significant tool in building relationships with customers, and SG utilizes these platforms effectively. It also utilizes it for super-efficient analysis of what's selling and being said on social media platforms. However, in a highly competitive industry, SG must constantly innovate, focusing on quality, pricing, and speed to retain its market position.

SG operates globally, with a substantial presence in Belgium and a significant influence in the fast fashion market. Competing with brands like RopTop, Rametton, R&M. SG produces over 20,000 designs annually and employs a strategic pricing strategy to carve out its market niche.

Pricing is critical for SG, which targets a wide market by offering products for women, men, and children. SG's pricing strategy aims to attract both the middle class, its largest market share, and wealthier individuals. In the South Asian market, SG's products are relatively affordable, catering primarily to the middle class. Conversely, in regions like Europe, SG's products are more expensive, targeting consumers with higher social status. In South Asian market, SG employs a below-market or penetrating pricing strategy, often referred to as a charming price tactic, which involves setting prices lower than the competition to attract a larger customer base, particularly among the middle class. This approach helps SG capture a significant market share by appealing to price-sensitive consumers. In contrast, SG adopts a different approach in the European market by setting prices higher than those in other regions. This strategy targets consumers who are less sensitive to price and are willing to pay a premium for SG's fashionable and trendy products. By catering to a wealthier segment that values brand prestige and exclusivity, SG effectively maximizes its profits in Europe.

SG's pricing strategy is part of its broader 4Ps marketing mix: product, price, promotion, and place. With a diverse product range, SG attracts a broad consumer base, launching new products regularly to meet changing fashion demands. This approach maximizes profit margins by aligning product prices with consumer behavior and preferences.

SG has used almost zero advertising and endorsement policy throughout its entire existence, preferring to invest a percentage of its revenues in opening new stores instead. It spends a meager 0.8 per cent of sales on advertising compared to an average of 5 per cent by competitors. The brand's founder Mr. Goyal who is the ninth richest man in the world, has never spoken to the media nor has in any way advertised SG.

It currently operates in 1113 retail stores across 93 markets (countries). The flagship locations are located in the most critical markets that appeal to their most loyal shopper. SG uses its store location and store displays as key elements of its marketing strategy. Its window displays, which showcase the most outstanding pieces in the collection, are also a powerful communication tool designed by a specialized team. A lot of time and effort is spent designing the window displays to be artistic and attention grabbing. According to SG's philosophy of fast fashion, the window displays are constantly changed. This strategy goes down to how the employees dress as well

– all SG employees are required to wear SG clothes while working in the stores, but these “uniforms” vary across different SG stores to reflect socio-economic differences in the regions they were located.

SG's pricing strategy and broad product range have given it an advantage over rivals like R&M and RopTop, enabling global expansion to meet product demand. A company's pricing strategy significantly impacts market presence and revenue returns. SG's strategy aims to meet consumer needs and outperform competitors to maximize returns.

SG, part of the Goyal group, has gained global recognition through its innovative retail strategy. Unlike many competitors, SG minimizes the time between design conception and store availability to just two weeks, allowing it to respond swiftly to market demand fluctuations. This agility is enhanced by SG's vertical integration and avoidance of outsourcing, maintaining control over production and quality. SG's business model is meticulously designed to maintain its competitive edge in the fast fashion industry. A key element is the short lead time, which ensures that SG's products are always aligned with the latest fashion trends. This is complemented by the strategy of reduced risks through limited production runs, allowing SG to quickly pivot away from unpopular designs. The company focuses on producing styles rather than mass-producing clothing, which helps keep its offerings fresh and desirable. Vertical integration, with manufacturing based in Asia, allows for rapid adjustments in production to meet market demands.

SG's marketing strategy is innovative, investing in making its products easily accessible rather than relying on traditional advertising methods. The company is highly reactive, swiftly responding to market demands as they arise, and it emphasizes affordability, offering stylish clothing at Reasonable prices. Interactivity is another crucial aspect, as SG closely engages with consumer trends through social media, ensuring that it stays in tune with customer preferences. This combination of elements creates a dynamic and responsive business model that drives SG's success.

Aware of SG's recent successes in becoming a major player in the global fashion industry, many smartphone and mobile software manufacturers quickly sought to partner with the company. For instance, since 2012, Ramson smartphones have been sold with the preinstalled SG mobile application. Ramson Electronics announced the launch of the SG fashion app, which will showcase the global fashion chain's latest collections on Android smartphones for the first time. The app allows fashion lovers to browse the new season must-haves and make immediate purchases. This initiative has significantly contributed to SG's substantial sales growth. With the SG mobile application installed on their smartphones, customers can conveniently purchase the company's products online without needing a computer.

SG's success stems from a combination of innovative manufacturing and marketing strategies, allowing it to remain competitive. However, maintaining this edge requires continuous adaptation and technological advancement in marketing activities.

Particulars of SG India (Indian Subsidiary)

Employee Details and Profit Distribution- SG India has a headcount of around 1,000 employees in 2023- 2024. As per the company's policy, the employees are given 35 days of privilege leaves (PL), 15 days of sick leaves (SL) and 10 days of casual leaves (CL). Out of the total PL and sick leaves, 10 PL leaves and 5 sick leaves can be carried forward to next year. Based on past trends, it has been noted that 200 employees will take 5 days of PL and 2 days of SL and 800 employees will avail 10 days of PL and 5 days of SL. Indian Subsidiary has been incurring profits since 2018. Therefore, it has decided in 2023-2024 to distribute profits to its employees @4% during the year. But, due to the employee turnover, the expected pay-out of the Indian Subsidiary is expected to be around 3.5%. The profits earned during 2023-2024 is Rs 2,000 crores. It has a post-employment benefit plan also available which is in the nature of defined contribution plan where contribution to the fund amounts to Rs 100 crores which will fall due within 12 months from the end of accounting period. Indian Subsidiary has paid Rs 20 crores to its employees in 2023-2024.

Corporate Social Responsibility- The management committee of SG India Ltd has issued right shares to all its shareholders which include employees of the company. Furthermore, SG India issues its own shares to a charity without any consideration to an

NGO which is working for promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward group.

Asset Acquisition - On 1st April 2023, SG India acquired machines for production at Gwalior plant under the following terms:

List price of machines	Rs 80,00,000
Import duty	Rs 5,00,000
Delivery fees	Rs 1,00,000
Electrical installation costs	Rs 10,00,000
Pre-production testing	Rs 5,00,000
Purchase of a five-year maintenance contract with vendor	Rs 7,00,000

In addition to the above information, it was granted a trade discount of 10% on the initial list price of the asset and a settlement discount of 5%, if payment for the machine was received within one month of purchase. The company paid for the plant on 20th April, 2023. The machines were operating below capacity for 4 months. During this period, production cost of Rs 2,00,000 per month was being incurred. The proceeds from sales was Rs 1,50,000 per month. Similarly, the proceeds of sales from pre-production testing was Rs 1,00,000.

Real Estate Transaction- SG India holds a commercial plot in Mumbai which it intends to sell. M/s. Best Broker, a real estate broker with its Head Office in the USA, has been appointed by SG India to find some suitable buyers for the said commercial plot in Chennai which is situated at a prime location. M/s. Best Broker identifies Legacy Estate Inc., based out of USA, as the potential buyer. It is to be noted that Legacy Estate Inc. is controlled from India and hence, is a 'Person Resident in India' under the applicable provisions of Foreign Exchange Management Act, 1999. A deal is finalised and Legacy Estate Inc. agrees to purchase the commercial plot for USD 7,00,000 (assuming 1 USD = Rs 84). According to the agreement, SG India is required to pay commission @ 7% of the sale proceeds to M/s. Best Broker for arranging the sale of commercial plot to Legacy Estate Inc. and commission is to be remitted in USD to the Head Office of M/s. Best Broker located in USA.

I. Multiple Choice Questions

- Which of the following best describes how SG's type of vertical integration contributes to its competitive advantage in the fast fashion industry?
 - Backward vertical integration, by acquiring raw material suppliers, leading to cost savings through economies of scale.
 - Forward vertical integration, by opening own retail stores, enhancing customer experience and control over sales channels.
 - Backward vertical integration, by maintaining in-house production and control over the entire supply chain, allowing for rapid adjustments in production to meet market demands.
 - Forward vertical integration, by developing unique marketing strategies, increasing brand visibility and customer loyalty.
- Which of the following does NOT describe how Kara has maintained their competitive advantage with their focus strategy?
 - SG has grown rapidly since its founding, expanding to 1113 stores in 93 markets (countries), making it one of the most successful fashion retail brands in the world.
 - SG's success is evident in the profitability of its founder, Mr. Goyal, who is the ninth richest man in the world.
 - SG spends only 0.8% of its sales on advertising, compared to an average of 5% spent by competitors.
 - SG follows a push model in their inventory and supply chain management to maintain its market position.
- Can the Managing Director (MD) of a region, who is also an employee, be provided a salary under Ind AS.
 - No, because MDs are considered part of key management personnel and should be compensated differently.
 - Yes, because Ind AS 19 applies to all employees, including those in management positions, provided they are also employees of the company.
 - No, because Ind AS 19 only covers lower-level employees, not senior management.
 - Yes, but only if the MD's salary is disclosed separately from other employees' salaries.

4. Enumerate the legal requirements for the remittance of commission by SG India to M/s. Best Broker and recommend the most appropriate legal position to ensure compliance with the relevant provisions of the Foreign Exchange Management Act, 1999:
 - (a) There is no requirement of obtaining prior permission of Reserve Bank of India (RBI) for remittance of commission upto USD 25,000 by SG India to M/s. Best Broker but for the balance commission of USD 24,000, prior permission of RBI is required.
 - (b) There is no requirement of obtaining prior permission of Reserve Bank of India (RBI) for remittance of commission upto USD 35,000 by SG India to M/s. Best Broker but for the balance commission of USD 14,000, prior permission of RBI is required.
 - (c) There is no requirement of obtaining prior permission of Reserve Bank of India (RBI) for remittance of entire commission of USD 49,000 by SG India to M/s. Best Broker in line with agreement.
 - (d) It is mandatory to obtain prior permission of Reserve Bank of India (RBI) for remittance of entire commission of USD 49,000 by SG India to M/s. Best Broker.
5. Which statement is TRUE regarding the application of Ind AS 102 (Share-based Payment) to Employee Stock Option Plans (ESOPs) and the issuance of shares to a charity?
 - (a) ESOPs are covered under Ind AS 102 only if employees receive shares as part of their employment benefits, regardless they are shareholders.
 - (b) Ind AS 102 does not apply to the issuance of shares to a charity without consideration, as it is not a share-based payment transaction.
 - (c) The issuance of shares to a charity without consideration is covered under Ind AS 102 as a share-based payment arrangement, while ESOPs are not covered if employees receive shares in their capacity as shareholders.
 - (d) ESOPs are covered under Ind AS 102 regardless of whether employees receive shares in their capacity as shareholders, and the issuance of shares to a charity without consideration is not covered under Ind AS 102.
6. ANALYZE and EVALUATE how SG's approach to product differentiation contributes to its competitive advantage in the fast fashion industry.
7. STATE what would be the treatment of the short-term compensating absences, profit-sharing plan and the defined contribution plan in the books of SG. Also, STATE what would be the treatment, if the contribution paid from defined contribution plan exceeds the contribution due. Further, DETERMINE what would be the accounting if the payment from defined contribution plan does not fall due within 12 months from the end of accounting period.
8. The CFO of the company wants to know at what value would this asset be recognised in the books of accounts. PREPARE a statement showing him the workings.

ANSWERS TO THE CASE STUDY 2

1. (c) Backward vertical integration, by maintaining in-house production and control over the entire supply chain, allowing for rapid adjustments in production to meet market demands.

Reason: SG's backward vertical integration, which involves maintaining in-house production and supply chain control, allows for rapid and flexible production adjustments. This strategy is crucial in the fast-fashion industry, where quick response to market demands and trends is essential for maintaining a competitive advantage.
2. (d) SG follows a push model in their inventory and supply chain management to maintain its market position.

Reason: The company has grown rapidly, is highly profitable, spends very little on advertising, and relies on product quality and customer satisfaction rather than branding or persuasion. Moreover, follows a pull model in their inventory and supply chain management. They create multiple designs every month based on store sales and current trends. Therefore, option (d) does not describe correctly how SG has maintained their competitive advantage.
3. (b) Yes, because Ind AS 19 applies to all employees, including those in management positions, provided they are also employees of the company.

Reason: Ind AS 19 (Employee Benefits) covers all forms of employee benefits, including salaries, for individuals who are employees of the company, regardless of their position within the company. This includes senior management and key management personnel like Managing Directors, as long as they are classified as employees. Therefore, the MD of a region, being an employee, can be provided a salary under Ind AS 19.

4. (d) It is mandatory to obtain prior permission of Reserve Bank of India (RBI) for remittance of entire commission of USD 49,000 by SG India to M/s. Best Broker.

Reason: According to FEMA Act, 1999, persons other than individuals shall require prior approval of the Reserve Bank of India for remittance of Commission, per transaction, to agents abroad for sale of residential flats or commercial plots in India exceeding USD 25,000 or five percent of the inward remittance ($\text{USD } 7,00,000 \times 5\% = \text{USD } 35,000$) whichever is more. Here, in this case, commission is $\text{USD } 7,00,000 \times 7\% = \text{USD } 49,000$ which is higher than USD 35,000.

5. (c) The issuance of shares to a charity without consideration is covered under Ind AS 102 as a share-based payment arrangement, while ESOPs are not covered if employees receive shares in their capacity as shareholders.

Reason: Since the employees who have received such shares are acting in the capacity of shareholders and not as employees, this transaction will not be covered under Ind AS 102. Further, entity issuing its own shares to a charity without any consideration will be covered under Ind AS 102. This is a share-based payment arrangement, covered under Ind AS 102 (not a share-based payment transaction).

6. SG's approach to product differentiation significantly contributes to its competitive advantage in several ways.

Firstly, SG's rapid design-to-store turnaround, where new designs appear in stores within two weeks of conception, ensures that the company constantly offers the latest fashion trends, attracting fashion-conscious consumers and setting SG apart from competitors who have longer production cycles. This quick response to market demands allows SG to keep its product offerings fresh and relevant, creating a sense of urgency and exclusivity among customers.

Secondly, SG's vertical integration plays a crucial role in maintaining high product quality and control over the entire production process. By keeping a substantial portion of its manufacturing in-house and located in South Asia, SG can quickly adjust production based on market feedback and emerging trends, reducing lead times and ensuring consistency in quality. This tight control over the supply chain enables SG to implement its innovative designs swiftly and efficiently, further differentiating its products from those of competitors who rely heavily on outsourcing.

Thirdly, SG gains a competitive advantage by selling its clothing exclusively through its own retail stores, strategically located to attract a high volume of customers. This strategy focuses on creating a unique and immersive shopping experience. SG's stores are designed to resemble high-end fashion boutiques, with carefully curated product displays that enhance the sense of luxury and exclusivity. This approach not only differentiates SG from competitors but also reinforces its brand image and appeals to discerning customers seeking a premium shopping experience.

Fourth, SG has a highly evolved data infrastructure, that allows for super-efficient analysis of what's selling and being said on social media platforms. This data is used to improve various aspects of the business from product offerings to service enhancements. The two-way communication between the customer and SG allows for continual improvement of product and services. This is not common for designer clothes.

Lastly, SG's dynamic pricing strategy enhances its product differentiation by catering to various market segments. In the South Asian market, SG employs a penetrating pricing strategy to attract middle-class consumers, while in regions like Europe, SG adopts a premium pricing strategy to target wealthier consumers willing to pay a premium for fashion-forward items. This regional pricing flexibility allows SG to maximize its market reach and appeal to a broader customer base, strengthening its competitive position globally.

In summary, SG's rapid turnaround time, vertical integration, exclusive distribution channel and adaptable pricing strategy collectively reinforce its product differentiation, ensuring that the company remains a leading force in the fast fashion industry by consistently meeting and exceeding customer expectations.

Evaluation of Strategy

SG's success has come despite the fact they use almost no advertising. Only 0.8 percent of sales is spent on advertising, compared to an average of 5 percent spent by their competitors. Their founder, Mr. Goyal, has never spoken to the media nor personally advertised SG in any way. This points to the success of their products in satisfying the needs of the customers rather than through branding or persuasion. By making the brand experience meaningful and the exchange valuable, SG taps the potential of its customers to evangelize the brand. Therefore, SG has been immensely successful in maintaining their competitive advantage with their differentiation strategy.

7. (a) SG will recognise a liability in its books to the extent of 5 days of PL for 200 employees and 10 days of PL for remaining 800 employees and 2 days of SL for 200 employees and 5 days of SL for remaining 800 employees in its books as an unused entitlement that has accumulated in 2023-2024 as short-term compensated absences.

- (b) SG will recognize Rs 70 crores ($\text{Rs } 2,000 \times 3.5\%$) as a liability and expense in its books of account.
- (c) When an employee has rendered service to an entity during a period, the entity shall recognise the contribution payable to a defined contribution plan in exchange for that service.

Under Ind AS 19, the amount of Rs 80 crores will be recognised as a liability (accrued expense), after deducting any contribution already paid (100-20) and an expense in the statement of profit and loss.

However, if the contribution already paid would have exceeded the contribution due for service before the end of the reporting period, an entity shall recognise that excess as an asset (prepaid expense).

Since the contributions are payable within 12 months from the end of the year in which the employees render the related service, they will not be discounted. However, where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the period in which the employees render the related service, they shall be discounted using the discount rate.

8. In accordance with Ind AS 16, all costs required to bring an asset to its present location and condition for its intended use should be capitalized. Therefore, the initial purchase price of the asset should be:

List price	Rs 80,00,000
Less: Trade discount (10%)	Rs (8,00,000)
	Rs 72,00,000
Import duty	Rs 5,00,000
Delivery fees	Rs 1,00,000
Electrical installation costs	Rs 10,00,000
Pre-production testing (Net of Sale Proceeds of Rs 1,00,000)	Rs 4,00,000
Total amount to be capitalized	Rs 92,00,000

Maintenance contract is a separate contract to get service, therefore, the maintenance contract cost of Rs 7,00,000 should be taken as a prepaid expense and charged to the profit or loss over a period of 5 years.

In addition, the settlement discount received of Rs 3,60,000 ($\text{Rs } 72,00,000 \times 5\%$) is to be shown as other income in the profit or loss.

The operating loss incurred after commercial launch cannot be capitalised. Hence those figures are being ignored.

CASE STUDY 3 -

CASE STUDY 4

*Becky Bond India Limited produces internationally successfully 'Becky' and 'Bond' brand of fashion clothes respectively for woman and men. The company has acquired a global reputation for good-quality, well-designed and **Reasonably** priced fashion clothing. Like other fashion clothing companies, Becky Bond continually design and produce new clothes for the fashion market. During the course of one year, the company produces over 15,000 new fashion designs, and it has a large team of fashion designers. The company's top designers, who are based in Paris and Moscow, have an international reputation. These top designers bring international acclaim and expertise, further enhancing the brand's appeal and global market presence.*

Becky Bond India Limited has established itself as a leader in the global fashion industry, renowned for its innovation, quality, and style. The company's success is built on a foundation of meticulous craftsmanship and a keen eye for emerging fashion trends. Becky Bond's clothing lines, known for their sophisticated designs and high-quality materials, resonate well with both fashion-forward consumers and those seeking classic styles. This dual appeal has allowed Becky Bond to carve out a significant niche in the crowded fashion marketplace. Becky Bond is not just a clothing manufacturer; it is a trendsetter in the fashion industry. By hosting fashion shows in major cities around the world and participating in international fashion weeks, Becky Bond showcases its latest designs to global audiences, influencing fashion trends and setting new standards in design excellence.

The company's distribution strategy is as robust as its design capabilities. Becky Bond primarily sells its products through a network of retail stores, some of which are company-managed, ensuring a consistent retail experience that aligns closely with the brand's identity. In addition to these dedicated stores, the company also partners with major department stores, securing dedicated spaces to reach a broader audience. This dual-channel retail approach allows Becky Bond to maintain strong control over its brand while also benefiting from the extensive foot traffic and customer base of larger retail establishments.

Currently, the company operates its own retail stores, with the number increasing each year, while its presence in department stores is declining annually. Most of these stores are located in Mumbai. Sales from Pune currently account for less than 10% of the company's total sales. As a prototype, the company has also established 'e-shops' for online selling.

Becky Bond India Limited stands as one of India's leading branded fashion and lifestyle entities, with an impressive portfolio of top fashion brands. As the country's leading pure-play fashion powerhouse, the company commands over 10.8 Mn. Sq. ft. of retail space. This strong and vast infrastructure ensures that the company meet the growing needs of expanding base of brand-conscious consumers. The performance of company in FY20X2-X3 is a testament to resilience and determination. After weathering the impacts of the pandemic for two years, Becky Bond India Limited have made significant strides in both expansion and sales growth, surpassing the previous year's figures despite the macroeconomic challenges that dampened demand in the fiscal year's second half. The success has been driven by a targeted approach to growth, prioritizing distribution expansion, product innovation, customer engagement, and brand enhancement. The company's last year revenue witnessed a 53% YoY growth and EBITDA growth of 34% over the last year.

Although all clothing products are designed by the company's own staff, most manufacturing is outsourced to small manufacturing companies. Most of these manufacturers are located in Nagpur or Thane. The company's policy of relying on large numbers of small suppliers has been successful in the past, but more recently there has been disagreements with a number of suppliers who have been demanding higher prices for their work due to increases in their own costs. The rising prices of cotton and fuel in particular have been a cause of concern for manufacturers. Becky Bond India Limited also has its own manufacturing subsidiary, located near Pune, but this produces less than 5% of the company's total annual requirements by volume.

Becky Bond's strong reputation in the market has been built largely on the success of its fashion designs. The company displays its fashions regularly at the major fashion fairs around the world, and its design team members are continually searching for new fashion ideas. Most fashion products are designed in advance of each season, and there are four fashion seasons each year. Orders are placed with manufacturers and the manufactured items are delivered to a central distribution centre that the company operates near Pune. Goods are either sent to department stores direct from Pune, or they are sent to a subsidiary distribution centre, from where they are sent to company's own stores and department stores. However, many department stores reduced their pre-orders of items in 20X4-20X5 and placed additional (supplementary) orders with the company later in the fashion season, when they knew what items were selling well and which were not.

The company's design team have been experimenting with a new just-in-time (JIT) system of purchasing and production for some of its fashion items. This JIT system is similar to the system used by the international fashion goods producers. With this system, only limited quantities of products are manufactured for the start of each season. Members of the sales team in each region check the strength of demand for each product and inform Head Office in Pune which products are selling well, and which are selling badly. Orders for additional quantities of the popular items are then placed with manufacturers and distributed as quickly as possible to meet the sales demand. Experiments with this Just-in-time purchasing/manufacturing system have been only partially successful, due to the long lead time between placing orders with small manufacturers and getting delivery into the distribution centre near Pune.

The Company was listed on 28 September 20X3 on the BSE. Before the upcoming Board Meeting post listing, the CFO called two of his team members – Aarti and Namrata who are expert in financial reporting and business strategy. Namrata mentioned that the Company's Board of Directors set a financial target to achieve a 20% increase of EBITDA to sales each year. It is disappointing that this target could not be achieved, and alternative strategies to improve financial performance should be considered. Namrata also mentioned that overall, the company reported PBT in the current quarter and losses are expected thereafter. Following table shows the quarterly loss/ profits:

INR lakhs

	QE June 20X3	QE September 20X3	QE December 20X3*	QE March 20X4*	Year ended 20X3 to 20X4*
Profit before tax	(350)	850	(300)	(200)	Nil

*Projected

Namrata further mentioned that SEBI (LODR) Regulations, 2015 have prescribed a format for submitting financial results. Namrata has prepared the financial results as follows:

INR lakhs

	QE September 20X3	*QE June 20X3	*QE September 20X2	YTD September 20X3	*YTD September 20X2	*Year ended 31 March 20X3

*The Company was not listed in these period

Besides, Becky Bond Limited also established a grievance redressal mechanism to address investor complaints. It mandated the filing of a statement detailing these complaints, as well as other corporate governance requirements, and the submission of quarterly statements to the stock exchange covering matters related to public issues, rights issues, preferential issues etc. in November 20X3. Aarti mentioned that Pune has been identified as an important region for future growth, but there are possibilities for further expansion in Mumbai as their disposable income has improved. The Design Director believes that the company should review its product range and change the emphasis of its sales efforts from some products to others.

The CFO mentioned that the main competition for Becky Bond are from 'Gen Z', 'Caterpillar' and 'Beat It'. Gen Z's success has been built on a rapid product development cycle and a fast production cycle based on JIT. It uses a large number of small manufacturers in the same area, where 'Gen Z' has a large and modern distribution centre. 'Caterpillar' has also been highly successful in the Mumbai fashion market. 'Beat It' has been left behind these two rivals, but is trying to recover lost ground through an expensive advertising campaign and refurbishment of many of its stores. 'Beat It's' turnover has doubled in the past decade, whereas the turnover at the company has risen 3-fold, 'Caterpillar' has increased 4-fold and at 'Gen Z' by six times. 'Beat It' faces a significant challenge, as does the Company: in the large Mumbai market, their relatively slow design and distribution systems cannot keep up with consumer demand for fast, affordable copies of the latest popular fashions. Almost half of 'Beat It's' sales occur in Mumbai. However, the company is developing a strategy for further expansion in Pune, where its brand name is very strong. The CFO mentioned that the Board is considering a number of alternative strategies to improve company performance including the following:

- Expand business in Pune as quickly as possible and aim to acquire a 25% share of the market for fashion goods within 5 years. A strategic problem with expanding in Pune is that customers are used to paying much lower prices for their clothes, and it may be necessary to develop a new line of products with a new brand name, to sell at lower prices. The market for fashion goods is relatively new and is still developing, as levels of wealth among consumers in Pune rise. In order to gain market share Becky Bond will probably have to enter into a strategic alliance or a merger with a partner in the Pune, which has an established brand name and an extensive distribution network.
- Expand business in South Mumbai with the company's existing product ranges. There are several ways in which this might be done. One approach would be to improve the shopping experience for customers by investing more in stores and customer service, in order to increase sales volume. Alternatively, the company could develop new methods of sales and distribution, particularly online sales.

Developing new product ranges for existing markets. Senior members of the design team are excited about the sales potential for "environmentally friendly fashion" or "sustainable fashion", and for other product ranges such as denim fashion goods, which the company only recently began to design and sell. Sunglasses and swimwear are also considered to be potential areas for new product development.

Consolidation strategy based on improving efficiency and reducing costs. There are several ways in which this might be achieved. One strategy would be to consolidate the sourcing of goods, and using a smaller number of suppliers, in order to achieve lower prices in return for bigger orders.

I. Multiple Choice Questions

1. By what time should Becky Bond India Limited submit financial results for the Q3 September 20X3 to the stock exchange?
 - (a) Submission of financial results is not required since the Company has listed few days before end of the quarter.
 - (b) Submission of financial results is required within 45 days from the date of listing.
 - (c) Submission of financial results is required within 45 days from the end of the quarter.
 - (d) Submission of financial results is required within 60 days from the end of the quarter.
2. Which of the following is an unpublished price sensitive information as per SEBI (Prohibition of Insider Trading) Regulation, 2015?

(a) Financial Results	(b) Changes in finance and accounts team
(c) Significant improvement of business of an immaterial subsidiary	(d) Submitting Annual Report to Stock exchange
3. Becky Bond India Limited had the start in the quarter with the listing of it with 5 investor complaints. During the quarter, it received 15 new complaints. By the end of the quarter, it resolved 12 complaints. Determine how many investor complaints remain unresolved at the end of the quarter?

(a) 5	(b) 8	(c) 15	(d) 3

4. As per the SEBI(LODR) Regulations, 2015, company must submit its quarterly compliance report on corporate governance. The quarter ended on 31st March 20X4. By which date should it submit its compliance report to the BSE?
 (a) 15th April 20X4 (b) 21st April 20X4 (c) 22nd April 20X4 (d) 30th April 20X4
5. Why is it necessary for Becky Bond to create a separate brand for lower-priced products when expanding in Pune?
 (a) To increase the production cost of the existing brand's products.
 (b) To align with the high pricing strategy of the existing brand.
 (c) To avoid diluting the premium image of the existing brand.
 (d) To compete with luxury fashion brands in Pune.
6. When should Becky Bond Limited submit its shareholding pattern statement to the recognized stock exchange?
 (a) 8th November 20X3 (b) 20th November 20X3 (c) 19th November 20X3 (d) 31st March 2024
7. The applicable income tax rate is 30%. The CFO is of the view that the no tax expense should be recognised in the quarter and year to date ended 30 September 20X4 as no income tax is payable for the entire year? Is the CFO correct and if not, please describe your rationale and also state the amount of income tax that should be recognised?
8. Assess the competitive environment in the segment of the fashion industry in which Becky Bond operates using Porter's Five Forces model.
9. EVALUATE the supply chain of Becky Bond, identifying its current weaknesses and suggesting ways to overcome them.

ANSWERS TO THE CASE STUDY 4

1. (c) Submission of financial results is required within 45 days from the end of the quarter
Reason: Regulation 33(3) of SEBI (LODR) Regulations, 2015 requires submission of financial results within 45 days from the end of the quarter other than the last quarter.
2. (a) Financial Results
Reason: Under Regulation 2(1)(n) of SEBI (Prohibition of Insider Trading) Regulation, 2015 financial results is an unpublished price sensitive information.
3. (b) 8
Reason: At the beginning of the quarter, there were 5 complaints. During the quarter, 15 new complaints were received, making a total of 20 complaints. Out of these, 12 were resolved, leaving 8 unresolved (20 - 12 = 8).
4. (b) 21st April 20X4
Reason: According to Regulation 27(2), the listed entity must submit the quarterly compliance report on corporate governance within 21 days from the end of the quarter. Since the quarter ended on 31st March 20X4, the deadline is 21st April 20X4.
5. (c) To avoid diluting the premium image of the existing brand.
Reason: By introducing a new line with a different brand name, Becky Bond can cater to the price-sensitive market in Pune without compromising the perceived value and exclusivity of its original brand.
6. (b) 20th November 20X3
Reason: According to Regulation 31(1), the listed entity must submit the shareholding pattern statement, within 10 days of any capital restructuring, which would be by 20th November 20X3 (10 days after 10th November 20X3). To comply fully with the regulation, the company should submit the shareholding pattern statement by 20th November 20X3
7. Paragraph 30(c) of Ind AS 34, income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year. Amounts accrued for income tax expense in one interim period may have to be adjusted in a subsequent interim period of that financial year if the estimate of the annual income tax rate changes.
The general approach of estimating the effective tax rate for the year should be used even where, for example, an entity's

result in the current interim period of the year is expected to be wholly offset by its result in the future interim periods of the year. The consequence of this approach is that, conceptually, even if the overall result for the year was expected to be nil position, an effective tax rate exists still needs to be applied to the interim period. This is outlined below: (INR in lakhs)

	QE June 20X3	QE September 20X3	QE December 20X3	QE March20X4	Year ended 20X3 to 20X4
(Loss)/ Profit before tax	(350)	850	(300)	(200)	Nil
Tax rate	30%	30%	30%	30%	30%
Tax charge/(credit)	(105)	255	(90)	(60)	Nil

The management's contention that since the net income for the year will be zero no income tax expense shall be charged quarterly in the interim financial report, is not correct. Here the effective tax rate would be 30% as it will lead to Nil tax charge. Therefore, income tax expense will be recognized in each interim quarter based on this rate only. Accordingly tax change for quarter ended 30th September would be INR 255 lakh.

8. An overview of the competitive forces in the industry is as follows:

- Threat of New Entrants:** While it is possible for small fashion designers to enter the market, new entrants face challenges in finding a sufficient number of retailers willing to sell their products, and their designs must appeal to fashion-conscious customers. There may be a greater threat from small fashion designers and manufacturers who are trying to grow their businesses rather than from entirely new entrants.
- Bargaining Power of Customers:** Customers are either the end consumers or department stores. The number of wholesale outlets has been falling, suggesting that department stores are switching to competitors, which may give department stores a **Reasonable** amount of bargaining power over Becky Bond. For own store sales and e-shopping, customers will only buy the company's goods if they are attracted by the design and the price, giving customers some bargaining power.
- Bargaining Power of Suppliers:** Becky Bond's suppliers are mainly small manufacturing firms in Nagpur and Thane. These suppliers may not have strong bargaining power, except that rising manufacturing costs mean they are demanding higher prices for their goods.
- Threat of Substitutes:** There are probably no direct substitutes for fashion clothes, although customers may be able to switch to cheaper fashion goods retailers. There is insufficient information to assess the strength of this force in the industry definitively.
- Rivalry Among Existing Competitors:** Competition between fashion goods producers seems to be strong, although the intensity may vary between different parts of the world. In Mumbai, the main competition comes from 'Gen Z', 'Caterpillar', and 'Beat It'. These competitors may compete as much on fashion design as on price. It seems probable that competition between firms keeps prices lower than they might otherwise be.

Assessing competitive environment, Becky Bond can develop strategies to strengthen its competitive position within the fashion industry.

- The **main supply chain** for Becky Bond is relatively short, starting with producers of materials for fashion clothes. These materials are purchased by businesses that manufacture the clothing for Becky Bond. The manufacturers are mainly small independent firms in Nagpur and Thane, although the company has its own small manufacturing subsidiary near Pune, which produces less than 5% of its total annual requirements. The manufactured goods are transported to the company's distribution centre in Pune. Becky Bond buys the manufactured clothes that it has designed and distributes them to retailers directly from Pune. Retailers may be department stores or its own stores. There are also some e-sales direct to customers.

However, there are **some weaknesses** in the supply chain. Most sales are in Mumbai, but most manufacturing is in Nagpur and Thane. Although these areas may be cheaper for manufacturing, the costs of transporting the clothes to the distribution centre in Pune may be quite high. Additionally, there is no information about the efficiency of Becky Bond's delivery system, but **operating with two distribution centres** may be inefficient and slow down the transfer of manufactured goods to stores.

Its competitor, 'Gen Z', has a manufacturing centre in Mumbai and a modern distribution system, which gives 'Gen Z' a strategic advantage because of lower transport costs and quicker distribution. 'Gen Z' operates a just-in-time system for ordering goods from manufacturers, and this seems to be more successful than Becky Bond's attempts to do the same thing.

Furthermore, **reliance on numerous small suppliers has led to longer lead times** and recent disputes over price increases. The supply chain operates slowly between Becky Bond and its manufacturers, putting the company at a disadvantage compared with 'Gen Z' and 'Caterpillar'. The just-in-time (JIT) system has only been partially successful due to long lead times from small manufacturers to the central distribution centre. **Department stores' tendency to place supplementary orders late** in the season complicates inventory management and distribution planning.

To overcome these supply chain weaknesses, Becky Bond can implement several strategies. **Forming strategic partnerships** with key suppliers can ensure more consistent pricing and supply, possibly involving longer-term contracts or volume commitments. **Reducing the number of suppliers** to a manageable few who can offer better terms for larger orders can help negotiate lower prices and improve lead times. Improving the just-in-time system by collaborating closely with suppliers to shorten lead times and increase responsiveness to market demands is essential. **Maintaining a strategic inventory buffer** for fast-moving items can quickly fulfil supplementary orders from department stores without significant delays. **Streamlining operations** to reduce costs, possibly by consolidating manufacturing processes and improving logistics, will be beneficial. Lastly, **investing in technology** to enhance supply chain visibility and efficiency, from design and manufacturing to distribution and sales, can significantly improve overall performance.

CASE STUDY 5

Luminous Ltd. is a company engaged in the manufacture of solar panels. The vision of the company is to provide the most compelling value in solar energy industry. By value, the company means designing and installing highest quality solar panels on a timely basis with proper safety standards and lowest cost. The company aims at providing the country with clean, abundant, low cost, distributed and renewable energy. It is one of the largest vertically integrated solar company that offers services across the spectrum of photovoltaics manufacturing. The company offers and produces high efficiency solar panels with higher performance and enhanced reliability. The company has the following vision:

"To be world class leader in businesses that contribute to nations in building infrastructure through sustainable value creation".

Luminous Ltd. has always been a standard for all the manufacturing companies for product quality. The company has multiple quality checks during its solar module production. This helps to ensure flawless production of solar panels and hence attain utmost customer satisfaction.

The company believes that in resource-scarce developing countries, identifying and targeting R&D policies in critical areas, such as energy, is particularly important to maximize benefits derived from limited funds and skilled manpower. Energy R&D policy analysis and formulation in a developing country should not be carried out in isolation — it must be consistent with overall technology policy, as well as national energy policy. The management of the company is of the view that ultimately, energy R&D policies and priorities must support the goals of national socioeconomic development. Therefore, these priorities must be determined on the basis of an analytical framework that recognizes and addresses national development objectives. The company's Research & Development department is working very hard to come out with solar panels with the lowest possible cost, so as to compete with the foreign manufacturers of solar panels. During the FY 2023-24, the Government gave the following grants to Luminous Ltd. for its business of solar panel:

1. Rs 30 lakhs for past research of technology related to solar system. There is no condition attached to the grant.
2. Rs 5 lakhs towards purchase of machinery of Rs 15 lakhs. Useful life of the machinery is 5 years and depreciation on the machinery is to be charged on straight line basis.
3. 3 acres of land to set up a plant. The fair value of the land is Rs 20 lakhs.
4. Government grant of Rs 20 lakhs to defray expenses for environmental protection. Expected environmental costs to be incurred is Rs 6 lakhs per annum for the next 5 years.

B R Sridharan & Associates are statutory auditors of company for FY 2023-24. The said chartered accountant firm has a robust team of skilled and proficient Chartered Accountants, who can handle all financial services areas relating to accounting, auditing and assurance, income tax, GST, company law matters, foreign exchange matters, etc.

During the financial year under consideration, the Board of Directors of the company passed a board resolution to sell one of the company's undertakings out of the multiple undertakings of the company. One of the directors of the company, Mr. Ramesh, is of the view that the board can exercise this power with the consent of shareholders by way of an ordinary resolution and passing only a Board resolution would not be sufficient. The other directors on the Board, however, did not agree with him. The investment of the company in the said undertaking which has been proposed to sell is 22% of its net worth as per the last audited balance sheet of F.Y. 2022-23.

Further, Mr. Ramesh stays in Delhi with his wife. With respect to one of his immovable house properties in USA, he took the professional services of a consulting engineer, Mr. George, based in Chennai. Mr. George has high engineering qualifications, specialised background and wide experience and can plan, design and supervise and help in undertaking maintenance of any type of structure according to the needs of the client.

On 31.05.2023, Mr. Ramesh took his family to an amusement park located in Gurugram (Haryana). This particular amusement park has various attractions such as rides and games as well as other events for entertainment purposes. For such visit, son of Mr. Ramesh who stays in Jaipur for his studies came to Delhi. Mr. Ramesh bought three tickets for the amusement park.

Luminous Limited is based in Delhi, primarily. During the FY 2023-24, the company receives legal services from an attorney in Dubai (unrelated person) in relation to registration of company's trademark in Dubai. The company paid AED 10,000 for the same to the attorney in Dubai.

The company has 10 directors on its board. Three of the directors have retired by rotation at the Annual General Meeting conducted recently. The place of retiring directors is not so filled up and the meeting has also not expressly resolved 'not to fill the vacancy'. Since the AGM could not complete the said business, it was adjourned to the same day in the next week, at the same time and place. At this adjourned meeting also, the place of retiring directors could not be filled up, and the meeting has also not expressly resolved 'not to fill the vacancy'.

Further, Mr. Baldev is one of the directors of the company. During the financial year under consideration, the company paid him the sitting fees amounting to Rs 35,000, for the month of December.

The company has its retail showrooms in Patiala and Delhi and factory at Ludhiana. During the F.Y. 2023-24, the company has manufactured 1,50,000 units of solar panels at its factory at Ludhiana, Punjab. The management decided to transfer half of the units manufactured to one of its retail showrooms in Patiala and the second half to its retail showroom in Delhi for sale therefrom. The factory and the aforesaid retail showrooms are registered under GST, in the states where they are located. Further, the company has obtained separate registrations under GST, for Ludhiana factory and the Patiala showroom. The management of the company understands that such transfer shall not be considered as supply under GST as such transfers are without any consideration.

I. Multiple Choice Questions

1. Is understanding of Mr. Ramesh for obtaining prior consent for selling one of the undertakings of the company, correct, considering the fact that Luminous Limited is not a private company?
 - (a) No, as only board's resolution is required in this case, which has been duly passed.
 - (b) No, as the Board can exercise this power with the consent of the shareholders by a special resolution and not on its own simply by passing of an ordinary resolution.
 - (c) Yes, his understanding is correct.
 - (d) Partly correct, as the Board shall exercise the powers with the consent of the company by an ordinary resolution and not only by passing a Board resolution at a Board meeting. Further, prior approval of the Registrar of Companies is also required.
2. What is the place of supply with respect to the professional service rendered by Mr. George to Mr. Ramesh?
 - (a) Chennai (b) Delhi (c) USA
 - (d) Place of supply is not relevant, as such services are not liable to GST as the property is situated outside India.
3. What is the place of supply with respect to the tickets bought by Mr. Ramesh for the amusement park?
 - (a) Delhi (b) Gurugram
 - (c) With respect to tickets purchased for Mr. Ramesh and his wife, the place of supply is Delhi and for the ticket purchased for his son, the place of supply is Jaipur.
 - (d) Either Delhi or Gurugram
4. Which of the following is the correct statement with respect to the GST liability in case of the fees paid to Mr. Baldev?
 - (a) GST shall be payable by Luminous Ltd. under reverse charge mechanism.
 - (b) GST shall be payable by Mr. Baldev.

- (c) Sitting fees paid to the director of a company is not liable to GST.
 - (d) Sitting fees paid to the director of a company is treated as salary paid to the director and is subjected to deduction of TDS under section 192 of the Income Tax Act, 1961 and not liable to GST.
5. Mr. Baldev has got sitting fees amounting to Rs 35,000 in the capacity of director of company for month of December. Which of following statements is most appropriate in this regard?
- (a) Such an income is taxable in hands of Mr. Baldev under the head "Income from other Sources". The company should deduct tax at source @ 1% while making such payment.
 - (b) Such an income is taxable in hands of Mr. Baldev under the head "Salaries". The company should deduct tax at source at rates in force applicable to salaried individual while making such payment.
 - (c) Such an income is taxable in hands of Mr. Baldev under the head "Income from other Sources". The company should deduct tax at source @ 5% while making such payment.
 - (d) Such an income is taxable in hands of Mr. Baldev under the head "Income from other Sources". The company should deduct tax at source @ 10% while making such payment.

II. Descriptive Questions

6. (i) Whether the retiring directors shall be deemed to have been re-appointed at the adjourned meeting?
- (ii) What will be your answer in case at the adjourned meeting, the resolutions for re-appointment of these directors were lost?
- (iii) Whether such directors can continue in case the directors do not call the Annual General Meeting?
7. Whether the management's understanding related to the transfer of solar panel to the company's retail showrooms, correct, in view of the GST law?
- Also determine the place of supply in case of services procured from attorney by Luminous Limited and suggest if the company is required to pay tax under reverse charge on such transaction.
8. How should Luminous Ltd. recognise the government grants in its books of accounts for the F.Y. 2023-24?

ANSWERS

1. (b) No, as the Board can exercise this power with the consent of the shareholders by a special resolution and not on its own simply by passing of an ordinary resolution.
- Reason:** The powers of the Board of Directors of a company are not unrestricted or uncontrollable as Section 180 of the Companies Act 2013 portrays. This Section contains directive provisions which direct that the powers in respect of specified matters shall be exercised by the Board subject to the certain restrictions i.e. in such cases the exercise of powers by the Board shall be restricted as per law. Section 180 is not applicable to a private company.
- (i) Matters in respect of which powers shall be exercised after obtaining consent by a special resolution: According to Section 180 (1), following are the matters in respect of which the Board shall exercise the powers with the consent of the company by a special resolution and not on its own simply by passing a Board resolution at a Board meeting:
 - (a) To sell, lease or otherwise dispose of the whole or substantially the whole of the undertaking of the company or where the company owns more than one undertaking, of the whole or substantially the whole of any of such undertakings. In other words, out of multiple undertakings of a company even if one is sold, leased or disposed of, either wholly or substantially, the consent by special resolution shall be required.
2. (b) Delhi
- Reason:** The place of supply of services,—
- (a) directly in relation to an immovable property, including services provided by architects, interior decorators, surveyors, engineers and other related experts or estate agents, any service provided by way of grant of rights to use immovable property or for carrying out or co-ordination of construction work; or
 - (b) by way of lodging accommodation by a hotel, inn, guest house, home stay, club or campsite, by whatever name called, and including a house boat or any other vessel; or

- (c) by way of accommodation in any immovable property for organising any marriage or reception or matters related thereto, official, social, cultural, religious or business function including services provided in relation to such function at such property; or
- (d) any services ancillary to the services referred to in clauses (a), (b) and (c), shall be the location at which the immovable property or boat or vessel, as the case may be, is located or intended to be located:
Provided that if the location of the immovable property or boat or vessel is located or intended to be located outside India, the place of supply shall be the location of the recipient.

3. (b) Gurugram

Reason: The place of supply of following services-

- (i) services provided by way of admission to following types of events: cultural, scientific, sporting, artistic, entertainment.
 - (ii) services provided by way of admission to amusement park or any other place.
 - (iii) services ancillary to the above-mentioned services.
- is the place where the event is actually held or where the park or such other place is located.

4. (a) GST shall be payable by Luminous Ltd. under reverse charge mechanism.

Reason: Sitting fee paid to director – As per reverse charge notification, tax on services supplied by a director of a company/ body corporate to the said company/ body corporate, located in the taxable territory, is payable under reverse charge. Hence, in the present case, the sitting fee amounting to Rs 35,000, payable to Mr. Baldev by Luminous Ltd., is liable to GST under reverse charge and thus, recipient of service – Luminous Ltd. – is liable to pay GST on the same.

5. (d) Director's sitting fees are not in nature of salary. Such income is taxable under head "Income from other Sources". Further, company should deduct tax at source on such fees @ 10% in accordance with provisions of section 194J of Income Tax Act, 1961.

6. In accordance with the provision of the Companies Act, 2013, as contained in section 152(7)(a) which provides that if at the annual general meeting at which a director retires and the vacancy is not so filled up and the meeting has not expressly resolved not to fill the vacancy, the meeting shall stand adjourned to same day in the next week, at the same time and place, or if that day is a national holiday, till the next succeeding day which is not a holiday, at the same time and place.

Section 152(7)(b) further provides that if at the adjourned meeting also, the place of the retiring director is not filled up and that meeting also has not expressly resolved not to fill the vacancy, the retiring director shall be deemed to have been re-appointed at the adjourned meeting, unless at the adjourned meeting or at the previous meeting a resolution for the re-appointment of such director was put and lost or he has given a notice in writing addressed to the company or the Board of Directors expressing his desire not to be re-elected or he is disqualified.

Therefore, in the given circumstances answers to the asked questions shall be as under:

- (i) In the first case, applying the above provisions, the retiring directors shall be deemed to have been re-appointed.
- (ii) In the second case, where the resolutions for the reappointment of the retiring directors were lost, the retiring directors shall not be deemed to have been re- appointed.
- (iii) Section 152(6)(c) states that 1/3rd of the rotational directors shall retire at every AGM.

Accordingly, the directors will retire as soon as the AGM is held on its due date. Further, as per Section 96 (dealing with Annual General Meeting), every company other than a One Person Company is required to hold an Annual General Meeting each year. Hence, it is necessary for the company to hold the AGM, where the directors liable to retire by rotation shall retire. In case AGM is not held till the last date on which it should have been held, the term of retiring directors ends on this last date and it cannot be extended till the new date when the AGM shall be held. As the calling of the AGM is the duty and responsibility of the directors, they by omitting to call the AGM on its due date cannot take advantage of their own fault and by that means cannot extend their own continuance in the office for any period of their choice and as long as the holding of the next AGM does not take place.

7. Stock transfers or branch transfers qualify as supply: It is a common practice in business that one branch supplies services to another branch of same entity without consideration. Similarly, goods are transferred among different units of same entity free of cost, for instance, distribution of samples manufactured in a factory to different branches or transfer of goods from factory to depot/showroom for sale therefrom, from one warehouse to another warehouse, from one branch to another branch where the demand of the goods is higher. These transactions are termed as self-supplies.

Under GST, these transactions undertaken, even without consideration, will also qualify as supply, provided the transfer of goods or services is between

- (i) different locations (with separate GST registrations) of same legal entity as these are transactions between distinct persons, or
- (ii) establishments of distinct persons.

The establishments of a person with separate registrations whether within the same State/UT or in different States/UTs are considered as distinct persons as per section 25(4) of the CGST Act.

Therefore, transfer of solar panels from Ludhiana factory to showroom in Delhi will be considered as a supply under GST.

Also, since the company has obtained separate registrations for the Ludhiana factory and the showroom in Patiala, the transfer of solar panels will also constitute supply.

Service of Attorney taken by Luminous Limited:

In the given case, the service provider i.e. the attorney, is outside India, and the service recipient i.e. Luminous Limited, is based in Delhi, India. Thus, the place of supply will be determined on the basis of the provisions of section 13. Since the given service does not get covered under any of the specific provisions of section 13, the place of supply thereof will be governed by the general rule, i.e. place of supply of services will be the location of the recipient of service, which in this case is Delhi (India).

Further, the given case is import of service in terms of section 2(11) of the IGST Act, as the supplier of service is located outside India, the recipient of service is located in India and the place of supply of service is in India. Since the services are imported for a consideration from an unrelated person, the same tantamount to supply in terms of section 7(1)(b) of CGST Act and are liable to GST.

As per reverse charge Notification No. 10/2017 Integrated tax(R) dated 28.06.2017, if a service is supplied by a person located in a non-taxable territory to a person located in the taxable territory, other than non-taxable online recipient, the tax is payable by the recipient of service under reverse charge. Therefore, Luminous Limited will pay GST under reverse charge on AED 10000 paid by it to the attorney in Dubai.

8. Luminous Ltd. should recognise the government grants in its books of accounts in the following manner:

1. Entire grant amount of Rs 30 lakhs should be recognised immediately in the profit & Loss account as there are no conditions attached to the grant.
2. Rs 5 lakhs should be recognised as deferred income and will be transferred to profit and loss over the useful life of the asset. In this case, Rs 1,00,000 [Rs 5 lakhs/5] should be credited to profit and loss each year over period of 5 years.
Alternatively, Rs 5,00,000 may be deducted from the cost of the asset and depreciation shall be charged at Rs 10,00,000 (Rs 15,00,000 – Rs 5,00,000).
3. Land should be recognised at fair value of Rs 20 lakhs and government grants should be presented in the balance sheet by setting up the grant as deferred income. Alternatively, deduct the amount of grant from the cost of the asset. In the given case, the land is granted at no cost. It will be presented in the books at nominal value.
4. As per paragraph 29 of Ind AS 20, Grants related to income are presented as part of profit or loss, either separately or under a general heading such as 'Other income'; alternatively, they are deducted in reporting the related expense.

In accordance with the above, presentation of grants related to income under both the methods are as follows:

Method 1: Credit in the statement of profit and loss: The entity can recognise the grant as income on a straight line basis i.e., Rs 4,00,000 per year (Rs 20 lakhs / 5) in the statement of profit and loss either separately or under the head "Other Income".

Method 2: As a deduction in reporting the related expense:

Since the grant relates to environmental expenses incurred/to be incurred by the entity, it can present the grant by reducing the grant amount every year from the related expense i.e., environmental expense of Rs 2,00,000 (i.e., net expense Rs 6,00,000 – Rs 4,00,000).

The Standard regards both the methods as acceptable for the presentation of grants related to income.

However, method 2 may be more appropriate when the company can relate the grant to a specific expenditure.

The Standard also provides that disclosure of the grant may be necessary for a proper understanding of the financial statements. Disclosure of the effect of the grants on any item of income or expense which is required to be separately disclosed is usually appropriate.

CASE STUDY 6

Economic Survey for 2023-24 has been presented to the Parliament. According to the survey, "the Indian Economy, however, appears to have moved on after its encounter with the pandemic, staging a full recovery ahead of many nations and positioning itself to ascend to the pre- pandemic growth path". It is also stated that agencies worldwide continue to project India as the fastest growing major economy.

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

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

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

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

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

Having realised their true calling, both resigned from their high paying jobs to start their own venture. In 2021, they incorporated a company called M&A Private Ltd, with both of them being the shareholders and directors of the Company. Gradually, when the business started growing, they brought in Shyam as a shareholder and director. Presently, Shyam holds 12% of the equity share capital while Manu and Tanu hold 44% each. The Company is able to fund its operations internally without seeking any outside funds.

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

During one of the board meetings, while briefing about the audit status, the CFO informed the directors that the financial statements for the current year would be prepared as per the Indian Accounting Standards (Ind AS). In the audit kick-off meeting held in March 2024, the following points were discussed by the CFO, while Tanu and Manu, added their insights:

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

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

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

- (C) M&A Private Ltd acquired 100% of the shares of another company P&T Private Ltd. The negotiations for this acquisition commenced on 1st January 2023 and the agreement was finalised on 1st March 2023. While M&A Private Ltd obtained the power to control P&T Private Ltd.'s operations on 1st March 2023, the agreement states that the

acquisition is effective from 1st January 2023 and that M&A Private Ltd is entitled to all profits after that date. In addition, the purchase price is based on P&T Private Ltd.'s net assets as at 1st January 2023. The final settlement of consideration was made on 1st May 2023.

M&A Private Ltd also holds 70% stake of issued equity share capital of SAGE Ltd. and 45% of issued redeemable preference shares. This acquisition was made on 31st December 2023. Issued and paid-up equity and preference share capital of SAGE Ltd as on 31st March 2023 is Rs 15 Crores and Rs 5 Crores respectively. Balance in the Statement of Profit and Loss for the year ended 31st March 2024 is Rs 25 Crores. All the book values of assets and liabilities were same as their fair values except for an item of Property, Plant and Equipment (PPE). The carrying amount, at the time of acquisition by M&A Private Ltd, of PPE is Rs 3 crores and its fair value was Rs 6.20 Crores. No adjustment for fair-value has been done in the books of SAGE Ltd.

- (D) Anu is also a director of M&A Private Ltd, who was going on world tour for a period of 5 months. In his absence, he wishes to appoint his friend Kumar, as an alternate director of M&A Private Ltd on his behalf. The Articles of Association of the Company allows the appointment of alternate director.
- (E) M&A Private Ltd enters into a seven-year service contract with a customer NP Ltd for an amount of Rs 21 Lakhs i.e. Rs 3 Lakhs per year. The standalone selling price for one year contract at inception of the contract is Rs 3 Lakhs per year. M&A Private Ltd. accounts for the contract as a series of distinct services. At the beginning of the Seventh year, the parties agree to modify the contract as follows:
- the fees for the seventh year is reduced to Rs 2.7 Lakhs and
 - NP Ltd agrees to extend the contract for another seven years for Rs 16.80 Lakhs i.e. Rs 2.40 Lakhs per year.
- The standalone selling price for one year of service at the time of modification is Rs 2.10 Lakhs.

I. Multiple Choice Questions

1. The CFO says that the tax auditor wants to treat the loan of Rs 5 Lakhs to Shyam and advance of Rs 2 Lakhs to Shyamlal & Co. as deemed dividend. Is it appropriate?
 - (a) Both the loan of Rs 5 Lakhs and advance of Rs 2 Lakhs will not be treated as deemed dividend as both are repayable.
 - (b) The loan of Rs 5 Lakhs and advance of Rs 2 Lakhs will be treated as deemed dividend only to the extent of Rs 90,000 i.e. 12% of the accumulated profit.
 - (c) Both the loan and advance will not be treated as deemed dividend as his interest in the Company is only 12%.
 - (d) The loan will be taxable as deemed dividend, but the advance given to Shyamlal & Co. will not be treated as deemed dividend since it is a business advance.
2. CFO states that the interest paid to the MSME vendors is allowed as a business expenditure and should be reported accordingly in the tax returns:
 - (a) The interest of Rs 2.60 Lakhs will be deductible, as it is business expenditure.
 - (b) The interest of Rs 1.95 Lakhs will be deductible, as 75% of the interest paid to MSME vendors will be allowed as a deduction.
 - (c) The interest of Rs 2.50 Lakhs paid to MSME vendors will not be allowed as deduction from computation of income, as the Micro, Small and Medium Enterprises Act, 2006 specifically prohibits such deduction.
 - (d) The interest of Rs 1.25 Lakhs will be deductible, as 50% of the interest paid to MSME will be allowed as a deduction.
3. As per Ind AS 103, what is the date of acquisition of P&T Private Ltd. by M&A Private Ltd. for the purposes of business combination?
 - (a) 1st January 2023
 - (b) 1st March 2023
 - (c) Either of 1st January 2023 or 1st March 2023 at the choice of M & A Private Ltd.
 - (d) 1st May 2023
4. Compute the amount of non-controlling interest of SAGE Ltd as on 31st March 2023:
 - (a) Rs 15.68 Crores
 - (b) Rs 12.00 Crores
 - (c) Rs 12.96 Crores
 - (d) Rs 14.75 Crores
5. Whether Anu has a right to appoint alternate director in his absence:
 - (a) Claim made by Anu to appoint Kumar as alternate Director is valid, as the Articles of Association of M&A Private Ltd provide for appointment.
 - (b) Claim made by Anu to appoint Kumar as alternate Director is not valid, as the authority to appoint alternate Director vests with the Board of Directors only and that too subject to Articles of Association.

- (c) Kumar cannot be appointed as alternate director in place of Anu, since his absence will be of less than six months.
- (d) Kumar cannot be appointed as alternate director in place of Anu, since his absence will be more than 3 months.

II. Descriptive Questions

6. As Tanu and Manu are not well versed with Ind AS, with reference to business combinations, they want to understand about:
- Determination of acquisition date
 - Ascertainment of control
7. The CFO believes that a loan to directors is prohibited under the Companies Act, 2013. Can M&A Private Ltd extend the proposed loan to Shyam? Comment.
8. The CFO wants to understand, how to record revenue at the end of seventh year as per Ind AS 115. Also, prepare a brief note explaining the accounting for revenue when the contract is modified.

ANSWERS

1. (d) As per Section 2(22)(e) of the Income-tax Act, 1961, dividend includes -any payment by a company, not being a company in which the public are substantially interested, of any sum (whether as representing a part of the assets of the company or otherwise) made after the 31st day of May, 1987, by way of advance or loan to a shareholder, being a person who is the beneficial owner of shares (not being shares entitled to a fixed rate of dividend whether with or without a right to participate in profits) holding not less than ten per cent of the voting power, or to any concern in which such shareholder is a member or a partner and in which he has a substantial interest (hereafter in this clause referred to as the said concern) or any payment by any such company on behalf, or for the individual benefit, of any such shareholder, to the extent to which the company in either case possesses accumulated profits.

Hence, loan to director will be treated as deemed dividend and advance to firm will not be considered as deemed dividend, as it is a business advance.

2. (c) Section 23 of the MSMED Act lays down that an interest payable or paid by the buyer, under or in accordance with the provisions of this Act, shall not for the purposes of the computation of income under the Income-tax Act, 1961 be allowed as a deduction
3. (b) Paragraph 8 of Ind AS 103 provides that acquisition date is the date on which the acquirer obtains control of the acquiree.
4. (a)

Share Capital	Rs in crores	NCI	Rs in crores
Equity	15	30%	4.5
Preference	5	55%	2.75
Profit	25	30%	7.5
Fair Value Adjustment	3.2	30%	0.96
Depreciation Adj	0.1	30%	-0.03
			15.68

5. (b) Section 161 of the Companies Act, 2013 vests the Board of Directors to appoint any person as an alternate director and not to the director during whose absence he is to act.
6. (i) **Determination of Acquisition Date:** Paragraph 8 of Ind AS 103 provides the acquisition date as the date on which the acquirer obtains control of the acquiree. Further, Paragraph 9 of Ind AS 103, clarifies that the date on which the acquirer obtains the control of the acquiree is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree — the closing date. However, the acquirer might obtain control on a date that is either earlier or later than the closing date. For example, the acquisition date precedes the closing date if a written agreement provides that the acquirer obtains control of the acquiree on a date before the closing date.

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

(ii) **Ascertainment of Control:**

Paragraphs 6 of Ind AS 110, "Consolidated Financial Statements", states that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Further, para 7 of Ind AS 110 states that an investor controls an investee if and only if the investor has all the following:

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

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

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

Analysis and Conclusion

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

ALTERNATE ANSWER

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

Accordingly,

- (i) A Company is not permitted, to advance any loan/ any guarantee /any security in connection with any loan taken by,—
- (a) any director of Company or of Company which is its holding company or any partner or relative of any such director or
 - (b) any firm in which any such director or relative is a partner.
- (ii) Relaxation: Subject to the specified conditions, a Company is permitted to:
- advance any loan or give any guarantee or provide any security in connection with any loan taken by any person in whom any of the director of the company is interested.

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

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

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

Analysis and Conclusion

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

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

8. **(i) Recording of revenue at the end of the seventh year as per Ind AS 115**

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

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

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

(ii) Brief note for accounting for revenue when the contract is modified:

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

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

Accounting for the modification

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

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

- (1) increases the scope of the work promised under the original contract by adding new promised goods or services that are considered distinct, and
- (2) the increase in the contract price reflects the stand-alone selling price of the additional goods or services.
If a modification adds a distinct good or service to a series of distinct goods or services that is accounted for as a single performance obligation, the modification is accounted for as a separate contract as long as the transaction price increases by the stand-alone selling price for those added goods or services.

CASE STUDY 7

The Connect Group, one of India's largest conglomerates, was founded by Ramlal Jain in 1966. Initially starting as a small textile company named Connect Commercial Corporation, it rapidly expanded its operations into diverse sectors such as petrochemicals, refining, oil, telecommunications, retail, and infrastructure.

Ramlal Jain's visionary leadership and innovative business strategies transformed the company into a significant player in the Indian economy. Following his passing in 2002, the group was divided between his sons, Vansh Jain and Suhaan Jain, leading to the formation of Connect Industries under Suhaan Jain and Connect Group under Vansh Jain, each continuing to grow and diversify their respective business interests.

The Connect Group is among India's top private sector business houses serving over 250 million customers across telecommunications, power, financial services, infrastructure, media and entertainment, and healthcare sectors. The Connect Group positively influences the lives of one in every 5 aspiring Indians across more than 24,000 cities and towns and 4,20,000 villages.

The Connect Group strongly believes that it has a pivotal role to play in shaping the destiny of the nation. Through its various consumer-facing businesses, the Group provides a robust platform to every Indian to realize his/ her potential through its state-of-the-art products and services. The Group enjoys the unparalleled trust, faith and confidence of its customers, and is one of the largest employers in the country with a young, highly-trained and motivated workforce, with an average age of 35 years.

The vision of the group is “To build a global enterprise, and a great future for country, to give millions of talents the power to shape their destiny”

One of the Connect Group company, Connect India Ltd. (CI) entered the Indian telecommunications landscape in 2002. Leveraging its substantial resources, CI embarked on an ambitious journey to revolutionize connectivity in India. By rapidly expanding its network infrastructure and introducing both GSM and CDMA services, CI aimed to bridge the digital divide and bring affordable communication solutions to every corner of the country. Positioned as a disruptor in the market, CI challenged the status quo of traditional landline communication, offering consumers a glimpse of the transformative power of mobile technology. CI's ascent to prominence was marked by its innovative marketing strategy, which centered around bundling GSM handsets with Connect connections. This strategic move was not merely about selling handsets; it was a bold attempt to democratize access to mobile communication. By offering affordable handsets bundled with CI's telecom services, the company effectively lowered the entry barrier for millions of potential subscribers. This approach tapped into the aspirations of a burgeoning middle class eager to embrace modern communication technologies. As consumers flocked to avail themselves of these bundled offerings, the demand for traditional landline connections witnessed a precipitous decline, signaling a strong shift in the telecommunications landscape.

CI's disruptive approach had a profound impact on its competitors in the telecommunications sector. Traditional landline providers, such as RWNL, faced significant challenges as consumers increasingly opted for CI's mobile offerings. The aggressive pricing and innovative service packages introduced by CI forced competitors to rethink their strategies and offerings. In response, competitors had to lower their tariffs, improve service quality, and explore new revenue streams to remain competitive in the evolving market. CI faced intense competition from other major telecom players like Dtel, M Phone, and IA Cellular. Despite their efforts, many competitors struggled to keep pace with CI's rapid expansion and innovation, leading to a reshuffling of market dynamics and heightened competition across the sector.

In the 2010 spectrum auction, CI secured 3G licenses for three cities with a licensing fee of Rs57 billion. By leveraging MIMO technology in 2011, CI improved the quality of its 3G service, achieving data rates up to 28 Mbit/s. In 2013, CI signed a multi-year managed services agreement (MSA) with Startel to manage services of wireline and wireless network of 1,20,000 kilometres of fiber and mobile infrastructure in 11 telecom circles in India. This arrangement was a smooth business relationship until 2016, post which CI struggled to pay the dues. This has been seen as an effect of Connect XG that disrupted the Indian telecom industry with its aggressive pricing after its commercial launch in September 2016 that affected all leading telecom players. By 2016, the company discontinued its CDMA operations, migrating subscribers to GSM and LTE networks. The same year, CI acquired Digicable, India's largest cable network, integrating it into a new entity, Connect Digicom, to bolster its DTH TV, IPTV, and broadband services. Additionally, CI acquired Sistem Sure TeleServices Limited (SSTL), gaining SSTL's spectrum in the 850 MHz band and its subscriber base. In September 2016, CI announced a merger with Freecel, which was expected to help repay Rs250 billion of debt. Despite approvals from regulatory bodies, the deal fell through in October 2017 due to delays and competitive pressures. The failed merger exacerbated CI's financial distress, leading to the redundancy of employees and the discontinuation of voice services in December 2017.

CI's financial problems worsened when it couldn't pay Startel under a managed services agreement. Startel took the issue to the National Company Law Tribunal (NCLT) to recover Rs12 billion, which led to insolvency proceedings. Even though a settlement was reached, CI failed to comply, resulting in contempt of court proceedings. Suhaan Jain intervened with a bailout (financial aid) to prevent legal consequences, highlighting the importance of strategic crisis management. Auditors were very concerned about the risk of fraudulent reporting at CI because of its financial troubles. The company's struggle to meet its financial obligations might have led to a temptation to manipulate financial statements to look better than they actually were.

Despite its promising start, CI's journey was fraught with challenges that ultimately led to its decline. Intense competition from both established players and disruptive entrants, coupled with rapid technological advancements, eroded CI's market share and profitability. Additionally, the company grappled with a substantial debt burden incurred during its expansion phase. Efforts to alleviate financial pressures through strategic partnerships and merger attempts were thwarted by regulatory hurdles and internal disagreements. In May 2019, CI succumbed to its financial woes, filing for bankruptcy under the Insolvency and Bankruptcy Code. This marked a sobering end to a once-promising venture and underscored the volatile and complex nature of the telecommunications industry, where innovation and disruption often come hand in hand with uncertainty and risk. By 2020, a consortium of companies bid over \$250 million for CI's assets. Ultimately, Suhaan Jain's Connect XG acquired these assets for Rs3,700 crores in 2021. This

acquisition was part of XG's broader strategy to consolidate its market position and expand its telecom infrastructure. As a part of this expansion, Connect XG acquired the right to use spectrum for high frequency bands on April 1, 2020, by making an upfront payment of Rs 1,000 crores. The spectrum was valid for a period of 20 years.

In the previous year 2023-24, the Connect XG transferred part of the spectrum for a consideration of Rs 300 crores when 17 years of the spectrum period were still remaining. After the spectrum was sold, there was news in the industry that Moonlink Telecom was interested in buying the spectrum sold for a whopping amount of Rs 900 crores. However, Moonlink Telecom was embroiled in a legal battle with the government over a disputed amount of Rs2,000 crores, complicating their potential acquisition.

I. Multiple Choice Questions

- With reference to the case, which term best describes Connect XG's strategy of using aggressive pricing to enter the telecom market and target the lowest market segments? Additionally, CI's initial strategy to offer GSM handsets bundled with their telecom services was an example of which strategy:
 - XG's strategy - New-market disruption; CI's strategy - Low-end disruption
 - XG's strategy - Market penetration; CI's strategy - Technological innovation
 - XG's strategy - Low-end disruption; CI's strategy - New-market disruption
 - XG's strategy - Technological innovation; CI's strategy - Market penetration
- To gain competitive advantage, which approaches were most likely followed by CI?
 - It improved the quality and speed.
 - It focused on enhancing only their call quality.
 - It acquired additional spectrum and subscribers.
 - It started value package including reduced the cost of basic services.

Options:

 - (i) & (ii)
 - (i) & (iii)
 - (iii) & (iv)
 - (i), (ii) & (iv)
- CI acquired Digicable, India's largest cable network, integrating it into a new entity, Connect Digicom, to bolster its DTH TV, IPTV, and broadband services. This is most likely an example of which type of integration?
 - Horizontal integration
 - Backward integration
 - Forward integration
 - Diversification in supply chain
- In the context of mergers and acquisitions (M&A), which financial metric would be most relevant for assessing the potential value of CI as an acquisition target?
 - Price-to-Earnings (P/E) Ratio
 - Debt-to-Equity (D/E) Ratio
 - Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) Margin
 - Return on Investment (ROI)
- Considering the financial distress faced by Connect India, which risk factor should auditors prioritize during the audit engagement?
 - The risk of inventory obsolescence due to rapid technological advancements.
 - The risk of fraudulent reporting to mask financial difficulties.
 - The risk of non-compliance with labor laws leading to legal liabilities.
 - The risk of inadequate documentation of fixed asset impairments.
- Given the provided facts, if the transaction involving Connect XG's sale of spectrum to Moonlink Telecom had occurred, comment on the legal position regarding such a transaction under the Insolvency and Bankruptcy Code (IBC), 2016
 - Connect XG's sale of the spectrum for Rs 300 crores is invalid as the IBC requires that any transfer of assets must be done at fair market value, which is closer to Rs 900 crores in this case.
 - Moonlink Telecom cannot purchase the spectrum because they are involved in a legal battle over a disputed amount, which under the IBC, 2016, disqualifies them from acquiring assets.
 - The IBC, 2016 does not have any direct provisions regarding the sale of spectrum, thus, the sale by Connect XG for Rs 300 crore will be valid, irrespective of Moonlink Telecom's interest.
 - Moonlink Telecom can purchase the spectrum if they resolve their legal dispute with the government and prove their financial stability under the IBC, 2016.
- Using Porter's Five Forces framework, ANALYZE how intense competitive rivalry and the high bargaining power of buyers in the telecommunications market contributed to the decline of CI.
- Evaluate the effectiveness of valuation techniques in the acquisition of Connect India by XG.

9. (a) Compute the deduction available to Connect XG under Income-tax Act, 1961 for the previous year 2023-24 and the amount chargeable to tax, if any, assuming that the company has been claiming deduction since the year of acquisition of the spectrum.
- (b) Suppose if the part of the spectrum was sold for Rs 900 crores as per the bid by Moonlink Telecom, then what would be the taxability under Income-tax Act, 1961.

ANSWERS TO THE CASE STUDY 7

- (1) (c) XG's strategy - Low-end disruption; CI's strategy - New-market disruption

Reason: Low-end disruption occurs when a company uses a low-cost business model to enter at the bottom of an existing market and claim a segment. As the entrant company claims the lowest market segment i.e. a lower profit-making segment for the incumbents, the other existing companies typically retreat upmarket, means that they move further "upstream" where profit margins are higher. Therefore it creates a situation where the other players in the industry actually are motivated to flee rather than fight you.

New-market disruption occurs when a new entrant expands the market by targeting customers who have never used a similar product before. The disruptive company **creates a new market** by making its products more accessible or less expensive.

2. (b) (i) & (iii)

Reason: The introduction of MIMO technology by CI improved the quality and speed of their 3G services, providing a better user experience and differentiating their offerings from those of competitors who did not offer similar technology enhancements. The acquisition of SSTL provided CI with additional spectrum and subscribers, strengthening its market position and expanding its service capabilities, thereby contributing to its competitive advantage.

3. (a) Horizontal integration

Reason In this case, CI telecom company, which operates in the telecommunications industry, acquired Digicable, a company in the cable network sector, which is at the same level in the supply chain.

4. (c) Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) Margin

Reason: Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) Margin Explanation: In the case of Connect India (CI), assessing its potential value as an acquisition target would involve evaluating its operational efficiency and profitability. The EBITDA Margin, which indicates a company's earnings before non-operating expenses, provides valuable insights into CI's core operational performance, making it a relevant metric for potential acquirers during M&A analysis.

5. (b) The risk of fraudulent reporting to mask financial difficulties.

Reason: Given Connect India's financial distress, auditors should prioritize assessing the risk of fraudulent reporting aimed at concealing the company's true financial position. This includes scrutinizing financial statements for potential misstatements and ensuring transparency in reporting.

6. (d) Moonlink Telecom can purchase the spectrum if they resolve their legal dispute with the government and prove their financial stability under the IBC, 2016.

Reason: The Insolvency and Bankruptcy Code (IBC), 2016, primarily deals with the resolution of insolvency and bankruptcy for individuals and companies. It ensures that assets are managed efficiently and that the interests of creditors and other stakeholders are protected.

The IBC, 2016, would allow Moonlink Telecom to acquire the spectrum if they can resolve their ongoing legal issues and demonstrate their financial capability and stability. This aligns with the objective of the IBC to ensure orderly resolution of insolvency and protection of stakeholders' interests, including ensuring that buyers are financially stable.

Hence, Option D is the most appropriate answer based on the IBC Code, 2016.

7. Porter's Five Forces is a framework for analyzing the competitive forces within an industry, which can help understand the intensity of competition and profitability. Applying this model to Connect India (CI) offers insights into the dynamics that contributed to its rise and eventual downfall.

- I. **Competitive Rivalry within the Industry:** The intensity of competitive rivalry within the telecom industry was high, driven by several key factors. Market competition was fierce, with CI facing significant challenges from major players like Dtel, M Phone, and IA Cellular. The competition intensified further with the entry of Connect XG in 2016, whose aggressive pricing and free services disrupted the market dynamics. This led to widespread price wars, compelling companies, including CI, to drastically lower tariffs to retain their market share, consequently reducing profit margins across the industry. Additionally, rapid technological advancements, such as the shift from CDMA to GSM and the advent of 4G, required continuous investment in infrastructure upgrades, further escalating operational costs and competition. In conclusion, the telecom industry was characterized by intense rivalry due to aggressive market competition, frequent price wars, and the need for constant technological advancements.
- II. **Threat of New Entrants:** The threat of new entrants in the telecom industry was moderate to high. While significant capital investment for infrastructure and spectrum licenses created high barriers to entry, regulatory changes and emerging market opportunities could lower these barriers. This dynamic was exemplified by the entry of Connect XG, which, backed by substantial capital and innovative strategies, managed to disrupt the market despite these high barriers. XG's successful penetration illustrated how new players with adequate resources could overcome traditional entry barriers and rapidly capture market share. In conclusion, although the telecom industry had high barriers to entry, the potential for market disruption by well-funded and innovative new entrants remained a significant threat.
- III. **Bargaining Power of Suppliers:** The bargaining power of suppliers in the telecom industry was low to moderate. Telecom companies depended on equipment suppliers, network infrastructure providers, and technology vendors, but the global abundance of these suppliers diminished the bargaining power of any single supplier. Large telecom companies like CI typically leveraged their scale and volume of business to negotiate favorable terms in contract negotiations. However, specialized technology providers or exclusive suppliers could exert more influence due to their unique offerings. Additionally, the need to acquire spectrum licenses through government auctions added another layer of supplier dependence, as telecom companies had to navigate regulatory frameworks and competitive bidding processes. In conclusion, although the overall bargaining power of suppliers was relatively low, specialized providers and the requirement to secure spectrum licenses could exert more influence in certain areas.
- IV. **Bargaining Power of Buyers:** The bargaining power of buyers in the Indian telecom market was high. Consumers had numerous options due to the intense competition among telecom providers, allowing them to easily switch providers for better pricing or service quality. The market was highly price-sensitive, with customers favoring low-cost options, which pressured telecom providers to offer competitive pricing, often at the expense of their margins. Additionally, with multiple providers offering similar services, service quality became a critical differentiation factor. Consequently, CI had to continuously improve its service quality and customer experience to retain its subscriber base. In conclusion, the high bargaining power of buyers in the Indian telecom market forced providers to prioritize competitive pricing and superior service quality to maintain customer loyalty.
- V. **Threat of Substitutes:** The threat of substitutes in the telecom industry was moderate. Alternative communication methods, such as internet-based services, posed a significant threat as increasing internet penetration made these services more viable alternatives to traditional telecom offerings. Additionally, the technological convergence of various platforms, including the internet, mobile telephony, and OTT services, broadened the competitive landscape for traditional telecom services. This convergence forced telecom companies to continuously innovate and adapt to remain relevant. In conclusion, while the threat from substitutes was moderate, the ongoing technological convergence and rising popularity of internet-based communication necessitated persistent innovation from traditional telecom providers.

Porter's Five Forces analysis of Connect India highlighted a highly competitive and dynamic environment. CI's decline could be attributed to several key factors: intense competitive rivalry, significant threats from new entrants like Connect XG, and high bargaining power of buyers in a competitive market landscape. Although the bargaining power of suppliers remained relatively low, the rising threat of substitutes from digital communication technologies further pressured traditional telecom business models. CI's inability to effectively navigate these competitive forces, combined with strategic missteps and financial mismanagement, ultimately led to its downfall.

8. Valuing distressed companies like Connect India (CI) for acquisition by XG requires adapting traditional valuation methodologies to account for the specific risks and uncertainties that these companies face. This involves modifications to the conventional valuation methods to address the issues that arise due to financial and operational distress. Here, we will explore the application of four advanced financial management techniques to the valuation of CI.

1. **Modified Discounted Cash Flow (DCF) Valuation:** This method requires coming up with probability distributions for the cashflows (across all possible outcomes) to estimate the expected cashflow in each period. While computing this cash flow the likelihood of default should be adjusted for. In conjunction with these cashflow estimates, discount rates are also estimated:

- ◆ Using updated debt to equity ratios and unlevered beta to estimate the cost of equity.
- ◆ Using updated measures of the default risk of the firm to estimate the cost of debt.

However, in case of inability to estimate the entire distribution, probability of distress shall be estimated for each period and used as the expected cashflow:

$$\text{Expected cash flow}_t = \text{Cash flow}_t * (1 - \text{Probability of distress})$$

2. **DCF Valuation + Distress Value:** A DCF valuation values a business as a going concern. However, DCF valuations will understate the value of the firm if there is a possibility that the firm will fail before it reaches stable growth, and the assets will be sold for a value less than the present value of the expected cashflows (a distress sale value).

Thus, the value of Distressed firm i.e. CI can be computed by following under-mentioned steps:

- I. Value the business as a going concern by looking at the expected cashflows it will have if it follows the path back to financial health.
- II. Determine the probability of distress over the lifetime of the DCF analysis.
- III. Estimate the distress sale value as a percentage of book value or as a percentage of DCF value of equity estimated as a going concern.

Accordingly following formula can be used to calculate the value of equity of CI.

$$\text{Value of Equity} = \text{DCF value of equity} (1 - \text{Probability of distress}) + \text{Distress sale value of equity} (\text{Probability of distress})$$

3. **Adjusted Present Value Model:** This approach is based on the logic of separating investment decision from financing decision. Accordingly, first the value of CI is computed without debt (the unlevered firm) and then effect of debt on firm value is adjusted in the same:

$$\text{Firm Value} = \text{Unlevered Firm Value} + (\text{Tax Benefits of Debt} - \text{Expected Bankruptcy Cost from the Debt})$$

While the first part can be computed by discounting the free cashflows to the firm at the unlevered cost of equity the second part reflects the present value of the expected tax benefits from the use of debt. The expected bankruptcy cost can be estimated as the difference between the unlevered firm value and the distress sale value:

$$\text{Expected Bankruptcy Costs} = (\text{Unlevered firm value} - \text{Distress Sale Value}) * \text{Probability of Distress}$$

4. **Relative Valuation:** Relative Valuation multiples such as Revenue and EBITDA multiples are used more popular measures to value distressed firms than healthy firms because multiples such as Price Earnings or Price to Book Value etc. often cannot even be used for a distressed firm. Analysts who are aware of the possibility of distress often consider them subjectively at the point when they compare the multiple for the firm they are analysing to the industry average.

9. (a). As per section 35ABA, in respect of any capital expenditure incurred for acquiring any right to use spectrum for telecommunication services at any time during any previous year and for which payment has actually been made to obtain a right to use spectrum, there shall be allowed for each of the relevant previous years, a deduction equal to the appropriate fraction of the amount of such expenditure.

Where a part of the spectrum is transferred in a previous year and the proceeds does not exceed the expenditure incurred remaining unallowed, the unallowed expenditure would be amortized in the following manner:

- (i) Subtract the proceeds of transfer from the expenditure remaining unallowed.
- (ii) Divide the remainder by the number of relevant previous years that have not expired at the beginning of the previous year during which the spectrum is transferred.

- Total expenditure incurred for acquiring the spectrum = Rs 1,000crores
- Number of relevant previous years = 20 years
- Deduction claimed till the previous year 2022-23 = Rs 1,000 crores /20 years × 3 years = Rs 150 crores
- Expenditure remaining unallowed as on April 1, 2023 = Rs 1,000crores - Rs 150 crores = Rs 850 crores
- Proceeds from the transfer of a part of the spectrum = Rs 300 crores
- Number of unexpired relevant previous years as on April 1, 2023 = 17 years

Computation of deduction available under section 35ABA for the previous year 2023-24:

Expenditure remaining unallowed - Proceeds from transfer of part of spectrum = Rs 850 crores - Rs 300 crores = Rs 550 crores

Deduction for the previous year 2023-24 = Rs 550 crores / 17 years = Rs 32.35 crores

Since the proceeds from the transfer of a part of the spectrum (Rs 300 crores) donot exceed the expenditure remaining unallowed (Rs 850 crores), no amount wouldbe chargeable to tax as profits and gains of business under section 35ABA in the P.Y. 2023-24.

Therefore, the deduction available to Connect XG under section 35ABA for the previous year 2023-24 is Rs 32.35 crores, and no amount is chargeable to tax.

- (b)** *Where the whole or any part of the spectrum is transferred and the proceeds of the transfer exceed the amount of the expenditure incurred remaining unallowed, the excess amount or expenditure allowed till date (i.e., difference between expenditure incurred to obtain spectrum and the expenditure remain unallowed), whichever is less, shall be chargeable to tax as profits and gains of business in the previous year in which the spectrum has been transferred.*

Since the proceeds from the transfer of a part of the spectrum (Rs 900 crores) exceeds the expenditure remaining unallowed (Rs 850 crores), the lower of Rs 50 crores or Rs 150 crores, being expenditure allowed till date would be chargeable to tax as profits and gains of business under section 35ABA in the P.Y. 2023-24.

CASE STUDY 8

CASE STUDY 9

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

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

Sahana explains the following open issues to Madan:

Issue 1

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

	Particulars	Rs Lakhs
(1)	WDV of Plant & Machine (P & M)	30
(2)	New P & M purchased and put to use on 8th June 2023*	20
(3)	New P & M acquired and put to use on 15th December 2023*	8
(4)	Computer acquired and installed on 2nd January 2024	3

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

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

Issue 2

On 1st April 2022, Sah Fashions Ltd acquired 100% of Spun Ltd for Rs 5 Lakhs, which was into cotton spinning business. The fair value of the net identifiable assets of Spun Ltd was Rs 4.5 Lakhs and goodwill was Rs 0.5 Lakhs. On 31st March 2024, the government changed its policy on textile sector having adverse impact on business of companies like Spun Ltd.

Internal discussion on government policies indicate that revenue of Spun Ltd is estimated to fall by 20% in coming three to five years. The adverse effect on market place and strict regulatory conditions indicate impairment. As a result, Spun Ltd. has to estimate the recoverable amount of goodwill and net assets on 31st March 2024.

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

Issue 3

Mr. Geet was appointed as the new Managing Director of the company on 05.10.2023 in place of Mr. Suresh. The company decided to pay remuneration to Mr. Geet as per Section 197 (4) of the Companies Act, 2013. Mr. Baman, one of the members of the company, wanted to inspect contract of service entered into by the company with Mr. Geet for assigning him the office of Managing Director but he was denied to have such inspection on the grounds that the contract with Mr. Geet was not in writing.

Issue 4

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

Issue 5

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

I. Multiple Choice Questions

1. Is the maximum depreciation allowable under Income-tax Act, 1961 calculated by Murari correct? If not, what is the maximum allowable depreciation as per details given in Issue 1?
 - (a) No, the depreciation calculated is wrong and the correct maximum depreciation should be Rs 14.3 Lakhs
 - (b) No, the depreciation calculated is wrong and the correct maximum depreciation should be Rs 14.9 Lakhs
 - (c) No, the depreciation calculated is wrong and the correct maximum depreciation should be Rs 13.5 Lakhs
 - (d) No, the depreciation calculated is wrong and the correct maximum depreciation should be Rs 12.9 Lakhs
2. What is the amount of impairment loss which Sah Fashions Ltd is required to transfer to Statement of profit and Loss and how the same should be allocated?
 - (a) Impairment loss is Rs 1.98 Lakhs and the same should be allocated to goodwill and other assets proportionately.
 - (b) Impairment loss is Rs 1.38 Lakhs and the same should be allocated to goodwill and other assets proportionately.
 - (c) Impairment loss is Rs 1.68 Lakhs and the same should be allocated first to goodwill and then the balance to all other assets.
 - (d) Impairment loss is Rs 1.38 Lakhs and the same should be allocated first to goodwill and then the balance to all other assets.
3. Regarding the request of Mr. Baman to inspect the contract of service entered by company with Mr. Geet, MD, identify the incorrect statement out of followings;
 - i. Such contract of service shall be kept at registered office of the company.

- ii. Member may inspect the contract of service only after payment of prescribed fee
 - iii. Member can inspect the contract of service with MD or WTD only if authorised by Article.
 - (a) i, ii, and iii (b) i and ii (c) i and iii (d) ii and iii
4. Considering the facts in Issue 4, is appointment of Hero as a director of the Company valid?
- (a) Appointment of Hero by Board of Directors is not valid as it is against the provisions of the Companies Act, 2013 and he should have been appointed by the members in extra ordinary general meeting.
 - (b) Appointment of Hero by Board of Directors is valid but should be approved by members in general meeting held on 29th October 2021.
 - (c) Appointment of Hero by Board of Directors is valid, as the approval of shareholders is not required for appointment of directors.
 - (d) Appointment of Hero by Board of Directors is not valid as a director cannot be immediately appointed in place of director who expires.
5. Is Sahana not required to comply with any provisions under Income-tax Act, 1961, considering her individual tax returns are not subject to audit under the provisions of Income-tax Act, 1961?
- (a) TDS is required to be deducted u/s 194-IA on purchase of property, but no TDS is required to be deducted on contract work of renovation as individuals are not required to deduct TDS.
 - (b) TDS is required to be deducted u/s 195 on purchase of property and also TDS is required to be deducted on contract work of renovation as the contract value is Rs 60 Lakhs.
 - (c) TDS is not required to be deducted u/s 195, as the amount of purchase consideration is less than Rs 50 Lakhs but TDS is required to be deducted on contract work of renovation as the contract value is Rs 60 Lakhs.
 - (d) TDS is not required to be deducted u/s 194-IA as the amount of purchase consideration is less than Rs 50 Lakhs & no TDS is required to be deducted on contract work of renovation as individuals are not required to deduct TDS.
- II. Descriptive Questions**
6. Sahana is intrigued by the concept of impairment and wants to understand, if an asset once impaired, can it be reversed. In this context:
- (i) Explain in brief the accounting for reversal of impairment.
 - (ii) Source of information which indicates reversal of impairment loss
7. Sahana wants to know if her Company missed some invoices while claiming GST ITC, till what time that ITC can be claimed. She believes the same may be taken till filing GSTR 3B return for the month of March of the concerned financial year. Is her view appropriate?
8. "The executive and non-executive directors have different roles and responsibilities. The responsibility of independent directors with reference to financial reporting and approval, as part of an Audit Committee requires a special mention." Explain with examples.

ANSWERS

1. (c) Maximum Depreciation as follows

Particulars	Plant & Machinery @ 15%	Computer@ 40% (Rs)
Normal Depreciation @15% on Rs 50.00 Lacs (30+20)	7.5	
@7.5 on Rs 8.00 Lacs – put to use for Less 180 days	0.6	
@ 20% on Rs 3.00 Lacs – Put to use for less than 180 days		0.6
Additional Depreciation @ 20% on Rs 20.00 Lacs (new machinery)	4.0	
Additional Depreciation @ 10% on Rs. 8.00 Lacs (new machinery) put to use for less than 180 days	0.8	
TOTAL	12.9	0.6

The answer is Rs 13.5 lakhs

2. (d) Calculation of Impairment loss

	Goodwill	Other assets	Total Lakhs Rs
Historical Cost	0.5	4.5	5
Accumulated Depreciation	-	(0.6)	(0.6)
(4.5/15) X 2	0.5	3.9	4.4
Carrying Amount	(0.5)	(0.88)	(1.38)
Impairment Loss	--		

Revised Carrying Amount

Impairment Loss = Carrying Amount – Recoverable Amount (Rs 4.4 - Rs 3.2) = 1.38 is charged in statement of profit and loss for the period end

Impairment loss is allocated first to goodwill Rs 0.5 and remaining loss of Rs 0.88 (1.38-0.5) as impairment loss is allocated to the other assets

3. (d) The register of directors and key managerial personnel shall be kept open for inspection during business hours. The members shall have the right to take extracts therefrom and copies thereof on request and the same will be provided to them within 30 days free of cost. [Section 171(1)(a) of the Companies Act, 2013]
4. (b) Casual Vacancy [Section 161(4)]: According to this section:
 - (i) if the office of any director appointed by the company in general meeting is vacated before his term of office expires in the normal course, the resulting casual vacancy may, in default of and subject to any regulations in the articles of the company, be filled by the Board of Directors at a meeting of the Board which shall be subsequently approved by members in the immediate next general meeting.
 - (ii) Any person so appointed shall hold office only up to the date up to which the director in whose place he is appointed would have held office if it had not been vacated.
5. (b) Section 194-IA read with section 195 requires every transferee responsible for paying any sum as consideration for transfer of immovable property (land, other than agricultural land, or building or part of building) to deduct tax, at the rate of 1% of higher of consideration and stamp duty value, at the time of credit of such sum to the account of the resident transferor or at the time of payment of such consideration to the resident transferor, whichever is earlier. However, no tax is required to be deducted where the consideration for transfer of an immovable property and stamp duty value of such property, both are less than Rs 50 lakhs.

TDS is required to be deducted u/s 195 on purchase of property as payment is to be made to a NRI and also TDS is required to be deducted on contract work of renovation as the contract value is Rs 60.00 Lacs.

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

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

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

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

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

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

External sources of information

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

Internal sources of information

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

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

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

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

8. Different Roles of Executive and Non-Executive Directors

The Board of Directors may comprise both executive and non-executive directors. The executive directors are responsible for managing different business operations. A whole time director and the Managing Director are covered under this category. In contrast, the non-executive directors participate through Board Meetings in discussions relating to formulation of policies from the efficient management of the business. Professional directors and nominee directors are included in this category. They are not as active as that of executive directors and they are held liable only if they knowingly consented for wrongful acts.

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

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

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

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

CASE STUDY 10

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

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

the meeting. During the meeting, Ramnik discussed the following points:

- I. Greenly Ltd is one of the leading laundry in Delhi. For cleaning of suits, it charges Rs 625 per suit set. The price has been derived by the laundry asunder:
 - a. Cleaning Materials Rs 37
 - b. Labour Rs 180 (3 hours @ Rs 60/-)
 - c. Variable overheads Rs 80
 - d. Fixed Overheads Rs 60 (3 hours @ Rs 20 per hour) plus mark up 75% on total costThe Company is known for timely delivery and quality service and hence, it charges premium for its services. The labour charges have been derived by dividing the total salary paid by the total number of hours available. Variable overheads depend on the number of suits cleaned while fixed overhead rate is derived at by dividing the total cost of all related expenses by the number of labour hours available. Fixed Overhead generally includes office rent and administrative salary. A conference is being held in Delhi on account of T20 and a hotel is also required to provide premium laundry services for which the Company has been approached for its lowest quotes. There is possibility of 150 suits being given for laundry on priority basis. The Company has sufficient material of cleaning in stock even for this additional special order. It is believed that 55% of the additional work can be done in normal working hours and for rest of the work, overtime by some of the employees will be required. Overtime hours are paid at one and one half of the normal hourly rate.
- II. Greenly Ltd is having 3 years average profit of Rs 10 Crores and during the financial year 2023-24 and it is required to spend on account of Corporate Social Responsibility (CSR). It has incurred this expenditure through an NGO named Green Foundation.
- III. The Company purchased a land in city outskirts on 1st August 2018 for a consideration of Rs 1.25 Crores to construct a factory, for which the Stamp duty valuation on that date was Rs 1.75 Crores. Later, management decided to sell that land to fund the business diversification objectives. On 1st August 2023, the land on city outskirts was sold for Rs 5.00 Crores. The stamp duty valuation was Rs 5.40 Crores. Cost inflation index for FY 2018-19 and FY 2023-24 is 280 and 348, respectively.
- IV. ABC LLP, the Statutory auditors of Greenly Ltd resigned due to personal **Reasons** and Aparna Sampad & Co. was proposed to be appointed as the subsequent auditor of the Company by the Board of Directors. This was a great opportunity for both Aparna and Sampad, as they were trying to get some business from Greenly Ltd.
- V. After the meeting was completed, Ramnik met Sampad and had a casual discussion with him. He told that his daughter, Sweetie, was pursuing post-graduation from Stanford University, USA for which he had remitted USD 50,000 i.e., Rs 40 Lakhs for her maintenance abroad under Liberalised Remittance Scheme. Thankfully, he did not have to do any other remittance during the year.
- VI. While Sampad was busy in a discussion with Ramnik, CA. Mani, the internal auditor of Greenly Ltd and a close friend of Aparna approached her for a quick chat. Mani informed Aparna that his practice was going good and he was appointed as statutory auditor of a listed entity. Lately, he has been busy finalising the audit letter communicating the key points of audit to those charged with Governance and audit committee.

I. Multiple Choice Questions

1. From remittance of Rs 40 Lakhs by Ramnik, the authorised dealer is:
 - (a) Not required to make any collection of tax at source.
 - (b) Required to make collection of tax at source of Rs 1.65 Lakhs.
 - (c) Required to make collection of tax at source of Rs 2 Lakhs.
 - (d) Required to make collection of tax at source of Rs 0.165 Lakhs.
2. The capital gain arising on sale of land at city outskirts by the Company would be
 - (a) Rs 2.80 Crores
 - (b) Rs 2.825 Crores
 - (c) Rs 1.75 Crores
 - (d) Rs 2.40 Crores
3. While drafting audit letter communicating the key points of audit to those charged with Governance and audit committee, Mani was thinking if he needs to generate a Unique Document Identification Number (UDIN):
 - (a) Yes, separate UDINs are to be generated for the Statutory audit report and Letter to those charged with governance.
 - (b) No, UDIN is required only for all Certificates, all Audit Reports and all other Audit, Assurance and Attestation functions and not for any letters etc. making communications.

- (c) Yes, one single UDIN can be generated for all documents of one client. UDINs are required to be generated client wise instead of document wise.
- (d) No, one single UDIN can be generated for the whole year for one engagement which may include various communications by auditor to management and those charged with Governance.
4. Which of following statement is likely to be correct regarding compliances to be made by Greenly Limited?
- (a) It is required to file CSR-1 as an independent form on MCA portal.
- (b) It is required to file CSR-2 as an independent form on MCA portal.
- (c) It is required to file CSR-1 as an addendum to AOC-4 on MCA portal.
- (d) It is required to file CSR-2 as an addendum to AOC-4 on MCA portal.
5. During the conclusion of the audit, Aparna was thinking if she is required to report the fact of the resignation by the previous auditor?
- (a) Yes. As per Companies (Auditors Report) Order, 2020 Aparna Sampad & Co. should report the resignation of ABC LLP and state if the Firm has taken into consideration the issues or objections raised by ABC LLP.
- (b) No. Since the resignation of ABC LLP is due to personal **Reasons**, the same need not be reported in the Auditors Report.
- (c) Yes. As per provisions of Section 143(3) of the Companies Act, 2013, the fact of previous auditor's resignation should be reported.
- (d) Yes. The fact of previous auditors resignation should be reported as per Companies (Audit and Auditors) Rules, 2014.

II. Descriptive Questions

6. Aparna wants to draw the attention of the readers of the financial statements by way of an Emphasis of Matter (EOM) paragraph in the Audit Report issued by them indicating the fact of their appointment due to resignation of the existing auditor. Explain the circumstances in which an auditor may consider to include an Emphasis of Matter (EOM) paragraph in their audit report. Is approach of Aparna proper?
7. Sampad discussed with Aparna and thought that it would be handy and easy to explain the clients the details of Liberalised Remittance Scheme (LRS), if they have standard document. Draft a note covering various aspects of LRS.
8. Ramnik requests you to:
- (i) Compute the incremental cost of Greenly Ltd. which may be taken as a base for quoting the minimum price per suit.
- (ii) Indicate the aspects to be considered for making lowest quote.

ANSWERS

1. (b) Second proviso to section 206C(1G) of the Income-tax Act, requires collection of tax at source @ 5% of the amounts in excess of = 7 Lakhs in a financial year. Hence, 5% of 40 Lakhs - 7 Lakhs = 1.65 Lakhs.
2. (b) Working will be as under:

Total consideration	Rs 5.00
Indexed cost	Rs 2.175 (Stamp duty value at the time of purchase Rs 1.75 Crores x 348/280)
Capital Gain	Rs 2.825 crores
As the variation at the time of sale is less than 110%, the actual consideration will be taken	

3. (b) UDIN is required only for all Certificates, all Audit Reports and all other Audit, Assurance and Attestation functions and not for any letters etc. making communications.
4. (b) CSR-2 form is mandatory for CSR reporting. It is an independent form. CSR-1 relates to registration of entities/NGOs who wish to undertake CSR activities and want to get funding from companies on this account.
5. (a) As per clause (xviii) of para 3 of Companies (Auditor's Report) Order 2020 Aparna Sampad & Co. should report the resignation of ABC LLP and state if he has taken into consideration the issues or objections raised by ABC LLP.
6. Emphasis of Matter paragraph is a paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is

fundamental to users' understanding of the financial statements.

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

These circumstances include:

- (i) When a financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation.
- (ii) To alert users that the financial statements are prepared in accordance with a special purpose framework.
- (iii) When facts become known to the auditor after the date of the auditor's report and the auditor provides a new or amended auditor's report (i.e., subsequent events).
- (iv) An uncertainty relating to the future outcome of exceptional litigation or regulatory action.
- (v) A significant subsequent event that occurs between the date of the financial statements and the date of the auditor's report.
- (vi) Early application (where permitted) of a new accounting standard that has a material effect on the financial statements.
- (vii) A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position. In view of above, contention or Apara, to draw the attention of the readers of the financial statements by way of an Emphasis of Matter (EOM) paragraph in the Audit Report issued by them indicating the fact of their appointment due to resignation of the existing auditor, is not correct.

7. Various aspect of the Liberalized Remittance Scheme (LRS)

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

Liberalized Remittance Scheme (LRS)

- It applies to all resident individuals, including minors.
- It allows to freely remit up to USD 250,000 per financial year (April – March).
- It can be for any permissible current or capital account transaction or a combination of both.
- This is inclusive of foreign exchange facility for the purposes mentioned in Para 1 of Schedule III of Foreign Exchange Management (CAT) Amendment Rules 2015, dated May 26, 2015.
- In case of remitter being a minor, the LRS declaration form must be countersigned by the minor's natural guardian. The Scheme is not available to corporates, partnership firms, HUF, Trusts etc.
- Remittances under the Scheme can be consolidated in respect of family members subject to individual family members complying with its terms and conditions.

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

- 8. (i)** 'Greenly Ltd' can use the incremental cost numbers for pricing the 'rush order'. The minimum price that firm would charge is Rs 238.50 per suit (=Rs35,775/150). This price is well below normal price of Rs 625.

Particulars	Amount (Rs)
Cleaning materials (150 × Rs37)	5,550
Labour (150 × 3 × 45% × Rs60 × 1.5)	18,225
Variable overheads (150 Suits × 80)	12,000
Incremental cost	35,775
Quote per Suit	238.5

(ii) Aspects to be considered for quoting lowest price

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

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

CASE STUDY 11

V-Cure Limited is a pharmaceutical company that has many divisions. One of its divisions (Division A) produces chemical vials that can be used for storage of medicines. These chemical vials have both internal and external market. Division B is another department of the same company, uses these vials to package some of the medicines it produces. Following is the information regarding production at Division A:

Annual Capacity: 30,00,000 chemical vials.

Actual annual production: 25,00,000 chemical vials

Internal transfer to Division B (annual): 10,00,000 chemical vials per year. Annual External sales: 15,00,000 chemical vials per year.

Division A incurs a variable cost of production Rs900 per vial. The fixed cost of production of Division A is Rs40 crore per year. Out of this, Rs15 crore per year on account of machinery and production infrastructure to be maintained for the internal sales to Division B. This has been procured to produce vials exactly as per the specifications of Division B. As per the company's current procurement policy, since Division A is operating at less than full capacity, Division B has to purchase its entire annual requirement from Division A. Division A charges Division B at full cost plus 1% mark up as its transfer price. This is in tune with the company's overall transfer pricing policy that is used for inter departmental transfers. Performance assessment of each departmental manager gives emphasis on the overall financial performance of the department.

Sale price of medicines manufactured by VCure Limited follows total cost based plus mark up pricing method. VCure Limited estimates the total production and total cost a few months before the start of the next financial year and determines the sale price for each of its medicines sold in the market for that year.

Recently, the manager of Division B has received a proposal from an external vendor where chemical vials can be procured for Rs1,050 per vial. The product specifications would be suitable for the requirements of Division B and hence they are comparable with the customized production that Division A makes for Division B. The manager of Division B would like to purchase vials from the external vendor.

VCure closes its books on March 31st of each year. The primary assets of Division A comprises of an equipment that is used to make the chemical vials. VCure had purchased the equipment on April 1, 2020 for Rs6,00,00,000. Useful life of the equipment is 10 years. On March 31st, 2023 the company classified this equipment as held for sale. The impairment testing provides an estimated recoverable amount of Rs4,00,00,000. The fair value less cost to sell on March 31, 2023 was Rs3,50,00,000. On March 31st, 2024 the management changed its plan to sell the equipment, so it no longer met the criteria as held for sale. The recoverable amount as at March 31st, 2024 is Rs 4,50,00,000.

You are the chief financial officer (CFO) at V-Cure Ltd. The sales team, comprising of Medical Representatives (MR) has been given a target to grow the sales volume by 10% year on year. Pharmaceutical companies like V-Cure Ltd. operate under Oligopolistic market conditions. These companies, including V-Cure Ltd. use sales promotion i.e. use of incentives to encourage patronage like free samples, free trials, loyalty programs etc. as part of its marketing strategy. During the course of your service at V-Cure Ltd., you come across certain financial and non financial inducements (kickbacks) given by few of the Medical Representatives to doctors who prescribe a particular drug developed by the company. The MRs request the doctors to not to reveal certain side effects of a drug that can lead to complications in certain cases. This is done to increase the sales volume of the business, which is also used in the performance evaluation of the Medical Representatives for career promotions and advancements.

V-Cure Ltd. has undertaken a core competency analysis to find out how it can improve its value chain. In the Oligopolistic conditions, the company wants to follow product differentiation strategy.

I. Multiple Choice Questions

1. By following total cost-based pricing plus mark up for products, what are the disadvantages of this policy for V-Cure Ltd.?
 - (1) Does not consider if the customer is willing to pay the price arrived at based on total cost
 - (2) Requires budgeting of production output volume to determine allocation of overheads, this may not always be accurate
 - (3) Surplus generated from sales cannot completely cover the replacement cost of fixed assets in an inflationary economic condition

- (4) Pricing using this method is difficult to arrive at due to lack of information Options
- (a) 1 and 2 (b) 1, 2 and 3 (c) 1, 3 and 4 (d) 2 and 3
2. With reference to the information provided in the case study about the Medical Representative (MR) team requesting doctors not to reveal the side effects of a drug in order to boost sales, as a senior professional accountant in service, what action will be appropriate in this situation?
- (a) Ignore the information since it does not directly relate to your area of oversight as a management accountant.
- (b) Ignore the information since you are not receiving the kickback personally and therefore you are not doing anything unethical.
- (c) The actions of the MR team affect public health which requires you as a senior professional accountant in service to respond appropriately as per ICAI's Code of Ethics.
- (d) Ignore the information since the company does not follow its own Code of Ethics that it has drafted, hence there is no obligation on you to do so.
3. Pharmaceutical companies like V-Cure Ltd. operate under Oligopolistic market conditions. Like its competitors, V-Cure Ltd. follows non-price strategy to market its products over a pricing strategy because:
- (a) Pricing information is not easily available as there are many players in the market
- (b) A non-price strategy cannot be easily tracked by rivals and thereby gives the firm a competitive edge
- (c) Pricing strategies lead to price wars which hurt long term profitability
- (d) Following a non price strategy is more cost effective compared to pricing strategy
4. Division A and Division B of V Cure Limited operate under different managers who are assessed based on the financial performance of their respective divisions. Which McKinsey 7S element does this most closely relate to?
- (a) Strategy (b) Structure (c) Systems (d) Shared Values
5. V-Cure Ltd. has undertaken a core competency analysis to find out how it can improve its value chain. In the Oligopolistic conditions, the company wants to follow product differentiation strategy. Which of the following parameters is not a test for core competency
- (a) Cost advantage (b) Difficulty in imitation by competitors
- (c) Relevance to the customer (d) Breadth of application in terms of the potential markets it can open up
6. As a management accountant, please analyze the scenario with respect to the inter department transfer from Division A to Division B, for the following:
1. Calculate the internal transfer price based on full cost plus 1% mark up.
 2. Discuss the pros and cons of the current transfer pricing methodology.
 3. Should the management permit Division B to procure chemical vials from the external vendor?
7. Recommend the accounting treatment of the events for the year ending March 31, 2023 and March 31, 2024 and calculate the value of the equipment at the end of 2023 and 2024.

ANSWERS TO THE CASE STUDY 11

1. (b) 1, 2 and 3

Reason: Statements 1, 2 and 3 are the disadvantages of total cost based pricing.

Statement 1 – Pricing based on total cost with an added mark-up may not always be helpful in generating demand. This method does not take into account the potential customers' preference to buy the product at the determined price.

Statement 2 – Overhead allocation is a cost used to arrive at the total cost for the product, it is allocated to each produce based on the budgeted production volume. Hence, there may be under or over recovery of overhead if the budgeted production is not accurate enough.

Statement 3 – Sale price is dependent on total cost, for which depreciation is calculated on historic prices of fixed assets. In case the cost of fixed assets remains stable, then the surplus generated using such a sale price will cover the replacement cost of the fixed asset at the end of its useful life. However, in inflationary economic conditions, the cost of fixed assets increase. Hence, the surplus generated from the sale price based on historic costs will not be sufficient to fund the replacement of the fixed asset at the end of its useful life.

Statement 4 – Total cost method is simple to follow with a defined set of steps. The company will have complete information of its costs hence there is no lack of information.

2. (c) The actions of the MR team affect public health which requires you as a senior professional accountant in service to respond appropriately as per ICAI's Code of Ethics.

Reason: as per IESBA, actions that affect public safety and health would fall under NOCLAR under the Revised Code of Ethics. Your response as a senior professional accountant in service, is outlined under Section 260 of NOCLAR.

3. (c) Pricing strategies lead to price wars which hurt long term profitability

Reason: because while determining the pricing for a product, each firm considers not just the demand for the product but also the possible reactions of other firms to every change. A reduction in price by one firm is quickly followed by the rivals. Hence, revenue keeps getting reduced and this price war can hurt profitability. In an Oligopoly, given that there are only few firms, information is available to both the firm and its rivals, hence pricing information as well as any move done by any of the firms gets noticed by the competitors.

4. (b) Structure.

Reason: It is the formal framework by which job tasks are divided, grouped, and coordinated. It is the formal pattern of interactions and coordination designed by management to link the tasks of individuals and groups towards achieving organizational goals.

5. (a) Cost advantage

Reason: Cost advantage is not a test of core competency since V-Cure Ltd. wants to follow product differentiation strategy rather than cost leadership strategy.

6. (1) Calculation of transfer price at full cost plus 1%

Sr. No.	Cost component	Annual cost(Rs)	Cost per vial(Rs)
1	Variable cost per vial		900.00
2	Annual Fixed cost		
	a) Special equipment for Division B (Rs150,000,000/10,00,000) Note 1	15,00,00,000	150.00
	b) Remaining fixed cost (Rs250,000,000/25,00,000)	25,00,00,000	100.00
	Total fixed cost	40,00,00,000	250.00
3	Total cost per vial (1 + 2)		1,150.00
4	Mark up @1%		11.50
5	Total internal transfer price		1,161.50

Note 1: The fixed cost related to the cost of special equipment should be borne only by Division B.

They need to be spread over the number of units produced at Division B that is 10,00,000 per year.

The remaining fixed cost will be absorbed by the entire annual production that is 25,00,000 units per year, production for both the internal and external market.

2. Pros and cons of full cost plus 1% internal transfer price policy.

The full cost plus 1% internal transfer price policy is a uniform policy followed throughout V-Cure Ltd. Performance assessment of department managers is based partly on financial results.

Allowing for a 1 % mark up over full cost has the following advantages:

- Charging based on full cost allows the supplying division (Division A) to recoup its entire cost of production.
- The supplying division has an incentive to cater to internal sales since the 1% mark-up will reflect in the profits earned by the department. Financial performance is considered during the performance assessment of the

manager of Division A. The mark-up on internal sales will also be perceived as a means of earning profits that can bolster the department's performance.

The problem with full cost plus mark-up costing are as follows:

The method allows the entire cost incurred by Division A to be absorbed by the total units produced by it. As per the transfer pricing policy, Division A can recoup the entire cost it incurs plus earn a 1% mark up. Thus the financial performance would always reflect a profit in the books of Division A. There is no incentive for Division A to attempt to reduce any of its cost components, either variable or the fixed costs.

*Division A is not producing at its full capacity, it is currently operating at 83% of its capacity (25,00,000 units of actual production / 30,00,000 units total capacity). The total annual cost of production is Rs265 crores per year, comprising of variable cost of Rs225 crores per year (25,00,000 units of vial produced per year * Rs 900 per vial) plus fixed cost of Rs40 crores per year.*

Out of the fixed cost of Rs40 crores per year, cost specific to Division B is Rs15 crores per year absorbed by the production of vials for Division B alone. The balance Rs25 crores per year of fixed cost is absorbed by all the vials produced both internal and external sales. This component of Rs40 crore per year fixed costs (15.09% of total costs - Rs40 crore / Rs265 crore) would partly include costs related to idle capacity, example depreciation of underutilized machinery, rental for factory building that is not completely utilized, under-utilized storage space etc. However, this cost is being passed on to both Division B and the external customers. Division A is not taking any steps to lower the fixed costs since it is able to pass on the cost and earn a mark up on it too. Therefore, there will be no attempt by Division A to keep the costs at the optimal level, that might be comparable to external market vendors of similar vials. Thus, cost-competitiveness, which is an essential part of product pricing is lost.

(3) Consideration of producing in-house versus outsourcing procurement of chemical vials for Division B.

The external vendor is offering a similar vial at Rs1,050 while Division A is charging Rs1,161.50 per vial. The cost is more by Rs111.50 per vial. Overall, for 10,00,000 vials per year, Division B pays Rs 11.15 crores extra just to have the vials produced internally by Division A.

Keeping the long run business interest in mind, the management of V-Cure Ltd. should direct Division A to find ways of optimizing its cost and make it cost competitive with the external market. If there is no expectation that the idle capacity would be utilized in the long run, Division A has to scale down its operations to only that much capacity that can be utilized optimally. The management of V-Cure Ltd. can even think of outsourcing the procurement of vials to external vendors.

While re-evaluating the transfer price with respect to the external market price, the company should also adjust the price for costs that are not typically incurred for internal sales. Adjustments may be required for a variety of costs that may be incurred at a much lower price for internal sales, namely packing costs, storage and transportation costs, administrative costs, practically no selling and distribution costs etc. Adjustment should also be made to give effect to the estimate profit margin the external vendor earns from sale of the vial at Rs1,050 per vial. Given these adjustments, the transfer price should be made competitive as compared to the external market price for a similar vial.

If Division A is able to achieve cost reduction and make it competitive as compared to the market, the management may continue its current policy of internal procurement. Otherwise, in the long run, it will be better to outsource procurement of chemical vials for Division B.

(a) Value of equipment immediately before the classification as held for sale as per Ind AS 16 and Ind AS 36 as on March 31st, 2023

Particulars	Amount (Rs)
Purchase price of the equipment	6,00,00,000
Less: Accumulated depreciation (for 3 years, March 31st ending 2021, 2022 & 2023)	(1,80,00,000)
Less: Loss on fair valuation (Balancing figure)	20,00,000
Carrying amount on March 31, 2023	4,00,00,000

Hence, on March 31st, 2023 the equipment classified as held for sale will be recorded at Rs3,50,00,000. Impairment loss on initial classification as held for sale is hence Rs50.00,000.

Depreciation of Rs60,00,000 for the year and loss of Rs70,00,000 (Rs20,00,000 loss before reclassification of equipment as held for sale + Rs50,00,000 impairment loss on initial classification as held for sale.)

Sr. No.	Particulars	Amount (₹)
a	Carrying amount immediately before classificationas held for sale on March 31st, 2023	4,00,00,000
b	Less: depreciation based on the balance 7 years of equipment life	(57,14,286)
c	Carrying amount had the asset not been classifiedas held for sale	3,42,85,714
	Recoverable amount	4.50.00.000

Hence, the adjustment of Rs7,14,286 will be charged to profit and loss.

	MNO Ltd.	PQR Ltd.
Number of equity shares	30,500	61,000
Market value per share	22	110
Earnings after tax	61,000	3,05,000

Particulars	Amount (Rs in thousands)	
	MNO Ltd.	PQR Ltd.
Current Assets	700	600
Non-Current Assets	1,100	3,000
Total Assets	1,800	3,700

Current Liabilities	495	200
Non - Current Liabilities	300	1,200
Total Liabilities	795	1,400
Equity		
30,500 Shares of 10 Each	305	-
61,000 Shares of 10 Each	-	610
Retained Earnings	700	1,690
Total Equity	1,005	2,300
Total Equity and Liability	1,800	3,700

MNO Ltd. has decided to acquire PQR Ltd. by acquiring its shares. MNO Ltd. prepared a scheme by which an offer was made to the shareholders of PQR Ltd. The Offer was made on 1st March 2023. The offer remained open for four months. Such an offer was approved by shareholders having 92% value of the shares. Subsequently MNO Ltd. gave notice to the remaining dissenting shareholders that it desires to acquire their shares. Such notice was given on August 2023. Certain dissenting shareholders made an application to the Tribunal that acquisition of their shares should not be permitted. However, their application was dismissed by the Tribunal. Hence, MNO Ltd. acquired the balance shares of 8% of the dissenting shareholders.

While other minority shareholders have reconciled to the decision of the tribunal, Mr. A, a shareholder holding 5% of the shares is furious. He believes that the growth prospects of PQR Ltd are far higher than MNO Ltd. He believes that the exchange ratio should be calculated on the basis of market value alone. He also believes that forcible acquisition of shares is a violation of his rights and amounts to oppression of minority shareholders. He feels that only he should be able to decide whether he should sell his shares. Accordingly, he wishes to approach the High Court against the decision of the Tribunal

Premarmer, PQR Ltd. had a block of assets carrying 15% rate of depreciation, whose WDV as on 31.3.2023 after reducing depreciation for P.Y. 2022-23 was 4 lakhs. It purchased another asset (second-hand plant and machinery) of the same block on 01.11.2023 for 1.44 lakhs and put to use on the same day. PQR Ltd. was merged with MNO Ltd. with effect from 01.01.2024.

Post merger, the directors of PQR Ltd. are appointed 5 out of 8 positions in the combined entity's board.

Despite the acquisition, it is decided that post-merger, both MNO Ltd. and PQR Ltd. will continue to operate as independent divisions, namely – MNO division and PQR division in the merged company. This acquisition, followed by the decision to keep both companies as independent units, is seen as a strategic move that combines the strengths of both entities while preserving their unique values and operational strengths. MNO division benefits from an expanded product portfolio and entry into the growing organic market segment, while PQR division gains from the extensive distribution network and market reach of MNO, setting a path for mutual growth and market dominance in the FMCG sector.

The company shall have separate COOs for both the divisions, and it wishes to evaluate their performance. It was considering computing ROI of both the divisions for this purpose. However one of the COOs pointed out that it may be possible that divisional ROI can be increased by those actions that will reduce the overall ROI of the company, and conversely, the actions that decrease divisional ROI may make the company as a whole better off. In other words, evaluating divisional managers on the basis of ROI may not encourage goal congruence.

Accordingly, for better evaluation of performance, an alternate method of measuring performance using residual income is proposed. Following are the details regarding the same: The overall cost of capital is 8%.

	MNO Ltd.	PQR Ltd.
Available Investment Project	25 lacs	15 lacs
Controllable Contribution	2.5 lacs	1 lac

I. Multiple Choice Questions

- The EPS of both the companies pre-merger was:
 - MNO Ltd. = Rs 5; PQR Ltd. = Rs 2
 - MNO Ltd. = Rs 2; PQR Ltd. = Rs 5
 - MNO Ltd. = Rs 1; PQR Ltd. = Rs 1
 - MNO Ltd. = Rs 0.5; PQR Ltd. = Rs 0.2

2. PQR Ltd. wants to ensure the earnings to members are same as before the merger takes place. The exchange ratio to satisfy this condition of PQR Ltd. shall be:
 (a) 1 (b) 0.4 (c) 2.5 (d) 1.09
3. If the exchange ratio as decided in Question 2 is considered, the amount of goodwill comes out to be:
 (a) Rs 3,37,000 (b) Rs 73,82,500 (c) Rs 9,58,000 (d) 60,87,500
4. In the above given case, the accounting acquirer and acquiree and legal acquirer and acquiree will be:
 (a) MNO Ltd. – Accounting acquirer and Legal acquirer; PQR Ltd. – Accounting acquiree and Legal acquiree
 (b) MNO Ltd. – Accounting acquirer and Legal acquiree; PQR Ltd. – Accounting acquiree and Legal acquirer
 (c) MNO Ltd. – Accounting acquiree and Legal acquiree; PQR Ltd. – Accounting acquirer and Legal acquirer
 (d) MNO Ltd. – Accounting acquiree and Legal acquirer; PQR Ltd. – Accounting acquirer and Legal acquiree
5. The COOs of both the divisions have proposed an alternate method of measuring performance using residual income. The residual income of the divisions - MNO and PQR in the merged company will be:
 (a) MNO division – Rs0.5; PQR division – (Rs0.2) (b) MNO division – Rs0.5; PQR division – Rs0.2
 (b) MNO division – (Rs0.2); PQR division – Rs0.5 (d) MNO division – (Rs0.5); PQR division – Rs(0.2)
6. Mr. A has approached you for advice regarding his concerns. He wants to know whether such forced acquisition of shares is tenable under the law. He further wants to know whether he is approaching the right forum to raise his concerns. Advise him on the said matter.
7. You are required to compute the amount of depreciation allowable under the Income-tax Act, 1961 in respect of block of assets carrying 15% rate of depreciation to MNO Ltd. & PQR Ltd. for the previous year ended on 31.03.2024.
8. Supposing the merger was carried out based on the exchange ratio suggested by Mr. A, illustrate the impact of the merger on the EPS of both companies.

ANSWERS TO THE CASE STUDY 12

1. (b) MNO Ltd. = Rs 2; PQR Ltd. = Rs 5

Reason:

MNO Ltd. = $61,000/30,500 = Rs\ 2$ PQR Ltd. = $3,05,000/61,000 = Rs\ 5$

2. (c) 2.5

Reason: Calculation of exchange ratio to ensure shareholders of PQR Ltd. to earn the same as was before merger:
 Shares to be exchanged based on EPS = $(5/2) \times 61,000 = 1,52,500$ shares

To check

EPS after merger = $(61,000 + 3,05,000)/30,500 + 1,52,500 = Rs\ 2$

Total earnings in MNO Ltd. available to shareholders of PQR Ltd. = $1,52,500 \times 2 = Rs\ 3,05,000$

The EPS before merger of PQR Ltd is Rs 5, Thus, to ensure that Earning to members are same as before, the ratio of exchange should be 2.5 share (Premerger EPS of PQR Ltd /Post Merger EPS of PQR Ltd)for 1 share.

3. (a) Rs 3,37,000

Reason: MNO Ltd. issues 2.5 shares in exchange for each share of PQR Ltd. All of PQR Ltd.'s shareholders exchange their shares. Therefore, MNO Ltd. issues 1,52,500 shares in exchange for all 61,000 shares of PQR Ltd. MNO Ltd. legally owns 100% of PQR Ltd.

The shareholders of PQR Ltd. own 83.33% ($1,52,500/1,83,000$) of the combined entity. The directors of PQR Ltd. are appointed 6 out of 8 positions in combined entity's board. In accordance with Ind AS 103, PQR Ltd. (Legal Acquiree) is the accounting acquirer and MNO Ltd. (Legal Acquirer) is the accounting acquiree as PQR Ltd. shareholders control over combined entity.

The market value per share price of PQR Ltd.'s share is Rs 110 per share and MNO Ltd. share price is Rs 22 per share. If the business combination had taken place in the form of PQR Ltd. issuing additional shares to MNO Ltd.'s shareholders in exchange for their shares in MNO Ltd., PQR Ltd. would have to issue 12,200 shares ($30,500 / 2.5$) for the ratio of ownership interest in the combined entity to be same. ($12,200 / 73,200^*$). Therefore, the consideration for the business combination effectively transferred by PQR Ltd. is Rs 13,42,000 ($12,200 \text{ Shares} \times Rs\ 110$).

Purchase Consideration transferred (by PQR Ltd.) Rs 13,42,000

Fair value of Assets less Liabilities Assumed (MNO Ltd.) (Rs 10,05,000)

Goodwill Rs 3,37,000

* $12,200 + 61,000 = 73,200$ shares

4. (d) MNO Ltd. – Accounting acquiree and Legal acquirer; PQR Ltd. – Accounting acquirer and Legal acquiree

Reason: MNO Ltd. legally owns 100% of PQR Ltd.. The shareholders of PQR Ltd. own 83.33% (1,52,500/1,83,000) of the combined entity. In accordance with Ind AS 103, PQR Ltd. (Legal Acquiree) is the accounting acquirer and MNO Ltd. (Legal Acquirer) is the accounting acquiree as PQR Ltd. shareholders control over combined entity.

5. (a) MNO Ltd. – Rs 0.5; PQR Ltd. – (Rs 0.2)

Reason:

	MNO Ltd.	PQR Ltd.
Available Investment Project	25 lacs	15 lacs
Controllable Contribution	2.5 lacs	1 lac
Overall Cost of Capital (8%)	2	1.2
Residual income	Rs 0.5	Rs (0.2)

6. In case of an amalgamation, it is possible for the transferee to acquire shares of the dissenting shareholders.

The basic requirements as to acquisition of shares mentioned in Section 235 of the Companies Act, 2013 are as follows:

- ◆ The scheme or contract involving the transfer of shares in a company (transferor company) to another company (transferee company) has been approved by the holders of not less than 9/10th (90%) in value of the shares whose transfer is involved.
- ◆ The approval of 9/10th shareholders in value shall be received within 4 months after making of an offer in that behalf by the transferee company.
- ◆ The transferee company shall express his desire to acquire the remaining shares of dissenting shareholder in 2 months after the expiry of the said 4 months and shall give notice in the prescribed manner to any dissenting shareholder that it desires to acquire his shares. The transferee company shall be entitled as well as bound to acquire the shares of the dissenting shareholders where no application is made by any dissenting shareholders to the tribunal in 1 month of receipt of notice of acquisition of shares or where an application is made by any dissenting shareholder, but such application is dismissed by the Tribunal.

In the given case, since the application made by the dissenting shareholders has been dismissed by the Tribunal, MNO Ltd. is bound to acquire all the shares of the dissenting shareholders i.e. an entire 8% shareholding. Since A Ltd acquired 5% shareholding of the dissenting shareholders, this is valid as per Section 235 of the Companies Act, 2013. Hence, the amalgamation of PQR Ltd. by MNO Ltd. is valid.

It is not recommended that Mr. A approach any forum regarding his grievances since the Tribunal has already evaluated the merits and dismissed the application by the minority shareholders. However, if he still wishes to appeal against the order, the NCLAT not the High Court would be appropriate forum for the same.

7. Statement showing computation of depreciation allowable to MNO Ltd. & PQR Ltd. for A.Y. 2024-25

Particulars	Rs
Opening WDV as on 1.4.2023 [i.e., WDV as on 31.3.2023 after reducing depreciation for P.Y. 2022-23]	4,00,000
Addition during the P.Y. 2023-24 (used for less than 180 days)	1,44,000
Total	5,44,000
Depreciation on Rs 4,00,000 @ 15%	60,000
Depreciation on Rs 1,44,000 @ 7.5%	10,800
Total depreciation for the P.Y. 2023-24	70,800
Apportionment between two companies:	
PQR Ltd	
60,000 x 275/366	45,082
10,800 x 61/152	4,334
	49,416
MNO Ltd.	
60,000 x 91/366	14,918
10,800 x 91/152	6,466
	21,384

6. Supposing the merger was carried out based on the exchange ratio suggested by Mr. A, illustrate the impact of the merger on the EPS and PE ratio of both companies.

	MNO Ltd.	PQR Ltd.
Number of equity shares	30,500	61,000
Market value per share	22	110
Earnings after tax	61,000	3,05,000
EPS	2	5
PE ratio	11	22

Exchange ratio based on Market value per share:

Rs 110/ Rs 22= 5 or 5 shares of MNO Ltd. for 1 share of PQR Ltd. EPS after merger

No. of equity shares to be issued (61,000 x 5)	3,05,000
Existing equity shares outstanding	30,500
Equity shares outstanding after merger	3,35,500
Total profit (61,000 + 3,05,000)	3,66,000
EPS	1.09

Impact of merger on EPS of both the companies

	MNO Ltd.	PQR Ltd.
EPS after merger	Rs 1.09	Rs 5.45*
EPS before merger	Rs 2	Rs 5
	(Rs 0.91)	Rs 0.45

* Rs 1.09 x 5 = Rs 5.45

CASE STUDY 13

CASE STUDY 14

Para A - Home Fab Private Limited incorporated in May 2023 having its registered office in New Delhi started construction of its premises building in NOIDA by using pre-fabricated structure common and prevalent in these times and building comprising about 1,00,000 square ft of covered area was ready to use by the end of July 2023 at a cost of Rs 6.50 crores. The company also obtained GST registration in month of May 2023 in state of Uttar Pradesh.

The company had already ordered in advance import of certain new textile machinery from South Korea at a cost of about Rs 8.65 crore. Further, indigenous previously used machinery at a cost of about Rs 2.00 crores was also planned for installation. The company was able to bring imported as well as indigenous machinery to its premises in NOIDA only in 1st week of August 2023 and was able to kick start its commercial production of textile made-ups from 1st September 2023 only. The company has earned huge profits during P.Y. 2023-24.

Para B - The made ups of company got a very good response in the overseas market of USA under brand of Home Fab and the company had captured good chunk of export orders via digital & online marketing platforms beating its Chinese rivals.

The company has chosen to export on payment of IGST. Discussion takes place among staff members of inhouse GST team relating to preparation of tax invoice and related matters and four different opinions emerge out of their discussions:

Opinion I - The company is legally bound to raise a tax invoice in Indian Rupees only for its products exported in accordance with relevant rules and foreign currency amount is to be converted into Indian Rupees in tax invoice by using RBI reference rate in relation to date of invoice.

Opinion II - The company is legally bound to raise a tax invoice in Indian Rupees as well as commercial invoice in foreign currency in accordance with relevant rules and procedures governing such transactions. Further, foreign currency amount is to be converted into Indian Rupees in tax invoice by using exchange rate in accordance with exchange rate notification issued by CBIC relevant in relation to date of invoice.

Opinion III - The company is legally bound to raise a tax invoice in Indian Rupees only for its products exported in accordance with relevant rules and foreign currency amount is to be converted into Indian Rupees in tax invoice by using TT buying rate in relation to date of invoice.

Opinion IV - The company is legally bound to raise a tax invoice in Indian Rupees as well as commercial invoice in foreign currency in accordance with relevant rules and procedures governing such transactions. Further, foreign currency amount is to be converted into Indian Rupees in tax invoice by using TT selling rate in relation to date of invoice.

The company has achieved export turnover of Rs50 crores during year ended 31st March,2024. It has also credited duty drawback from customs authorities amounting to Rs 2.00 crores in its statement of profit and loss for the same period. During the year ended 31st March 2024, the company has also incurred research and development expenditure of Rs 10.00 lakhs. The financial statements of the company reflected a net profit before tax amounting to Rs 7.50 crores. for the same period.

Para C- The inhouse staff GST team of the company was marred in confusion from the very first month of export sales regarding discharge of GST liability on payment of IGST and refund issues. The export sales had begun from October 2023 and made-ups valuing Rs 5 crores were exported during month of October 23 carrying a GST rate of 5%. The break-up of ITC for month of October 2023 is as under: -

Eligible ITC on inputs	0.15 crores
Eligible ITC on capital goods	0.03 crores
Eligible ITC in input services	0.02 crores

There were divergent opinions among team members pertaining to discharge of tax liability and refund issues given below before they could approach their tax consultant.

Opinion I - The overall IGST liability of the company pertaining to supplies in relation to export in Oct 2023 is Rs 0.25 crores and it would be discharged by the company by availing ITC on inputs of Rs 0.15 crores and balance of Rs 0.10 crore would be discharged by company in cash. After discharge of liability and filing of periodical returns consisting of GSTR- 3B and GSTR-1, the above said amount of Rs 0.25 crore would be refunded/refundable directly by customs in bank account of company.

Opinion II - The overall IGST liability of the company pertaining to supplies in relation to export in Oct 2023 is Rs 0.25 crores and it would be discharged by the company by availing ITC on inputs of Rs 0.15 crores, ITC on capital goods of Rs 0.03 crore and ITC on services of Rs 0.02 crores and balance of Rs 0.05 crore would be discharged by company in cash. After discharge of liability and filing of periodical returns consisting of GSTR- 3B and GSTR-1, the above said amount of Rs 0.25 crore would be refunded /refundable directly by customs in bank account of the company.

Opinion III - The overall IGST liability of the company pertaining to supplies in relation to export in Oct 23 is Rs 0.25 crores and it would be discharged by the company by availing ITC on inputs of Rs 0.15 crores, ITC on capital goods of Rs 0.03 crore and ITC on services of Rs 0.02 crores and balance of Rs 0.05 crore would be discharged by company in cash. After discharge of liability and filing of periodical returns consisting of GSTR- 3B, GSTR-1, and GSTR-9, the above said amount of Rs 0.25 crore would be refunded/refundable directly by customs in bank account of the company.

Opinion IV - The overall IGST liability of the company pertaining to supplies in relation to export in Oct 2023 is Rs 0.25 crores and it would be discharged by the company by availing ITC on inputs of Rs 0.15 crores, ITC on capital goods of Rs 0.03 crores and ITC on services of Rs 0.02 crores and balance of Rs 0.05 crore would be discharged by company in cash. After discharge of liability and filing of periodical returns consisting of GSTR- 3B and GSTR-1, the above said ITC amounting to Rs 0.20 crore would be refunded/refundable directly by customs in bank account of the company.

Para D-The company had imported machinery worth Rs 8.65 crores from South Korea. The said cost was CIF Mundra port. However, the company had incurred Rs 2.36 lakhs as clearing charges paid to DK Services Private Limited (including Rs 0.36 lakhs on account of IGST) for availing services for getting consignments cleared from port.

Further, company had also incurred Rs 3.00 lakhs on account of freight paid to D Transport services (a proprietary concern). This proprietary concern is not registered taxpayer under GST and company has deposited IGST of Rs 0.15 lakhs on account of reverse charge.

Further, company had paid Rs 1.77 crore to another company providing services relating to building construction (including Rs 27,00,000/- on account of IGST) during year 2023-24.

I. Multiple Choice Questions

- Which of the opinion given by the staff members of inhouse GST Team regarding preparation of an invoice for export transaction is MOST LIKELY in conformity with relevant legal provisions?
 - Opinion I is in conformity with relevant legal provisions.
 - Opinion II is in conformity with relevant legal provisions.
 - Opinion III is in conformity with relevant legal provisions.
 - Opinion IV is in conformity with relevant legal provisions

2. Regarding tax liability of the said company for the month of October 23 under provisions contained in GST laws and rules, which statement is correct?
 (a) Opinion II is correct. (b) Opinion III is correct. (c) Opinion I is correct. (d) Opinion IV is correct.
3. In context of machinery purchase related transactions involving clearing charges, freight etc. discussed in Para D of the case study, consider the following table of compliances under income tax law as well as under GST law:

Nature of Compliances	Appropriate response of company in accordance with law
(1) Deduction of TDS under income tax law and availing of eligible ITC under GST law	(i) TDS of Rs 3,07,000/- is deducted on account of above three transactions and company is availing ITC of Rs 51,000/- in respect of these transactions
(2) Deduction of TDS under income tax law and availing of eligible ITC under GST law	(ii) TDS of Rs 2,30,250/- is deducted on account of above three transactions and company is availing ITC of Rs 36,000/- in respect of these transactions
(3) Deduction of TDS under income tax law and availing of eligible ITC under GST law	(iii) TDS of Rs 2,30,250/- is deducted on account of above three transactions and company is availing ITC of Rs 27,51,000/- in respect of these transactions
(4) Deduction of TDS under income tax law and availing of eligible ITC under GST law	(iv) TDS of Rs 3,07,000/- is deducted on account of above three transactions and company is availing ITC of Rs 27,36,000/- in respect of these transactions

Which of the following forms appropriate response by the company in accordance with law?

- (a) Combination (1) & (i) (b) Combination (2) & (ii) (c) Combination (3) & (iii) (d) Combination (4) & (iv)
4. The company is under statutory obligation to submit documentary evidence regarding proof of import of machinery. Which of the following statements is correct in this regard?
- (a) Bill of lading is appropriate documentary evidence regarding evidence of import of machinery and its copy is required to be submitted to jurisdictional office of GST by importer.
- (b) Bill of Entry is appropriate documentary evidence regarding evidence of import of machinery and its copy is required to be submitted to jurisdictional office of GST by importer.
- (c) Bill of lading is appropriate documentary evidence regarding evidence of import of machinery and its copy is required to be submitted to the concerned branch of bank through whom import transaction was channelised.
- (d) Bill of Entry is appropriate documentary evidence regarding evidence of import of machinery and its copy is required to be submitted to the concerned branch of bank through whom import transaction was channelised.
5. Under provisions of Companies Act, 2013, the books of accounts and records are required to be kept at registered office of the company. However, the manufacturing facilities of company are located in NOIDA in state of Uttar Pradesh. In light of above, which of the following statements is in accordance with law?
- (a) The company can keep books of accounts and records at NOIDA by filing form AOC-2 within 30 days of passing board resolution.
- (b) The company can keep books of accounts and records at NOIDA by filing form AOC-4 within 30 days of passing board resolution.
- (c) The company can keep books of accounts and records at NOIDA by filing form AOC-5 within 7 days of passing board resolution.
- (d) There is no recourse available to the company as books of accounts and records are to be kept at registered office of company.

II. Descriptive Questions

6. The promoters of the company are law compliant and do not want to be seen on the wrong side of law. However, they are also prudent minded and want to take tax benefits available legally and seek your advice. Advise promoters of company of any such legally permissible benefits to lower its income tax liability for A.Y. 2024-25. Ignore the adjustment on account of depreciation under the Income-tax Act, 1961.
7. The company has exported made ups of Rs 50 crores on payment of IGST during year 2023-24 carrying a GST rate of 5%. Further, the company had availed ITC of Rs 2.00 crore during year 2023-24. The details of same are as under: -
- | | |
|-------------------------------|---------------|
| Eligible ITC on inputs | Rs 1.50 crore |
| Eligible ITC on capital goods | Rs 0.36 crore |
| Eligible ITC on services | Rs 0.14 crore |

Discuss whether there was any other legally permissible way to export its goods keeping in view provisions of GST law. Also make a cross comparison of export on payment of IGST vs. other legally compliant way in terms of financial burden/benefit and procedural requirements to the taxpayer company. Make suitable assumptions.

ANSWERS

1. (b) The company is legally bound to raise a tax invoice in Indian Rupees as well as commercial invoice in foreign currency in accordance with relevant rules and procedures governing such transactions. Further, foreign currency amount is to be converted into Indian Rupees in tax invoice by using exchange rate in accordance with exchange rate notification issued by CBIC relevant in relation to date of invoice.

Reason: As per Rule 34 of CGST Rules, 2017, the rate of exchange for determination of value of taxable goods shall be the applicable rate of exchange as notified by the Board under section 14 of the Customs Act, 1962 for the date of time of supply of such goods in terms of section 12 of the Act. The exchange rate notifications are issued by CBIC in exercise of powers conferred under section 14 of Customs Act on a periodic basis and value of taxable goods as reflected in tax invoice has to be arrived at in accordance with such notification. Further, commercial invoice in foreign currency amount is required to be raised for export transaction in accordance with procedures of customs.

2. (a) Opinion II is correct.

Reason: The IGST liability of company pertaining to zero-rated supplies (export) in Oct 23 is 5% of Rs 5 crores i.e. Rs 0.25 crore. It is discharged by setting off eligible ITC of Rs 0.20 crore. It is immaterial whether ITC is availed on inputs, capital goods or input services. The export supplies are zero-rated supplies and IGST paid of Rs 0.25 crore would be refunded/refundable directly in bank account of the company by customs upon monthly filing of GSTR-3B and GSTR-1 for each tax period. Further, filing of GSTR-9 is an annual affair and hence nothing to do with refund of IGST.

The refund by customs is system generated upon filing of GSTR-3B and GSTR-1 for each tax period. The invoices transmitted to customs via GST network are matched with shipping bills and others details which are also system driven and refund scroll is generated. After scroll generation, refund is credited in bank account of exporter.

3. (a) Combination (1) and (i).

Reason: The TDS amount to be deducted during financial year 2023-24 is as under -

TDS to be deducted on clearing charges of Rs 2.00 lakhs u/s 194 C is 2% in case of payment to companies.

TDS to be deducted on freight paid of Rs 3.00 lakhs u/s 194 C is 1% in case of payment to individuals.

TDS to be deducted on payment made to building contractor company of Rs 1.50 crore u/s 194 C is 2% in case of payment to companies.

Hence, total TDS to be deducted by company comes to Rs 3,07,000/- (4,000 + 3,000 + 3,00,000).

It is to be remembered that TDS is not to be deducted on GST amount included in payments made to above service contractors in accordance with provisions of CBDT circular number 23/2017 dated 19.7.2017. Hence, for calculation of TDS, pre-GST amounts have to be arrived at.

Further, company has correctly availed IGST on services amounting to Rs 51,000/-. The company is eligible to avail ITC on services for import of machinery amounting to Rs 36,000/-. Further, credit of IGST paid on reverse charge basis by the company on freight services amounting to Rs 15,000/- is also available to the company. The IGST on building contractor services is not eligible as amount would be capitalised under building and the same is blocked under section 17(5) of CGST Act.

4. (d) Bill of Entry is appropriate documentary evidence regarding evidence of import of machinery and its copy is required to be submitted to the concerned branch of bank through whom import transaction was channelised.

Reason: , The importer of goods has to present to the proper officer electronically bill of entry. Therefore, bill of entry is appropriate document establishing import of goods. The bill of entry has to be submitted to the concerned bank branch through whom remittance was made as evidence for import of goods. It is not required to be submitted to GST office.

Bill of lading is issued in case of export transactions evidencing that goods have finally left the country.

5. (c) The company can keep books of accounts and records at NOIDA by filing form AOC-5 within 7 days of passing board resolution.

Reason: Books of accounts and records can be kept at place other than registered office of the company. The relevant form is AOC-5 which is to be filed on MCA portal in 7 days of passing board resolution.

6. In a major tax policy initiative, section 115BAB has been inserted w.e.f. A.Y. 2020-21 to provide an option to new manufacturing or electricity generating domestic companies set up and registered on or after 1.10.2019 and commences manufacturing or generating electricity on or before 31.3.2024 for availing concessional income tax rates subject to fulfilment of certain conditions contained thereunder like non-availability of profit-linked deductions and investment-linked tax deduction under the Act, non-availability of deduction for contribution to research and development, additional depreciation etc.

Section 115BAB provides for concessional rate of tax @15% (plus surcharge@10% plus HEC@4%).

The option for section 115BAB has to be exercised in the very first year in which the eligible company is set up, failing which it cannot exercise such option in the future years. However, once the company exercises such option under 115BAB, as the case may be, in a year, it would continue to be governed by the special provisions u/s 115BAB thereafter and cannot opt for regular provisions in any subsequent year.

It may be noted that companies exercising option under section 115BAB are not liable to minimum alternate tax under section 115JB.

The following are the conditions specified under section 115BAB:

- (a) the company has been set-up and registered on or after the 1.10.2019, and has commenced manufacturing or production of an article or thing on or before the 31.3.2024 and, —
 - (i) the business is not formed by splitting up, or the reconstruction, of a business already in existence:
 - (ii) does not use any machinery or plant previously used for any purpose.

Any machinery or plant which was used outside India by any other person shall not be regarded as machinery or plant previously used for any purpose, if the following conditions are fulfilled -

- (A) such machinery or plant was not, at any time previous to the date of the installation used in India;
- (B) such machinery or plant is imported into India from any country outside India; and
- (C) no deduction on account of depreciation in respect of such machinery or plant has been allowed or is allowable under the provisions of this Act in computing the total income of any person for any period prior to the date of the installation of machinery or plant by the person.

Further, where in the case of a person, any machinery or plant or any part thereof previously used for any purpose is put to use by the company and the total value of the machinery or plant or part so transferred does not exceed 20% of the total value of the machinery or plant used by the company, then, the condition specified that the company does not use any machinery or plant previously used for any purpose would be deemed to have been complied with.

- (b) the company is not engaged in any business other than the business of manufacture or production of any article or thing and research in relation to, or distribution of, such article or thing manufactured or produced by it.

The business of manufacture or production of any article or thing referred to in clause (b) shall not include business of,—

- (i) development of computer software in any form or in any media;
- (ii) mining;
- (iii) conversion of marble blocks or similar items into slabs;
- (iv) bottling of gas into cylinder;
- (v) printing of books or production of cinematograph film; or
- (vi) any other business as may be notified by the Central Government in this behalf; and

- (c) the total income of the company has to be computed -
 - (i) without any deduction under the provisions of section 10AA or clause (iia) of sub-section (1) of section 32 or section 32AD or section 33AB or section 33ABA or sub-clause (ii) or sub-clause (iia) or sub-clause (iii) of sub-section (1) or sub-section (2AA) or sub-section (2AB) of section 35 or section 35AD or section 35CCC or section 35CCD or under any provisions of Chapter VI-A other than the provisions of section 80JJAA or section 80M;
 - (ii) without set-off of any loss or allowance for unabsorbed depreciation deemed so under section 72A where such loss or depreciation is attributable to any of the deductions referred to in sub-clause (i).
 - (iii) by claiming the depreciation under the provision of section 32, except clause (iia) of sub-section (1) of the said section, determined in such manner as may be prescribed.

In the present case, company is eligible to opt for concessional tax rate of 15% (plus surcharge@ 10% plus HEC @ 4%),

since it satisfies the following condition -

- (1) It is a company registered after 1.10.2019 and has started production on or before 31.3.2024.
- (2) Its business is not formed by splitting or reconstruction of business already in existence.
- (3) Although it has used plant and machinery previously used, it falls within overall cap of 20% stipulated u/s 115BAB. The total value of plant and machinery used by the company is Rs 10.65 crores. However, value of machinery previously used is only Rs 2.00 crore which is 18.78% of total value of plant and machinery. Hence, this newly set up domestic company satisfies this criterion also.
- (4) The company is engaged in business of manufacturing of an article or thing and research in relation to it.
- (5) The company's business does not fall into prohibited categories.
- (6) The company has not taken benefit of other beneficial provisions as listed out under section 115BAB.
- (7) The company has to exercise the option by filing Form 10-ID by due date of filing first return of income under section 139 for A.Y. 2024-25.

7. Under provisions of section 16(3) of IGST Act, 2017, a registered person making zero rated supply shall be eligible to claim refund under either of the following options, namely:—

- (a) he may supply goods or services or both under bond or Letter of Undertaking, subject to such conditions, safeguards and procedure as may be prescribed, without payment of integrated tax and claim refund of unutilised input tax credit; or
- (b) he may supply goods or services or both, subject to such conditions, safeguards and procedure as may be prescribed, on payment of integrated tax and claim refund of such tax paid on goods or services or both supplied, in accordance with the provisions of section 54 of the Central Goods and Services Tax Act or the rules made thereunder.

It is to be noted that changes made in Section 16(3) by Finance Act, 2021 requiring person making zero rated supplies to claim of refund of unutilized ITC without payment of IGST under bond or LUT only are still to be notified.

Therefore, for the year under consideration, both routes as discussed above are available to exporter.

Therefore, under IGST Act, 2017, a taxpayer engaged in zero-rated supplies can make export without payment of tax under LUT or bond or alternatively, it can export on payment of IGST. In case of export under LUT/bond, refund of unutilised ITC would be refundable so that exports remain competitive. However, under Rule 89(4) of CGST Rules, 2017, net ITC means ITC on inputs and input services only. Hence, in case of export under LUT, ITC on capital goods is not refundable.

However, in case of export on payment of IGST, entire IGST paid would be refunded due to same **Reason**. Hence, refund of ITC on input and input services is available under LUT route whereas refund of ITC on input, input services and capital goods is refundable on exports made on payment of IGST.

Export under LUT or bond

Tax liability	0
Refund of unutilized ITC	Rs 1.64 crore

Export on payment of IGST

Tax liability	Rs 2.50 crore
Set off by using ITC	Rs 2.00 crore
Set off by payment of cash	Rs 0.50 crore
Refund of IGST paid	Rs 2.50 crore

Hence, in export under LUT, ITC of input and input services amounting to Rs 1.64 crore is refunded/refundable. In case of export on payment of IGST, entire ITC of Rs 2.00 crore is refunded along with tax of Rs 0.50 crore deposited by company in cash.

Therefore, under export via LUT route, refund of ITC of Rs 1.64 crore would be available to the company. However, under export via payment of IGST, entire ITC of Rs 2.00 crore is refundable.

In terms of procedural requirements, separate refund application has to be filed electronically for exports under LUT. However, for exports on payment of IGST, refund is automatically granted by customs on valid filing of GSTR-3B and GSTR-1 and validation of tax invoice data with shipping bills and other information.

Further, in case of export under LUT, no tax is to be deposited by the company and refund of ITC has to be applied by way of separate application. Therefore, it does not involve any cash outgo.

In case of export on payment of IGST, it involves cash out go of Rs 50.00 lakhs which is refunded automatically in a few days. Therefore, it involves temporary blockage of working capital for certain period of time. However, since refund process is system driven and automated as provided in rules under this route, it results in quicker refunds including refund of entire ITC and cash deposited.

CASE STUDY 15

CASE STUDY 16

PurchaseOnn Inc. was founded in 1992 by Rose Lee as an online bookstore. It has undergone a remarkable transformation into one of the world's leading technology companies. It was initially selling books only, PurchaseOnn expanded its offerings to include music, movies, and a wide range of consumer goods like books, electronics, clothing, household goods and many more.

It launched PurchaseOnn.com in 1995 as an online bookstore, offering millions of titles for sale. It achieved significant sales within the first month of operation, reaching customers across all 50 U.S. states and 45 countries worldwide. It earned Revenue of \$13.8 million in 1996, primarily from book sales in the U.S. PurchaseOnn, has continuously innovated and introduced numerous new technologies to improve its operations, enhance customer experience, and expand its business. Now, PurchaseOnn is very popular and often "the only marketplace" that people use.

Its diversification and innovations are done by expanding its product offerings beyond books to include music, movies, and eventually a wide range of consumer goods. The company introduced Jinglee E-reader in 2007 and Milee voice assistant in 2017, pioneering new consumer technologies. It also ventured into cloud computing with PurchaseOnn Web Services (PWS) in 2007, despite initial scepticism, leading to substantial revenue growth and profitability. The company successfully navigated and adapted changes caused due to economic downturns such as the dot-com crash in 2001 and the recession in 2008-2009. Though it maintained focus on long-term customer experience and innovation while streamlining costs and investing in key business areas like PWS. Its strategic investments for future growth are expansion of PWS and advertising business - providing advertisement services to other companies in the form of ads or sponsored products.

It undertook a comprehensive review of business initiatives to prioritize long-term revenue and profitability. Its recent strategy shifts are towards Closure of physical store concepts to online webstore. It also emphasised on optimizing fulfilment center and transportation network to meet surging demand during the pandemic.

Launch of PurchaseOnn business in 2016 catered to business procurement needs and drove \$40 billion in annualized gross sales. It also uses advertising to promote its products and services. This includes ads in online and offline media as well as social media advertising.

It ventures into new frontiers by entry into healthcare with PurchaseOnn Pharmacy in 2021, followed by the acquisition of One Medical in 2022 to revolutionize primary care and launch of Juiper Satellite internet project to provide affordable broadband access to underserved areas, showcasing technological innovation and social impact. It has a focus on long-term innovation, for this it made investment in Large Language Models and Generative AI to enhance customer experiences across all business segments and democratization of Generative AI technology through PWS, enabling companies of all sizes to leverage advanced machine learning capabilities. Its technology offers various functions and tools to make shopping easier for users, such as personalized recommendations and search filter options. It also offers mobile apps that allow users to purchase products through their smartphones and tablets. PurchaseOnn.com diversified incomes are through various streams, including product sales, subscription services (Frame, Jinglee Unlimited), advertising, and cloud computing services that provide stability and resilience against market fluctuations.

PurchaseOnn.com's activities revolve around product sourcing, logistics, technology development, and customer service. Investments in fulfilment centres, delivery infrastructure, owning warehouses, logistics centres and automation technologies have enabled PurchaseOnn to streamline operations and offer faster, more reliable service to customers worldwide. The company offers a range of delivery options, including standard shipping, express shipping, and same-day delivery depending on the customer's location and the product being purchased. It also offers delivery at a shipping address that may be different than the billing address; they also offer contactless delivery, and the buyer is free to select the time frame within which delivery shall be attempted. It offers goods/ services at lower prices in comparison to other company websites and traditional retailers due to lower costs for rent and personnel. It also provides free delivery services and access to streaming services to the customers upgraded by becoming members after paying subscription fees to "Buy with Frame" annually, quarterly or monthly. In addition to free delivery, it also encourages customers to leave reviews and feedback on products and delivery services to improve its products and services. It also operates a customer service that is available via email, phone, or live chat. Customers can contact customer service if they have questions or problems, or if they need any assistance regarding PurchaseOnn products or services.

PurchaseOnn's resources include its extensive fulfilment network, proprietary technology platforms (PurchaseOnn.com, PWS, Millee), data analytics capabilities, and talented workforce. These resources serve as the foundation for PurchaseOnn's competitive advantage and innovation-driven growth.

PurchaseOnn.com forged strategic partnerships with publishers, suppliers, third-party sellers, and technology providers to expand its product catalogue, enhance its platform's functionality, and improve operational efficiency. They also entered partnerships with courier service centres, freight forwarders and logistics centres that help it to ship products to customers. It also entered venture with Online payment service providers such as PayPayer and credit card companies to enable customers to conveniently and securely pay for their purchases.

Its expenses are related to fulfilment of technology development, marketing, and content acquisition. While investments in infrastructure and technology initially resulted in operating losses, PurchaseOnn's scale and efficiency improvements have led to profitability in its core e-commerce and cloud computing businesses.

PurchaseOnn.com policies prioritize personalized recommendations, responsive customer support, and hassle-free return policies. Its data-driven approach enables the company to anticipate customer needs and deliver tailored experiences that foster long-term loyalty and satisfaction.

PurchaseOnn.com operates a marketplace platform that allows third-party sellers to list and sell products on its website. It collects fees from these sellers for services such as fulfilment, advertising, and referral commissions. It also uses email marketing to send users personalized offers and recommendations and to inform them about new products and services. Revenue from third-party seller services includes fees, commissions, and other charges associated with facilitating transactions on the platform.

Particulars Related with Indian Subsidiary

PurchaseOnn Inc. also owns online space for advertisement on internet and has agreed to sell such online advertising space to Indian Subsidiary for an amount of Rs 5 crores per month (USD 5,99,000). Indian Subsidiary sells such advertising space to its customers in India on its own account. The contractual arrangement for sale of such advertising space is between the customer and Indian Subsidiary.

Recently, PurchaseOnn has injected Rs 1,000 crores into its Indian Subsidiary. This investment aligns with the projected growth trajectory of India's e-commerce sector, anticipated to reach USD 200-230 billion by 2030, with a steady annual rise of 20-22 per cent. Earlier in February 2023, the US-based parent company allocated Rs 830 crore into its Indian entity.

On 1st April 2023, Indian Subsidiary purchased an office block (building) for Rs 50,00,000 and paid a non-refundable property transfer tax and direct legal cost of Rs 2,50,000 and Rs 50,000 respectively while acquiring the building in Bangalore. During 2023, it redeveloped the building into a two-story building. Expenditures on re-development were Rs 1,00,000 for Building plan approval; Rs 10,00,000 construction costs (including Rs 60,000 refundable purchase taxes); and Rs 40,000 due to abnormal wastage of material and labour. The re-development of the building was completed on 1st October 2023, the entity rents out Ground Floor of the building to its 100% subsidiary Rupee-Onn under an operating lease in return for rental payment. The subsidiary uses the building as a retail outlet for its operations. The entity kept first floor for its own administration and maintenance staff usage. Equal value can be attributed to each floor.

During the previous year, Indian Subsidiary has launched a new range of in-house products with its long experience in clothes and accessories section. In order to promote its in-house brand products, PurchaseOnn distributed gift vouchers to 100 lucky members worth Rs 5,000 each on 31st January, 2024. This coupon can be redeemed against any purchases of in-house brand products made in future on PurchaseOnn.

I. Multiple Choice Questions

1. Which of the following statements best describes PurchaseOnn's value proposition based on the provided information?
 - (a) PurchaseOnn's value proposition lies in its diverse revenue streams, including product sales, subscription services, advertising, and cloud computing, providing stability against market fluctuations.
 - (b) PurchaseOnn's value proposition centers around its key activities, such as product sourcing, logistics, technology development, and customer service, enabling streamlined operations and faster service delivery.

- (c) PurchaseOnn's value proposition is built on its extensive fulfillment network, proprietary technology platforms, data analytics capabilities, and talented workforce, serving as the foundation for competitive advantage and innovation-driven growth.
 - (d) PurchaseOnn's value proposition focuses on prioritizing customer relationships through personalized recommendations, responsive customer support, and hassle-free return policies, anticipating customer needs and fostering long-term loyalty and satisfaction.
2. In the context of PurchaseOnn's evolution from an online bookstore to a global technology leader, which of the following statements best illustrates the concept of business integration?
 - (a) PurchaseOnn's revenue diversification strategy, including expansion into cloud computing, healthcare, and satellite internet, showcases its ability to adapt to changing market trends.
 - (b) PurchaseOnn's investment in fulfillment centers, delivery infrastructure, and automation technologies reflects its commitment to streamlining operations and offering reliable service to customers worldwide.
 - (c) PurchaseOnn's emphasis on personalized recommendations, responsive customer support, and hassle-free return policies demonstrates its dedication to prioritizing customer relationships and enhancing satisfaction.
 - (d) PurchaseOnn's expansion of PurchaseOnn Business in 2015, catering to business procurement needs, exemplifies its efforts to diversify revenue streams and capture new market segments.
3. Select which of the statement is correct in connection with Supply of vouchers in hands of PurchaseOnn to its members
 - (a) Taxable supply of Rs. 5,00,000 liable to GST in the month of January.
 - (b) Taxable supply of Rs. 5,00,000 liable to GST in the month in which voucher is redeemed by its member.
 - (c) Discount offered to members on the purchases made in the month of January and no tax would be payable on such voucher.
 - (d) Discount offered to member at the time of redemption of voucher and no tax is payable on such voucher
4. How does PurchaseOnn's practice of allowing customers to select their preferred delivery time frame contribute to its strategic cost management?
 - (a) By reducing shipping costs
 - (b) By optimizing warehouse utilization
 - (b) By minimizing inventory holding costs
 - By increasing customer satisfaction and loyalty
5. Select the correct statement specifically in relation to sale of online advertisement space service provided by PurchaseOnn Inc. to Indian Subsidiary:
 - (a) PurchaseOnn Inc. is providing online information and database access or retrieval service and is thus, required to register in India under GST and discharge GST on forward charge basis.
 - (b) PurchaseOnn Inc. is providing online information and database access or retrieval service electronically and place of supply in such case is the location of supplier which is outside taxable territory in present scenario. Therefore, no GST is payable on such services.
 - (c) PurchaseOnn Inc. is providing online information and database access or retrieval service and tax on the same is to be paid by Indian Subsidiary on reverse charge basis.
 - (d) PurchaseOnn Inc. is providing online information and database access or retrieval service and tax on the same is to be paid by Indian Subsidiary in capacity of an agent of PurchaseOnn Inc.
6. Given the context, IDENTIFY and APPLY the business strategic framework applicable to PurchaseOnn.com that effectively manages its resources, aligns its activities with customer needs, generates value for both customers and stakeholders, and positions the company for continued growth and success in the dynamic global marketplace.
7. DISCUSS how the Bangalore building will be shown in the consolidated financial statements of the Indian Subsidiary and in its standalone financial statements according to the relevant Indian Accounting Standards (Ind AS).

ANSWERS TO THE CASE STUDY 16

1. (d) PurchaseOnn's value proposition focuses on prioritizing customer relationships through personalized recommendations, responsive customer support, and hassle-free return policies, anticipating customer needs and fostering long-term loyalty and satisfaction.

Reason: PurchaseOnn's value proposition is primarily centered around delivering exceptional customer experiences. The company emphasizes personalized recommendations, responsive customer support, and hassle-free return policies, all of which contribute to customer satisfaction and loyalty. PurchaseOnn's data-driven approach enables

it to anticipate customer needs and deliver tailored experiences, enhancing the overall value proposition for its customers. This customer-centric approach is crucial for sustaining long-term relationships and driving repeat business, ultimately contributing to PurchaseOnn's growth and success in the marketplace.

2. (a) PurchaseOnn's revenue diversification strategy, including expansion into cloud computing, healthcare, and satellite internet, showcases its ability to adapt to changing market trends.

Reason: Business integration involves the coordination of processes, systems, and functions across various departments or entities within an organization to achieve common goals. In the case of PurchaseOnn, its evolution from an online bookstore to a global technology leader involves integrating diverse business segments and activities to drive growth and innovation.

Option A best illustrates the concept of business integration as it highlights PurchaseOnn's strategy of diversifying its revenue streams by expanding into new business segments such as cloud computing, healthcare, and satellite internet. This expansion requires coordination across different departments and functions within the organization, including research and development, marketing, and sales. By integrating these diverse business segments, PurchaseOnn demonstrates its ability to adapt to changing market trends and capitalize on emerging opportunities for growth and expansion.

3. (b) Taxable supply of Rs 5,00,000 liable to GST in the month in which voucher is redeemed by its member.

Reason: As the supply against which the coupon will be redeemed is not known on the date of the sale of the coupon, the time of supply of the coupon will be the date on which the member redeems it against inhouse product of PurchaseOnn.

4. (d) By increasing customer satisfaction and loyalty.

Reason: Allowing customers to select their preferred delivery time frame enhances their overall experience with PurchaseOnn, fostering loyalty and repeat purchases, which in turn contributes to the company's strategic cost management by maximizing customer lifetime value.

5. (c) PurchaseOnn Inc. is providing online information and database access or retrieval service and tax on the same is to be paid by India subsidiary on reverse charge basis.

Reason: Sale of online advertisement space is covered under the purview of OIDAR services as per Section 2(17) of the IGST Act, 2017. However, the service provider located outside India in case of OIDAR services is required to get registered under GST and discharge tax in India under forward charge basis only if the services are provided to non-registered online recipient.

In the present case, sale of advertisement space is made by PurchaseOnn Inc. to Indian Subsidiary on principal to principal basis and Indian Subsidiary is a registered entity in India under GST. Hence, even if the services are in the nature of OIDAR service, the GST on such services is to be paid by Indian Subsidiary under reverse charge mechanism.

6. PurchaseOnn follows the Business Model Canvas framework to structure its operations and drive growth in various business segments. It aligns with each component of the Business Model Canvas and followed a systematic approach to create a successful business model, encompassing nine key steps:

CUSTOMER SEGMENTS

The key customer segments for PurchaseOnn are diverse and comprehensive.

Individual customers, the classic users of the platform, buy goods from the web-shop, benefiting from a wide range of products in various categories, such as clothes, books, and electronic items. PurchaseOnn also serves **small businesses, including retailers, manufacturers, and wholesalers**, that want to sell their products on the platform. Additionally, PurchaseOnn has connections with **publishers and media companies** to sell content like books, magazines, and movies through its platform.

By catering to these diverse segments, PurchaseOnn creates a versatile marketplace that meets the needs of individual consumers, small businesses, large enterprises, and content providers.

KEY PARTNERS

Key partners for PurchaseOnn include suppliers and channel partners who play a crucial role in making the business model work.

The most important partners of the brand are those who generate the first source of revenue i.e., **Sellers** (suppliers or the major retail companies). **Logistic partners**, including various logistics companies, freight forwarders, courier service

centres, and fulfilment centres, ensure quick and reliable delivery of products to customers. **Payment partners**, such as PayPal and credit card companies, enable customers to conveniently and securely pay for their purchases. Additionally, PurchaseOnn operates a cloud computing platform called PurchaseOnn Web Services (PWS), which provides businesses with access to server capacity and other resources. PWS collaborates with various partners to provide these essential resources. Furthermore, **independent authors** can publish their works through Direct Publishing, allowing PurchaseOnn to offer a diverse range of content.

This collaboration enhances the overall service offering and reliability of the platform, ensuring a comprehensive and efficient experience for all users.

KEY ACTIVITIES

Key activities describe the most important things to do in a business or to keep it running smoothly. PurchaseOnn focuses on several key activities to ensure smooth operations and maintain its position in the market.

Firstly, the **Sale of Products** is fundamental, involving both its own products and third-party offerings. This requires not only listing products on its online platform but also ensuring they reach customers efficiently. Therefore, **Logistics and Delivery** are critical, with an extensive infrastructure that includes warehouses, fulfilment centres, and logistics centres, supported by partnerships with freight forwarders and courier services to ensure quick and reliable delivery. **Marketing** is another crucial activity, as PurchaseOnn employs strategies to strengthen its brand, including advertising on its website and social media, providing personalized recommendations, and encouraging customer reviews. **Customer Service** is essential, with support available via email, phone, or live chat to assist customers with inquiries, problems, or help in using PurchaseOnn's products or services. Additionally, **Advanced Technology and IT infrastructure** play a vital role in enhancing website functionality, user experience, and optimizing delivery and logistics services.

These combined efforts are integral to keeping PurchaseOnn running smoothly and maintaining its competitive edge.

VALUE PROPOSITION

PurchaseOnn's **value proposition** is compelling, offering a range of benefits that set it apart from competitors and attract customers to its platform.

Firstly, **convenience** plays a significant role, as customers can shop from the comfort of their homes using a computer, tablet, or phone, with products delivered quickly and reliably. Moreover, PurchaseOnn boasts a **vast selection of products**, spanning categories like books, electronics, clothing, and household goods, catering to diverse customer preferences. **Cost efficiency** is another key advantage, as the company's online model allows for lower prices compared to traditional retailers, supplemented by the benefits of Frame membership, which includes free shipping. Additionally, PurchaseOnn prioritizes **fast delivery**, offering various shipping options to accommodate different customer needs, from standard to same-day delivery. Furthermore, the company's commitment to **customer satisfaction** is evident through its responsive customer support and hassle-free return policies, strengthening its value proposition and fostering long-term customer relationships.

In conclusion, PurchaseOnn's value proposition encompasses convenience, extensive product selection, cost efficiency, fast delivery, and customer-centric policies. These factors collectively contribute to its appeal among customers, distinguishing it as a preferred choice over competitors.

CHANNELS

PurchaseOnn utilizes various **channels** to deliver its products and services to customers effectively.

Firstly, it leverages its **web-shop**, providing users with a platform to purchase products and offering convenient features like personalized recommendations and search filter options to enhance the shopping experience. Additionally, PurchaseOnn extends its reach through **mobile apps**, enabling users to make purchases conveniently from their smartphones and tablets. Moreover, partnerships play a significant role, as PurchaseOnn collaborates with other companies to expand its product availability and distribution

network. These partnerships include **agreements with retailers** to sell PurchaseOnn's products in their stores and with logistics companies to facilitate efficient product shipment to customers.

Collectively, these channels contribute to PurchaseOnn's comprehensive distribution strategy, ensuring broad reach.

CUSTOMER RELATIONSHIP

Customer Relationship Management is essential for PurchaseOnn to acquire, retain, and grow its customer base. The company employs various strategies to enhance customer interactions and satisfaction. One such strategy is **personalized recommendations**, where PurchaseOnn utilizes customer data to create tailored product suggestions for each individual.

These recommendations are prominently featured on the website and also sent to customers via email, allowing them to discover new products that align with their preferences and interests. Additionally, PurchaseOnn actively encourages customers to **leave reviews and feedback** on products they have purchased. These reviews not only assist other customers in making informed purchasing decisions but also provide valuable insights for PurchaseOnn to improve its products and services.

By prioritizing customer feedback and engagement, PurchaseOnn fosters stronger relationships with its customers, leading to increased loyalty and long-term growth.

REVENUE STREAMS

PurchaseOnn's **revenue streams** are diverse, reflecting the various ways it generates income. The primary source of revenue is the **sale of products**, including both its own offerings and third-party items. Additionally, PurchaseOnn monetizes through **advertising, featuring ads and sponsored products** for other companies. The company also provides various services, such as **selling e-books and music, renting movies and TV shows, and offering access to streaming services**. Another significant revenue stream comes from the **frame membership**, which provides customers with benefits like free shipping and exclusive access to streaming services, available through annual, quarterly, or monthly subscriptions. Lastly, PurchaseOnn operates a cloud computing platform called PurchaseOnn Web Services (PWS), which offers businesses **server capacity and other resources on a pay-per-use basis**.

These combined revenue streams ensure a steady and diverse income for PurchaseOnn, supporting its growth and market dominance.

KEY RESOURCES

Key resources describe the most important assets indispensable to a business. PurchaseOnn relies on a broad range of key resources crucial to its business model.

PurchaseOnn's **online platform**, the central hub for selling products and providing services, also serves as the main source of customer reviews and feedback. Customer data is another vital resource, as PurchaseOnn collects and analyzes this data to offer personalized recommendations and advertising, thereby improving site offerings and usability. **Skilled software engineers/ staff** are essential for creating and maintaining the online platform infrastructure.

The company's **delivery and logistics infrastructure**, which includes its own warehouses and logistics centers along with partnerships with freight forwarders and courier services, ensures quick and reliable product delivery. The **PurchaseOnn brand** itself is also a key resource, representing trust and reliability to customers and partners alike.

Together, these key resources are fundamental to PurchaseOnn's operations and success.

COST STRUCTURE

The costs involved in operating PurchaseOnn's business encompass a wide range of expenses necessary to maintain its **platform and services**. Key expenses include the development and maintenance of websites and apps, cloud services, database management and information security. Significant **marketing and advertising costs** involve search engine advertising, social media advertising, and ad placements in both print and online media. Additionally, **costs related to procurement, storage, packing, and shipping of goods, along with commissions paid to sellers and real estate expenses**, are crucial for the business.

Staff costs, including salaries, wages, employee training and development, and human resources management, along with **general and administrative costs** covering office equipment and supplies, travel and lodging, insurance, taxes, and other administrative activities, represent a portion of expenses.

Together, these costs ensure the smooth and efficient operation of PurchaseOnn's business activities, including maintaining its physical spaces such as fulfilment centres, sortation centres, and delivery stations.

7. In accordance with Ind AS 16, all costs required to bring an asset to its present location and condition for its intended use should be capitalised. Therefore, the initial purchase price of the building would be:

Particulars	Amount (Rs)
Purchase amount	50,00,000
Non-refundable property tax	2,50,000
Direct legal cost	50,000
	53,00,000
Expenditures on redevelopment: Building plan approval	1,00,000
Construction costs (10,00,000 -60,000)	9,40,000
Total amount to be capitalised on 1 st October 2023	63,40,000

Treatment of abnormal wastage and material and labour: As per Ind AS 16, the cost of abnormal amounts of wasted material, labour, or other resources incurred in self-constructing an asset is not included in the cost of the asset. It will be charged to Profit and Loss in the year it is incurred. Hence, abnormal wastage of Rs 40,000 will be expensed off in Profit & Loss in the financial year 2023 -2024.

Accounting of property- Building

When the property is used as an administrative centre, it is not an investment property, rather it is an 'owner occupied property'. Hence, Ind AS 16 will be applicable.

When the property (land and/or buildings) is held to earn rentals or for capital appreciation (or both), it is an Investment property. Ind AS 40 prescribes the cost model for accounting of such investment property.

Since equal value can be attributed to each floor, Ground Floor of the building will be considered as Investment Property and accounted as per Ind AS 40 and First Floor would be considered as Property, Plant and Equipment and accounted as per Ind AS 16.

Cost of each floor = Rs 63,40,000 / 2 = Rs 31,70,000

As on 1st October 2023, the carrying value of building vis -à-vis its classification would be as follows:

In Standalone Financial Statements: The Ground Floor of the building will be classified as investment property for Rs 31,70,000, as it is property held to earn rentals. While First Floor of the building will be classified as item of property, plant and equipment for Rs 31,70,000.

In Consolidated Financial Statements: The consolidated financial statements present the parent and its subsidiary as a single entity. The consolidated entity uses the building for the supply of goods. Therefore, the leased-out property to a subsidiary does not qualify as investment property in the consolidated financial statements. Hence, the whole building will be classified as an item of Property, Plant and Equipment for Rs 63,40,000.

CASE STUDY 17

Maxplus Ltd, (herein referred as to the 'company') one of the most trusted gateways to medicines, incorporated in Delhi with an aim to eliminate fake and ineffective medicines, and supply good quality medicines in India. According to WHO research, every 1 or 2 in 10 medicines are adulterated in low/medium income countries like India. Consequently, the company aspires to bring about a change in these statistics. To improve transparency in the functioning of the pharmaceutical industry, the company has been successfully contributing to providing genuine and unadulterated medicines since its incorporation. Also, as the market demands, a constant customer loyalty program is also introduced by the company, where in on eligible purchases, the customers can avail cash discounts or can enjoy incentive points which can be converted into required products like blood pressure testing apparatus, diabetes testing apparatus, medicated / scented floor cleaner etc. Entire operation of the company can be broadly classified into two divisions – (a) Retail outlet Division, and (b) Agency Division.

Retail outlet Division

Currently this chain of medical store, operates in 100 cities in India with 10 stores in each city. As per the accepted policy of the company, it does not involve in franchise model and all the outlets are operated by the company directly. Also, as per its policy, it does not operate its outlet from owned premises and all are in rented properties only which is under lease model. The stocks and sales are accounted and managed through a customised and specialized software developed by the company 2 years ago, which is inbuilt with various features like stock at a glance, outlet wise sales details, frequency of customer purchases etc., The IS officer of the company is a certified professional and the customer data base is protected in all respects.

With regard to its outlets, the company through its legal wing, enters into 3 years lease agreements with landlords for operating its stores in all the cities. As a part of vendor registration, the company captures all the details of landlords like PAN, TDS deductibility, MSME registration status, details GSTN (if any), type of the building (whether commercial or residential building), onus of payment of electricity payments, etc at the time of entering into lease agreements including the incorporation of escalation clause for rental value. According to the vendor database maintained by the company, out of the total 100 Landlords, only 50 Landlords are registered under GST law and raise GST invoices. 10 other landlords are registered under MSME Act. All the lease contracts stipulate the lessor will perform maintenance of the leased area and receive consideration for that maintenance service.

The company is capable of selecting similar places in different cities having similar lease rents. The company is also capable of finalizing all the lease contracts with similar terms and conditions. The contract includes the following fixed monthly prices payable at the end of every year for the lease and non-lease component: – (a) lease Rs 27,000, (b) maintenance Rs 3,000.

The company has the ability to forecast demand for its products with high accuracy and it has sufficient working capital requirements that can help it stock up inventory. Demand is continuous throughout the year. Hence, its inventory turnover is high. The profit margin earned from its sales are high and generate sufficient cash flow. The working capital needs of the company are sufficiently met by internal reserves. All these factors can enable the company to sell its products on a large scale in anticipation of demand. Inventory can be stocked up and sold when the demand for it arises.

Agency Division

The company is also the leading trader / dealer of an extensive array of Medical Equipments. Maxplus directs all its activities to cater to the expectations of customers by providing them excellent quality products as per their gratifications. On the basis of its strict quality principles, it has been able to serve its customers earnestly.

In the retail outlet division, the company regularly purchases different varieties of medicines through centralized procurement system, and they are distributed to the outlets which are sold to customers. Unsold medicines are held as stock in hand. However, it buys medical equipment only when the customer gives purchase order along with the product specifications. The delivery of such medical equipment is directly done by the corporate office. During the financial year, Maxplus has imported CT scan machine by air and provided this machine to a hospital governed by a charitable trust. The hospital is registered under section 12AB of the Income Tax Act and involved in healthcare services.

Particulars	US \$
Price at exporter's factory	8,500
Freight from factory of the exporter to load airport (airport in the country of exporter)	250
Loading and handling charges at the load airport	250
Freight from load airport to the airport of importation in India	4,500
Insurance charges	2,000

Though the aircraft arrived on 22.08.2023, the bill of entry for home consumption was presented on 20.08.2023. The Chief Tax Officer (CTO) of the company is uncertain about the computation of Assessable value of the CT Scan Machine. He needs clarity about the following issues –

1. Which rate of basic customs duty and exchange rate should be applied – Whether the rate prevailing on arrival of aircraft or the rate prevailing on the date of presentation of bill of entry?
2. Which rate of exchange should be applied – Whether exchange rate notified by CBIC or the exchange rate prescribed by RBI?

Rate of basic customs duty on 20.08.2023 was 20%. On 21.08.2023, the newly elected Government unexpectedly reduced the Rate of basic customs duty to 10%. He furnishes all the relevant details –

Particulars	20.08.2023	22.08.2023
Exchange rate notified by CBIC	Rs 80 per US\$	Rs 83 per US\$
Exchange rate prescribed by RBI	Rs 81 per US\$	Rs 82 per US\$
Integrated tax leviable u/s 3(7) of the Customs Tariff Act, 1975	18%	12%

For the import of the aforesaid machine, the company is liable to settle the exporter in 3 months. Hence, at the time of import of the machine, the company has entered into forward contracts to hedge the foreign currency cash flows without considering the other hedging alternatives like options contract & money market hedging opportunities prevailing at that time. The details of the rates of exchange and other derivative products at the time of acquisition is provided hereunder –

Spot rates Rs 80.23 – Rs 80.98
Interest rate in India 10% p.a.
Interest rate in US 4% p.a.

Actual forward rates commensurate with theoretical forward rates. At the time of entering into forward contract, the bank charges a margin of 0.5% on its buying and selling rate.

	Call Option	
Strike Price	Rs 81.21	0.01218
Premium	Rs 1.50	50 cents

Particulars of Well-Well Outlet

Well-Well Outlet is located in a town with many colleges and universities around it. The town has a substantial student population, most of whom are health-conscious and regular buyers of health products. Business for this particular outlet has been slow in recent years due to the advent of online pharmacies that offer convenience, discounts, and time-saving benefits. However, the management continues to believe that students would still prefer the personal service, immediate availability, and expert advice that only a physical pharmacy can offer. Accordingly, management have framed a plan to attract students by offering discounts on health products.

The average time a student spends at the college or university is 4 years, which is the average duration of any course. For a nominal one-time subscription fee, Well-Well plans to offer students discounts on health products for a period of 4 years. By attracting more footfalls, Well-Well targets to cross-sell its wellness products and health supplements. This would help it sustain a **Reasonable** revenue each year.

Well-Well would attract attention to the plan by initially offering free health check-ups, wellness products, and gift vouchers. This one-time initial expense, net of the one-time subscription fee collected, would cost Rs 5,000 per student. On subscription to the plan, the purchases of each student are expected to be as follows:

Particulars	Years 1 and 2	Years 3 and 4
Spend on health products per year	Rs 2,000	Rs 1,500
Spend on wellness products per year	Rs 4,000	Rs 3,000
Spend on health supplements per year	Rs 2,250	Rs 750

Assumptions:

- Only 50% of the subscribers are expected to visit the pharmacy in years 3 and 4.
- Across all years, only 75% of the subscribers who visit the outlet are expected to buy wellness products.
- Only 25% of the subscribers who visit are expected to buy health supplements in years 1 and 2, and 10% of them in years 3 and 4.

Financial Reporting Considerations

As Maxplus Ltd. prepares its annual financial statements for the year ending 31st March, 2024, several critical issues have come to light that require careful consideration and disclosure.

Firstly, during the financial statement preparation process, it discovered that a provision for constructive obligation for payment of bonus to selected employees in the corporate office (material in amount) which was required to be recognized in the annual financial statements for the year ended 31st March, 2022 was not recognized due to oversight of facts. The bonus was paid during the financial year ended 31st March, 2023 and was recognized as an expense in the annual financial statements for the said year. Secondly, in November 2023, Company entered into a loan agreement with a bank. The loan is repayable in 6 equal annual installments starting from November 2028. One of the loan covenants is that an amount equivalent to the loan amount should be contributed by the promoters of the Company by 4th March, 2024, failing which the loan becomes payable on demand.

As on 4th March, 2024, the Company has not been able to get the promoter's contribution. On 5th March, 2024, the Company approached the Bank and immediately obtained a grace period up to 30th June, 2024 to get the promoter's contribution. The bank cannot demand immediate repayment during the grace period.

These developments highlight the importance of accurate financial reporting and proactive management of loan covenants to maintain financial stability and compliance.

I. Multiple Choice Questions

- As at 31st March, 2024, how should the Company classify the loan?
 - The loan will be considered as a current liability
 - The loan will be considered as a non-current liability.
 - The loan will be considered as a deferred tax liability.
 - The loan will be considered as provisions.
- Assume that it may not be able to get the promoter's contribution by the due date, the Company approached the Bank in January 2024 and got the compliance date extended up to 30th June, 2024 for getting promoter's contribution. Will the loan classification as at 31st March, 2024 be different from 1 above?
 - The loan will be considered as a current liability.
 - The loan will be considered as a non-current liability.
 - The loan will be considered as a deferred tax liability.
 - The loan will be considered as provisions.

3. Which of the following is true?
 - i. Push model supply chain is suitable for the Retail Outlet Division.
 - ii. Pull model supply chain is suitable for the Agency Division.
 - iii. Risk of pull model supply chain is overstocking & locking of working capital in the inventory.
 - iv. High inventory turnover ratio implies working capital gets locked in the inventory for a longer period of time.

(a) i, ii, iv (b) i, ii, iii, iv (c) i, ii, iii (d) i, ii
4. Why does Maxplus Ltd. not use the franchise model for its retail outlets?

(a) To avoid legal complications (b) To maintain direct control over operations

(c) Due to lack of knowledge from potential franchisees (d) Because of the high cost of franchise fees
5. During the F.Y. 2023–2024, if the cost of all other common inputs (other than lease rent) is Rs 200 crores and total sales is Rs 300 Crores (60% attract 18% GST and balance are exempt supplies), the amount of eligible ITC attributed for effecting taxable supplies by the company will be —

(a) 36 Crores (b) 36.108 Crores (c) 21.7944 Crores (d) 60 Crores

Note: Ignore ITC on Integrated tax leviable under section 3(7).
6. Compute the value of CT scan machine for the purpose of levying customs duty as well as the customs duty and tax payable.
7. The company has 3 choices: (i) Forward cover (ii) Money market cover, and (iii) Currency option. Which of the alternatives is preferable by the company? (Note: Compute INR required under different alternatives for buying 1 USD after 3 months and also the INR/USD exchange rate value should be upto 4 decimal points)
8. For the year 2023-2024 you are required to analyse whether the situation relating to constructive obligation for payment of bonus is an error requiring retrospective restatement of comparatives considering that the amount is material.
9. With reference to Well-Well Outlet, calculate the customer lifetime value per subscriber. Given that PVIFA of Rs 1 for 4 years at 10% = 3.169 and PVIFA of Rs 1 for 2 years at 10% = 1.735.

ANSWERS TO THE CASE STUDY 17

1. (a) The loan will be considered as a current liability
Reason: Paragraph 75 of Ind AS 1, *inter alia*, provides that an entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.
 In the present case, following the default, grace period within which an entity can rectify the breach is less than twelve months after the reporting period. Hence as on 31st March, 2022, the loan will be classified as current.
2. (b) The loan will be considered as a non-current liability
Reason: Ind AS 1 deals with classification of liability as current or non-current in case of breach of a loan covenant and does not deal with the classification in case of expectation of breach. In this case, whether actual breach has taken place or not is to be assessed on 30th June, 2024, i.e., after the reporting date. Consequently, in the absence of actual breach of the loan covenant as on 31st March, 2024, the loan will retain its classification as non-current.
3. (d) i, ii
Reasons: Under Push Model stocks are produced on the basis of anticipated demand. Demand forecasting can be done via a variety of sophisticated techniques, such as operations research or data mining.
Under Pull Model stocks are produced in response to actual demand. This new business model is less product-centric and more directly focused on the individual consumer: a more marketing-oriented approach.
 This statement that the Risk of pull model supply chain is overstocking & locking of working capital in the inventory is incorrect as in pull model, stocks are produced in response to actual demand, thus the question of overstocking doesn't arise.
 High inventory turnover ratio implies working capital doesn't get locked in the inventory for a longer period of time as inventory is quickly converted into sales.
 Thus, only i and ii statements are correct.

4. (b) To maintain direct control over operations
Reason: Maxplus Ltd. does not use the franchise model for its retail outlets primarily **to maintain direct control over operations**.
By directly operating all its retail outlets, the company ensures that its high standards for quality and service are consistently met across all locations.
5. (c) 21.7944 Crores
Reason: If common inputs, input services and capital goods are used for taxable as well as exempt supply, only proportionate ITC attributable to the taxable supply is available. The common ITC is apportioned in the ratio of value of taxable supply and exempt supply.
 $ITC \text{ on all other common inputs (other than Rent)} = Rs\ 200 \text{ Crores} \times 18\% = Rs\ 36 \text{ Crores}$
 $ITC \text{ on Rent} = Rs\ 30,000 \text{ pm} \times 12 \text{ months} \times 50 \text{ Landlords} \times 18\% = Rs\ 32.40 \text{ Lakhs}$ Total ITC on all other common inputs & Rent = Rs 36.324 Crores
Total ITC eligible on all other common inputs & Rent = Rs 36.324 Crores $\times 60\%$ = Rs 21.7944 Crores

6. Computation of assessable value of the machine

Particulars		Amount
Ex-factory price of the goods		8,500 US \$
Freight from factory of the exporter to load airport (airport in the country of exporter)	250 US \$	
Loading and handling charges at the load airport	250 US \$	
Freight from load airport to the airport of importation in India	4,500 US \$	
Total cost of transport, loading and handling charges associated with the delivery of the imported goods to the place of importation	5,000 US \$	
Add: Cost of transport, loading, unloading and handling charges associated with the delivery of the imported goods to the place of importation (restricted to 20% of FOB value) [Note 1]		1,800 US \$
Insurance (actual)		2,000 US \$
CIF for customs purpose		12,300 US \$
Value for customs purpose		12,300 US \$
Exchange rate as per CBIC [Note 2]		Rs 80 per US \$
		Amount (Rs)
Assessable value (Rs 80 x 12,300 US \$)		9,84,000
Add: Basic customs duty @ 10% [Note 3]		98,400
Add: SWS @ 10%		9,840
Value for the purpose of levying integrated tax [Note 4]		10,92,240
Add: Integrated tax @ 12%		1,31,068.8
Total duty & tax payable (rounded off)		2,39,309

Notes:

- (1) In the case of goods imported by air, the cost of transport, loading, unloading and handling charges associated with the delivery of the imported goods to the place of importation shall not exceed 20% of the FOB value of the goods. [Fifth proviso to rule 10(2) of the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007 (CVR)].
FOB value in this case is the ex-factory price of the goods (8,500 US \$) plus the cost of transport from factory to load airport (250 US \$) plus loading and handling charges at the load airport (250 US \$) which is 9,000 US \$.
- (2) Rate of exchange determined by CBIC is to be considered [Clause (a) of the explanation to section 14 of the Customs Act, 1962].
- (3) Section 15 of the Customs Act, 1962 provides that rate of duty shall be the rate in force on the date of presentation of bill of entry or the rate in force on the date of arrival of aircraft, whichever is later.
- (4) Integrated tax is levied on the sum total of the assessable value of the imported goods and customs duties [Section 3(8) of the Customs Tariff Act, 1962]. SWS leviable on integrated tax have been exempted.

7. Alternative 1: Forward Contract

The company is required to buy USD for INR after 3 months. Hence, the relevant rate applicable for the company will be 3 months ForwardAsk INR / USD. According to the interest rate parity theory, the relationship between forward rate and spot rate can be explained as under —

$$3 \text{ months forwardask INR / USD} = \text{Spot ask INR / USD} \times \frac{1 + 3 \text{ months Interest Rate in India}}{1 + 3 \text{ months Interest Rate in US}}$$

$$3 \text{ months forwardask INR / USD} = \text{Rs } 80.98 \times \frac{1.025}{1.01} = \text{Rs } 82.1826$$

Since the bank charges 0.5% Margin, total INR required for buying 1 USD will be Rs 82.5935 (Rs 82.1826 + 0.5%)

Alternative 2: Call Option Contract

Exercise Price	Rs 81.21
Option Premium payable at the time of buying Option	Rs 1.50
Interest for option premium for 3 months (Rs 1.50 × 10% × 3/12)	Rs 0.0375
INR required for buying 1 USD	Rs 82.7475

Or without interest **Rs 82.7100**

Alternative 3: Money Market Hedge

Action: USD payable in 3 months.

1. Invest now the Present value of 1 USD = $1/1.01 = \text{USD } 0.9901$
2. Buy USD 0.9901 for INR = $\text{Rs } 80.98 (1 + 0.5\%) \times \text{USD } 0.9901 = \text{Rs } 80.5792$
3. Borrow Rs 80.5792 at 10% for 3 months
4. Repay along with Interest = Rs 82.5937

Summary of Alternatives for buying 1 USD after 3 months

	Forward	Options	Money Market Hedge
INR payable per USD	Rs 82.5909	Rs 82.7475	Rs 82.5937

Since the Cash outflow is lower in case of **Forward Market Hedge**, it is preferable.

8. As per paragraph 41 of Ind AS 8, errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Ind AS if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are approved for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period.

As per paragraph 40A of Ind AS 1, an entity shall present a third balance sheet as at the beginning of the preceding period in addition to the minimum comparative financial statements if, inter alia, it makes a retrospective restatement of items in its financial statements and the retrospective restatement has a material effect on the information in the balance sheet at the beginning of the preceding period.

In the given case, expenses for the year ended 31st March, 2022 and liabilities as at 31st March, 2022 were understated because of non-recognition of bonus expense and related provision. Expenses for the year ended 31st March, 2023, on the other hand, were overstated to the same extent because of recognition of the aforesaid bonus as expense for the year. To correct the above errors in the annual financial statements for the year ended 31st March, 2024, the entity should:

- (a) restate the comparative amounts (i.e., those for the year ended 31st March, 2023) in the statement of profit and loss; and
- (b) present a third balance sheet as at the beginning of the preceding period (i.e., as at 1st April, 2022) wherein it should recognise the provision for bonus and restate the retained earnings.

9. Customer lifetime value per subscriber can be found by calculating the present value of the revenue that is generated over the period of 4 years. This netted out with the cost incurred to attract subscribers, would give the customer lifetime value per subscriber.

Sr. No.	Particulars	Revenue (per year)	PVIFA	PV of Revenue	Probability of Usage	Net Revenue
1	Net cost of attracting students (onetime expense)					5,000
2	Net revenue from healthproducts					
	Years 1-2	2,000	1.735	3,470	100%	3,470
	Years 3-4 (refer note 1)	1,500	1.434	2,151	50%	1,076
3	Sale of wellness products					
	Years 1-2	4,000	1.735	6,940	75%	5,205
	Years 3-4 (refer note 2)	3,000	1.434	4,302	37.5%	1,613
4	Sale of health supplements					
	Years 1-2	2,250	1.735	3,904	25%	976
	Years (refer note 3)	750	1.434	1,076	5%	54
5	Total revenue (Steps2+3+4)					12,394
6	Net revenue from subscription plan (steps 5- 1)					7,394

Notes :

- PVIFA (10%, 4 years) = 3.169 and PVIFA (10%, 2 years) is 1.735. Therefore, PVIF for years 3 and 4 = PVIFA (10%, 4 years) - PVIFA (10%, 2 years) = 3.169 - 1.735 = 1.434.
- Only 50% of the subscribers are expected to visit in years 3 and 4. Out of those only 75% are expected to buy wellness products. Therefore, only 37.5% of the subscribers (75% of 50% subscribers who visit) are expected to buy wellness products in years 3 and 4.
- Only 50% of the subscribers are expected to attend in years 3 and 4. Out of those only 10% are expected to buy health supplements. Therefore, only 5% of the subscribers (10% of 50% subscribers who visit) are expected to buy health supplements in years 3 and 4.

Present value of total revenue generated over the four-year period by a customer is Rs12,393 while the corresponding expense is Rs5,000. Therefore, the customer lifetime value per subscriber is Rs7,394. Well-Well has to multiply this with the expected number of subscribers each year, to find out if this would be a profitable proposition.

CASE STUDY 18

India's Smartphone market shipped 8 million smartphones in 2023 with a normal one percent growth year-on-year basis. Market size was valued at USD 169.72 billion in 2023 and is expected to reach USD 341.40 billion by 2030 as per International Data Corporation Report dated February 13,2024.

Soft Tech Limited (STL), an Indian company, started its operations three years ago to manufacture Smart Phones and provision of IT-software services. The objective of the company was to catch the market-share of the growing smartphone industry.

The STL company has entered into contract with its sole-distributor MJ & Co. in North India to supply Smartphone and Software license. The software may be substantially customised to add significant new functionality to enable the software to integrate with smartphone applications used by the customers. The company also sells the smartphones and the software license separately to other distributors in the country. Customers can also buy smartphones and software license separately from other vendors in the country.

STL has entered into a one-year contract on 1st April of current financial year (FY) with Distributor MJ to deliver Smartphones with customised software by offering discounted prices for certain volumes as given hereunder:

Price per Smartphone	Cumulative sales volume (units)
Rs 10,000	1 - 2500
Rs 9,500	2501 - 5000
Rs 9,000	5001 and above

Volume is determined based on sales during the FY. There are no minimum purchase requirements. STL has estimated that total sales volume to distributor MJ for the current FY would be 4000 units based on its experience with similar contracts.

STL company has estimated that 8,500 units of Smartphones (including 4000 units to MJ Distributor) would be sold in current FY with market share of 1%, and the average contribution of Rs 2000 per unit will be achieved. However, at end of current FY, the STL company actually sold 10,000 units of Smartphones (including 4500 units to MJ Distributor) by achieving market share of 1.25 %.

Recently, smartphone users have been experiencing issues with app crashes, which has become a significant concern for the company. In response, the company is planning to enhance not only the operating system but also the touch screen of its devices. By improving these aspects, the company aims to provide a more responsive and reliable user experience, potentially reducing the frequency of app crashes.

The CFO of the STL company wishes to increase its market share to 2% in next five years. For this purpose, he wants to double the production of smartphones for which additional funds are required. Bank is ready to finance for expansion of smartphone operations of the company but maximum up to 60% of valuation of smartphone business. The CFO has been provided the following information of the company by the Accounts Manager:

Particulars	Rs in lakhs
Property, Plant and Equipment (PPE) employed	300
Working capital	200
Equity 9%	200
Debt	300
Corporate tax rate	30 %
Risk-free rate of return	6 %
Asset beta of Industry	0.6
Market rate of return in the industry	10 %
NOPAT for current year	200
Sales revenue for current year	1000

The PPE is being depreciated at the rate of 20% p.a. on opening balances; the sale revenue and Net Operating Profit After Tax (NOPAT) would grow at the rate of 20% p.a. for next 3 years. Sales revenue will be stable from 4th year onwards and incremental capital expenditure will be offset by depreciation. Assets (PPE) and working capital turnover ratio shall remain constant all over the years.

JB Ltd, Canada, holds 25% equity in STL company. Further JB Ltd has appointed 30% directors of STL company; has advanced loan amounting to 25% of book value of total assets of STL Company of Rs 500 lakhs and has guaranteed 25% of total borrowings (total debt Rs 300 lakhs) of STL company. During current financial year, STL company has sold 1000 units of Smartphones @ Rs 7000 to JB Ltd. The total costs (direct and indirect) for these 1000 units transferred amounted to Rs 60,00,000. However, STL company billed CD Ltd, India (unrelated to STL company) at the rate of Rs 9500 per unit of smartphone and earned a gross profit of 50% on its costs. The transactions of STL company with JB Ltd and CD Ltd are comparable, subject to following differences:

a)	STL company derives technology support from JB Ltd but there is no such support from CD Ltd. The value of technology support is estimated at 12% of normal gross profit.
b)	JB Ltd gives business in large volumes. STL company offered to JB Ltd a quantity discount valued at 8% of normal gross profits.
c)	For supply of smartphones to JB Ltd, STL company neither runs any risk nor incurs any marketing costs but in case of supply to CD Ltd, STL company has to assume all the risk and costs associated with the marketing function are estimated at 10% of the normal gross profits.
d)	STL company offered three-months credit to JB Ltd. The cost of providing such credit may be valued at 2% p.m. of the gross profits. No such credit was given to CD Ltd.

I. Multiple Choice Questions

- Determine which of the following statements correctly explain the customer's pains:
 - App crash
 - Touch screen technology
 - The operating system
 - Slow screen-touch response
- Using the Kano Model of product development and customer satisfaction, which feature does the touch screen/operating system fall under?
 - Performance attribute
 - Indifferent qualities
 - Threshold attribute
 - Reverse qualities

3. STL company provides the customer with Software License that will be significantly customised and installed to make the software function with the Smartphones bought by the customer from the company. STL company also sells Smartphone and Software License separately in the open market. Determine whether the company has a single or multiple performance obligations under the contract with customer in accordance with Ind AS 115, 'Revenue from Contract with Customers'.
 - (a) The company has two separate performance obligations, one is for supply of Smartphone and second is supply of Software License because they can be sold separately in the open market
 - (b) The company has two separate performance obligations, one is for supply of Smartphone and second is supply of Software License because they are not inter-related
 - (c) The company has single performance obligation for smartphone and software license because license is significantly customised to function with the smartphone
 - (a) The company has single performance obligation for smartphone and software license because they are sold to same customer at same time
4. Determine the amount of Market Size Variance & Market Share for smartphones during current FY
 - (a) Market Size Variance - Rs 10 lakhs (A); Market Share Variance - Rs 40 lakhs (F)
 - (b) Market Size Variance - Rs 10 lakhs (F); Market Share Variance - Rs 40 lakhs (A)
 - (c) Market Size Variance - Rs 40 lakhs (A); Market Share Variance - Rs 10 lakhs (F)
 - (d) Market Size Variance - Rs 40 lakhs (F); Market Share Variance - Rs 10 lakhs (A)
5. Are STL Company and JB Ltd., Canada associated enterprises? If so, why?
 - (a) Yes, STL Company and JB Ltd, Canada are associated enterprises because JB Ltd., Canada holds substantial equity interest of 25% in STL Company which is > 20% of equity of STL Company
 - (b) Yes, STL Company and JB Ltd, Canada are associated enterprises since JB Ltd, Canada has guaranteed 25% of total borrowings of STL which is > 10% of total debt of STL Company
 - (c) Yes, STL Company and JB Ltd, Canada are associated enterprises since JB Ltd, Canada has advanced loan amounting to 25% of book value of total assets of STL Company which is > 10% of book value of total assets of STL
 - (d) No, STL Company and JB Ltd, Canada are not associated enterprises
6. Soft Tech Ltd (STL) has actually sold 2000 units of Smartphones to Distributor MJ for the half year ending on 30th September and has sold 4500 units of smartphones for the current FY ending on 31st March. Determine the transaction price and the amount of revenue to be recognised by Soft Tech Ltd for the half-year ending on 30th September for the current year as a whole ending and on 31st March in accordance with Ind AS 115. Necessary journal entries should be recorded in the books of STL for the current FY.
7. Determine the amount of bank finance available for expansion of operations of smartphones in accordance with proposal given by CFO of the company.
8. Compute the Arm's Length Price as per section 92 of Income tax act, 1961, along with income to be increased for current financial year of Soft Tech Ltd under the Cost Plus Method for the transactions entered into by the Soft Tech company with JB Ltd, Canada.

ANSWERS TO THE CASE STUDY 18

1. (a) App crash
Reason: Customers are experiencing issues with app crashes, causing significant inconvenience and leading to dissatisfaction among users.
2. (c) Threshold attribute
Reason: When these characteristics are met, they are taken for granted, but when they are not met, they cause dissatisfaction. Customers expect these qualities and regard them as basic; it is unlikely that they will mention them to the company when asked about quality attributes.
3. (c) The company has single performance obligation for smartphone and software license because license is significantly customised and integrated to function with the smartphone.
Reason: The customer cannot use the smartphone without integration of software license
4. (a) Market Size Variance - Rs 10 lakhs (A); Market Share Variance - Rs 40 lakhs (F)
Reason: Market Size Variance = [Actual Industry Sales Volume – Budgeted Industry Sales Volume] x Budgeted Market Share % x Budgeted Average Contribution (Margin) p.u.

$$\text{Actual Industry Sales Volume} = 10000/1.25\% = 8,00,000 \text{ units}$$

$$\text{Budgeted Industry sales volume} = 8500/1\% = 8,50,000$$

$$\text{Market Size variance} = (8,00,000 - 8,50,000) \times 1\% \times \text{Rs } 2000 = \text{Rs } 10 \text{ lakhs Adverse}$$

Market Share Variance = [Actual Market Share % – Budgeted Market Share %] x Actual Industry Sales Volume x Budgeted Average Contribution (Margin) p.u.

Market share variance = (1.25 % – 1%) x 8,00,000 x Rs 2000 = Rs 40 lakhs Favourable

5. (b) Yes, STL Company and JB Ltd, Canada are associated enterprises since JB Ltd, Canada has guaranteed 25% of total borrowings of STL which is > 10% of total debt of STL Company

Reason: As per section 92A one entity becomes associated enterprise of another entity in any of the following cases:

- (i) If one entity holds $\geq 26\%$ voting power of other entity
- (ii) If one entity has advanced loan of 51% or more of book value of total assets of other entity
- (iii) If one entity has appointed more than half of the board of Directors of other entity
- (iv) If one entity has guaranteed 10% or more of total borrowings of other entity. In the given case, condition (iv) is satisfied.

6. (a) Transaction price - The transaction price is Rs 9500 per smartphone based on best estimate of total sales volume of 4000 units for the current FY to Distributor MJ
- (b) Recognition of Revenue would be recognised at a selling price of Rs 9500 per smartphone sold.
For the half year ended on 30th September, STL company shall recognise revenue of Rs 190 lakhs (2000 units sold x Rs 9500), though they will charge Rs 10,000 per unit.
For the whole current FY, STL company shall recognise revenue on actual sales basis for Rs 427.50 lakhs (4500 units x Rs 9500).
- (c) Recognition of Liability For the half year ended on 30th September: STL company shall also recognise a liability (advance from customer) for excess price realised amounting to Rs 10 lakhs (2000 units x Rs 500).
The accounting entries in books of STL company for current FY

Date (Current FY)	Particulars	Dr (Rs)	Cr (Rs)
30 th Sept.	Bank or Receivables A/c Dr.	200,00,000	
	To Sales Revenue A/c		190,00,000
	To Advance from customers (liability) A/c		10,00,000
31 st March	Bank or Receivables A/c Dr. Advance from customers (liability) A/c Dr.	327,50,000* 10,00,000	
	To Sales Revenue A/c		427,50,000

* Balancing Figure

7. Computation of Bank Finance available for expansion of Operations of Smartphone as per Proposal of CFO
Calculation of Depreciation on assets (PPE) and Working Capital (Rs in lakhs)

Projected Years	0	1	2	3	4 and onwards
Opening balance of PPE		300	360	432	518.40
Less: Depreciation @ 20% for current year		(60)	(72)	(86.40)	(103.68)
Balance		240	288		414.72
Add: Purchases during current year		120	144	172.80	103.68
Closing balance of PPE at end of year		360	432	518.40	518.40
Sales	1000	1200	1440	1728	1728
Working capital (20% of Sales)	200	240	288	345.60	345.60

Calculation of Free Cash Flows from expansion of Operations of Smartphones (Rs in lakhs)

Particulars	Year 1	Year 2	Year 3	Terminal year
NOPAT	240	288	345.60	345.60
Add: Depreciation	60	72	86.40	-
Less: Increase in PPE	(120)	(144)	(172.80)	-
Less: Increase in working capital	(40)	(48)	(57.60)	-
Free cash flows for firm (FCFF)	140	168	201.60	345.60

Calculation of Weighted Average Cost of Capital (WACC) for Smartphone Operations of Soft Tech Ltd

Equity Beta (β_e)	=	Asset beta (1 + Debt-equity ratio after tax) $\beta_a \times [1 + D/E (1 - t)] = 0.6 [1 + 1.5 (0.7)] = 1.23$
Cost of Equity (K_e)	=	$R_f + \beta_e (R_m - R_f) = 6\% + 1.23 (10\% - 6\%) = 10.92\%$
Cost of debt after tax (K_d)	=	$9\% \times (1 - 30\%) = 6.3\%$
WACC (K_o)	=	$K_d \cdot W_d + K_e \cdot W_e = 6.3 (0.6) + 10.92 (0.4) = 8.148\%$

Calculation of Total Valuation of Operations of Smartphone of Soft Tech Ltd

Years	FCF (Rs in lakhs)	PVF @ 8.148 %	PV of FCF (Rs in lakhs)
1	140	0.925	129.50
2	168	0.855	143.64
3	201.6	0.791	159.466
Terminal	345.60/ 8.148 % = 4241.53	0.791	3355.05
Total			3787.656 or 3788

Maximum bank finance available for expansion of operations of smartphone = 60% of Rs 3788 lakhs = Rs 2273 lakhs or 60% of Rs 3787.656 lakhs = Rs 2272.594 lakhs.

8. Soft Tech Ltd (STL), an Indian company and JB Ltd, a Canadian company, are deemed to be Associated Enterprises u/s 92A of Income tax Act, 1961. The transaction of supply of smartphones by STL to JB Ltd, Canada, is an international transaction u/s 92B and, therefore, transfer pricing provisions would be attracted in this case. The arm's length price under cost plus method shall be computed as follows:

Particulars	GP ratio
Gross profit mark-up on cost in case of CD Ltd (an unrelated party)	50 %
Less: Adjustments for functional and other differences	
Value of technology support [JB Ltd. provides technology support, but CD Ltd. does not provide such support. Therefore, value of but CD Ltd. does not provide such support. Therefore, value of profit]	(6%)
Quantity discount to JB Ltd. [Quantity discount is allowed to JB Ltd. as it gives business in large volumes, but the same is not provided to CD Ltd. Therefore, it shall be adjusted] [8% of 50%, being gross profit]	(4%)
Risk and cost associated with marketing [STL Ltd. has to bear all the risk and costs associated with the marketing function in case of CD Ltd., while there is no such risk in case of services to JB Ltd. Therefore, market risk and cost shall be adjusted] [10% of 50%, being gross profit]	(5%)
	35%
Add: Cost of credit to JB Ltd. [STL Ltd has provided credit of 3 months to JB Ltd. but not to the unrelated party. Therefore, adjustment for the cost of such credit has to be carried out to arrive at the ALP] (2% of 50% x 3 months)	3%
Arm's length gross profit mark up to cost	38 %
Cost incurred by STL for supply to JB Ltd	60,00,000
Add: Adjusted gross profit (Rs 60,00,000 x 38%)	22,80,000
Arm's length billed value	82,80,000
Less: Actual billed income from JB Ltd (Rs 7000 x 1000 units)	70,00,000
Increase in income of STL	12,80,000

CASE STUDY 19

Para 1

As from last many years, it has been observed that people are returning back to their own country. India, as evidenced by economists all over the world, is not only the world's largest democracy but a country with untapped and unlimited economic potential. As there is a rising trend of companies in sectors such as pharmaceutical, manufacturing, automobiles, healthcare shifting more and more research and development work to India. This trend is leading many Indians to return from overseas to lead prime projects.

Para 2

This situation is called as "reverse brain drains". It is form of brain drain where human capital moves in reverse from a more developed country to a less developed country that is developing rapidly. People returning back to their home country may accumulate savings, earn skills as well as knowledge which can be used in their home country. This became possible in India only due to strategies and long-term planning implemented by the Government to reverse the migration.

Para 3

NRIs knowledge as well as experience can be applied in Indian context in numerous ways across all sectors whether it be managing MNC's, new business start -ups, domestic industries etc. For attracting NRIs, developing countries like India always endeavour to create an environment which will provide ample rewarding opportunities for those who have earned knowledge and skills from overseas.

Para 4

Similarly, Mr. Pardeep, had left India in 2007. He was living in U.K. since then and finally moved back to India on 12th June 2023, where he had spent substantial part of his life. Mr. Pardeep was a non- resident in 9 years preceding the previous year 2023-24 but he visited India on various occasions and stayed in India for a total period amounting to 630 days during last 10 years preceding the previous year 2023-24. Mr Pardeep wants to spend rest of his life in his home country.

He returned with one of his close friend Mr John. Mr John, a foreign national & a cricketer came to India as a member of England cricket team in the year ended 31st March, 2024 for 50 days. Mr John received Rs 5 Lakhs for participation in matches in India. He also received Rs 1 Lakh for an advertisement of a product on TV. He contributed articles in a newspaper for which he received Rs 10,000. When he stayed in India, he also won a prize of Rs 10,000 from horse racing in Mumbai. He has no other income in India during the year.

Para 5

After reaching India, Pardeep visited one of his close friend Anuj who is Chartered Accountant by profession, and he discussed all his details of income for the Financial Year 2023-24:

- (i) Rental Income from the flat situated in London which was deposited in a bank there. The flat was given on rent by him after his return to India since July, 2023.
- (ii) Dividends on the shares of three German companies which are being collected in a bank account in London. He proposes to keep the dividend on shares in London with the permission of Reserve Bank of India.
- (iii) He has got two sons, one of whom is of 12 years and other son is major. Both his sons are staying in London and not returning to India with him. Each of his sons is having income of Rs 75,000 in U.K. (not received in India) and of Rs 20,000 in India.
- (iv) During the preceding accounting year when he was a non-resident, he had sold 1,000 shares which were acquired by him in British Pound Sterling and the sale proceeds were repatriated. The profit in term of British Pound Sterling on sale of these 1,000 shares was 175% of the cost at Rs 37,500 while in term of Indian Rupees it was Rs 50,000

Para 6

Mr. Pardeep came back to his parental house in Punjab where his parents were staying with Pardeep's younger brother, Mr. Gulshan. With the grace of God and blessings of parents, Mr Gulshan is also well settled in India. Presently, Mr Gulshan is managing a company i.e. Technologies Ltd being a director of company. Presently Technologies Ltd. has 9 directors. Company's Board of Directors desire to increase the number of directors from 9 to 16. But the Company Secretary of the company informed the company's Board of Directors that as per provisions of the Companies Act, 2013, every public company shall have x number of minimum and y number of maximum directors. But if the company wants to appoint more than the specified limit i.e. y, it can do so only after passing special resolution.

Para 7

Technologies Ltd. has 2 divisions Laptops and Mobiles. Division Laptops has been making constant profits while division Mobiles has been invariably suffering losses. The company called a meeting for the discussion of financials of the company.

On 31st March, 2024, the division-wise draft extract of the Balance Sheet was: **(Rs in crores)**

	Laptops	Mobiles	Total
Property, Plant and Equipment cost	500	1000	1500
Depreciation	(450)	(800)	(1250)
Net Property, Plant and Equipment (A)	50	200	250
Current assets:	400	1000	1400
Less: Current liabilities	(50)	(800)	(850)
(B)	350	200	550
Total (A+B)	400	400	800
Financed by:			
Loan funds	-	600	600
Capital: Equity Rs 10 each	50	-	50
Surplus	350	(200)	150
	400	400	800

The management is of the opinion to sell Division Mobiles along with its assets and liabilities for Rs 50 crores to Mobize Ltd. a new company, who will allot 2 crore equity shares of Rs 10 each at a premium of Rs 15 per share to the members of Technologies Ltd. in full settlement of the consideration, in proportion to their shareholding in the company. One of the members of the Technologies Ltd. was holding 52% shareholding of the Company.

I. Multiple Choice Questions

1. With reference to information given in Para 4, tax liability of Mr. John for Assessment year 2024-25 would be:
(a) Rs 1,25,000 (b) Rs 1,30,000 (c) Rs 1,22,000 (d)Rs 1,70,000
2. With reference to information given in Para 4, income earned by Mr. John in India would be subject to TDS. Income constituting Rs 5,00,000 for participation in matches in India, Rs 1,00,000 for an advertisement of a product on TV & Rs 10,000 from articles contributed in newspaper would be subject to TDS at the rate (excluding health & education cess) & Rs 10,000 from horse racing in Mumbai would be subject to TDS at the rate _____ (excluding health & education cess)
(a) 20%, 0% (b) 20%, 20% (c) 30%, 30% (d) 30%, 20%
3. What would be the residential status of Mr. Pardeep for the P.Y. 2023-24:
(a) Non-Resident (b) Resident but ordinarily Resident
(c) Resident but not ordinarily Resident (d) Resident because he is from Indian origin
4. Business combinations involving entities or businesses under common control shall be accounted for using the pooling of interest method. The pooling of interest method is considered to involve the following:
(i) The assets and liabilities of the combining entities are adjusted to bring them to fair values.
(ii) The assets and liabilities of the combining entities are reflected at their carrying amounts.
(iii) The financial information in the financial statements in respect of prior periods should be restated as if the business combination had occurred from the beginning of the earliest period presented in the financial statements, irrespective of the actual date of the combination. However, if business combination had occurred after that date, the prior period information shall be restated only from that date.
(iv) The identity of the reserves shall be preserved and shall appear in the financial statements of the transferee in the same form in which they appeared in the financial statements of the transferor.
(v) The reserves of transferor shall not be preserved and shall not appear in the financial statements of the transferee.
(vi) The difference, if any, between the amount recorded as share capital issued plus any additional consideration in the form of cash or other assets and the amount of share capital of the transferor shall be transferred to capital reserve.
(vii) The difference, if any, between the amount recorded as share capital issued plus any additional consideration in the form of cash or other assets and the amount of share capital of the transferor shall be transferred to Goodwill/General Reserve.
- In the above context, which of the following is correct combination:
(a) (i), (iii), (iv), (vi) (b) (ii), (iii), (iv), (vi) (c) (ii), (iii), (iv), (vii) (d) (i), (iii), (iv), (vii)
5. With reference to information given in Para 6, x & y equals to-
(a) 2, 12 (b) 2, 15 (c) 3, 15 (d) 3, 12

II. Descriptive Questions

6. Mr. Pardeep provides the sources of his various income and seeks your opinion to know about his liability to income tax thereon in India in assessment year 2024-25 assuming that he has exercised the option to shift out of the default tax regime under section 115BAC.
7. Assuming that there are no other transactions, you are required to:
(a) Pass journal entries in the books of Technologies Ltd.
(b) Prepare the Balance Sheet of Technologies Ltd. after the entries in (a)
(c) Prepare the Balance Sheet of Mobize Ltd.

ANSWERS

1. (b) Rs 1,30,000

Reason: Computation of tax liability of Mr. John for the A.Y. 2024-25

Particulars	(Rs)	(Rs)
Income taxable under the section 115BBA		
Income from the participation in matches in India	5,00,000	
Advertisement of product on TV	1,00,000	
Contribution of articles in newspaper	10,000	6,10,000
Income from Horse racing		10,000
Total Income		6,20,000

Tax @ 20% under section 115BBA on Rs 6,10,000		1,22,000
Tax @ 30% under section 115BB on income of Rs 10,000 from Horse races		3,000
		1,25,000
Add: Health & Education cess @ 4%		5,000
Total Tax Liability for Mr John for the A.Y. 2024- 25		1,30,000

2. (a) 20%,0%

Reason: Income referred to in section 115BBA (i.e., Rs 6,10,000, in this case) is subject to tax deduction at source @ 20% under section 194E.

Income referred to in section 115BB (i.e., Rs 10,000, in this case) will not be subject to tax deduction at source since the amount did not exceed Rs 10000 as per section 194BB.

3. (c) Resident but not ordinarily Resident.

Reason: Mr Pardeep returned to India on 12th June 2023 for permanently residing in India after staying in UK for 16 years. During the P.Y. 2023-24, he stayed in India for 294 days. Since he has stayed in India for a period of 182 days or more during the previous year 2023-24, he would be a resident in India for the A. Y. 2024-25. However, he would be a resident but not ordinarily resident because he was a non -resident in nine out of ten previous years preceding the P.Y 2023-24 or his stay in India during the 7 previous years is less than 730 days. The residential status of Pardeep for A.Y. 2024-25 is, therefore, resident but not ordinarily resident.

4. (b) (ii), (iii), (iv), (vi)

Reason: Business combinations involving entities or businesses under common control shall be accounted for using the pooling of interest method. The pooling of interest method is considered to involve the following:

- (a) The assets and liabilities of the combining entities are reflected at their carrying amounts.
The financial information in the financial statements in respect of prior periods should be restated as if the business combination had occurred from the beginning of the earliest period presented in the financial statements, irrespective of the actual date of the combination. However, if business combination had occurred after that date, prior period information shall be restated only from that date.
- (b) The identity of the reserves shall be preserved and shall appear in the financial statements of the transferee in the same form in which they appeared in the financial statements of the transferor.
- (c) The difference, if any, between the amount recorded as share capital issued plus any additional consideration in the form of cash or other assets and the amount of share capital of the transferor shall be transferred to capital reserve.

5. (c) 3, 15

Reason: As per Section 149(1) of Companies Act, 2013, every public company shall have-
Minimum Directors -3 and Maximum directors -15

However, the company can appoint more than 15 directors by passing special resolution in general meeting.

6. As per section 5(1) of the Income-tax Act, 1961, income which is received/ deemed to be received/ accrued or arisen/ deemed to accrue or arise in India is taxable in case of resident but not ordinarily resident. Income which accrues or arises outside India shall not be included in his total income unless it is derived from a business controlled in or a profession set up in India.

- (i) Rental income from a flat in London which was deposited in a bank there shall not be taxable in the case of a resident but not ordinarily resident, since both the accrual and receipt of income are outside India.
- (ii) Dividends from shares of three German companies, collected in a bank account in London, would also not be taxable in the case of a resident but not ordinarily resident since both the accrual and receipt of income are outside India.
- (iii) As per section 64(1A), all income accruing or arising to a minor child is includible in the hands of the parent, after providing for deduction of Rs 1,500 per child under section 10(32).
Accordingly, income of Rs 20,000 accruing to his minor son, aged 12 years, in India is includible in the income of Pardeep, after providing a deduction of Rs 1,500. Therefore, Rs 18,500 is includible in the income of Pardeep. Income accruing to the minor child outside India (which is also received outside India) is not includible in the income of Mr Pardeep.

As given, his other son is a major son and hence, his income is not includible in the income of Pardeep.

- (iv) Repatriation of sale proceeds of 1,000 shares sold in the preceding accounting year, when Pardeep was a non-resident, is not taxable in the A.Y. 2024-25 since it is not the income of the P.Y. 2023-24.

Consequently, only the income includible under section 64(1A) would form part of the total income of Mr. Pardeep for A.Y. 2024-25. Since his total income (i.e., Rs 18,500) is less than the basic exemption limit, there would be no liability to income-tax for A.Y. 2024-25.

7. Journal of Technologies Ltd. (Rs in crores)

			Dr.	Cr.
(1)	Loan Funds	Dr.	600	
	Current Liabilities	Dr.	800	
	Provision for Depreciation	Dr.	800	
	To Property, Plant and Equipment			1000
	To Current Assets			1000
	To Profit and Loss (Balancing Figure)			200
	(Being division Mobiles along with its assets and liabilities sold to Mobize Ltd. for Rs 50 crores)			

Note:

- (1) In the given scenario, this demerger will meet the definition of common control transaction. Accordingly, the transfer of assets and liabilities will be derecognized and recognized as per book value and the resultant loss or gain will be recorded in the profit and loss in the books of demerged entity (Technologies Ltd).

Technologies Ltd.

Balance sheet after reconstruction (Rs in crores)

ASSETS	Note No.	Amount
Non-current assets		
Property, Plant and Equipment		50
Current assets		
Other current assets		400
		450
EQUITY AND LIABILITIES		
Equity		
Equity share capital (face value of Rs 10 each)		50
Other equity (Surplus)	1	350
Liabilities		
Current liabilities		
Current liabilities		50
		450

Notes to Accounts

	(Rs in crores)
1. Other Equity	
Surplus (350-200)	150
Add: Capital Reserve on reconstruction	200
	350

Notes to Accounts: Consequent on transfer of Division Mobiles to newly incorporated company Mobize Ltd., the members of the company have been allotted 2 crore equity shares of Rs 10 each at a premium of Rs 15 per share of Mobize Ltd., in full settlement of the consideration in proportion to their shareholding in the company.

Balance Sheet of Mobize Ltd. (Rs in crores)

ASSETS	Note No.	Amount
Non-current assets		
Property, Plant and Equipment (1000-800)		200
Current assets		
Other current assets		1000
		1200

EQUITY AND LIABILITIES		
Equity		
Equity share capital (of face value of Rs 10 each)	1	20
Other equity	2	(220)
Liabilities		
Non-current liabilities		
Financial liabilities		
Borrowings		600
Current liabilities		
Current liabilities		800
		1200

Notes to Accounts

		(Rs in crores)
1.	Share Capital:	
	Issued and Paid-up capital	
	2 crore Equity shares of Rs 10 each fully paid up	20
	(All the above shares have been issued for consideration other than cash, to the members of Technologies Ltd. on takeover of Division Mobiles from Technologies Ltd.)	
2.	Other Equity:	
	Securities Premium	30
	Capital reserve [50- (1200 – 1400)]	(250)
		(220)

Working Note:

In the given case, since both the entities are under common control, accounting has been done considering the following:

- (a) All assets and liabilities will be recorded at book value.
- (b) Identity of reserves to be maintained.
- (c) No goodwill will be recorded.
- (d) Securities issued will be recorded as per the nominal value.

CASE STUDY 20

CA Arvind Kapoor, the founder of Kapoor & Co., is a member of the Institute of Chartered Accountants of India who initially set up his practice in Delhi. Kapoor & Co. has rich experience of more than 35 years in almost every field and served a diverse clientele from individual taxpayers to conglomerates. Their audit approach is pragmatic, relying on a risk-based audit methodology, built on extensive planning and client input, and is fully supported by the latest technology and tools. As a result, the firm's audit practice has grown continuously and has earned specialization in core areas like direct taxation, indirect taxation, internal audit etc.

CA Arvind Kapoor, CA Rajesh Dhamija, CA Piyush Makkar and CA Gaurav Satija are four partners of the firm. They all are specialized in their own niche. They all met at a common event and decided to start their own firm. With their combined efforts and dedication, firm has accumulated an enormous amount of knowledge capital that has been built with passing of every year. This has resulted in association of various valuable clients with the firm.

One of such valuable clients is Vallabh Cotton Limited which is a listed company. Vallabh Cotton Limited is leading manufacturer of cotton. There are some issues going on in the company in respect of appointment of small shareholders' director. The Company gets its all the finance related work done from CA Gaurav Satija. When management discussed this matter with CA Gaurav Satija, he praised work of his partner CA Rajesh Dhamija who is an expert in company law matters & has been practising in this area since 15 years. Hence, management of Vallabh Cotton Limited approached CA Rajesh Dhamija for seeking advice on appointment of small shareholders' director and appointment of woman director in the company. Company has 10,00,000 equity shares of Rs 10 each. Company has 500 small shareholders. Majority (400) of the small shareholders want to appoint Mr. Brijesh as a director as their representative on the Board of directors of the said company. Mr. Brijesh already holds 10,000 equity shares in the said company.

One sister concern of Vallabh Cotton Limited is Aggarsain Spinners Private Ltd. Earlier Aggarsain Spinners Private Ltd. was in business of trading of yarns. Now, gradually the Company wants to go forward in the area of manufacturing as well. Last year, the company had made capital investment in construction of building. This year, the company purchased machinery on 1st April 2023 for Rs 10 crore. The Company had paid from their own funds 30% and balance 70% by availing loan facility from Synditop bank @ 12% per annum. The machine was required for extension of business of company and was put to use into effective production on 1st February, 2024. The accountant of Company wants to take advice from CA Arvind Kapoor who is specialised in direct taxation regarding amount of depreciation that can be claimed by the company under the Income-tax Act.

The management of company also wants to discuss with CA Arvind Kapoor regarding applicability of TDS provisions under Income Tax Act on the following payments made for job work (excluding material cost) to Khushi Ltd for the financial year 2023-24 towards work done under different contracts.

Contract no.	Date of payment	Amount (Rs)
1	15.05.2023	22,000
2	04.06.2023	15,000
3	08.07.2023	23,000
4	09.09.2023	25,000
5	26.01.2024	18,000

Company claims that it is not liable to deduction of tax at source. The company is seeking advice from CA Arvind Kapoor on implications of TDS.

The partners and staff of Kapoor & Co usually meet on every Saturday over coffee and discuss topics requiring deliberations. Such exercise makes their staff updated as well. In one such meeting, they discussed issues related to blocked input tax credit and credit admissible under GST Law. In this meeting, they also discussed about remedy that would be available if incorrect input tax credit is taken. All of a sudden, CA Piyush Makkar, expressed his willingness to handle a renowned client, IGT Private Limited, having good volume of turnover. .

IGT Private Limited is in business of manufacturing of textile products. The accounts team of the Company is not much aware about GST Law. Earlier, GST work of company was being taken care by some other professional, Ryan & Co., till Jan 2024. In Feb, 2024, the proprietor of Ryan & Co. had shifted abroad. Hence, the management approached Kapoor & Co. for their GST work for which CA Piyush Makkar came forward to support. The accountant of Company has correctly taken all other input tax credit related to Company's purchases, but he was confused in respect of availing of input tax credit on following inputs purchased and input services availed in the month of February, 2024:-

Particulars	Input Tax paid (Rs)
Goods purchased without invoice	40,000
Purchase of goods not to be used for business purpose	20,000
Purchase of goods from Sethi Lal & Sons (Invoice of Sethi Lal & Sons received in the month of February, 2024 but goods were received in the month of March, 2024)	28,000
Pollution control Equipment used in the factory capitalized in the books	1,50,000
Motor Lorries used for transportation of goods capitalized in the books	2,50,000
Electrical Transformers used in the factory capitalized in the books	2,25,000
Capital goods to be used as parts, purchased from supplier paying tax under the composition scheme and such composite tax has not been collected from IGT Private Limited by the supplier.	25,000
Moulds and dies used in the factory	65,000
The company buys cement, tiles and avail the services of an architect for the construction of its office building	1,68,000
Total	9,71,000

I. Multiple Choice Questions

- With reference to information given in the Table regarding payments on account of job work to Khushi Ltd., which one of the below option is correct in respect of the amount on which TDS is required to be deducted under the provisions of Income-tax Act, 1961:
 - TDS is not required to be deducted as each contract amount does not exceed the threshold limit
 - TDS is only required to be deducted on Contract 5 i.e. Rs 18,000
 - TDS is required to be deducted on the whole amount i.e. Rs 1,03,000
 - TDS is required to be deducted only on Rs 3,000.

2. Credit of tax paid on almost every input and input service used for supply of taxable goods and/or services is allowed under GST except a list of items provided under CGST Act. Thus, ITC on such items is not allowed even though the same may qualify as inputs, input services & capital goods and are used in the course or furtherance of business. Considering the relevant GST Law, which of the following ITC is admissible under GST:
 - (a) Goods lost, stolen, destroyed, written-off or disposed-off by way of gift or free samples.
 - (b) Service of general insurance of motor vehicles for transportation of persons having approved seating capacity of 7 persons (including driver).
 - (c) Confectionery items for consumption provided to employees working in the factory under statutory obligation.
 - (d) Food and beverages procured from Mohan Caterers for being used in Dealer's meet.
3. According to provisions of the Companies Act, 2013, a listed Company may have one Director elected by small shareholders. The provision enables the small shareholders to place their representative on the Board of Directors of a listed company so that their voice is also listened effectively. The small shareholders are entitled to give a notice to the company requiring the company to make appointment of a small shareholders' director. Whether 400 small shareholders of Vallabh Cotton Limited are in position to propose appointment of Mr. Brijesh as small shareholders' director.
 - (a) Yes, the notice may be given by at least 1,000 small shareholders or 1/10th of the total number of small shareholders whichever is lower.
 - (b) No, the notice may be given by at least 1,000 small shareholders or 1/10th of the total number of small shareholders whichever is higher.
 - (c) No, the notice may be given by at least 1,000 small shareholders.
 - (d) Yes, the notice may be given by at least 9/10th of the total number of small shareholders.
4. Compute interest on machinery that is allowed as deduction under Income-tax Act to Aggarsain Spinners Pvt. Ltd.
 - (a) Rs 70,00,000
 - (b) Rs 84,00,000
 - (c) 0
 - (d) Rs 14,00,000
5. As management of Vallabh Cotton Limited approached CA Rajesh Dhamija for seeking advice on appointment of woman director in the company, which one of the following, he should have suggested regarding the same as per law relating to companies?
 - (a) That all companies need to appoint a woman director.
 - (b) That every listed company or every other public company having paid up share capital equal to or more than Rs 100 crores or turnover equal to or more than Rs 300 crores.
 - (c) That every listed company or every other public company having paid up share capital equal to or more than Rs 10 crores or turnover equal to or more than Rs 100 crores.
 - (d) That the requirement of a woman director is applicable only for private companies.

II. Descriptive Questions

6. Describe in the light of provisions contained in the Companies Act, 2013, whether the proposal to appoint Mr. Brijesh as a small shareholders' director can be adopted by the company and also brief the law relating to appointment of small shareholders' director. What would be your answer if Mr. Brijesh is already holding a position of Small Shareholders' Director in two companies?
7. Advise Aggarsain Spinners Private Ltd. on treatment of interest payment made on loan and depreciation allowable for the Assessment Year 2024-25. Assume that this machine is the only machine in the related block of assets. Aggarsain Spinners Private Ltd. is not opting for the concessional rate of tax u/s 115BAA.
8. Compute the Input Tax credit admissible under GST law to IGT Private Ltd. in respect to various inputs purchased/ input services availed during month of February, 2024.

ANSWERS

1. (c) TDS is required to be deducted on the whole amount i.e. Rs 1,03,000
Reason: As per Section 194C(5) of the Income-tax Act, 1961, tax has to be deducted at source where amount credited or paid or likely to be credited or paid to contractor or sub-contractor exceeds Rs 30,000 in a single payment or Rs 1,00,000 in aggregate during the financial year.
 Therefore, in the given case, even though the value of each individual contract does not exceed Rs 30,000, the aggregate amount exceeds Rs 1,00,000. Hence, tax is required to be deducted at source on the whole amount Rs 1,03,000 from the last payment of Rs 18000 on account of which the aggregate amount exceeded Rs 1,00,000.

2. (c) Confectionery items for consumption of employees working in the factory under statutory obligation.
Reason: As per Section 17(5)(b) of CGST Act, ITC on food or beverages is specifically disallowed unless the same is used for making outward taxable supply of the same category or as an element of the taxable composite or mixed supply or where it is obligatory for an employer to provide the same to its employees under any law for the time being in force. Hence the input tax credit is available on Confectionery items for consumption of employees working in the factory, since same is provided under statutory obligation. Sec 17(5) also restricts the input tax credit on motor vehicles for transportation of persons having approved seating capacity of not more than 13 persons (including driver). Goods lost, stolen, destroyed, written off or given off by way of gift or free samples also covered under Sec 17(5) (h).
3. (a) Yes, the notice may be given by at least 1,000 small shareholders or 1/10th of the total number of small shareholders whichever is lower.
Reason: As per Rule 7 of the Companies (Appointment and Qualification of Directors) Rules, 2014, the small shareholders are entitled to give a notice to the company requiring the company to make appointment of a Small Shareholders' Director. The notice shall be given by at least –
 1000 small shareholders; or
 1/10th of the total number of small shareholders, whichever is lower.
4. (d) Rs 14,00,000
Reason: As per proviso to section 36(1)(iii), interest paid in respect of capital borrowed for acquisition of an asset for the period beginning from the date of borrowing of loan for acquiring the asset till the date on which such asset is first put to use is not allowable as deduction. Therefore, interest @ 12% p.a. for a period of 2 months from 1st February, 2024 to 31st March, 2024 on Rs 7 crores is allowable as deduction under Income-tax Act.
5. (b) That every listed company or every other public company having paid up share capital equal to or more than Rs 100 crores or turnover equal to or more than Rs 300 crores.
Reason: Rule 3 of the Companies (Appointment and Qualification of Directors) Rules, 2014 provides the following classes of companies shall appoint at least one woman director:
 - 1) every listed company,
 - 2) every other public company having-
 - a. paid up share capital of Rs 100 crores rupees or more or
 - b. turnover of Rs 300 crore rupees or more.
6. Small Shareholders' Director: The provisions relating to appointment of directors by small shareholders are contained in section 151 of the Companies Act, 2013 read with Rule 7 of the Companies (Appointment and Qualification of Directors) Rules, 2014.

The legal position

1. The provisions contained in section 151 read with Rule 7 are applicable to listed companies only.
2. The small shareholders are entitled to give a notice to the company requiring the company to make appointment of a Small Shareholders' Director. The notice shall be given by at least –
 - i. 1000 small shareholders; or
 - ii. 1/10th of the total number of small shareholders, whichever is lower.
3. The notice shall be given at least fourteen days before the meeting and should be signed by all the small shareholders proposing the appointment of small shareholders' director.
4. A person shall not hold the position of small shareholders' director in more than 2 companies at the same time.

Facts of the case and analysis

In the given case, Vallabh Cotton Limited is a listed company. Some small shareholders have given a notice to the company requiring the company to appoint a Small Shareholders' Director.

The small shareholders eligible to give notice for appointment of Small Shareholders' Director shall be –

- a) 1,000 small shareholders ; or
- b) 1/10th of 500, i.e. 50 small shareholders, whichever is lower.

Since lower of 1,000 and 50 is 50, the notice for appointment of Small Shareholders' Director has to be given by at least 50 small shareholders.

Conclusions

As in the given case, 400 of the small shareholders are interested in appointing small shareholders' director, the company shall adopt the procedure given in Rule 7 for appointment.

Neither section 151 nor Rule 7 state any eligibility criteria for appointment of a person as a small shareholders' director to be a small shareholder himself or not. Thus, Mr. Brijesh may be appointed as a Small Shareholders' Director i.e. even he has 10,000 equity shares in the company, it does not affect his appointment.

If Mr. Brijesh already holds position of Small Shareholders' Director in 2 companies, then, he cannot be appointed as a small shareholders' director in Vallabh Cotton Limited.

7. (i) Interest on term loan for purchase of machinery

As per proviso to section 36(1)(iii), interest paid in respect of capital borrowed for acquisition of an asset for the period beginning from the date of borrowing of loan for acquiring the asset till the date on which such asset is first put to use is not allowable as deduction.

Interest for such period has to be capitalised, by adding the same to the cost of the asset. Therefore, interest @12% p.a. for a period of 10 months from 1st April, 2023 to 31st January, 2024 on Rs 7 crores, being the amount of loan, has to be capitalised.

Particulars	Amount (Rs)
Cost of machinery	10,00,00,000
Add: Interest [12% x 10/12 x Rs 7,00,00,000]	70,00,000
Actual Cost of machinery	10,70,00,000

Interest @ 12% for two months (February, 2024 & March, 2024) Rs 14,00,000 after the asset put to use is allowable as deduction under section 36(1)(iii) [12% x 2/12 x Rs 7,00,00,000]

(ii) Depreciation

Particulars	Amount (Rs)
Since the machinery is put to use for less than 180 days in the previous year 2023-24, the depreciation would be restricted to 50% of the amount calculated at the prescribed percentage of 15%. Therefore, depreciation is 50% x [15% x Rs 10,70,00,000]	80,25,000
Additional depreciation of 20%, for being engaged in the manufacturing of cotton and purchasing new machinery, would also be restricted to 50% of the amount calculated. Therefore, additional depreciation= 50% x [20% x 10,70,00,000]	1,07,00,000
Total Depreciation	1,87,25,000

However, balance additional depreciation of Rs 1,07,00,000 shall be allowed under section 32(1)(ia) in the immediately succeeding previous year.

8. Computation of input tax credit admissible to IGT Private Ltd. in respect to various inputs purchased during the month of February, 2024

S. No.	Particulars	ITC (Rs)
1	Goods purchased without invoice (working note 1)	nil
2	Purchase of Goods not to be used for business purpose (working note 2)	nil
3	Purchase of Goods from Sethi Lal & Sons (Invoice of Sethi Lal & Sons received in the month of February, 2024 but goods were received in the month of March, 2024) (working note 3)	nil
4	Pollution control Equipment used in the factory (working note 4)	1,50,000
5	Motor Lorries used for transportation of goods (working note 6)	2,50,000
6	Electrical Transformers used in the factory (working note 4)	2,25,000
7	Capital goods used as parts purchased from supplier who paid tax under the composition scheme and the tax has not been collected from IGT Private Limited (working note 5)	nil
8	Moulds and dies used in the factory (working note 4)	65,000
9	The company buys cement, tiles and avails the services of an architect for the construction of its office building (working note 7)	nil
	Eligible ITC	6,90,000

Working Notes-

- 1) No Input tax credit will be available since IGT Private Limited is not in possession of valid tax paying document.
- 2) A registered person shall be entitled to take the input tax credit on goods which are used or intended to be used in the course or furtherance of his business. Since the company has purchased the goods for non-business purpose, hence no credit will be available on such purchases.
- 3) Input tax credit is admissible only when registered person has received such goods. Hence, when goods received in the month of March, 2024 input tax credit cannot be taken in the month of February, 2024.
- 4) As per section 2(19), "Capital goods" means goods, the value of which is capitalized in the books of accounts of the person claiming input tax credit and which are used or intended to be used in the course or furtherance of business. Hence:
 - a) Electrical Transformers
 - b) Moulds and dies
 - c) Pollution control Equipment
 which are used or intended to be used in the course or furtherance of business are eligible for ITC as capital goods.
 However, where tax element is added to the cost of plant and machinery and depreciation is claimed thereon, no input tax credit is available.
- 5) As per Section 17(5)(e), input tax credit shall not be available in respect of goods or services or both on which tax has been paid under sec 10. Thus, no ITC shall be allowed of tax paid under composition scheme by the supplier.
- 6) In respect of motor vehicle used for the purpose of transportation of goods, the same is not covered under the ambit of blocked credit, hence ITC shall be admissible in respect of motor vehicles.
 As per Section 17(5)(c), ITC is blocked on input or input service relating to construction activity like construction of office building, factory building etc.

CASE STUDY 21

Cycles India Ltd. (CIL) manufactures cycles for both adults and children. Given below is information about cycles made for children—

Particulars	Traditional	Activity Based
	CVP Analysis	CVP Analysis
Monthly Demand and Production	20,000	20,000
Selling Price	16,000	16,000
Variable Cost per unit	15,000	15,000
Fixed Cost p.m. (as identified under each cost system)	20,00,000	16,00,000
Number of set ups		800
Cost per set up		500

Fixed costs of Rs 20,00,000 per month under Traditional CVP analysis are those that do not vary with respect to volume. Following an Activity Based Costing study, fixed cost that do not vary as per volume or any other cost driver has been identified to be Rs 16,00,000 per month. The study revealed a milling machine is used to cut metal into steer support. Production of these steer support takes place in batches of 25 units.

Once a batch for children's cycle is finished, the next batch would be that for adult cycles. Therefore, after each batch there would be a set-up change. If 20,000 children's cycles have to be produced, number of set-ups required = 20,000 steer support / 25 per batch = 800 set-ups. Each set-up costs Rs 500, comprising of material costs like change of oil, jig etc. This cost was previously pooled together with fixed cost under traditional CVP analysis.

The plant manager would like to keep the number of set-ups minimum since they reduce the capacity of the machine. Suppose that at any time the milling machine can be used to produce batches of either adult cycle or children cycles. He proposes to increase the batch size of children's steer support to 100 units in one batch. The number of set-ups will reduce from 800 (20,000 units / 25 units) to 200 (20,000 units / 100 units). Due to larger batch production, additional inventory storage area that would be required to store that will cost the company Rs 100,000 per month extra.

The annual manufacturing capacity at CIL is currently 10,00,000 cycles. The demand for cycles has been increasing within India. Hence, the management wants to increase the annual manufacturing capacity to 18,00,000 cycles. Due to increased production requirements, CIL bought additional machinery for the production line. All assets were purchased by account payee cheque. Below are the details of the plant and machinery

Sr. No.	Particulars	Rs
1	Opening WDV for plant and machinery on 1.4.2023 (WDV as on 31.3.2023 after reducing depreciation for PY 2022-23)	10,00,00,000
2	New plant and machinery purchased and put to use on 30.6.2023	5,00,00,000
3	New plant and machinery purchased and put to use on 31.12.2023	5,00,00,000

Due to increased production requirements, the need for storage space both for raw materials and finished goods has increased manifold. Storage costs at CIL's factory site that manufactures cycles is very expensive. Hence, the management wants to consider the option of implementing an effective Just In Time (JIT) system for material procurement and production in order to reduce on the need for additional storage area. Under JIT, the materials will be delivered directly to the machine on the shop floor. Also, JIT being a pull system initiated by the customer, once the cycle is manufactured it will be send out for delivery to the customer immediately. During the meeting, as the management accountant, you point out that the JIT system needs to be sufficiently supported by an effective back-flushing system that will account for the components / materials used in the production process. Given the large production volumes and fast turnaround times required under JIT, back-flushing system is the ideal solution to account for components.

CIL has recently decided to start selling cycles to professional cyclists within India. International exposure and increased availability of facilities has improved career prospects for professional cyclists. Yet, at present this market segment is at its nascent stage. The company is also foraying into this segment for the first time. CIL has opened a small dealership shop in Mumbai specifically to sell these high value professional cycles.

On March 31, 2024 it imported its first batch of 100 professional cycles from a company in France. The details of expenses incurred at the dealership in Mumbai are given below:

Sr. No.	Details	Amount (Rs)
1	Cost of purchases (based on supplier's invoice)	50,00,000
2	Handling costs relating to imports	6,00,000
3	Salaries of accounting staff at the dealership	5,00,000
4	Sales commission paid to sales agents	8,00,000
5	After sales warranty costs	4,00,000
6	Import duties	2,50,000
7	Freight expenses	2,50,000
8	Insurance of purchases	1,00,000
9	Brokerage commission paid to indenting agents	1,00,000

These 100 professional cycles are held in stock as on March 31, 2024 which is the end of the financial year. The current market price for these cycles is Rs64,000 per unit. CIL also has a firm sales contract with a smaller cycle dealership for 30 cycles at Rs65,000 per unit, which cannot be settled yet. Estimated incremental selling cost is Rs2,000 per unit for all cycles.

The manager of the dealership for imported cycles is of the opinion that at a selling price of Rs64,000 per imported professional cycle, CIL will be unable to earn any profit margin at all. The same is true even with the firm order to 30 cycles for which the sale price is Rs65,000 per cycle. She wishes to increase the selling price to Rs85,000 per cycle. Her annual performance is based on the profits that this dealership venture generates. Hence, she is very insistent on increasing the selling price of the imported cycles.

I. Multiple Choice Questions

- Given the information about CIL's plant and machinery, the total amount of depreciation that can be claimed as per Income-tax Act, 1961 for the A.Y. 2024-25. The company does not opt for Section 115BAA/115BAB.
(a) 2,62,50,000 (b) 4,12,50,000 (c) 3,00,00,000 (d) 3,75,00,000
- Determine in which of the following cases should labour cost not be factored into the cost of set up?
(a) Cost of using temporary labour hired for particular set up
(b) Cost of outsourcing set up activities.
(c) Cost of using permanent labour who are otherwise idle
(d) If additional labour supplies are unavailable in the short term and where no further overtime working is possible, cost of using permanent labour who are engaged in the production process.

3. Which of the following is not a pre requisite for an effective JIT system?
 (a) Varying demand pattern (b) Lesser set up time (c) Total quality management (d) Multi skilled labour force
4. Which of the following is not a problem of using back-flushing in JIT system?
 (a) The production reporting has to be accurate
 (b) The scrap reporting has to be accurate
 (c) Unless the software allows picking and back-flushing systems to co-exists, lottracing is not possible
 (d) Back-flushing requires no data entry of any kind until a finished product is completed.
5. Which of the following factors will make the customer more sensitive towards the price of the professional imported cycle?
 (a) Higher perceived quality of the cycle
 (b) Practical difficulty in comparison of the imported professional cycle with any alternatives available domestically due to lack of awareness
 (c) Imported professional cycles being unique can give users recognition among peers
 (d) High proportion of expenditure (product cost) to the customer income
6. (i) Find the break-even point per month and profit per month under the traditional CVP method and the Activity Based CVP method when the batch size of manufacturing children's steer support is 25 units per batch.
 (ii) Analyse the impact on BEP (units per month) and profits per month when the batch size of manufacturing children's steer support increases from 25 units to 100 units per batch.
 (iii) Explain How can the number of set-ups and cost of each set-up impact flexibility of the milling machine?
7. Evaluate which of the costs pertaining to the 100 imported cycles are allowed to be included in the cost of inventory in the books of CIL.
 (ii) Calculate the Net Realizable Value (NRV) of the inventory of CIL relating to these 100 imported cycles?
 (iii) Calculate the value of inventory of the 100 imported cycles as of March 31, 2024.

ANSWERS TO THE CASE STUDY 21

1. (b) Rs 4,12,50,000
Reason: Working of depreciation for A.Y. 2024-25

Sr. No.	Particulars		Rs
1	Normal depreciation (a) 15% x Rs 15 crores (Opening WDV of plant and machinery of Rs 10 crores + new machinery acquired and put to use on 30.6.2023 i.e., more than 180 days of Rs 5 crores) (b) 15% x 50% x Rs 5 crores (Since new machinery of Rs 5 crores acquired and put to use on 31.12.2023 i.e., less than 180 days, depreciation would be restricted to 50% of 15%)	2,25,00,000 37,50,000	2,62,50,000
2	Additional depreciation (a) 20% x Rs 5 crores (Machinery acquired and put to use on 30.6.2023 i.e., more than 180 days) (b) 20% x 50% x Rs 5 crores (Since new machinery of Rs 5 crores acquired and put to use on 31.12.2023 i.e., less than 180 days, additional depreciation would be restricted to 50% of 20%)	1,00,00,000 50,00,000	
			1,50,00,000
3	Total depreciation for A.Y. 2024-25		4,12,50,000

Note: As per the third proviso of section 32(1)(ii), the balance additional depreciation being Rs 50,00,000 (50% x 20% x Rs 5 crores) would be allowed as deduction in A.Y. 2025-26 provided CIL does not opt for the provisions of section 115BBA.

2. (c) Cost of using permanent labour who are otherwise idle

Reason: The cost of permanent labour used for set-up, who are otherwise idle, would not be included in set-up costs since the salaries paid to them have to be incurred anyway, it is a sunk cost.

The cost of temporary labour hired for particular set-up or cost of outsourcing of set-up activities would be included in set-up costs as these are expenses incurred for the purpose of set up.

Where permanent labour is used for set-up, who are otherwise fully engaged in the production process and additional labour supplies are unavailable in the short term, and where no further overtime working is possible, the opportunity cost of labour (for example lost contribution) needs to be considered along with the hourly labour rate.

3. (a) Varying demand patterns

Reason: varying demand patterns are not helpful in JIT systems, the demand should be predictable since the company operates without inventory.

Lesser set up time that makes batch production economical. Total quality management that enables quick elimination of defects. Multi skilled labour force can perform different activities including repairs and maintenance, which reduces idle time.

4. (d) Back-flushing requires no data entry of any kind until a finished product is completed.

Reason: This is actually an advantage of using back-flushing in JIT environment.

5. (d) High proportion of expenditure (product cost) to the customer income.

Reason: Where the expenditure on account of the purchasing the product is high in proportion to the customer income, the customer will be more sensitive towards the price of a product.

6. (i) (a) Break-even point (units per month) and profit per month under traditional CVP analysis:

	Amount (Rs)
Selling Price per unit	16,000
Variable Cost per unit	15,000
Contribution per unit	1,000
Fixed Cost per month	20,00,000
Break-even Point (per month in units)	2000
Monthly Demand (units)	20,000
Profit per month = {Monthly demand (units) × Contribution per unit} - Fixed Cost p.m)	1,80,00,000

(b) Break-even point (units per month) and profit per month under Activity Based CVP method. The number of units produced per batch is 25. Therefore, the number of set-ups will be 20,000 units / 25 units = 800 per month.

	Amount (Rs)
Selling Price per unit	16,000
Variable Cost per unit	15,000
Contribution per unit	1,000
Fixed Cost per month (per Activity Based method)	16,00,000
Break-even Point (per month in units) = {Fixed Cost p.m. + (number of set-ups × cost per set-up)} / Contribution p.u. = {Rs 16,00,000 + (800 × Rs 500 per set-up)} / Rs 1,000 per unit = Rs 20,00,000 / Rs 1,000 per unit	2,000
Monthly Demand (units)	20,000
Profit per month = {Monthly demand (units) × Contribution per unit} - (Fixed Cost per month + Set-up cost per month) = (20,000 × Rs 1,000 per unit) - (Rs 16,00,000 + Rs 400,000) = Rs 2,00,00,000 - Rs 20,00,000	1,80,00,000

Although the BEP units and the profit per month are the same under both methods, the Activity Based method has brought forth the point that there are 800 set-ups being performed per month. This would give the management more information to work with in order to improve operations

(ii) Break-even point (units per month) and profit per month under Activity Based CVP analysis: Batch size increased from 25 to 100 units; monthly set-ups reduce from 800 to 200 per month.

	Amount (Rs)
Selling Price per unit	16,000
Variable Cost per unit	15,000
Contribution per unit	1,000
Fixed Cost per month (per Activity Based method)	17,00,000
Break-even Point (per month in units)	1,800

= {Fixed Cost p.m. + (number of set-ups × cost per set-up)} / Contribution p.u.	
= {Rs 17,00,000 + (200 × Rs 500 per set-up)} / Rs 1,000 per unit	
= Rs 18,00,000 / Rs 1,000 per unit	
Monthly Demand (units)	20,000
Profit per month = {Monthly demand (units) × Contribution per unit} - (Fixed Cost per month + Set-up cost per month) = (20,000 × Rs 1,000 per unit) - (Rs 17,00,000 + Rs 100,000) = Rs 2,00,00,000 - Rs 18,00,000	1,82,00,000

Analysis

It can be concluded by increasing the batch-size, the capacity of the machine can be increased. The time freed by reducing set-ups from 800 per month to 200 per month can now be used for other production activities. Since the number of set-ups will be reduced, so will the monthly set-up costs. Even after off-setting the increase in storage cost, profits will increase by Rs 200,000 per month (Rs 1,80,00,000 - Rs 1,82,00,000 per month). Consequently, the break-even point has reduced from 2,000 units per month to 1,800 units per month. This reduction is due to the savings in the overall set-up costs due to the lower number of set-ups.

Set-ups reduce the production utility of a machine. A lower number of set-ups or lower set-up time can improve the utilization of the machine. This also gives the company flexibility to keep changing the batches produced at the milling machine to cater to children's cycles and adult cycles as per its requirement. The other factor that impacts flexibility of production would be the set-up costs. The lower the set-up costs, the higher the flexibility to change batches produced at the milling machine to cater to each type of cycle.

7. (i) As per Ind AS 2, the following costs pertaining to the 100 imported cycles are includable in the cost of inventory of books of CIL:

Details	Amount (Rs)
Cost of purchases (based on supplier's invoice)	50,00,000
Handling costs relating to imports	6,00,000
Import duties	2,50,000
Freight expenses	2,50,000
Insurance of purchases	1,00,000
Brokerage commission paid to indenting agents	1,00,000
Total cost to be included in inventory	63,00,000

Hence, the total cost includable in the cost of inventory of the 100 imported cycles is Rs 63,00,000. Per unit cost would therefore be Rs 63,000 per cycle.

Salaries of accounts department, sales commission, and after sale warranty costs are not considered to be the cost of inventory. Therefore, they are not allowed by Ind AS 2 for inclusion in cost of inventory and are expensed off in the profit and loss account.

- (ii) Calculation of NRV of the inventory of CIL relating to these 100 imported cycles
While performing the NRV test, the NRV of 30 cycles to be sold to the other cycle dealership under a firm contract will be Rs 63,000 per cycle (Selling price per cycle Rs 65,000 per cycle less additional selling expenses Rs 2,000 per cycle). The cost of inventory per cycle as calculated in (i) above is also Rs 63,000 per cycle. Therefore, no adjustment is required for the value of the 30 cycles under firm contract.

NRV of the remaining 70 cycles is Rs 62,000 per cycle (market price of Rs 64,000 per cycle less additional selling expenses Rs 2,000 per cycle).

- (iii) The cost of inventory per cycle as calculated in (i) above is Rs 63,000 per cycle for 30 cycles. Therefore, these 70 cycles have to be valued at NRV of Rs 62,000 per cycle which is lower than the cost of Rs 63,000 by Rs 1,000 per cycle. Therefore, CIL has to write down the value of inventory for these 70 cycles by Rs 70,000 (70 cycles × write down of Rs 1,000 per cycle).

Value of inventory of 100 cycles on March 31, 2024 lower of cost or NRV

Sr. No.	Details	Amount (Rs)
1	Value of 30 cycles under firm contract 30 cycles × Rs 63,000 per cycle)	18,90,000
2	Value of balance 70 cycles at NRV 70 cycles × Rs 62,000 per cycle)	43,40,000
3	Total inventory value	62,30,000

The cost of the imported cycles is Rs 63,00,000 whereas NRV is Rs 62,30,000. Hence, inventory will be valued at Rs 62,30,000.

CASE STUDY 22

Mr. Manish, registered under GST, is a Chartered Accountant, resident of Pune. Manish has received the technical consultancy services for his business from his brother - Gaurav who is well settled (financially independent) in Canada. His brother did not wish to charge any consideration from him for the same, but on insistence of Manish, he charged Rs 20,000 (consideration in Indian rupees) from him. However, he charges Rs 2,00,000 (consideration in Indian rupees) from his other clients in India for the same work.

Further, one of its clients, M/s Gupta Sweets, a store located and registered under GST in Maharashtra, had come out with big discount offer at the time of Diwali on various gift items.

In order to attract more customers, it had decided to supply a gift pack containing 5 packets of Ladila's Namkeen (200 gram each) taxable @ 12%, 1 packet of Roasted Smoked Almonds (100 gram) taxable @ 18%, 1 packet of Courville Chocolate (50 mg) taxable @ 28% and 1 bottle of Teal Fresh Juice (1 litre) taxable @ 18% in a single basket for a single price of Rs 600 (GST inclusive).

Mr. Manish provides management consultancy and internal audit services to his clients. During 2023, looking to the growing needs of his clients to invest in the stock markets, he also advised them on Portfolio Management Services whereby he managed portfolios of some of his clients. Looking at his expertise in financial management, Mr. Jaman, a student of Chartered Accountancy course, is very much impressed with his knowledge.

He approached Mr. Manish to take guidance on some topics of financial management subject related to his course. Mr. Manish, on request, decided to spare some time and started providing classes to Mr. Jaman along with some other aspirants for 3 days in a week and for 1 hour in a day. However, he had not taken any specific permission for such private tutorship from the Council.

Mr. Manish was appointed as the internal auditor of Kapur Pharma Ltd., a company engaged in manufacturing of medicines based at Pune, Maharashtra, as the company was required to appoint internal auditor as per statutory provisions given in the Companies Act, 2013. The company is registered under GST in the state of Maharashtra.

The company was founded in 2014 by Dr. Rajesh Kapur, a physician and entrepreneur. Dr. Kapur saw a need for affordable, high-quality medicines in India, and he founded Kapur Pharma Ltd. to meet that need. The company has grown rapidly since its founding, and it now employs over 200 people. Dr. Rajesh Kapur is also running a health clinic naming Kapur Health Clinic. Health Clinic offers a membership program where individuals or families can subscribe to access a variety of healthcare services for a monthly or annual fee. The subscription fee covers a range of preventive care, primary care, and wellness services, providing members with convenient and affordable access to healthcare. BMK & Co. was appointed to conduct statutory audit of Kapur Pharma Ltd. The engagement partner of the firm, Mr. Rajan asked Mr. Manish to provide direct assistance to him regarding evaluating significant accounting estimates by the management and assessing the risk of material misstatements. He also sought his direct assistance in assembling the information necessary to resolve exceptions in confirmation responses with respect to external confirmation requests and evaluation of the results of external confirmation procedures.

Kapur Pharma Ltd. was considering its projects namely 'Dehradun Plant' and 'Borsad Plant', respectively, for establishing its manufacturing units, for which it took assistance of Mr. Manish for providing project appraisal, based on following information:

Project	Expected NPV (Rs)	Standard deviation (Rs)
Dehradun Plant	2,44,00,000	1,80,00,000
Borsad Plant	4,50,00,000	2,40,00,000

Also, Mr. Manish for asked to provide a brief that how project appraisal is done under inflationary conditions, as the aforesaid projects faced the similar situation.

Kapur Pharma Ltd. has 200 employees, who are each entitled to five working days of paid sick leaves or each year. Unused sick leave may be carried forward for one calendar year. Sick leave is taken first out of the current year's entitlement and then out of any balance brought forward from the previous year (LIFO basis).

At 31st March, 2024, the average unused entitlement is two days per employee. The entity expects, on the basis of experience that is expected to continue, that 184 employees will takeno more than five days of paid sick leaves in 2024-2025 and that the remaining sixteen employees will take an average of six and a half days each.

The entity expects that it will pay an additional twelve days of sick pay as a result of the unused entitlement that has accumulated at 31st March, 2024 (one and a half days each, for sixteen employees).

Further, the company has a post-employment medical plan which will reimburse 15% of an employee's post-employment medical costs if the employee leaves after more than ten and less than twenty years of service and 40% of those costs if the employee leaves after twentyor more years of service.

The Assessing Officer within his jurisdiction surveyed the primary business place of Kapur Pharma Ltd. at 11 p.m. for the purpose of collecting information which may be useful for the purposes of the Income-tax Act, 1961. The place is kept open for business

every day between 10 a.m. and 12 midnight. He impounded and retained in his custody, books of account and other documents inspected by him, after recording his **Reasons** for doing so, for 12 days.

Kapur Pharma Ltd is producing medication products and can be called high volume based production environment. There are several different automated production machines located in the plant, through which production of medicines is accomplished and fulfilled the demands. Plant operates in double shift a day each consisting of 8 hours with 25 minutes' lunch break and tea break of 10 minutes. Following data pertains to automated machine 'M-200'.

M-200

19 April 2024, Wednesday

Breakdown, repair and start up time (unplanned)	90 minutes
Standard cycle time	2.5 minutes per tablet
Quality loss due to scrap, rework, and rejection	40 tablets
Total quantity produced	280 tablets

I. Multiple Choice Questions

- The place of supply and value of supply of the event management services received from his brother — Gaurav are:
 - Pune and Rs 20,000
 - Canada and nil, since place of supply is outside India.
 - Pune and Rs 2,00,000 since brother is a related person.
 - Pune and nil, since it is not a supply as his brother is not a related person.
- Calculate the amount of GST payable in respect of supply of a gift pack in the form of a single basket by M/s Gupta Sweets.
 - Rs 108
 - Rs 168
 - Rs 92
 - Rs 131
- Whether Mr. Manish is guilty of professional misconduct in providing private tutorship to Mr. Jaman along with some other aspirants for 3 days in a week and for 1 hours in a day in the absence of specific approval?
 - Mr. Manish is not guilty of professional misconduct as he is teaching within prescribed hours i.e. not exceeding 25 hours a month as per Regulation 192A.
 - Mr. Manish is not guilty of professional misconduct as he is teaching within prescribed hours i.e. not exceeding 25 hours a month as per Regulation 190A.
 - Mr. Manish is guilty of professional misconduct as he has not obtained specific permission for the same.
 - Mr. Manish is not guilty of professional misconduct as he is teaching within prescribed hours i.e. not exceeding 25 hours a week as per Regulation 190A.
- What type of business model is exemplified by Kapur Health Clinic's offering of a membership program for accessing healthcare services?
 - Retail Model
 - Franchise Model
 - Subscription Model
 - Consultancy Model
- Which of the following statements is correct in respect of the survey conducted at the business place of Kapur Pharma Ltd.?
 - The Assessing Officer's action in entering the business place of Kapur Pharma Ltd. at 11 p.m. and impounding books of account and documents inspected by him is in order
 - The Assessing Officer's action in entering the business place of Kapur Pharma Ltd. at 11 p.m. is not in order, since he can enter the business place only after sunrise but before sunset
 - The Assessing Officer's action in entering the business place of Kapur Pharma Ltd. at 11 p.m. and in impounding books of account and documents inspected by him are not in order, since he can enter the business place only after sunrise but before sunset and he does not have the power to impound books of account under section 133B
 - The Assessing Officer's action in entering the business place of Kapur Pharma Ltd. at 11 p.m. is in order but impounding books of account and documents inspected by him is not in order, since he does not have the power to impound books of account under section 133B
- In connection with consideration for Borasad and Dehradun Plant by Kapur Pharma Ltd. Analyse the following -
 - Which project would have been recommended by Mr. Manish? Explain whether his opinion will change, if coefficient of variation is used as a measure of risk. Which measure is more appropriate in this situation and why?
 - Provide a brief information project appraisal under inflationary conditions as would have been provided by Mr. Manish.
- Comment whether the entity would require to recognize any liability in respect of employee leaves

State the benefit to be attributed for the employee service for the last 20 years, 10 and 20 years and within 10 years be measured.

- Referring to the data given of Automated Machine M-200, you are required to calculate OEE.

ANSWERS TO THE CASE STUDY 22

1. (a) Pune and Rs 20,000

Reason: Since technical consultancy service is not a specified service under sub-section (3) to (13) of section 13 of the IGST Act, 2017, place of supply will be governed by section 13(2) of the IGST Act, 2017 [Default provision] which provides that the place of supply of services except the specified services shall be the location of the recipient of services. Thus, place of supply of technical consultancy services is location of Manish, i.e. Pune.

Section 7(1) of the CGST Act, 2017 provides that supply includes importation of services, for a consideration whether or not in the course or furtherance of business. Thus, importation of technical consultancy service with consideration amounts to supply under GST.

Persons including legal person are deemed as related persons if they are members of the same family. Further, Section 2(49) of the CGST Act, 2017 provides that family means, —

- (i) the spouse and children of the person, and
- (ii) the parents, grand-parents, brothers and sisters of the person if they are wholly or mainly dependent on the said person.

Since brother is well settled (financially independent) in Canada, he does not amount to member of the family.

Section 15(1) of the CGST Act, 2017 provides that the value of a supply of goods or services or both shall be the transaction value, which is the price actually paid or payable for the said supply of goods or services or both where the supplier and the recipient of the supply are not related and the price is the sole consideration for the supply. Thus, value of supply of event management services is Rs 20,000.

2. (d) Rs 131

Reason: As per Section 8 of the CGST Act, 2017,

The tax liability on a composite or a mixed supply shall be determined in the following manner, namely:-

- (a) a composite supply comprising two or more supplies, one of which is a principal supply, shall be treated as a supply of such principal supply; and
- (b) a mixed supply comprising of two or more supplies shall be treated as supply of that particular supply that attracts highest rate of tax

In order to determine whether the supplies are 'composite supply' or 'mixed supply', one needs to determine whether the supplies are naturally bundled or not naturally bundled in ordinary course of business. The concept of 'naturally bundled' supplies is emanating from the definition of 'composite supply'.

Accordingly, the supply which is not naturally bundled and not supplied in ordinary course of business is a mixed supply that attracts highest rate of tax.

Here, in the gift pack highest rate of tax is of Courville Chocolate (50 mg) taxable @ 28% and the price of Rs 600 is GST inclusive. Accordingly, GST payable would be $\text{Rs } 600 \times 28/128 = \text{Rs } 131$ (rounded off)

- (d) Mr. Manish is not guilty of professional misconduct as he is teaching within prescribed hours i.e. not exceeding 25 hours a week as per Regulation 190A.

Reason: The Council has passed a Resolution under Regulation 190A granting general permission (for private tutorship, and part-time tutorship under Coaching organization of the Institute) and specific permission (for part-time or full-time tutorship under any educational institution other than Coaching organization of the Institute). Such general and specific permission granted is subject to the condition that the direct teaching hours devoted to such activities taken together should not exceed 25 hours a week in order to be able to undertake attest functions.

4. (c) Subscription Model

Reason: The correct answer is C) Subscription Model. Kapur Health Clinic's membership program, where individuals or families can subscribe to access healthcare services for a monthly or annual fee, aligns with the subscription model. In this model, customers pay a recurring fee to access a service or product regularly over a specified period. In this case, subscribers pay a fee to access a variety of healthcare services provided by the clinic, including preventive care, primary care, and wellness services, on an ongoing basis. Therefore, the subscription model accurately describes the business model of Kapur Health Clinic's membership program.

5. (a) The Assessing Officer's action in entering the business place of Kapur Pharma Ltd. at 11 p.m. and impounding books of account and documents inspected by him is in order

Reason: Section 133A of the Income-tax Act, 1961,

The income-tax authority may enter any place of business or profession mentioned above only during the hours at which such place is open for the conduct of business or profession and in the case of any other place, only after sunrise and before sunset.

*An income-tax authority may impound and retain in his custody for such period as he thinks fit any book of account or other documents inspected by him after recording **Reasons** for doing so. However, the income tax authority cannot retain in his custody such books of account etc. for a period exceeding 15 days (excluding holidays) without obtaining the approval of the Principal Chief Commissioner or Chief Commissioner or Principal Director General or Director General or the Principal Commissioner or Commissioner or Principal Director or Director, as the case may be.*

6. (i) (a) On the basis of standard deviation project Dehradun Plant be chosen because it is less risky than Project Borsad Plant having higher standard deviation.

- (b) $CV \text{ of project Dehradun Plant} = SD / ENPV = 1,80,00,000 / 2,44,00,000 = 0.738$
 $CV \text{ of project Borsad Plant} = 2,40,00,000 / 4,50,00,000 = 0.533$

On the basis of Co-efficient of Variation (C.V.) Project Dehradun Plant appears to be riskier and hence, project Borsad Plant should be accepted

- (c) However, the NPV method in such conflicting situation is best because the NPV method is in compatibility of the objective of wealth maximisation in terms of time value.

- (ii) Project Appraisal normally involves feasibility evaluation from technical, commercial, economic and financial aspects. It is generally an exercise in measurement and analysis of cash flows expected to occur over the life of the project. The project cash outflows usually occur initially and inflows come in the future.

During inflationary conditions, the project cost increases on all heads viz. labour, raw material, fixed assets such as equipments, plant and machinery, building material, remuneration of technicians and managerial personnel etc. Beside this, inflationary conditions erode purchasing power of consumers and affect the demand pattern. Thus, not only cost of production but also the projected statement of profitability and cash flows are affected by the change in demand pattern. Even financial institutions and banks may revise their lending rates resulting in escalation in financing cost during inflationary conditions. Under such circumstances, project appraisal has to be done generally keeping in view the following guidelines which are usually followed by government agencies, banks and financial institutions.

- (i) It is always advisable to make provisions for cost escalation on all heads of cost, keeping in view the rate of inflation during likely period of delay in project implementation.
- (ii) The various sources of finance should be carefully scrutinized with reference to probable revision in the rate of interest by the lenders and the revision which could be affected in the interest-bearing securities to be issued. All these factors will push up the cost of funds for the organization.
- (iii) Adjustments should be made in profitability and cash flow projections to take care of the inflationary pressures affecting future projections.
- (iv) It is also advisable to examine the financial viability of the project at the revised rates and assess the same with reference to economic justification of the project. The appropriate measure for this aspect is the economic rate of return for the project which will equate the present value of capital expenditures to net cash flows over the life of the projects. The rate of return should be acceptable which also accommodates the rate of inflation per annum.
- (v) In an inflationary situation, projects having early payback periods should be preferred because projects with long payback period are riskier.

Under conditions of inflation, the project cost estimates that are relevant for a future date will suffer escalation. Inflationary conditions will tend to initiate the measurement of future cash flows. Either of the following two approaches may be used while appraising projects under such conditions:

- (a) Adjust each year's cash flows to an inflation index, recognizing selling price increases and cost increases annually; or
- (b) Adjust the 'Acceptance Rate' (cut-off) suitably retaining cash flow projections at current price levels.

An example of approach (ii) above can be as follows: Normal Acceptance Rate: 15.0%

Expected Annual Inflation: 5.0%

Adjusted Discount Rate: 15.0×1.05 or 15.75%

It must be noted that measurement of inflation has no standard approach nor is easy. This makes the job of appraisal a difficult one under such conditions.

7. (i) At 31st March, 2024, the average unused entitlement is two days per employee. The company expects, on the basis of experience that is expected to continue, that 184 employees will take no more than five days of paid sick leaves in 2024- 2025 and that the remaining sixteen employees will take an average of six and a half days each.

The company expects that it will pay an additional twenty four days of sick pay as a result of the unused entitlement that has accumulated at 31st March, 2024 (one and a half days each, for sixteen employees).

Therefore, the company would recognize a liability equal to twenty four days of sickpay.

- (ii) As per Ind AS 19, the benefit will be attributed till the period the employee service will lead to no material amount of benefits. And service in later years will lead to a materially higher level of benefit than in earlier years. Therefore, for employees expected to leave after twenty or more years, the entity would attribute benefit on a straight-line basis. Service beyond twenty years will lead to no material amount of further benefits. Therefore, the benefit attributed to each of the first twenty years is 2% (i.e. 40% divided by 20) of the present value of the expected medical costs.

For employees expected to leave between ten and twenty years, the benefit attributed to each of the first ten years is 1.5% (15 % divided by 10) of the present value of the expected medical costs. For these employees, no benefit is attributed to service between the end of the tenth year and the estimated date of leaving.

For employees expected to leave within ten years, no benefit is attributed.

8. Calculation of Planned Production Time

Mins.

Total time	480
Less: Planned downtime	
tea break	10
lunch break	25
Planned Production Time	445

$$\text{Availability Ratio} = \left\{ \frac{445 \text{ mins.} - 45 \text{ mins.}}{445 \text{ mins.}} \right\} \times 100 = 89.89 \%$$

$$\text{Actual Production} = 140 \text{ tablets per shift}$$

$$\text{Standard time} = 2.5 \text{ minutes}$$

$$\text{Standard Time Required} = 140 \text{ units} \times 2.5 \text{ minutes}$$

$$= 350 \text{ minutes}$$

$$\text{Actual Time Taken} = 445 \text{ mins.} - 45 \text{ mins.}$$

$$= 400 \text{ minutes}$$

$$\text{Performance Ratio} = \left\{ \frac{350 \text{ mins.}}{400 \text{ mins.}} \right\} \times 100 = 87.50 \%$$

$$\text{Quality Ratio} = \left\{ \frac{140 \text{ tab.} - 20 \text{ tab.}}{140 \text{ tab.}} \right\} \times 100 = 85.71 \%$$

$$\text{Thus, OEE} = \text{Availability Ratio} \times \text{Performance Ratio} \times \text{Quality Ratio}$$

$$= 0.8989 \times 0.8750 \times 0.8571 = 67.41 \%$$

CASE STUDY 23

ABCD Ltd. is a textile manufacturing company based in Surat, Gujarat, which enjoys a vintage of more than 50 years of good reputation and business. The Company was set up by Mr. Amar Dev in the 60's in a small room and as years passed by, it became such a successful and big business that now after serving domestic consumers, the Company has gone global and expanding its business across Europe and Canada through third party sales from India. Mr. Rahul Dev, grandson of Mr. Amar Dev is Managing Director of Company and has been following quite an aggressive approach in globalizing their business after graduating from college. He remains in constant touch with CA Nitin Garg, partner of Nitin Garg & Co., Chartered Accountants, and keeps on discussing with him legal compliances and procedures.

Rahul knows that the complexities in business have increased a lot particularly after advent of GST and it is imperative to diversify the ever-expanding businesses. He understands that their company is well integrated into the web of international business transactions. There is inward as well as outward flow of goods and services between India and other countries. GST impacts imports and exports too. Provisions in the GST laws seek to (i) provide a level playing field to domestic suppliers vis a vis international suppliers in case of imports and (ii) make exports more competitive. He has been discussing various provisions of GST law as will be applicable on import and export supplies w.r.t. their business, if they wish to enter the global market directly, apart from the normal customs levy.

ABCD Limited wants to expand its business and management has found a suitable site which meets its requirements. The said site is owned by one of directors of company i.e. Mr. D. However, Mr. D was unwilling to sell his prized property to the company. The company, however, offers him, in exchange, a bigger site located in an area having commercial potential. Lured by offer, Mr. D agrees to above. A property valuer (Civil engineer by profession) who is having experience of 20 years in valuing properties for commercial banks is also approached by company for arriving at value of assets involved in above deal. The valuer does not possess any other registrations or accreditations.

Rahul, in order to expand his business, also discusses with Nitin on setting up a subsidiary outside India at Paris for specifically carrying out the Import-Export transactions easily and soon afterwards Rahul sets up a subsidiary at Paris under the name & style of PQRS Ltd.

ABCD Ltd. is engaged in the business of manufacturing cloth for other textile companies and non-textile companies. Now the company will be itself carrying out the Import-Export transactions without involving any 3rd Party for export purposes which it had been doing till now. It applies for the IEC – Importer Exporter Code online and gets the same. Its wholly owned subsidiary, PQRS Ltd., is engaged in the business of readymade designer garments. The subsidiary purchases garments and other stuff from its parent company. The demand for garments of PQRS Ltd. is very high and hence to cater to its shortfall, PQRS Ltd also purchases garments from other companies. Purchases are made at competitive prices. During the year 2023-24, ABCD Ltd sold garments to PQRS Ltd for Euro 13 lakhs on 1st January, 2024. The cost of these garments was Rs 936 lakhs in the books of ABCD Ltd at the time of sale. At the year-end i.e., 31st March 2024, all these Garments were lying as closing stock with PQRS Ltd. Euro is the functional currency of PQRS Ltd. while Indian Rupee is the functional currency of ABCD Ltd.

ABCD Limited seeks help from CA Nitin on the following issues: -

(a) During the year, Rahul is finding it difficult to comprehend the GST taxation w.r.t. export sales made by their company, ABCD Ltd., which are of a peculiar nature. One such sale is where ABCD Ltd. receives an order to supply goods to a dealer 'B' in Greece. The company finds a supplier 'C' in Singapore and asks him to supply goods to 'B' in Greece. Two invoices are raised here: one by the company on 'B' in Greece and the other by 'C' in Singapore on ABCD Ltd. in India. The point to be noted here is that goods do not touch the Indian shores; they are shipped by 'C' from Singapore to 'B' in Greece. There are many more, such kind of export sales and Rahul seeks CA Nitin's help in getting out of this confusion.

(b) Rahul seeks CA Nitin's opinion on the GST procedures and treatment for the following two types of export transactions which he plans to proceed with in near future: -

- Rahul has purchased a license to put up a stall in the Textile Supermarket Global Fair to be held at Milan, Italy and he wishes to send his team to this fair along with their company's merchandise to be displayed over there for promotional purposes.
- He had heard from a dear friend that he could sell his company's products within India but these could still be categorized as exports. He was eager to know about such circumstances.

(c) The Chief accountant of the Company further seeks CA Nitin's time to understand about the valuation & taxability of the following transactions under GST:-

- ABCD Ltd. has imported a special fabric from Paris and files an ex-bond bill of entry for clearing such warehoused goods for home consumption.
- ABCD Ltd. imported textile fabric from London and sells them to a Panacea Pvt. Ltd. in India itself before the goods

are cleared for home consumption. The customs declarations i.e. bill of entry etc. is filed by the agent of Panacea Pvt. Ltd. for clearance of such goods.

The Statutory audit of the company ABCD Ltd. is also being carried out by Nitin Garg & Co. under the supervision of the Engagement Partner CA Krit Garg. CA Krit understands that as the auditor, he should develop an audit plan that shall include a description of the procedures to be performed as per SA 315 & 330. The audit plan is more detailed than the overall audit strategy that includes the nature, timing and extent of audit procedures to be performed by engagement team members. Planning for these audit procedures takes place over the course of the audit as the audit plan for the engagement develops. He asks Megha in his audit team to work on planning the nature, timing and extent of specific further audit procedures and Saurab on planning of risk assessment procedures. Further, CA Krit knows that the overall audit strategy & audit plan should take into consideration the element of materiality and its relationship with Risks & procedures to be adopted. CA Krit has already developed an audit strategy and while a detailed audit plan is being developed, he decides that materiality levels set earlier need to be lowered as weaknesses in the internal controls were highlighted in the internal audit reports. Subsequently, a deviation from the audit strategy is felt necessary and he is stuck in a dilemma as what to do first – modify the audit strategy and then revise the audit plan or vice-versa and seeks his Partner CA Nitin's suggestion.

I. Multiple Choice Questions

1. Which of the following is responsible for issuing/granting IEC (Importer Exporter code)?
 - (a) Customs under Department of Revenue, Ministry of Finance
 - (b) Directorate General of Foreign trade (DGFT), Ministry of Commerce and Industry
 - (c) Department for Promotion of Industry and Internal Trade (DPIIT)
 - (d) Ministry of Corporate Affairs (MCA)
2. What should CA Nitin advise CA Krit to do when the latter is stuck in the revision dilemma of materiality levels set earlier?
 - (a) Firstly, modify the overall strategy and thereafter, prepare the audit plan in line with the strategy.
 - (b) Firstly, prepare the audit plan and then modify the overall audit strategy in line with the Plan.
 - (c) Modify the Audit Plan and Strategy simultaneously.
 - (d) Go with change in anyone, as these are not inter-related
3. **STATEMENT 1:-** GST is leviable on the fabric imported from Paris while filing for its clearance.
STATEMENT 2:- GST is not leviable on the sales made to Panacea Pvt. Ltd.
 - (a) **STATEMENT 1** is Correct but **STATEMENT 2** is Incorrect.
 - (b) Both the statements are Correct and independent of each other.
 - (c) **STATEMENT 2** is Correct & **STATEMENT 1** supports **STATEMENT 2**.
 - (d) **STATEMENT 1** is Correct but **STATEMENT 2** is Incorrect.
4. Considering transaction with Mr. D, one of the directors of company, which of the following statements is most appropriate?
 - (a) The transaction with Mr. D is permissible subject to certain conditions laid down in Companies Act, 2013. However, the company is not acting in accordance with law by approaching a valuer referred to in the description. Such a valuer needs registration from The Institute of Actuaries of India to act as valuer.
 - (b) The transaction with Mr. D is permissible subject to certain conditions laid down in the Companies Act, 2013. The company is acting in accordance with law by approaching a valuer referred to in the description.
 - (c) The transaction with Mr. D is permissible subject to certain conditions laid down in the Companies Act, 2013. However, the company is not acting in accordance with law by approaching a valuer referred to in the description. Such a valuer needs registration from Insolvency and Bankruptcy Board of India to act as valuer.
 - (d) The transaction with Mr. D is permissible subject to certain conditions laid down in Companies Act, 2013. However, the company is not acting in accordance with law by approaching a valuer referred to in the description. Such a valuer needs registration from The Institution of Engineers (India) to act as valuer.
5. **STATEMENT 1 :-** In case of trade involving 'B' in Greece and 'C' in Singapore, invoicing should not have been done by ABCD Ltd. in India.
STATEMENT 2 :- Value of such shipments has to be included by ABCD Ltd. in the value of exempt supply for the purpose of reversal of ITC under rules 42 and 43 of CGST Rules.
 - (a) **STATEMENT 1** is Correct & **STATEMENT 2** supports **STATEMENT 1**.
 - (b) Both the Statements are Incorrect.
 - (c) **STATEMENT 2** is Correct & **STATEMENT 1** supports **STATEMENT 2**.
 - (d) **STATEMENT 1** is Incorrect but **STATEMENT 2** is Correct.

II. Descriptive Questions

6. Provide the accounting treatment w.r.t. transaction between ABCD Ltd. and PQRS Ltd. in their respective books of accounts. Also show its impact on consolidated financial statements. Support your answer by Journal entries, wherever necessary, in the books of ABCD Ltd.
Following additional information is available:

Exchange rate on 1st January, 2024	1 Euro = Rs 83
Exchange rate on 31st March, 2024	1 Euro = Rs 85
7. As regards transaction with Mr. D, one of the directors, state few audit procedures pertaining to transaction to be performed by CA Krit Garg. Discuss probable purpose of such audit procedures also.
8. Discuss implications of proposed transaction relating to sending of company's merchandise for display in textile fair in Italy. Also discuss under what circumstances goods sold within India can still be categorized as exports under GST law and also touch upon taxability of such transactions under such law.

Answers

1. (b) Directorate General of Foreign trade under Ministry of Commerce and Industry is responsible for granting IEC.
2. (a) Firstly, modify the overall strategy and thereafter, prepare the audit plan in line with the strategy.
Reason: CA Krit should firstly modify the overall strategy and thereafter, prepare the audit plan in line with the strategy. This shows that the audit strategy and audit plan are closely inter-related as change in one is resulting into change in the other.
3. (b) Both the statements are Correct and independent of each other
Reason: GST is not leviable when goods deposited in customs bonded warehouse are sold before clearance; the same is leviable when ex-bond bill of entry is filed for clearing such warehoused goods for home consumption. GST is not leviable on high sea sales (the sales made to Panacea Pvt. Ltd.).
4. (c) The description provided in case study is an example of non-cash transactions with directors of company. Such transactions are governed under section 192 of Companies Act, 2013. The company can undertake such transactions after fulfillment of conditions prescribed under section 192 of Companies Act, 2013 like prior approval of such arrangement in general meeting accorded by a resolution. Further, notice of such resolution also needs to indicate value of assets involved in such an arrangement calculated by a registered valuer. Such a valuer needs qualifications and experience as described in section 247 and relevant rules and needs registration from Insolvency and Bankruptcy Board of India (IBBI) to act as valuer. The valuation examination is also conducted by IBBI.
5. (b) Both the Statements are Incorrect.
Reason: Third country shipments or triangular trade is a common practice in international trade whereby goods move from one country to another without touching India; only invoicing is done by the registered person in India. Paragraph 7 of the Schedule III to CGST Act provides that supply of goods from a place in the non-taxable territory to another place in the non-taxable territory without such goods entering into India (third country shipments) is treated neither as a supply of goods nor a supply of services. Thus, there is no GST liability on such sales. Further, value of such third country shipments is not included in the value of exempt supply for the purpose of reversal of ITC under rules 42 and 43 of CGST Rules [Explanation to section 17(3) of the CGST Act].

6. Accounting treatment in the books of ABCD Ltd (Functional Currency Rs)

ABCD Ltd will recognize sales of Rs 1079 lakhs (13 lakhs Euro x 83) Profit on sale of Inventory = 1079 lakhs – 936 lakhs = Rs 143 lakhs.

On balance sheet date receivable from PQRS Ltd. will be translated at closing rate i.e. 1 Euro = Rs 85. Therefore, unrealised forex gain will be recorded in standalone profit and loss of Rs 26 lakhs. (i.e. $(85 - 83) \times 13$ Lakhs)

Journal Entries

	Rs (in Lakhs)	Rs (in Lakhs)
PQRS Ltd. A/c Dr.	1079	
To Sales		1079
(Being revenue recorded on initial recognition)		

PQRS Ltd. A/c	Dr.	26	
To Foreign exchange difference (unrealised)			26
(Being foreign exchange difference recorded at year end)			

Accounting treatment in the books of PQRS Ltd. (Functional currency EURO)

PQRS Ltd will recognize inventory on 1st Jan, 2024 of Euro 13 lakhs which will also be its closing stock at year end.

Accounting treatment in the consolidated financial statements

Receivable and payable in respect of above-mentioned sale / purchase between ABCD Ltd and PQRS Ltd will get eliminated.

The closing stock of PQRS Ltd will be recorded at lower of cost or NRV.

	Euro (in lakhs)	Rate	Rs (in lakhs)
Cost	13	83	1079
NRV (Assumed Same)	13	85	1105

Therefore, no write off is required. The amount of closing stock of Rs 1079 includes two components–

Cost of inventory for Rs 936 lakhs; and Profit element of Rs 143 lakhs; and

At the time of consolidation, the second element amounting to Rs 143 lakhs will be eliminated from the closing stock.

Journal Entry

	Rs (in Lakhs)	Rs (in Lakhs)
Consolidated P&L A/c	Dr.	143
To Inventory		
(Being profit element of intragroup transaction eliminated)		

7. The transaction with Mr. D, director of company, is in nature of non-cash transactions referred to in section 192(1) of Companies Act, 2013. Few audit procedures in this regard include: -
 - (i) Obtain management representation as to whether the company has undertaken any non-cash transactions with the directors or persons connected with the directors, as envisaged in section 192(1) of the Companies Act, 2013. The auditor would need to corroborate the management representation with sufficient appropriate audit evidence. Reference can be made to minute books, movements in PPE register of company, and relevant registers/records.
 - (ii) The auditor should check compliance with section 192(2) of the Companies Act, 2013 and verify the notice of the general meeting that it includes particulars of arrangement along with the value of the assets involved in such arrangements.
 - (iii) The said value of assets should be calculated by the registered valuer in compliance of Companies (Registered Valuers and Valuation) Rules, 2017.

The purpose of performing such audit procedures could be reporting requirement for non-cash transactions under clause (xv) of Paragraph 3 of CARO, 2020. The said clause requires the auditor to report whether the company has entered into any non-cash transactions with directors or persons connected with him and if so, whether the provisions of section 192 of Companies Act have been complied with.

8. Export of goods or services are treated as inter-State supply and zero rated. This means that even if there is full exemption for the supply, ITC is still available to the exporter. The exporter will have an option to either pay IGST on the outward supply and claim refund of such IGST paid or export under Bond/LUT without payment of IGST and claim refund of ITC. The objective is to make Indian exports competitive in the international market. It may be noted that since exports are inter-State supplies, the tax associated with them will always be IGST.

- (a) Rahul has purchased a license to put up a stall in the Textile Supermarket Global Fair to be held at Milan, Italy and he wishes to send his team to this fair along with their company's merchandise to displayed over there for promotional purposes.

= Sending/ taking goods out of India for exhibition or on consignment basis for export promotion: Circular No. 108/27/2019 GST dated 18.07.2019 has clarified that the activity of sending/ taking goods out of India for exhibition or on consignment basis for export promotion, except when such activity satisfy the tests laid down in Schedule I of the CGST Act, does not constitute supply as the said activity does not fall within the scope of

section 7 of the CGST Act as there is no consideration at that point in time. Since such activity is not a 'supply', the same cannot be considered as "zero rated supply" as per the provisions contained in section 16 of the IGST Act. Thus, activity of sending/ taking specified goods out of India is not a zero-rated supply. That being the case, execution of a bond or LUT, as required under section 16 of the IGST Act, is not required.

- (b) He had heard from a dear friend that he could sell his company's products within India and these still can be categorized as exports..

It takes place in deemed exports. Deemed exports refers to supplies of goods manufactured in India (and not services) which are notified as deemed exports under section 147 of the CGST Act. Such supplies do not leave India and the payment for the same is received either in Indian rupees or in convertible foreign exchange.

Following categories of supply of goods have been notified as deemed exports by the Government vide Notification No. 48/2017 CT dated 18.10.2017, -

- (a) *Supply of goods by a registered person against Advance Authorisation (AA)*
- (b) *Supply of capital goods by a registered person against Export Promotion Capital Goods Authorisation (EPCG)*
- (c) *Supply of goods by a registered person to Export Oriented Unit (EOU)*
- (d) *Supply of gold by a bank or Public sector Undertaking specified in Notification No. 50/2017 Cus dated 30.06.2017 (as amended) against AA*

Taxability of deemed exports

Deemed exports are not zero-rated supplies by default, unlike the regular exports. Hence, all supplies notified as supply for deemed export are subject to levy of taxes, i.e. such supplies can be made on payment of tax and cannot be supplied under a Bond/LUT.

However, the refund of tax paid on the supply regarded as deemed export is admissible to either the supplier or the recipient. Thus, the application for refund has to be filed by the supplier or the recipient (subject to certain conditions) of deemed export supplies, as the case may be.

CASE STUDY 24

CASE STUDY 25

CASE STUDY 26

CASE STUDY 27

CASE STUDY 28

BL Limited is a bio-technology and pharmaceutical company that is listed on the National Stock Exchange (NSE). It is a small cap company engaged in research and development, manufacturing and marketing of pharmaceutical formulations and vaccines in India. It has a factory in Vadodara, Gujarat. The company commenced business in the year 2020-21. Growth has been steady and the business is profitable, although in the past few years, the entire pharma industry has been growing at a slower pace as compared to the previous years.

In the last one year, there have been changes in the management. In the previous years, conventional parameters like EPS and share price was used to assess performance. The new management team wish to assess performance on a value based model in addition to the conventional parameters. Below are the financial data for BL Ltd.:

Particulars	2023-24	2022-23
Profit After Interest and Tax	5,00,00,000	6,00,00,000
Interest	1,00,00,000	2,40,00,000
Opening Capital Employed	3,00,00,000	2,00,00,000
Closing Capital Employed	4,00,00,000	3,00,00,000
	Debt to Equity	Debt to Equity
Capital structure	40:60	40:60
	%	%
Costs of capital		
Equity	15.00%	18.00%
Debt (pre-tax-rate)	8%	6%
Tax rate	30%	30%
Stock market information		
Average number of shares in issue	50,000	50,000
Nifty 500 Index	18,000	20,000
Nifty Pharma sector index	16,000	18,000
Boline (share price)	25,00	30,00

The management is keen on increasing the company's potential to generate value sustaining business. Hence, it has felt the need to measure performance so that periodic assessments can be made. The management of BL Limited wants to adopt the Balanced Scorecard framework to link performance measures with business perspective. At the management meeting, the following targets have been set out:

1. Improve Earning Per Share and Share Price by 15% in the coming year.
2. Enter new market segments where existing drug formulations can be sold.
3. Improve production capacity by 30% in order to support increased sales in the new market segments.
4. Hire experienced experts in the fields of pharmaceutical and bio-technology research in order to make innovative, impactful drug formulations that can capture new markets.

CA Shirish has been appointed as the auditor for the year 2023-24. This is the first year of audit that CA Shirish would be performing for BL Limited. In the financial statements as of March 31, 2024, BL Limited has inventories that are material. CA Shirish is attending the physical inventory count as on March 31, 2024. However, during the course of the audit he did find certain drawbacks in the internal controls related to inventory. Therefore, he wishes to ensure that the opening inventory balances as of April 1, 2023 are free of misstatements that can materially affect the current financial statement.

It has an in-house research and development facility within its factory premises that has been approved by the prescribed authority. During the financial year 2023-24, the company incurred ₹5 crores on scientific research, the details of which are given below: Revenue expenses ₹1 crore Capital expenditure (machinery and equipment) ₹2 crore Capital expenditure (land) ₹1 crore Expenditure on clinical drug trial ₹1 crore

I. Multiple Choice Questions

1. How can EVA of BL Limited be improved?
 - (a) Operating profits can be improved without investing more capital
 - (b) Choose projects where additional infusion of capital gives a return that is less than the cost of obtaining this additional capital
 - (c) Discontinue projects where the return on investments yield more than the cost of capital
 - (d) Change the cost of capital to reflect EVA that is favourable
2. Compute the amount of deduction that the company can avail for the scientific research expenditure incurred in the year 2023-24. The company has not opted for the provisions of section 115BAA/115BAB.
 - (a) ₹5 crores
 - (b) ₹4 crores
 - (c) ₹3 crores
 - (d) ₹1 crores
3. BL Limited has developed 8 new drug formulations in the current year. Which of the following performance indicators will be appropriate for to measure the Critical Success Factor of developing commercially successful innovative drug formulations?
 - (a) Percentage of profit earned from launch of new drug formulations
 - (b) Number of new drug formulations launched during the year
 - (c) Investment in research and development
 - (d) Market share of the company
4. Using the balance scorecard framework, link performance measures to the four business perspectives.

Sr. No.	Business measure	Sr. No.	Business Perspective
1	Improve Earning Per Share and Share Price by 15% in the coming year.	A	Learning and Growth Perspective
2	Enter new market segments where existing drug formulations can be sold.	B	Internal Business Perspective
3	Improve production capacity by 30% in order to support increased sales in the new market segments.	C	Customer Perspective
4	Hire experienced experts in the fields of pharmaceutical and bio-technology research in order to make innovative, impactful drug formulations that can capture new markets.	D	Financial Perspective

(a) 1-A, 2-B, 3-C, 4-D (b) 1-D, 2-C, 3-A, 4-B (c) 1-D, 2-C, 3-B, 4-A (d) 1-A, 2-C, 3-B, 4-D

5. BL Limited has identified a critical success factor (CSF) for its organization: "Have an excellent quality product" Which of the following would be the most suitable key performance indicator for this CSF?
 - (a) Reduce the number of defects identified by quality control and customers by 15%
 - (b) Reduce the average time taken to deal with complaints about quality by 10%
 - (c) Increase sales by 15% over the next year
 - (d) Increase the number of training hours for the company's staff
6. Assess the performance of BL Ltd. using Economic Value Added (EVA) method. Assumptions, if any, should be clearly stated. Analyse the result of earning per share (EPS) and share market information. Evaluate the broader performance of BL Limited considering EVA, EPS and Share Market information.

7. Enumerate whether CA Shirish has any responsibility towards opening inventory balances as on April 1, 2023.

What will be the responsibilities of CA Shirish in each of the following cases:

- He is unable to obtain sufficient appropriate audit evidence regarding the opening balance of inventory.
- On obtaining appropriate audit evidence, CA Shirish concludes that the opening balance inventory contains misstatements that can materially affect the current year's financial statements and these misstatements are not adequately presented or disclosed.
- On obtaining appropriate audit evidence, CA Shirish concludes that the current year's accounting policies have not been consistently applied in relation to opening balances or that the changes in accounting policy is not properly accounted for.

ANSWERS TO THE CASE STUDY 28

1. (a) Operating profits can be improved without investing more capital

Reason: EVA can be improved when operating profits can be improved without investing more capital (that is more efficiency is build into the business operations).

In statement (b), the return on capital infused should be more than the cost of additional capital. In statement (c), projects where return is less than cost of capital need to be discontinued. Statement (d) implies that the cost of capital should be manipulated to reflect a favourable EVA, which is not ethical.

2. (b) Rs 4 crores.

Reason: Under section 35(2AB) of the Income-tax Act, 1961, BL Limited, a bio- technology and pharmaceutical company, can claim deduction of any expenditure on scientific research incurred on in-house research and development facility approved by the prescribed authority. However, expenditure in the nature of cost of land or building will not be allowed. Expenditures on clinical drug trials is an allowable expenditure.

3. (a) Percentage of profit earned from launch of new drug formulations

Reason: Percentage of profit earned from launch of new drug formulations will indicate if each of the new launch has been commercially successful or not. While option (b) indicates the number of new product launches, it does not capture if these launches have been commercially successful to the company in terms of earning profits. Option (c) & (d) -Investment in research and development and market share of the company does not indicate the commercial viability of the product.

4. (c) 1-D, 2-C, 3-B, 4-A

Reason:

- Improve Earning Per Share and Share Price by 15% in the coming year. – Financial Perspective
- Enter new market segments where existing drug formulations can be sold. – Customer Perspective
- Improve production capacity by 30% in order to support increased sales in the new market segments. – Internal Business Perspective
- Hire experienced experts in the fields of pharmaceutical and bio- technology research in order to make innovative, impactful drug formulations that can capture new markets. – Learning and Growth perspective

5. (a) Reduce the number of defects identified by quality control and customers by 15%

Reason: Reduce the number of defects identified by quality control and customers by 15% will improve the quality of the product.

Reduction in the average time taken to deal with complaints about quality by 10%, will in itself not improve the quality of the product. Increase sales by 15% over the next year does not imply that the quality of the product is excellent. Increasing the number of training hours for the company's staff is very generic, as it might not have a direct impact on quality.

6. Calculation of Economic Value Added (EVA):

Particulars	2023-24	2022-23
Profit After Interest and Tax	5,00,00,000	6,00,00,000
Add Interest (net of tax @ 30%)	70,00,000	1,68,00,000
Net Operating Profit after Tax (NOPAT)	5,70,00,000	7,68,00,000
Opening Capital Employed	3,00,00,000	2,00,00,000
WACC(refer working note 1)	11.24%	12.48%
Cost of capital Capital Employed * WACC	33,72,000	24,96,000
EVA = NOPAT - (Capital Employed* WACC)	5,36,28,000	7,43,04,000

Assumptions:

- There are no non-cash expenses to adjust the profit
- Economic depreciation and accounting depreciation are the same
- No lease exists for capitalization

Working Note 1: Calculation of WACC

WACC for the year 2022-23 = Proportion of Equity * cost of equity + Proportion of Debt * cost of debt (post tax) = $60\% * 18\% + 40\% * (6\% * (1-30\%)) = 10.80\% + 1.68\% = 12.48\%$

WACC for the year 2023-24 = Proportion of Equity * cost of equity + Proportion of Debt * cost of debt (post tax) = $60\% * 15\% + 40\% * (8\% * (1-30\%)) = 9\% + 2.24\% = 11.24\%$

Assessment of EVA:

BL Ltd. has generated positive EVA of Rs 5,36,28,000 for the year 2023-24. This is much lower than the EVA of the previous year Rs 7,43,04,000. The value generated is lower by 27.83% ((Rs 7,43,04,000 - Rs 5,36,28,000) / Rs 7,43,04,000). While this is a concern, it should be noted that lower EVA is not the same as negative EVA. BL Limited did generate positive value during the year 2023-24 although lower than the previous year. Hence, it is an acceptable performance.

Analysis of Earning Per Share (EPS):

The EPS for the year 2023-24 reduced by 16.67% from Rs 1,200 per share in the previous year to Rs 1,000 per share. For an investor's standpoint, this is not a favourable performance.

Working note 2: Calculation of Earning Per Share (EPS)

Particulars	2023-24	2022-23
Profit After Interest and Tax	5,00,00,000	6,00,00,000
Average number of shares in issue	50,000	50,000
Earning per share (EPS)	1000	1200

Analysis of Stock Price and Index:

The Nifty 500 Index has dropped lower by 10% between the years 2023-24 while the Nifty Pharma Sector Index dropped by 11.11%. This indicates a downturn in the broader stock market scenario as well as in the pharma sector scenario. In comparison, the share price of BL Limited declined by 16.67% during the same period. This shows that the downturn with the company is specifically more than the broad market and industry trends. This is not a favourable performance metric as it shows shareholders are perhaps not very optimistic about the future performance of the company.

Working note:

Index and Share Price Movement	2023-24	2022-23	Change
Nifty 500 Index	18,000	20,000	10.00%
Nifty Pharma sector index	16,000	18,000	11.11%
BL (share price)	25	30	16.67%

Performance of BL Limited with respect to EVA, EPS and Share Market information.

BL Limited has created positive value for its shareholders by generated an EVA of Rs 5,36,28,000. However, the performance based on EPS and Share market information indicate that the company is facing higher downturn prospects as compared to the over all industry and the market. The fall in EVA by 27.83% and the 16.67% fall in EPS are indicators that the company specific performance is worse than the overall market and the pharma industry. This negative sentiment can be further inferred by the fall in share price of BL Limited by 16.67% during the same period.

7. As per SA 510, one of the objectives of an audit is to obtain sufficient evidence about whether opening balances contain misstatements that can materially affect the current year's financial statements. Audit procedures have to be performed that can provide relevant evidence regarding opening balances.

In the case of inventories, the closing inventory balance cannot provide appropriate evidence regarding the inventory on hand at the beginning of the year. Therefore, CA Shirish will have to perform additional audit procedures that can provide sufficient audit evidence. These may include;

- Observing the current physical inventory count, which CA Shirish is already doing as on March 31, 2024.
 - Reconciling closing inventory quantities to opening inventory quantities.
 - Performing audit procedures on the valuation of the opening inventory items
 - Performing audit procedures on gross profit and cut off.
- (i) Where CA Shirish is unable to obtain sufficient appropriate audit evidence regarding opening balances, he should issue a qualified opinion or disclaimer of opinion in the audit report as is appropriate in the circumstances. (SA 705)
- (ii) Where CA Shirish concludes that the opening inventory balance contains a misstatement that can materially affect the

current year's financial statement and these misstatements are not adequately presented or disclosed, he should issue a qualified opinion or adverse opinion in the audit report as is appropriate in the circumstances. (SA 705)

- (iii) Where CA Shirish concludes that the current year's accounting policies have not been consistently applied in relation to opening balances or that the changes in accounting policy is not properly accounted for, he should issue a qualified opinion or adverse opinion in the audit report as is appropriate in the circumstances. (SA 705).

In addition, in each of the above situations, as part the audit procedure CA Shirish should communicate with the management or those charged with governance.

CASE STUDY 29

CASE STUDY 30

CASE STUDY 31

FST Limited is engaged in the business of manufacturing and export of ready-made garments like T-shirts, skirts, tops and similar casual wear. CA T is statutory auditor of the company and also provides tax consultancy services. He also handles matters pertaining to direct and indirect taxes of the company. On a Monday morning, he had gone to the company's office located in NOIDA for participating in a pre-arranged meeting with certain key directors of the company on some matters. The said location also houses company's manufacturing facilities.

Barely had the meeting started, a team of three officers from Income Tax department descended upon the company's premises to conduct TDS survey under Income Tax Act, 1961. After completing the necessary formalities, they asked for financial statements for last three years and evidence of TDS returns filed during those periods. Thereafter, they took control of the systems of the company containing its books of accounts. Meanwhile, directors of the company requested CA T to stay there and help them out in this situation.

After perusing company's accounts books, documentary evidence including bills for few hours, the team summarized following points/ purported lapses by the company in the matter of TDS deduction and incidental issues: -

- (i) It was pointed out that company has made payments during these years to Bharat Container Corporation Limited (BCCL), a government owned PSU. The said company operates container cargo services and its terminal is linked with rail lines to various gateway ports including one at JNPT, Nhava Sheva, Mumbai.

FST Limited sends its export bound cargo utilizing above PSU's services. On going through bills raised by BCCL on FST Limited, it was observed that these pertained to charges levied by BCCL for handling containers, road transportation charges & railway freight. The team has pointed out that tax has been short-deducted for above payments made to BCCL.

- (ii) FST Limited has made payments during these years to certain companies providing clearing and forwarding services for carriage of goods. The team has pointed out that tax has been deducted on these payments at inappropriate rates leading to short-deduction of tax. The team insists that these payments are in the nature of brokerage and warrant tax deduction rate of 5%.

FST Limited had also recently participated in a fair in Mumbai in 2023-24 and had paid charges of Rs.5.00 lacs towards makeshift stall and use of furniture in an exhibition centre owned by a company. The team had pointed out non-deduction of tax at source by FST Limited on the same.

- (iii) During the survey, team also stumbled upon service bills of few clearing & forwarding agents. These agents were acting as shipping agents of non-resident ship owners. FST Limited had paid ocean freight to these shipping agents of non-resident shipping lines. The team had pointed out that tax has not been deducted on ocean freight paid to these shipping agents. Before leaving, the team raised show-cause notice (SCN) relating to above issues.

Just when he was working on preparing a reply to above SCN after few days in his office, CA T received copy of a notice forwarded by the company. The said notice issued by Superintendent (Anti-Evasion), CGST Division informed that exporter company has been flagged as a "risky exporter" on the basis of risk analysis by DGARM (Directorate General of Analytics & Risk Management). The said notice contained a long list of documents to be submitted by the company including copies of GSTR-9, GSTR-3B, GSTR-1, reconciliations with ITC reflecting on portal, reconciliation of e-way bills issued with GSTR-1, financial statements of past years. The company is exporting goods on payment of IGST. Its export bound shipments attract GST @ 5%. Subsequently, a departmental team also visited premises of the company.

On going through documents submitted by the company and after conducting necessary verifications, team raised the following issues: -

- (A) The team pointed out that fabric which is main raw material for manufacturing of garments having taxable value of Rs.50.00 lacs attracting GST rate of 5% was destroyed in a fire in premises of the company during month of April 2023. The company had availed ITC of Rs.2.50 lacs in the month of April 2023.
- (B) The company has been availing services of a security service agency for providing it with security manpower. The company has paid amount of Rs.10.00 lacs to one such security service agency (a proprietorship concern) during year 2023-24 up to date of team's visit. It is insisted that company was required to pay GST on such services under reverse charge mechanism.
- (C) It has been pointed out that company has received duty credit scrips under foreign trade policy of the government by virtue of being in export trade. These duty credit scrips, in turn, have been sold by the company to third parties. Supply of such duty credit scrips are exempt from GST under notification no.35/2017-Central tax (Rate). The team points out that company is required to reverse ITC on common input services relating to such exempt supplies.

Assume that Income Tax Law for financial year 2023-24 (AY 2024-25) is applicable in situations involving past years. Ignore surcharges.

MCQ

1. Considering matter stated at [i] relating to short-deduction of tax from payments made to BCCL by survey team in their show-cause notice, which of the following statements is most appropriate in this regard?
 - (a) Tax was required to be deducted on handling charges and railway freight. However, no tax was required to be deducted on road transportation charges under relevant provisions of law.
 - (b) Tax was required to be deducted on road transportation charges and railway freight. However, no tax was required to be deducted on handling charges under relevant provisions of law.
 - (c) Tax was required to be deducted on handling charges, road transportation charges and railway freight. The issue raised in SCN is correct and company has short deducted tax from payments made to BCCL.
 - (d) Tax was required to be deducted on handling charges and road transportation charges. However, no tax was required to be deducted on railway freight under relevant provisions of law.
2. The survey team has raised the issue of application of inappropriate rate while deducting tax from payments made to certain companies providing clearing and forwarding services at JNPT, Nhava Sheva, Mumbai. Which of following statements is likely to be correct in this regard?
 - (a) Tax was required to be deducted @ 5%. FST Limited has deducted tax from payments made to companies providing clearing and forwarding services @ 1%. Hence, there is short deduction of tax @ 4% from payments made to these companies.
 - (b) Tax was required to be deducted @ 5%. FST Limited has deducted tax from payments made to companies providing clearing and forwarding services @ 2%. Hence, there is short deduction of tax @ 3% from payments made to these companies.
 - (c) Tax was required to be deducted @ 2% and not @ 5% as pointed out by team. The issue raised in SCN is not in accordance with law.
 - (d) Tax was required to be deducted @ 5%. FST Limited has deducted tax from payments made to companies providing clearing and forwarding services @ 0.5%. Hence, there is short deduction of tax @ 4.5% from payments made to these companies.
3. It was pointed out in the SCN that FST Limited has failed to deduct tax at source on payment made to a company owning exhibition centre in Mumbai for a makeshift stall and use of furniture. Which of following statements is in accordance with law in this regard?
 - (a) Tax was required to be deducted at source on payment made to the company owning exhibition centre. Such type of payment necessitates deduction of tax at source @ 2%.
 - (b) Tax was required to be deducted at source on payment made to the company owning exhibition centre. Such type of payment necessitates deduction of tax at source @ 10%.
 - (c) Tax was required to be deducted only for charges for use of makeshift stall @2% & for use of furniture @ 10%.
 - (d) Tax was not required to be deducted on the type of payment discussed above. Therefore, issued raised in SCN is not in accordance with law.

4. As regards destruction of stock of raw material in a fire in the month of April 2023 is concerned, which statement is most appropriate?
 - (a) Reversal of ITC of Rs.2.50 lacs by the company
 - (b) Reducing output liability by Rs.2.50 lacs by the company
 - (c) Increasing output liability by Rs.2.50 lacs by the company
 - (d) The issue raised by the team is not in accordance with law.
5. The team has raised the issue of non-payment of GST on availing services of a security agency described in case study under reverse charge mechanism. Which of the following is true in this regard?
 - (a) GST of Rs.0.50 lac was required to be paid under reverse charge and ITC of Rs.0.50 lac was required to be taken by the company in its monthly GSTR-3B.
 - (b) GST of Rs.1.80 lac was required to be paid under reverse charge and ITC of Rs.1.80 lac was required to be taken by the company in its monthly GSTR-3B.
 - (c) GST of Rs.0.50 lac was required to be paid under reverse charge but no credit of the same was required to be taken by the company in its monthly GSTR-3B.
 - (d) GST of Rs.1.80 lac was required to be paid under reverse charge but no credit of the same was required to be taken by the company in its monthly GSTR-3B.
6. The survey team has raised the matter regarding non-deduction of tax at source on ocean freight paid to shipping agents of non-resident foreign shipping companies in its show- cause notice. How can CA T defend the company while preparing reply to show cause notice as far as this issue is concerned? Quote relevant provisions of law (including notifications/circulars) on this subject matter.
7. The GST team has pointed out that the company is required to reverse the ITC on common input services relating to exempt supplies of duty credit scrips. What is your opinion on this issue considering relevant provisions of law?

Answers

1. (d) Under provisions of section 194C of Income Tax Act, 1961, tax is required to be deducted at source in accordance with provisions of this section for carrying out any work. Explanation to Section 194C explains that work shall include carriage of goods or passengers by any mode of transport other than by railways. Therefore, transport charges by railways does not require deduction of tax at source. Handling charges are in nature of service contracts and require deduction of tax at source under section 194C.
2. (c) The team has pointed out that tax has been deducted on payments made to certain companies providing clearing and forwarding services at inappropriate rates leading to short-deduction of tax. The team insists that these payments are in nature of brokerage and warrant tax deduction rate of 5%. However, team's view point is not in accordance with law. The expenses incurred are not in nature of brokerage. Explanation to section 194H provides that "commission or brokerage" includes any payment received or receivable, directly or indirectly, by a person acting on behalf of another person for services rendered (not being professional services) or for any services in the course of buying or selling of goods or in relation to any transaction relating to any asset, valuable article or thing, not being securities.

However, in the given situation, services are being rendered by companies as forwarders and for facilitating their movement and carriage from port to the country of destination. Brokerage is normally associated with payment in nature of buying or selling of goods or in relation to any transaction relating to any asset. Further, circular no.715 dated 8.8.1995 issued by CBDT states that "as regards payment to clearing and forwarding agent for carriage of goods, the same shall be subject to tax deduction at source under section 194C of Income Tax Act.

3. (b) Under provisions of section 194- I of Income Tax Act, 1961, any person, not being an individual or a Hindu undivided family, who is responsible for paying to a resident any income by way of rent, shall, at the time of credit of such income to the account of the payee or at the time of payment thereof in cash or by the issue of a cheque or draft or by any other mode, whichever is earlier, deduct income- tax thereon at the rate of—
 - (i) two per cent for the use of any machinery or plant or equipment; and
 - (ii) ten per cent for the use of any land or building (including factory building) or land appurtenant to a building (including factory building) or furniture or fittings

Provided that no deduction shall be made under this section where the amount of such income or, as the case may be, the aggregate of the amounts of such income credited or paid or likely to be credited or paid during the financial year by the aforesaid person to the account of, or to, the payee, does not exceed two hundred and forty thousand rupees.

The company has made payment of Rs.5.00 lacs for use of building and furniture which is more than threshold limit of section 194- I. It attracts TDS @ 10% as provided for under section 194- I.

4. (a) Section 17(5)(h) of CGST Act, 2017 states that input tax credit shall not be available in respect of goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples. Since raw material having taxable value of Rs.50.00 lac has been destroyed in fire, ITC on same amounting to Rs.2.50 lac needs to be reversed by the company.
5. (b) Security services provided by a person other than a body corporate to a registered person located in taxable territory are liable to GST under reverse charge mechanism under notification number 29/2018 -Central Tax (Rate) dated 31.12.2018. Since FST Limited has availed services provided by way of supply of security personnel from a proprietary firm, it has to pay GST under reverse charge mechanism.

Further, GST rate for services i.e. 18% is applicable to such services under reverse charge mechanism and company needs to take ITC in respect of same.

II. Answers to the Descriptive Questions

6. In the given situation, FST Limited has made payment of ocean freight to agents of non- resident foreign shipping companies.

Section 194C states that any person responsible for paying any sum to any resident for carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract between the contractor and a specified person shall, at the time of credit of such sum to the account of the contractor or at the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, whichever is earlier, deduct tax at source at specified rates. In accordance with provisions of section 194 C, work also includes carriage of goods and passengers by any mode of transport other than railways.

However, Board has issued circular no.723 dated 19.9.1995 in this regard relating to shipping business of non-residents. It states that section 172 deals with shipping business of non-residents. Section 172(1) provides that the mode of the levy and recovery of tax in the case of any ship, belonging to or chartered by a non-resident, which carries passengers, livestock, mail or goods shipped at a port in India. An analysis of the provisions of section 172 would show that these provisions have to be applied to every journey a ship, belonging to or chartered by a non-resident, undertakes from any port in India. Section 172 is a self-contained code for the levy and recovery of the tax, ship-wise, and journey wise, and requires the filing of the return within a maximum time of thirty days from the date of departure of the ship.

The provisions of section 172 are to apply, notwithstanding anything contained in other provisions of the Act. Therefore, in such cases, the provisions of sections 194C and 195 relating to tax deduction at source are not applicable. The recovery of tax is to be regulated, for a voyage undertaken from any port in India by a ship under the provisions of section 172.

Section 194C deals with work contracts including carriage of goods and passengers by any mode of transport other than railways. This section applies to payments made by a person to any "resident" (termed as contractor). It is clear from the section that the area of operation of TDS is confined to payments made to any "resident". On the other hand, section 172 operates in the area of computation of profits from shipping business of non- residents. Thus, there is no overlapping in the areas of operation of these sections.

It further states that there would, however, be cases where payments are made to shipping agents of non-resident ship-owners or charterers for carriage of passengers etc., shipped at a port in India. Since, the agent acts on behalf of the non-resident ship- owner or charterer, he steps into the shoes of the principal. Accordingly, provisions of section 172 shall apply and those of sections 194C and 195 will not apply.

Therefore, it is very much clear from above analysis that FST Limited was not required to deduct tax at source from payments on account of ocean freight to shipping agents of non-resident ship owners. CA T can defend the company by preparing reply to SCN on these lines.

7. Section 17(2) of CGST Act, 2017 states that where the goods or services or both are used by the registered person partly for effecting taxable supplies including zero-rated supplies under this Act or under the Integrated Goods and Services Tax Act and partly for effecting exempt supplies under the said Acts, the amount of credit shall be restricted to so much of the input tax as is attributable to the said taxable supplies including zero-rated supplies.

Further, section 17 (3) states that the value of exempt supply under sub-section (2) shall be such as may be prescribed, and shall include supplies on which the recipient is liable to pay tax on reverse charge basis, transactions in securities, sale of land and, subject to clause (b) of paragraph 5 of Schedule II, sale of building.

[Explanation.- For the purposes of this sub-section, the expression "value of exempt supply" shall not include the value of activities or transactions specified in Schedule III, except those specified in paragraph 5 of the said Schedule]

In this regard, Rule 42 of CGST Rules, 2017 prescribes manner of determination of input tax credit in respect of inputs and input services and reversal thereof where input or input services have been partly used for effecting taxable supplies including zero rated supplies and partly for effecting exempt supplies.

Further, Rule 43(1) of CGST Rules, 2017 prescribes manner of determination of input tax credit in respect of capital goods and reversal thereof in certain cases including where such ITC is partly used for effecting taxable supplies including zero rated supplies and partly for effecting exempt supplies.

Explanation 1 under this clause states that for the purposes of rule 42 and rule 43, aggregate value of exempt supplies shall exclude: -

- the value of services by way of accepting deposits, extending loans or advances in so far as the consideration is represented by way of interest or discount, except in case of a banking company or a financial institution including a non-banking financial company, engaged in supplying services by way of accepting deposits, extending loans or advances and
- the value of supply of services by way of transportation of goods by a vessel from the customs station of clearance in India to a place outside India.
- the value of supply of Duty Credit Scrips specified in the notification of the Government of India, Ministry of Finance, Department of Revenue No. 35/2017- Central Tax (Rate), dated 13.10.2017.

Therefore, value of supply of duty credit scrips is excluded from aggregate value of exempt supplies determined under Rule 42 of CGST Rules, 2017. Since value of such supply is excluded while determining value of exempt supplies under Rule 42, no ITC is required to be reversed in respect of such exempt supply.

CASE STUDY 32

Mr. Murli Lal & Mrs. Bansuri Devi have been residing in Manpur village since their marriage. They have been actively involved in agriculture & dairy farming business in their village and sell their output in nearby villages as well. They have earned much accolades for business they run and have accrued much wealth. There have been many instances where the couple felt that they could move to a metro town to explore more but without any knowledge of business world and regulatory compliances, they felt handicapped. Their children are also settled abroad. One fine day, when they are visited by CA Puru, a fast friend of their son who usually comes down to their village quite often to know about the well-being of his friend's parents from time to time. Mrs. Bansuri Devi discusses with him about agricultural operations she manages with the help of her team in the village and scale of operations they maintain. Puru tells them about how agricultural activities are maintained and operated in the metro towns like Mumbai where he lives and practices his profession. During discussion, he tells her that one of his clients, M/s Khetibaadi Ltd., a listed company is involved in agricultural and allied operations by procuring material from nearby areas. This company is also involved in various other types of animal husbandry operations and works on the same scale as Mrs. Bansuri Devi & Mr. Murli Lal work in the village. On getting curious, Mrs. Bansuri Devi asks him about the form and style in which Khetibaadi Ltd. works in the city. Puru tells her that unlike villages, in corporate world, large businesses have to follow certain accounting standards while maintaining books and balances of their businesses. Standards related to agriculture set out accounting for agricultural activity, the management of the transformation of biological assets (living plants and animals) into agricultural produce (harvested product of the entity's biological assets). The standards generally require biological assets to be measured at fair value less costs to sell. He tells her about following activities carried out by Khetibaadi Ltd.:-

- Managing animal-related recreational activities like Zoo
- Fishing in the ocean
- Fish farming
- Development of living organisms such as cells, bacteria and viruses for research
- Growing of plants to be used in the production of drugs.

Hearing about this, Mrs. Bansuri Devi persuades Mr. Murli Lal to set up a company in town under Puru's guidance to expand their business outside village as well. CA Puru assures Mr. Murli Lal on all his queries and tells him that he and his team will help them at every step in setting up their company. Soon, the couple, with the help of CA Puru, set up and start operating their company in Mumbai under the name & style of M/s. Bansuri Pvt. Ltd. which ventured into business of agricultural operations with Mr. Murli Lal, Mrs. Bansuri Devi and Mr. Prabhudeva as the directors of company. Mr.

Prabhudeva is appointed as the managing director, as the former directors are quite busy in the business already set up at Manpur. The company got registered under GST solely in the State of the Maharashtra. During the year, the company falls short of funds and they decide to borrow funds from the market. The Board of Directors of the company resolve to borrow a sum of Rs 20 crores from a nationalized bank at a Board meeting held on 15.1.2024. Mr. Prabhudeva, who opposes the said borrowing as not in the interest of the company has raised an issue that the said borrowing is outside the borrowing powers of the Board putting forward the following data :-

(i) Share Capital Rs 5 crores	(ii) Reserves and Surplus Rs 5 crores
(ii) Secured Loans Rs 10 crores	(iv) Unsecured Loans Rs 5 crores.

After the meeting, since Mr. Murli Lal was in Mumbai, he wanted to discuss all the tax matters with CA Puru and sits with him in his office for the same :-

- With business expansion, Mr. Murli Lal has also purchased a controlling stake in M/s Khetibaadi Ltd. and is now a director in the said company. He wants Puru to tell him briefly about the performance of this company in tea Market as well. Puru tells him that for the previous year ended 31.03.2023, Khetibaadi Ltd.'s composite business profits before allowing deduction relating to growing and manufacturing of tea is Rs 50,00,000. On 01.09.2023, it deposited a sum of Rs 10,00,000 in the Tea Development Account. During the previous year 2021-22, this company had incurred a business loss of Rs 15,00,000 which has been carried forward. On 25.01.2024, it withdrew Rs 10 lakhs, from deposit account which is utilized as :-
 - Rs 6,00,000 for purchase on non-depreciable asset as per the scheme specified.
 - Rs 3,00,000 for purchase of machinery to be installed in the office premises;
 - Rs 1,00,000 was spent for the purpose of scheme on 05.04.2024.
 Mr. Murli Lal wants to know about the income of the company for the year & the tax liabilities, if any, thereon, and about which CA Puru gives him an approximate idea of at that time itself.
- Mr. Prabhudeva had informed CA Puru about two peculiar transactions related to GST which he wanted to discuss in the presence of Mr. Murli Lal, related to M/s Bansuri Pvt. Ltd. In one of the cases, they send raw tea leaves to their registered job worker under GST, Mr. Sharma in Mangalore, Karnataka and further, the processed flavored tea, which is further delivered to the wholesalers in Telangana from the job worker's place in Mangalore itself with invoice and the e-way bill being issued by the company's department from the Mumbai office. Further, he asks him about the treatment of another transaction. They had sent a special lot of Tea "Rosa" to another job worker, Mr. Shakti Puri, in Ratlam for making flavoured tea as per the directions given. Further, due to a decline in the market of flavoured tea, they sent fresh normal unprocessed raw tea with new instructions to the job worker to hold the earlier consignment in stock till a buyer is found. The new stock is easily sold, but the old stock remained in godown of the job worker for over a year. CA Puru guides them properly about the tax treatment of these two transactions under GST.
- Mr. Murli Lal is happy that their business has gone online as well and now they are selling their products through various e-commerce platforms. Mr. Prabhudeva shows his concern over the online selling part and wants CA Puru to keep a check on the working of the same during his audit. CA Puru assures him that his audit strategy would majorly be based on the fact that a good part of the company's business has gone online. In evening, Mr. Murli Lal takes Puru with him to meet his old friend Mr. Babu Lal who resides in Mumbai with his family. Mr. Babulal had requested him for a meeting with Puru so that he could discuss with the latter certain tax related issues of his family and hire his services for tax related work. Mr. Babulal tells Puru that his son Gautam is liable to pay Rs 10,000 per month to Barkha (his ex-wife) as alimony. Gautam, being an employee of PQR Pvt. Ltd., has instructed his company's HR department to pay Rs 10,000 per month out of his salary to his wife directly and remit the remaining salary in his account. Mr. Babulal wants to know the tax treatment of such alimony given by Gautam in his hands. Further, he tells CA Puru that he works under a partnership firm in which he and his other two sons, Mr. B & Mr. C are partners. The partnership deed provides that after his death, Mr. B & Mr. C shall continue the business of the firm subject to a condition that 20% of profit of the firm shall be given to Mrs. Daya (wife of Mr. Babu Lal). Mr. Babu Lal wants to know the tax treatment of such receipt in his wife's hands after his death. Puru satisfies Mr. Babu Lal by solving all his queries and quotes his fees to handle all the tax related matters of the family.

I. Multiple Choice Questions

- An assessee carrying on business of growing and manufacturing tea is allowed a deduction under income tax law upon fulfilment of certain conditions like depositing amount in a deposit account opened in accordance with scheme framed by Tea Board. Deposits made in accordance with schemes framed by other Boards for agricultural

commodities also qualify for similar deduction. Which of following schemes qualify in this regard?

- (a) Schemes framed by Coffee Board and Spices Board
 - (b) Schemes framed by Rubber Board and Spices Board
 - (c) Schemes framed by Coffee Board and Rubber Board
 - (d) Schemes framed by Coffee Board, Rubber Board and Spices Board
2. Select the correct option on the basis of the following two statements :- **STATEMENT 1**:- Payment of 20% profit to Mrs. Daya is application of income. **STATEMENT 2**:- Payment of alimony by Gautam to his ex-wife is diversion of Income.
- (a) **STATEMENT 1** is Correct but **STATEMENT 2** is Incorrect.
 - (b) **STATEMENT 1** is Incorrect but **STATEMENT 2** is Correct.
 - (c) Both the Statements are Correct.
 - (d) Both the Statements are Incorrect.
3. What would be the GST Treatment of the stock lying with Mr. Shakti Puri?
- (a) Tax payable by Mr. Shakti Puri.
 - (b) Tax payable by Bansuri Pvt. Ltd.
 - (c) No GST liability.
 - (d) Tax payable by Bansuri Pvt. Ltd. on its removal from the premises of Mr. Shakti Puri.
4. Bansuri Pvt. Ltd. is also engaged in sending raw tea leaves to job workers and selling processed tea after the job work is performed. Which of the following forms/returns is to be filed by Bansuri Pvt Ltd on GST portal in this respect :
- (a) ITC-04
 - (b) ITC-03
 - (c) ITC-02
 - (d) ITC-01
5. W.r.t the decision taken at the 4th Board meeting, the contention of director Prabhudeva is -
- (a) Valid, as per the provisions of the Companies Act, 2013.
 - (b) Invalid, as Bansuri Pvt Ltd is a Private Company.
 - (c) Valid, subject to passing an Ordinary Resolution in the General Meeting.
 - (d) Valid, subject to passing a Special Resolution in the General Meeting.

II. Descriptive Questions

6. Analyse whether the activities as narrated by CA Puru to Mrs. Bansuri Devi w.r.t Khetibaadi Ltd. fall within the scope of Ind AS 41 with proper **Reasoning**.
7. You are required to state income tax implications of withdrawals from deposit account during financial year 2023-24 relevant for assessment year 2024-25.
8. What specific factors for online shopping would be considered by CA Puru in formulating the audit strategy of the company in the above case keeping in mind the concern raised by Mr. Prabhudeva?

ANSWERS

1. (c) Schemes framed by Coffee Board and Rubber Board enjoy similar deduction under section 33AB of Income Tax Act.
2. (d) Both the Statements are Incorrect.
Reason: STATEMENT 1 :- Such income does not reach the assessee-firm. Rather, such income stands diverted to the other person as such other person has a better title on such income than the title of the assessee. The firm might have received the said amount, but it so received for and on behalf of Mrs. Dayaa, who possesses the overriding title. Therefore, the amount payable to Mrs. Daya after the death of Mr. Babu Lal would be excluded from the income of the partnership firm in question.
STATEMENT 2 :- In this case, the amount of Rs 10,000 per month is an obligation of Gautam to pay to his ex-wife out of his income and not an income in which she had overriding entitlement. In other words, this is the income of Gautam, which is applied by him to fulfill an obligation and hence, includible in his total income and a mere arrangement to pay a sum directly to his ex-wife would not make it a case of diversion of income.
3. (b) Tax payable by Bansuri Pvt. Ltd.
Reason: Here, sending of unprocessed tea by Bansuri Pvt Ltd to the job worker Mr. Shakti Puri in the first lot will be deemed as a supply and thus, tax would be payable on the same by the company.
4. (a) ITC-04.
Reason: ITC-04 is the prescribed return/form under GST Rules for giving account of goods sent on job work and received back.

5. (b) Invalid, as Bansuri Pvt Ltd is a Private Company.

Reason: According to the provisions of Section 180(1)(c) of the Companies Act, 2013, the powers of the Board are not uncontrolled and there are restrictions on the borrowing powers to be exercised by the Board of Directors. According to the said section, the borrowings should not exceed the aggregate of the paid-up share capital, free reserves and securities premium. While calculating the limit, the temporary loans obtained by the company from its bankers in the ordinary course of business will be excluded. However, from the figures available in the present case, the proposed borrowing of Rs 20 crore will exceed the limit calculated as per the given information. Thus, the proposed borrowings are beyond the powers of the Board of Directors. In view of the above position, the management of any Company should take steps to pass a special resolution authorising to borrow the proposed amount of Rs 20.00 crore, so that the requirement of Section 180(1)(c) is satisfied. Only thereafter, the proposed borrowing can be availed of.

However, Bansuri Private Limited is a Private Company and as per the MCA notification dated 5th June, 2015 which stated that this section shall not apply to private companies. Further on 4th January 2017, Specified IFSC public company would also not be required to comply with this section, unless the article of the company provides otherwise. Hence, they can avail the required Borrowing. As notified by the MCA, Section 180 of the Act (i.e. restrictions on the powers of the Board) shall not apply to a private company which has not committed a default in filing its financial statements under Section 137 or Annual Return under Section 92 with the Registrar. [Notification No. 464(E), dated 5th June, 2015 as amended by Notification No. 583 (E), dated 13th June, 2017.]

6.

Activity	Whether in scope of Ind AS 41?	Remarks
Managing animal-related recreational activities like Zoo	No	Since the primary purpose is to show the animals to public for recreational purposes, there is no management of biological transformation but simply control of the number of animals. Hence it will not fall in the purview of the definition of agricultural activity.
Fishing in the ocean	No	Fishing in ocean is harvesting biological assets from unmanaged sources. There is no management of biological transformation since fish grow naturally in the ocean. Hence, it will not fall in the scope of the definition of agricultural activity.
Fish farming	Yes	Managing the growth of fish and then harvest for sale is agricultural activity within the scope of Ind AS 41 since there is management of biological transformation of biological assets for sale or additional biological assets.
Development of living organisms such as cells, bacteria and viruses for research.	No	The development of living organisms for research purposes does not qualify as agricultural activity, as those organisms are not being developed for sale, or for conversion into agricultural produce or into additional biological assets. Hence, development of such organisms for the said purposes does not fall under the scope of Ind AS 41.
Growing of plants to be used in the production of drugs	Yes	If an entity grows plants for using it in production of drugs, the activity will be agricultural activity. Hence it will come under the scope of Ind AS 41.

7. Tax consequences for the A.Y. 2024-25

an consequential for the FY 2023-24

Particulars	(Rs)
Rs 10,00,000 being the amount withdrawn from Tea Development Account has to be utilized in the prescribed manner, otherwise, the withdrawn amount would be chargeable to tax as business income. In the given case, the taxability of withdrawal amount based on their utilization is as follows:	Not taxable
- Rs 6,00,000, out of the amount withdrawn from the deposit account,utilised for purchase of non-depreciable asset as per the specified scheme.	
[As per section 33AB(6), no deduction would be allowed under section 33AB since amount is spent out of Rs 10 lakh deposited in Tea Development Account, which has already been allowed as deduction in A.Y. 2023-24 (See Working Note below)].	

- Rs 3,00,000, being the amount utilized for purchase of machinery to be installed in the office premises is not a permissible utilization. Hence, the amount would be deemed as profits and gains of business of the previous year 2023-24 as per section 33AB(4).	3,00,000
- Rs 1,00,000 was spent for the purpose of scheme on 05.04.2024. As per section 33AB(7), this amount would be taxable since the same is not utilized during the same previous year (i.e., P.Y. 2023-24) in which amount is withdrawn from the deposit account.	1,00,000
<i>When any part of withdrawal amount becomes taxable, the agricultural and non- agricultural portions of income must be segregated.</i> <i>Accordingly, Rs 1,60,000, being 40% of Rs 4,00,000 (Rs 3,00,000 + Rs 1,00,000) would be chargeable to tax as business income and the balance Rs 2,40,000, being 60% of Rs 4,00,000 would be agricultural income exempt</i>	

Working Note:

Computation of Business Income of Khetibaadi Ltd. for the A.Y. 2023-24

Particulars	(Rs)
Composite business profits before allowing deduction under section 33AB	50,00,000
Less: Deduction under section 33AB(1) would be the lower of:	
- Amount deposited in Tea Development Account on or before 30.9.2023 [i.e., Rs 10,00,000]	
- 40% of profits of such business [i.e., Rs 20,00,000, being 40% of Rs 50,00,000]	10,00,000
	40,00,000
Less: 60% of Rs 40,00,000, being agricultural income [as per Rule 8]	24,00,000
Business income	16,00,000
Less: Brought forward business loss of A.Y. 2022-23 set-off as per section 72	15,00,000
Business income chargeable to tax	1,00,000

7. **Formulation of Audit Strategy:** While formulating the audit strategy for a company, following factors may be considered -

Specific Factors for Online Shopping: The auditor shall also obtain an understanding of the information system including the related business processes due to new venture of online shopping in the following areas:

- The classes of transactions in the entity's operations that are significant to the financial statements;
- The procedures, within both information technology (IT) and manual systems, by which those transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements;
- The related accounting records, supporting information and specific accounts in the financial statements that are used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information is transferred to the general ledger. The records may be in either manual or electronic form;
- How the information system captures events and conditions, other than transactions, that are significant to the financial statements;
- Controls surrounding journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments.

CASE STUDY 33

CASE STUDY 34

LWS & Co., a chartered accountant firm has been into practice since 2006 in Delhi. CA Suresh Shah and CA Harvinder Kaur started their firm after practicing individually for almost 4 years and now firm has grown into big firm of 5 partners. The partners of firm have contributed various articles on subjects of Direct tax and allied Laws in professional journals and magazines. The clientele encompasses various segments i.e. software, education, NGOs, Government Bodies, real estate, construction, jewellery and a host of others. Over the years, the firm has evolved into renowned professional firm that has worked on various assignments ranging from statutory audits, management audits, income tax planning, FEMA consultancy, GST consultancy, establishment of overseas ventures and other related matters.

The firm has unique way of training its articles by involving them with its experienced partners on crucial projects so that they are able to learn and understand the practical issues arising in different industries. Currently, Subhash, Ashish and Manoj being articles of the firm are working with CA Harsh Bhatia, CA Nikhil Grover and CA Sakshi Ahuja, respectively for prestigious clients of the firm.

(1) Subhash assisting CA Harsh Bhatia

Currently, CA Harsh Bhatia is working on the applicability of Ind AS for various clients. The firm has a prestigious client, Shivalik Construction Private Limited, a construction company. On 1st January 2024, the company contracts to renovate a building including installation of new elevators. The company estimates following with respect to the contract:

Particulars	Amount (Rs)
Transaction price	60,00,000
Expected costs:	
(a) Elevators	10,00,000
(b) Other costs	35,00,000
	45,00,000

The company purchased elevators and they are delivered to the site six months before they will be installed. The Company uses an input method based on cost to measure progress towards completion. The Company has incurred actual other costs of Rs 7,00,000 by 31st March, 2024. The accounts team of the Company is facing difficulty in recognising revenue in respect of above contract. So, they have approached CA Harsh Bhatia with the abovementioned facts. CA Harsh Bhatia delegated the said work to Subhash to start initial working and then revert to him with his opinion.

(2) Ashish assisting CA Nikhil Grover

CA Nikhil Grover handles tax department of the firm. The final calculation of income tax and tax planning is being headed by CA Nikhil Grover. He is nowadays being assisted by Ashish. One of the oldest clients of the firm is MVS Private Ltd. The accountant of the company approached CA Nikhil Grover for calculation of final tax liability of the company. CA Nikhil assigned the work to Ashish. The accountant showed financials of the company to Ashish as below:-

The Profit & Loss Account of MVS private Limited for the year ended 31st March, 2024 shows a profit of Rs 75 lakhs after debiting the following items:

- (i) Rs 2 Lakhs contributed to Employee's Welfare Trust (not required as per any law for the time being in force).
- (ii) Rs 7,80,000 paid towards course fee and hostel expenses for MBA course of a close relative of a director. The relative is not in employment with the company.
- (iii) Rs 3.50 lakhs being expenses incurred on installation of a traffic signal, so as to facilitate its employees coming to office to overcome traffic jam and save office time.
- (iv) Rs 3 lakhs spent on gift items distributed to various dealers under the company's sales incentive scheme.
- (v) Rs 6 lakhs being expenses incurred on the travelling of the wife of MD, who accompanied him on tour to Singapore on invitation of Trade and Commerce chamber, Singapore.
- (vi) Rs 3 lakhs being amount paid in March 2024 consequent upon change in currency rate due to exchange fluctuation in excess of the amount due to the supplier of machinery. Such second hand machinery was acquired and put to use on 10th September 2023.
- (vii) Rs 18,000 and Rs 9,000 paid in cash on 25th August, 2023 by two separate vouchers to a contractor who carried out certain repair work in the office premises.
- (viii) Interest of Rs 2 lakhs was paid in September, 2023 to a company on a loan taken from it. Tax deducted at source, during P.Y. 2023-24, from such interest was deposited in April 2024.

Additional Information:

- (a) Audit fee of Rs 6 lakhs was credited during previous year 2022-23 without deducting tax at source. Such fee was paid to the auditors in September, 2023 after deducting tax under section 194J and the tax so deducted was deposited on 7th December, 2023. 30% of audit fee was disallowed while computing income for financial year 2022-23.
- (b) During financial year under consideration, the company purchased 10,000 shares of AB Private Limited out of its total 2 lakh shares at Rs 40 per share. The fair market value of such shares on the date of transaction was Rs 60 per share.

(3) Manoj assisting CA Sakshi Ahuja

Mr Amit, the director of SSI Pvt. Ltd. visited CA Sakshi Ahuja who is handling all customs related works of clients for past 7 years. The company imported machinery from USA by air for which the details are given under. FC signifies foreign currency in appended table.

Purchase cost of Machinery	FC 7,000
Accessories worth US \$ 2,000 compulsorily supplied with machine, price of which is included in price of machine	
Air Freight	FC 2,000

Insurance	FC 100
Local Agent Commission (not buying commission)	Rs 4,500
Exchange Rate with respect to INR	1 FC = 70
Custom Duty on Machine	10% ad valorem
Custom duty on Accessory	20% ad valorem
Integrated Tax	12%
GST Compensation cess	Nil
SWS (Social Welfare Surcharge)	10%

I. Multiple Choice Questions

- With reference to the Information given in point (3), compute the FOB value of machinery purchased by SSI Pvt. Ltd. as per Customs Act, 1962.
(a) Rs 4,90,000 (b) Rs 4,94,500 (c) Rs 6,30,000 (d) Rs 6,37,000
- With reference to the Information given in point (3), compute assessable value of machinery purchased by SSI Pvt. Ltd. as per Customs Act, 1962.
(a) Rs 6,00,400 (b) Rs 6,37,000 (c) Rs 6,41,500 (d) Rs 7,81,500
- With reference to the Information given in point (3), compute the total customs duty and integrated tax payable as per Customs Act, 1962 by SSI Pvt. Ltd. in respect of imported machine.
(a) Rs 1,54,918 (b) Rs 1,46,017 (c) Rs 1,56,013 (d) Rs 1,90,060
- With reference to the Information given in point (2), compute the Income of MVS Private Limited taxable under the head "Income from other sources".
(a) Rs 4,00,000 (b) Rs 1,50,000 (c) Rs 2,00,000 (d) Nil
- Existence of which of the conditions would make it appropriate for Shivalik Construction Private Limited to recognise revenue only to the extent of costs incurred?
(i) The goods do not represent a distinct performance obligation
(ii) The goods represent a distinct performance obligation
(iii) Customer is expected to obtain control of the goods significantly before receiving the services
(iv) Cost of such goods is significant relative to the total expected costs to complete the performance obligation and
(v) The entity procures the goods from a third party and does not significantly involve in designing / manufacturing the goods (even if the entity is a principal in the arrangement between the entity and end customer).

In the above context, which of the following is correct combination:

- (a) (i), (ii), (iii), (iv), (v) (b) (i), (iii), (iv), (v) (c) (ii), (iii), (iv), (v) (d) (i), (ii), (iii), (iv)

II. Descriptive Questions

- Compute total income of MVS Private Limited for AY 2024-25 and tax liability under Income Tax Act on such income indicating **Reasons** for treatment of each item. Ignore provisions relating to minimum alternate tax. Assume that company does not opt for provisions of section 115BAA (Turnover of company for PY 2021- 22 was Rs 250 crore)
- How will Shivalik Construction Private Limited recognize revenue as per the relevant Ind AS, if performance obligation is met over a period of time?

ANSWERS

- (b) Rs 4,94,500

Reason:

Particulars	Amount
Cost of machinery inclusive of accessory (FOB) (See note)	7,000
Total (in Indian Rs) FC 7000 * Rs 70 (being Exchange Rate)	Rs 4,90,000
Add: Local Agency Commission	Rs 4,500
FOB Value as per Customs	Rs 4,94,500

Note:

- As per Accessories (Conditions) Rules, 1963, accessories and spare parts compulsorily supplied with main implements are chargeable at the same rate applicable to main machine. Therefore, such accessories shall also be chargeable with duty at the rate applicable to the machinery i.e. 10% ad valorem
- Agency Commission, which is incurred in India, is not regarded as Buying Commission and therefore will be added to determine customs FOB Value.

2. (a) Rs 6,00,400

Reason:

Particulars	Amount
Cost of machinery inclusive of accessory (FOB) (See note)	7,000
Total (in Indian Rs) FC 7,000* Rs 70 (being Exchange Rate)	Rs 4,90,000
Add: Agency Commission	Rs 4,500
FOB Value as per Customs	Rs 4,94,500
Add: Cost of insurance (FC 100 * Rs 70)	Rs 7,000
Add: Air freight restricted to 20% of FOB Value as per customs	Rs 98,900
CIF Value/Assessable Value	Rs 6,00,400

Note: Actual Air freight is FC 2,000, it is limited to 20% of Custom FOB value of Goods as per Rule 10(2) of Custom Valuation Rules

3. (b) Rs 1,46,017

Reason:

Particulars	Amount (Rs)
Assessable Value (A)	6,00,400
Add: Basic Custom Duty (10%) (B)	60,040
Add: SWS @10% on BCD (C)	6,004
Total for Integrated Tax u/s 3(7) CTA,1975 (D)	6,66,444
Integrated Tax @ 12% of Rs 6,66,444 (rounded off) (E)	79,973

Total Custom Duty Payable = (B) + (C) + (E) i.e. Rs 1,46,017

(c) Rs 2,00,000

Reason: Income from other sources- Difference between the aggregate fair market value of shares of a closely held company and the consideration paid for purchase of such shares is deemed as income in the hands of the purchasing company under section 56(2)(x). Since the difference exceeds Rs 50,000, the entire sum is taxable. {10,000 shares * (60 - 40) = Rs 2,00,000}

5. (b) (i), (iii), (iv), (v)

Reason: While applying input method, a careful consideration should be given for events that do not depict a direct relationship between entity's inputs and transfer of control of goods or services. For example, when cost-based input method is used, an adjustment may be required when cost incurred is not proportionate to entity's progress in satisfying its performance obligation. In such cases, the best reflection is to adjust the input method to recognise revenue only to the extent of costs incurred. Such recognition of revenue to the extent of costs incurred is appropriate, if at contract inception, all the following conditions exist:

- (i) The goods do not represent a distinct performance obligation;
- (iii) Customer is expected to obtain control of the goods significantly before receiving the services;
- (iv) Cost of such goods is significant relative to the total expected costs to complete the performance obligation; and
- (v) The entity procures the goods from a third party and does not significantly involve in designing / manufacturing the goods (even if the entity is a principal in the arrangement between the entity and end customer).

6. Computation of total income of MVS Private Ltd. for A.Y. 2024-25

Particulars	Amount (Rs)
Profits and gains of business or profession	
Net profit for the year as per profit and loss account	75,00,000
Add: Expenses debited to profit and loss account but not allowable	
Contribution to Employees' Welfare Trust disallowed under section 40A(9) Note: Alternatively, contribution to Employees Welfare Trust can be regarded as labour welfare expenditure and hence, can be allowed as deduction under section 37 as the payments were made on the ground of assessee's business exigencies [CIT v. Cheran Transport Corp. Ltd. (Mad.)]	2,00,000
Expenses on course fee and hostel expenses for MBA course of a close relative of a director, who is not in employment of MVS Private Ltd., is not deductible under section 37 [Enkay (India) Rubber Co. Ltd. V CIT] Such expenditure is not incurred wholly and exclusively for the	7,80,000

purposes of business. Hence, it should be added back to compute business income.	
Expenses on installation of traffic signal, to facilitate its employees to overcome traffic jam and be on time, is in the interest of the business so that the work gets completed on time, and is hence, an allowable expense under section 37(1) [Infosys Technologies Ltd. v. CIT (Bangalore)]	
Expenses on distribution of gift items to dealers under sales incentive scheme would promote goodwill and is made in the interest of business. Such gifts are prompted by commercial expediency and hence, the expenditure is allowable under section 37(1) [CIT v. Avery Cycle Industries Ltd. (Punjab & Haryana)]	
Expenses on travelling to Singapore of the wife of Managing Director on the invitation of Trade and Commerce Chamber, Singapore, is an allowable expense on the grounds of commercial expediency and business considerations. [Hero Honda Motors Ltd. v. CIT (Delhi)]	
Increase in liability due to change in currency rate and paid to the suppliers of machinery is to be added to cost of the asset as per section 43A. Hence, it should be added back to compute business income.	3,00,000
Payments to a contractor for repair work in a day by two separate vouchers in cash, is not an allowable expense as per section 40A(3), since the aggregate payments in a day exceeds the limit of Rs 10,000	27,000
Interest of Rs 2 lakhs paid in September, 2023, on which tax deducted at source was remitted to the government before the due date of filling of income tax return, is allowable as per section 40(a)(ia).	
Total	88,07,000
Less: Expenditure allowable as deduction but not debited to profit and loss account	
Disallowed audit fees paid for the year ended 31.3.2023 for which tax was not deducted in the F.Y. 2022-23 but was deducted and paid in F.Y 2023-24, is allowable as deduction in the A.Y. 2024-25, as per the proviso to section 40(a)(ia)	1,80,000
Depreciation on the amount of Rs 3 lakhs added in cost of Machinery was put to use for more than 180 days	45,000
Income under the head Profits & Gains of Business or Profession	85,82,000
Income from other sources Difference between the aggregate fair market value of shares of a closely held company and the consideration paid for purchase of such shares is deemed as income in the hands of the purchasing company other section 56(2)(x). Since the difference exceeds Rs 50,000, the entire sum is taxable.	2,00,000
Total Income	87,82,000

Computation of tax liability of MVS Private Ltd. For the A.Y. 2024-25

Particulars	Amount (Rs)
Tax on Rs 87,82,000 @ 25%	21,95,500
Add: Health & Education cess @ 4%	87,820
Total tax payable	22,83,320

7. Costs to be incurred comprise two major components – elevators and cost of construction service

- The elevators are part of the overall construction project and are not a distinct performance obligation.
- The cost of elevators is substantial to the overall project and are incurred well in advance.
- Upon delivery at site, customer acquires control of such elevators.
- And there is no modification done to the elevators, which the company only procures and delivers at site. Nevertheless, as part of materials used in overall construction project, the company is a principal in the transaction with the customer for such elevators also.

Therefore, applying the guidance on input method as provided under Ind AS 115, 'Revenue from Contracts with Customers' –

- The measure of progress should be made based on percentage of costs incurred relative to the total budgeted costs.
- The cost of elevators should be excluded when measuring such progress and revenue for such elevators should be recognized to the extent of costs incurred.

The revenue to be recognized is measured as follows:

Particulars	Amount (Rs)
Transaction price	60,00,000
Costs incurred:	
(a) Cost of elevators	10,00,000
(b) Other costs	7,00,000
Measure of progress:	7,00,000/35,00,000 = 20%

Revenue to be recognised:	
(a) For costs incurred (other than elevators)	Total attributable revenue = 50,00,000 % of work completed = 20% Revenue to be recognised = 10,00,000
(b) Revenue for elevators	10,00,000 (equal to costs incurred)
Total revenue to be recognised	10,00,000 + 10,00,000 = 20,00,000

Therefore, for the year ended 31st March, 2024, the company shall recognize revenue of Rs 20,00,000 on the project.

CASE STUDY 35

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 Rs 7.40 Lakhs, however the customs exchange rate and bank buying rate on the same will lead to amount of Rs 7.45 Lakhs and Rs 7.50 Lakhs respectively for equivalent number of dollars on the same date.

During the last overseas visit of Senior Vice President (Marketing), the Company received export order for specified types of garments for which yarn was required to be imported. Company imported special yam from Germany for manufacture of garments. There was no transaction value available for such yarn. Consequently, transaction value of identical goods under customs was considered.

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 Rs 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 Rs 100 Crores and the amount of depreciation was Rs15 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.

Issue 4

Arunima is woman director of the Company. Due to her other engagements, she tendered her resignation from directorship with effect from 1st March 2024, vide her letter dated 15th February 2024, which was received by the Company on 20th February 2024. The Board took note of the resignation in its meeting held on 15th March 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 Rs 1,200, while the fair value of option replacing the existing scheme was Rs 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 Rs 7,450. GST amount will be Rs 1,341
 - (b) GST will be applicable on these services and the value of services will be Rs 7,400. GST amount will be Rs 1,332
 - (c) GST will be applicable on these services and the value of services will be Rs 5,200. GST amount will be Rs 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) Rs 30 Crores and Rs 2 Crores under clause 30B
 - (b) Rs 32 Crores and Rs 2 Crores under clause 30B
 - (c) Rs 32 Crores and Rs 34.50 Crores under clause 30A
 - (d) Rs 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 at least 2/3rd 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
5. Which of the following statements is correct in relation to import of yarn for which transaction value of identical goods was considered under Customs?
 - (a) The transaction value of identical goods in a sale at any commercial level and in substantially the same quantity as the goods being valued shall be used to determine the value of imported goods.
 - (b) The transaction value of identical goods in a sale at same commercial level and in any quantity as the goods being valued shall be used to determine the value of imported goods.

- (c) The transaction value of identical goods in a sale at same commercial level and in substantially the same quantity as the goods being valued shall be used to determine the value of imported goods.
- (d) The transaction value of identical goods in a sale at any commercial level and in any quantity as the goods being valued shall be used to determine the value of imported goods.

II. Descriptive Questions

6. Mr Q, before accepting the appointment as a director, discussed with the Company about the implications of GST on his appointment and emoluments. Explain if the services provided by the directors are under the ambit of Goods and Service Tax Act.
7. In the background of facts stated in issue 5, compute the value of option under the share based payment as per Ind AS 102.

ANSWERS

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	=	Rs7.4 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. (a) Every listed entity shall constitute a qualified and independent audit committee in accordance with the terms of reference, subject to the following:
- (i) The audit committee shall have minimum three directors as members.
- (ii) At least two-thirds of the members of audit committee shall be independent directors and in case of a listed entity having outstanding SR equity shares, the audit committee shall only comprise of 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.

5. (c) In applying rule 4 of the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007, i.e. transaction value of identical goods, the transaction value of identical goods in a sale at the same commercial level & in substantially the same quantity as the goods being valued shall be used to determine the value of imported goods.

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

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

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

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

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

Pre-acquisition period	3
Post-acquisition period	1
Total fair value at acquisition date	Rs1,200
Value to be recorded as per business combination under Ind AS 103	$Rs1,200/4 \times 3 = Rs900$
Value to be recorded as per Ind AS 102 (A)	$Rs 1,200 /4 \times 1 = Rs 300$
Fair value of the replacement of such award	Rs1,500
Difference from acquisition date fair value (B)	$Rs1,500 - Rs1,200 = Rs300$
Total value to be accounted over vesting period = A + B	$Rs300 + Rs300 = Rs600$

ALTERNATE ANSWER

Pre-acquisition period	3
Post-acquisition period	1
Total fair value at acquisition date	Rs1,200
Value to be recorded as per business combination	$Rs1,200/4 \times 3 = Rs900$

Since the fair value of the new award at the time of acquisition is Rs 1,500, balance Rs 1,500 - Rs900 i.e. Rs 600 will be recorded as an employee expense in the books.

CASE STUDY 36

StayInn Limited is a well established company that runs chains of hotels and resorts across different locations in India.

“StayInn Budget” hotels

The hotels operate as budget hotels and operate under the brand “StayInn Budget”. It provides accommodation for cost-conscious travellers visiting the city for short stay lasting a day or two. Typically a room in “StayInn Budget” hotels would provide comfortable beds, high speed internet connection, air conditioning facility, coffee machine, fridge and free television service. Food service based on a limited menu is provided on the premises. It has few conference rooms that provide space for guests to hold business meetings. This saves them precious time otherwise wasted in travelling on congested city roads. The hotel provides free shuttle service to and from the airport at specific times during the entire day. Proximity to the airport, the free shuttle service and convenience of conducting work at the conference rooms have been marketed to attract guests to stay here. The guests also comprise of people who are in transit between airports. Also when there are long-duration delays in flight operations due to which passengers need to be provided overnight accommodation, few airline operators host their guests here. Like all other guests, these airline operators are also interested in for its location and low-cost room rental.

In all, StayInn Limited has 15 hotel properties spread over 15 cities. All of them function under the “StayInn Budget” brand catering to cost-conscious travellers. In all these establishments, since the location of the hotel is near the city airport, the real estate cost, both for ownership and rental is very high. Hence, instead of having an in-house establishment for cleaning and food service, the company has outsourced these services to specialized vendors. This will reduce the additional space requirement needed to maintain the facilities to provide these services. This will help to keep its costs of operations within control. Since the hotel property is in the city, there is ample availability of vendors providing this service. Cleaning service includes cleaning of kitchen crockery, bedding, laundry and housekeeping of premises. Similarly, the entire set of activities related to preparation of food has been outsourced. Vendor service has been satisfactory, barring few instances where guests have complained of unhygienic rooms or non-palatable food service. However, due to high guest volume and quick turnover of guests due to short stay periods, this has never been a hindrance to business.

This business model has been profitable since its establishment. StayInn Limited has a sizeable market share in this segment. Competition has increased in the recent past. Price wars have put pressure on profit margins of the budget hotel segment. Room rates are increasingly being determined by the prevailing market rates in the respective locations

“StayInn Comfort” Resorts

The management plans to continue to operate in the budget hotel to maintain its market presence. At the same time, to sustain business in the long term, the management of StayInn Limited has forayed into developing properties for luxury resorts under a separate new brand called “StayInn Comfort”. Target guest segment are vacationing tourists interested in a enjoying a laid-back time in scenic places. These guests would not mind paying premium for availing good quality service.

Maintaining cleanliness of premises and food service are critical activities in the operation of luxury hotels. Unlike cities, the location of these resorts is in more sparsely populated areas. While there are vendors providing cleaning and food services, there are limited options to choose from.

Customer satisfaction is paramount to sustain and grow business in the luxury resort segment. With the ability to post reviews online on booking portals, any negative review (whether justified or not) can reach very easily to a large number of potential guests. This can negatively impact future business.

StayInn Limited is developing a "StayInn Comfort" property in Goa. Below are the expenses being incurred to construct the new resort at Goa.

Particulars	Cost incurred (Rs)
Purchase of land	15 crores
Site preparation costs, cost of dismantling existing structures on site	2 crores
Direct Material costs	8 crores
Direct Labour costs (including Rs20 lakh that was incurred during a labourstrike)	3 crores
Testing the safety of construction at the resort site	0.5 crores
Consultation fee (Legal and architect) related to construction of resort	1.5 crores
Relocation of expense of resort manager from Mangalore to Goa	0.10 crores
Administration and General overheads allocated to the project by corporateoffice	0.50 crores

The property is being acquired from an unrelated party at arm's length transaction value. Five out of the six directors were present at the Board Meeting to consider and pass the resolution to acquire the property.

The operations at the Goa resort started as per the expected timeline. It is in its 3rd year of operations. At a recent management meeting, following is the information was made available for the "StayInn Comfort" Goa resort:

Particulars	Amount
Net Operating Profit before Interest and Tax	5 crores
Depreciation expense	3 crores
Change in working capital	4 crores
Capital expenditure	5 crores
Invested capital	20 crores
Weighted Average Cost of Capital (WACC)	8%
Tax Rate	30%

I. Multiple Choice Questions

- For the "StayInn Budget" properties, identify the listed activities to the five primary activities of Michael Porter's value chain model.

Sr. No.	Listed Activity	Sr. No.	Primary activity as per value chain model
A	Storing vendor delivered freshly laundered crockery, bedding and laundry for future use as per guest requirements	I	Operations
B	Ensuring cleanliness and safety of rooms, working order of facilities offered like TV and internet service, coffee machines.	II	Marketing and Sales
C	The review of food items to remove the ones past expiry to ensure customer satisfaction and safety	III	Inbound Logistics
D	Free shuttle service to attract guests to stay at the hotel	IV	Service
E	Front desk activities handling complaints, customer support	V	Outbound Logistics

- A – I, B – III, C – IV, D – II, E – V
 - A – III, B – I, C – V, D – II, E – IV
 - A – I, B – IV, C – V, D – II, E – IV
 - A – III, B – I, C – II, D – IV, E – V
- As regards "StayInn Comfort" resorts, the parameters relating to high quality cleanliness and food service can be classified under which attribute of the following under the Kano Model?
 - Performance attribute
 - Delight attribute
 - Threshold attribute
 - Indifferent attribute
- Which of the following statements is true as regards to the resolution taken at the Board Meeting to acquire the property in Goa?
 - When all five directors of StayInn Limited attending the meeting consent to the acquisition of property
 - When any four directors of StayInn Limited out of the five attending the meeting consent to the acquisition of property
 - When any three directors of StayInn Limited out of the five attending the meeting consent to the acquisition of property

- (d) When all six directors, representing the total strength of directors at StayInn Limited should consent to the acquisition of property
4. Calculate the Economic Value Added (EVA) of the "StayInn Comfort" Goa.
 (a) Rs 1.60 crores (b) Rs 4.60 crores (c) Rs 0.40 crores (d) Rs 1.90 crores
5. Which of the following statements would be true?
 (a) StayInn Limited should outsource all its cleaning and food service operations in all its properties ignoring the risks of outsourcing, if the cost of outsourcing is less than the cost of providing this service in-house. This is because the Economic Value Added (EVA) of the company will be positively impacted despite the risk of outsourcing.
 (b) StayInn Limited make an absolute comparison of Economic Value Added (EVA) of one property with that of another irrespective of the difference in scale of their respective operations.
 (c) StayInn Limited should reconsider the feasibility of operating properties where the Economic Value Added (EVA) is negative.
 (d) Economic Value Added (EVA) as a measure takes into account the current purchasing power and adjusts for inflationary trends. Hence, it is a more appropriate measure to track as compared to book profit.
6. (a) Explain the risks of outsourcing cleaning and food services for the "StayInn Comfort" luxury resort properties.
 (b) What would your suggestion be, if the management of StayInn Limited determines that guests experience (primarily influenced by cleanliness of facilities and food service) is a very important critical success factor (CSF)?
 (c) How is this risk different from outsourcing cleaning and food services for the "StayInn Budget" hotel properties with that for "StayInn Comfort" resorts?
 (d) What benefit does StayInn Limited derive by operating different properties under two separate brands?
7. Identify the total costs to be capitalized under Indian Accounting Standard 16, Property, Plant and Equipment for the "StayInn Comfort" resort being developed in Goa.

ANSWERS TO THE CASE STUDY 36

1. (b) A – III, B – I, C – V, D – II, E – IV
Reason:
 A Storing vendor delivered freshly laundered crockery, bedding and laundry for future use as per guest requirements – Inbound Logistics as it relates to activities of receiving, handling of materials from the supplier and their storage until further use later in operations.
 B Ensuring cleanliness and safety of rooms, working order of facilities offered like TV and internet service, coffee machines – Operations as these are activities related to converting inputs into production of output or service.
 C The review of food items to remove the ones past expiry to ensure customer satisfaction and safety – Outbound Logistics as it relates to storage and movement of the end product from the production line to the customer.
 D Free shuttle service to attract guests to stay at the hotel – Marketing and sales as these are activities related to communicating, selling and delivering the product or service to the customer.
 E Front desk activities handling complaints, customer support – Service includes after sale service, handling customer complaints, customer support, training etc. It is one of the most important activities in their value chain model. Good service ensures happy guests.
2. (c) Threshold attribute
Reason: Threshold attribute as this is feature that is taken for granted by the guests at the resort. However, if the required quality is not met it would cause dissatisfaction.
3. (a) When all five directors of StayInn Limited attending the meeting consent to the acquisition of property
Reason: the resolution will be taken as passed when all five directors of StayInn Limited attending the meeting consent to the acquisition of property
4. (d) Rs1.90 crores. EVA = NOPAT less capital charge on invested capital
Reason: Net Operating Profit After Tax (NOPAT) = Net Operating Profit before Interest and Tax Less Taxes
 = Rs 5 crores less 30% of Rs5 crores = Rs3.50 crores.
 Capital charge on invested capital = WACC * Invested capital = 8% * Rs20 crores = Rs1.60 crores.
 Therefore, EVA = Rs 3.50 crores less Rs 1.60 crores = Rs1.90 crores.

5. (c) StayInn Limited should outsource all its cleaning and food service operations in all its properties ignoring the risks of outsourcing, if the cost of outsourcing is less than the cost of providing this service in-house. This is because the Economic Value Added (EVA) of the company will be positively impacted despite the risk of outsourcing.

Reason: StayInn Limited should reconsider the feasibility of operating properties where the Economic Value Added (EVA) is negative. Negative EVA implies that the profits from the property does not cover the cost of invested capital.
6. (a) **Risks of outsourcing cleaning and food service under the luxury resort model:**
In the luxury resort business under the brand "StayInn Comfort", the target guests are travellers on leisure. The primary feature of this model would be "good quality of service". Maintaining cleanliness of premises and food service are critical activities in the operation of luxury hotels. Therefore, customer satisfaction on these metrics is paramount to sustain and grow business. With the ability to post reviews online on booking portals, any negative review (whether justified or not) can reach very easily to a large number of potential guests. This can negatively impact future business. Hence, "StayInn Comfort" brand has to deliver the quality of service that it provides in terms of cleanliness and food that should meet and beat the guests' expectation.
Outsourcing these services to well established vendors is advantageous since the focus can remain on improving guest experience. It may also be cost advantageous in many cases. However, there are a number of risks in this model.
 - (1) The required quality of service for "StayInn Comfort" resort properties should be delivered by these vendors. Detailed service level agreements need to be drawn up to ensure this. StayInn Limited should be able to monitor the performance of these vendors. In cases of non-delivery of the required level of service, the agreement should provide for means of redressal. This could vary from compensation for any loss in business to immediate termination of service.
 - (2) StayInn Limited should ensure that it can easily and economically switch service providers if required. For this it has to identify alternate vendors who can provide the same level of service as the current ones. At the same time, since the resorts are in locations where the number of vendors providing these services is limited, it increases the risk of outsourcing these services. The other risk in outsourcing could be of instances where well performing vendors could go bankrupt and shut shop. In such cases, resort operations could be immediately impacted since such services can no longer be availed from these vendors. Again, list of alternate service providers is a necessary back-up that the hotel should have.
- (b) Where the management of StayInn Limited determines that guests experience (primarily influenced by cleanliness of facilities and food service) is a very important critical success factor (CSF) it may choose not to outsource these activities to outside vendors. Quality control issues and poor customer service may wipe out any cost savings attributed to lower expenses from the outsourcing model. StayInn Limited would then have to consider developing in-house departments that cater to cleanliness and food service. Control over factors such as input material used, the performance of service, equipment used, training of staff and other essential activities can ensure that the required service quality can be achieved. Better service enhances guest experience through these critical activities. Compared to outsourcing, this might be a costlier option. However, since the guests are ready to pay a premium for service quality, StayInn Limited could choose to charge higher rates for its resort properties.
- (b) The difference between the risk of outsourcing for "StayInn Comfort" and "StayInn Budget" driven by the difference in the focus and target customer segment of their respective business models. "StayInn Budget" focuses on providing value for money to the cost conscious short stay guests while "StayInn Comfort" focuses on customer experience through quality of service provided to the guests staying on longer vacations.
As regards "StayInn Budget" due to high real estate cost, both for ownership and rental, the cleaning and food service has been outsourced. This enables StayInn Hotels to keep the costs of operation low, which is very critical for the business model of "StayInn Budget". Hence, instances of dis-satisfaction among guests as regards quality of cleaning and food service, within certain limits will not negatively impact business. These activities are non-core and hence can be considered for outsourcing. For "StayInn Budget", the critical success factor (CSF) is low cost of operations in order to be able to offer guests rooms at Reasonable rates.

As regards “StayInn Comfort” where CSF is guests experience, which is primarily influenced by cleanliness of facilities and food service, these activities become core activities, hence the risks of outsourcing are higher. Therefore, there may need to be a consideration whether to outsource these activities at all. Pricing for rooms at these resorts can factor any additional costs to be incurred to ensure the delivery of the required quality of service in these resorts.

- (c) Branding of properties under either “StayInn Budget” and “StayInn Comfort” makes helps potential customers determine their expectations from each of such properties. Based on these expectations the customer appeal can be distinctly determined for each of these properties. This will help them choose which property could potentially satisfy their expectations better. Thus by operating different properties under either “StayInn Budget” or “StayInn Comfort” brand, StayInn Limited has created a brand strategy that can effectively communicate their product and service offering to potential customers.

7. Computation of total cost of construction of StayInn Comfort” resort being developed in Goa as per Indian Accounting Standard 16, “Property, Plant and Equipment”

Particulars	Cost incurred (Rs)
Purchase of land	15 crores
Site preparation costs, cost of dismantling existing structures on site	2 crores
Direct Material costs	8 crores
Direct Labour costs (including Rs20 lakh that was incurred during a labour strike)	2.8 crores
Testing the safety of construction at the resort site	0.5 crores
Consultation fee (Legal and architect) related to construction of resort	1.5 crores
Total cost to be capitalized StayInn Comfort” resort being developed in Goa as per Ind AS 16.	29.80 crores

Relocation expense of hotel manager from Mangalore to Goa and administrative and general overheads allocated to the project by corporate office are not capitalized under Indian Accounting Standard 16. Direct labour costs incurred during a labour strike is not attributable to construction of resort and hence not capitalized. All other costs are directly attributable to the construction of the resort.

CASE STUDY 37

Background

Riddhi and Siddhi are siblings residing in a remote village in north-east India. Over the years Riddhi and Siddhi observed that rampant and unchecked industrialisation is causing irreparable damage to the local environment and create health related issues for the residents. Dwindling air quality further added to the health-related issues.

The siblings graduated from a renowned medical college from Delhi. Armed with medical knowledge, they incorporated RISI Limited – a super-speciality hospital. The 303-bed hospital established in Assam delivers the highest quality of medical care through its team of expert doctors, nurses, technicians and management professionals. The hospital has Centres of Excellence in oncology, including surgical, non-interventional cardiology, cardiac surgery, gastroenterology and kidney transplant and neurology. The hospital also has robust critical care capabilities both adult and paediatric. Their business grew exponentially, and the equity shares of the Company were eventually listed on the Bombay Stock Exchange. Riddhi and Siddhi were appointed as Directors on the Board of the Company.

The current status of RISI Limited described as follows:

Since incorporation the mission of the Company remained consistent basis the initial understanding of the Founders i.e. **to create a world-class integrated healthcare delivery system in India, entailing the finest medical skills for finest clinical excellence and distinctive patient care.** Since then, the mission has not been revised. In quarterly meetings senior management expresses their desire to improve profitability, result oriented, innovate and learn. Occasionally, in informal meetings employees are told to work ethically and honestly.

The general environment, in which RISI Limited operates, is made up of elements of the broader community that have an influence on the healthcare industry and the company within it. There is a trend towards continuous research and development for the treatment of cancer, AIDS and the improved quality of life. More complex diagnostic equipment is being utilised on a daily basis in the healthcare industry, an example is the challenges of microscopic and endoscopic surgery.

RISI Limited analyse the internal and external environment of the organisation. It is thus how; the organisation's resources are allocated optimally by considering the analyses done, to achieve its goals. The plan devised as part of strategy illustrates the aims to improve the organisation's position and how it plans to respond to its external environment and where it needs to position itself to maximise its strengths and gain success in doing so.

RISI Limited has a flat fee structure as it believes in easy access to affordable healthcare systems. The Company has cost effective prices in relation to its competition. This strategy had indeed made a mark for the Company in the State of Assam. However, due to increased earnings, newer generations, expects a better healthcare experience for which they are willing pay an extra amount.

The implications of technological advances have created opportunities for RISI Limited to research and form guidelines and protocols for the use of any new technology to try and curb unnecessary expenditure, by ensuring that it is used cost-effectively, appropriately and rationally. During the last year, the Company attempted to enter into a joint venture with an entity specialising in treatment of cancer. However, the attempt failed. In the current year, the Company tried to enter into a strategic alliance with an entity undertaking research in AIDS. Despite multiple attempts the deal did not go through. As per Company's own estimate, these two alliances would have provided a significant fillip to the diminishing profitability of the Company.

The RISI Limited reduces the costs of medical facilities by controlling the behaviour of patients and healthcare providers. Control functions manage the interfaces between healthcare services, thus through this, a continuum of internal control to transactional control is exercised. The Company especially owns strategic value in terms of their technological resources: computer soft- and hardware and also in the financial and organisational resources that have been put in place.

The Company require its professionals to have a wide range of technical skills to provide the best healthcare services and soft skills to provide the best possible patient care. These professionals employ unique skills depending on the patient and situation. Healthcare capabilities help engaging with patients, influence how to communicate with them and provide optimum healthcare services. These skills help the Company showcase why it is an ideal choice and what differentiates the Company from competitors. The development of human capital is deemed to be part of the management of knowledge by the Company. Human capital refers to the knowledge and skill of all the employees.

RISI Limited has in the past invested in the training and further development of personnel, as training and development is essential to ensure that personnel know how to do their jobs and at the same time keep up to date with the latest techniques and technology. Separate budgeting was done for development and training purposes.

Management and employee performance indicate that the Company has employed many skilled and capable staff. Unfortunately, it has not made provision for the rapid growth that has taken place in the organisation. Recognition and growth opportunities appear to be the greatest problems experienced at this time. There is also no reward system for excellence.

The Company believes that performance reviews are crucial to the forward progress of both organization and the employees who operate them. These reviews are expected to improve team productivity and workplace satisfaction. The Company follows traditional performance appraisals. A manager and employee meet to review the employee's work performance annually. There are no set time limits on the completion of performance reviews. Typically, it was observed that a large number of employees on an average spends 15 minutes spend time with their manager at the end of the every year to discuss their performance. A preset rating system is used to guide the conversation. These rating criteria were framed by the Founders in discussion with a renowned consultant having expertise in manufacturing sector.

Decision-making systems in the Company are utilised within the organisational context, they range from budget and financial systems to very structured computer systems and even complex expert systems. These systems work in silos. The strategic value that has been added by these system has contributed to the development of staff skills and abilities and thus to the company's competitive advantage. Recently, the Company had hired an external consultant to suggest new systems. These new systems use cutting edge technologies and involve the use of generative technologies, machine learning and artificial intelligence. These new systems, if implemented across the Company's value chain would significantly overhaul the Company and usher the entity into a new era of data management and objective decision making. The Company is apprehensive of using the these new tools.

The decision-making systems are diverse and meet the requirement of every department. A large part of the data required for decision making purpose is maintained in spreadsheets by a capable and dedicated team of professionals. For decision making at the

higher level a separate team of professionals are employed to extract the data from peripheral systems of every department and feed the data into the main system of the entity.

the organisation's different departments or units relate to each other, and have been described in the organisation charts and group and ownership structures. The Company has been divided in four main functions and are regarded and function as independent profit centres. These Strategic Business Units (SBUs) form is part of a multidivisional structure, which consists of the top level being corporate headquarters. The units function as profit centres and are thus responsible for their own budgets. They are to continuously follow through on their own objectives and strategies. These business units have their own core functions, but share common business, financial, administrative, and human resource policies.

Company's culture and employees' common and shared way of behaving and thinking. RISI Limited values and culture has been built on a foundation of absolute honesty, professional integrity, capability and quality. The company is very supportive in terms of its human capital. Any partnerships that are entered into are for shared advantage and to have created a winning recipe.

The Company makes a point of focussing all new staff towards a client and results orientation. Another very important, almost critical element of RISI Limited is the management and warehousing of data, as well as the leverage of information technology. It has been ingrained in the culture that service quality is extremely important, and a high service level and service quality is to be maintained all the time.

The Company's staff is made up mostly of healthcare professionals, information technology staff and office support staff. Staff members become major stakeholders in the organisation, as their employment provides job security and job satisfaction. The Company's staff refers to the type of people employed in the organisation with their different backgrounds, orientation towards clients, values and technology that makes the organisation successful. The organisation hires able people, train them well and assign them to the correct jobs. RISI Limited has always maintained an excellent reputation in the healthcare industry in terms of their knowledge resources; they have been known to be non-confrontational and rather to negotiate. Joint Ventures that they have entered into supports the brand name further.

A majority of the staff in the initial level comprise of female health care professionals. However, in middle and top level, the gender ratio is skewed toward the male professionals. A recent study shown that the Company losses 30% of its female work force in every 3 years. The Company has regular alumni meet to meet the ex-employees.

For the purpose of book closure of the financial statements for the current year – 31 December 20X4, Riddhi and Siddhi, met Ms Nidhi, CEO of the Company along with the auditor to discuss the audit plan and audit observations, if any. Ms Nidhi informed that the Company is expected to earn profits during the current year. The auditor highlighted that the audit is progressing and the observations till date are as follows:

Issue – 1

RISHI Limited had entered into a contract with Vahan Chalak Limited- a transport agency - to use a particular ambulance van specified in the contract for a period of 7 years. Vahan Chalak can substitute another ambulance van only in case of breakdown of the van. As per the terms of contracts, during the 7-year contract period, the driver hired by RISHI Limited can operate the van and RISHI Limited decides how to use the van (such as when it is used and on which route it will operate). However, there are certain contractual limitations to protect the interest of Vahan Chalak in the truck, i.e., restrictions on making modifications.

Issue – 2

USA Chemical, an entity domiciled in USA, manufactures, and sells life saving drugs. RISI Limited entered into a contract:

- ◆ Involving purchase of 2 cartons of chemical on 1 October 20X4, when the price of the chemical is USD 100,000 per KG
- ◆ Delivery date of chemical 31 January 20X5 (conversion rate INR 160 = USD 1).
- ◆ Paid an upfront deposit of USD 40,000 (conversion rate INR 100 = USD 1) to the supplier.
- ◆ Deposit will be deducted from the total purchase consideration which is due to be paid on 28 February 20X5 (conversion rate INR 150 = USD 1).

Issue – 3

During the year remuneration of INR 2,00,00,000 was paid to Ms Nidhi, the CEO of the Company. Ms Nidhi is a Chartered Accountant with deep experience in recycling industry. ESOPs were issued as follows:

- ◆ First tranche of 7,000 equity settled ESOP granted at the beginning of the year

- Grant date fair value INR 100 per ESOP
- Vesting, exercise (at nil exercise price) of ESOP and allotment of equivalent equity shares were completed by the year end.
- Exercise date fair market value: INR 150 per ESOP.
- Allotted shares constitute 0.1% of paid up share capital.
- ◆ *Second tranche of 3,000 ESOP were also granted at the beginning of the year*
 - Vest period would end by the end of the next year.

As per the auditor the managerial remuneration paid to Ms Nidhi exceed the prescribed limits as follows:

Rounded to nearest INR lakhs	
Profit before tax- as per Statement of Profit and Loss	1,000
Less: Unrealised gain of INR 10 lakhs	(10)
Net profit under section 198 of the Companies Act, 2013	990
Maximum limit under section 198 of the Companies Act, 2013	109
	(11% of above net profits)
Salary paid and recognised in the Statement of Profit and Loss	100
Excess managerial remuneration	9

Issue – 4

RISI Limited had entered into a contract with SIRI LLP to purchase certain materials. Majority of the capital of SIRI LLP is held by IRIS LLP whose majority capital is held by Vaani Sole Proprietor incorporated by a friend of Riddhi. IRIS LLP holds 5% of share capital of RISI Limited. The key terms and conditions are as follows:

- ◆ Initially 10,000 KG of material will be purchased for INR 600 crores.
- ◆ Subsequently 15,000 KG of material will be purchased for INR 500 crores.

The CEO of the Company believes that the above transaction is not a related party transaction under SEBI Listing Regulations.

I. Multiple Choice Questions

1. Assuming that the conversion rate of USD 110 = USD 1 exist as on 31 December 20X4, at what amount should the foreign currency deposits and foreign currency trade payable be recognised in the financial statements for the year ended 31 December 20X4?
 - (a) Recognise foreign currency deposit at INR 44 lakhs and foreign currency payable at INR 1.76 crores. The foreign currency deposit and foreign currency payable should be translated using the exchange rate as at year end 31 December 20X4.
 - (b) Recognise foreign currency deposit at INR 60 lakhs and foreign currency payable at INR 1.76 crores. The foreign currency deposit and foreign currency payable should be translated using the exchange rate as at 28 February 20X5 (i.e.. the settlement date) and the exchange rate at yearend 31 December 20X4 respectively.
 - (c) Recognise foreign currency deposit at INR 44 lakhs and foreign currency payable at INR 2.56 crores. The foreign currency deposit and foreign currency payable should be translated using the exchange rate as at 31 December 20X4 (i.e.. year end) and the exchange rate at 31 January 20X5 (i.e.. delivery date) respectively.
 - (d) Recognise foreign currency deposit at INR 40 lakhs. Foreign currency trades should not be recognised. The foreign currency deposit should be recognised using the conversion rate of 1 October 20X4 (i.e.. date of deposit).
2. Whether the computation of excess managerial remuneration is in accordance with provisions of the Companies Act, 2013?
 - (a) Yes–Managerial remuneration is within prescribed limits
 - (b) No – Excess managerial remuneration is INR 7 lakhs
 - (c) No – Excess managerial remuneration is INR 3 lakhs.
 - (d) No – Excess managerial remuneration is INR 19 lakhs.
3. Whether the CEO is correct in her conclusion that the purchase of raw materials from SIRI LLP would not qualify as a related party transaction under SEBI Listing Regulations?
 - (a) Yes. SIRI LLP is not a related party as per SEBI Listing Regulations. Thus, any transaction with SIRI LLP would not qualify as a related party transaction under SEBI Listing Regulations.
 - (b) No. SIRI LLP is a related party as per SEBI Listing Regulations as it is controlled by a friend of Riddhi – a key managerial personnel of RISI Limited. Thus, any transaction with SIRI LLP would qualify as a related party transaction under SEBI Listing Regulations.
 - (c) No. Non-reduction of purchase consideration indicate that the purpose and effect of the transaction benefit Riddhi - a key managerial personnel of RISI Limited. Thus, any transaction with SIRI LLP would qualify as a related party transaction under SEBI Listing Regulations.
 - (d) Yes. Non-reduction of purchase consideration indicate that the purpose and effect of the transaction benefit Riddhi - a

key managerial personnel of RISI Limited. However, the transactions are individually below the qualifying threshold of INR 1,000 crores. Thus, the transaction with SIRI LLP would not qualify as a related party transaction under SEBI Listing Regulations.

4. Whether the transaction for purchase of raw materials from SIRI LLP require approval of Audit Committee and/ or shareholders under the SEBI Listing Regulations?
 - (a) Yes. Only approval of the Audit Committee is required since it is not a related party transaction.
 - (b) Yes. Prior approval of the Audit Committee is required. Since the aggregate transactions exceed the qualifying threshold of INR 1,000 crores, prior approval of shareholder is also required.
 - (c) Yes. Prior approval of the Audit Committee is required. Since the aggregate transactions exceed the qualifying threshold of INR 1,000 crores, approval of shareholder is also required.
 - (d) Yes. Individually the transactions do not exceed the qualifying threshold of INR 1,000 crores. Accordingly, prior approval of the Audit Committee is required.
5. Which of the following strategic considerations should RISI Limited focus on to address emerging needs and improve its market position?
 - i. Continue with the current flat fee structure without any changes.
 - ii. Update the mission and strategic objectives to incorporate profitability, innovation, and ethical practices.
 - iii. Need for a revised approach to partnerships and collaborations.
 - iv. Implementing the new systems suggested by the external consultant, which involve generative technologies, machine learning, & AI.

Options

(a) i, ii (b) ii, iii (c) iv only (d) iii, iv
6. Whether RISHI Limited has the right to direct the use of the ambulance van while assessing the lease contract?
7. RECOMMEND how aligning actions and decisions with each element of the McKinsey 7S model can help RISI Limited enhance organizational effectiveness, resilience, and long-term sustainability in the healthcare industry while addressing potential inefficiencies and challenges?

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1. (d) Recognise foreign currency deposit at INR 40 lakhs. Foreign currency trade should not be recognised. The foreign currency deposit should be recognised using the conversion rate of 1 October 20X4 (i.e. date of deposit)
Reason: Under Ind AS 21, monetary items are units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency. At the end of each reporting period foreign currency monetary items shall be translated using the closing rate.
The deposit of INR 40 lakhs on 1 October 20X4 represents a prepayment of the cost of chemical and will consequently be accounted for as a non-monetary item. Therefore, RISHI Limited will not retranslate the foreign currency deposit at the balance sheet date ie. 31 December 20X4. RISHI Limited will recognise the balance trade payable at the point of delivery (which falls after the year-end).
2. (a) Yes—Managerial remuneration is within the prescribed limits
Reason:

	Rounded to nearest INR lakhs	
Profit before tax - as per Statement of Profit and Loss	1,000	
Add: Salary paid and recognised in the Statement of Profit and Loss	100	
Add: ESOP expense recognised in the Statement of Profit and Loss [7,000 ESOP X INR 100 (i.e. grant date fair value)] + [3,000 ESOP X INR 100 (i.e. grant date fair value)/ 2 (i.e. vesting period)]*	9	
Less: Unrealised gain**	(10)	
Net profit under section 198 of the Companies Act, 2013	1,099	
Maximum limit under section 198 of the Companies Act, 2013 - (11% of above net profits)		121
Salary paid and recognised in the Statement of Profit and Loss	100	

Add: Value of ESOP determined as perquisite under Income Tax Act, 1961 [7,000 ESOP X INR 150 (i.e. exercise date fair value)]	11	
Managerial Remuneration as per Section 2(78)*** of Companies Act, 2013		111
Managerial remuneration exceeds the prescribed limit		No

* Ind AS 102 requires ESOP cost is recognised at grant date fair value over the vesting period

** Unrealised gain to be reduced as per Section 198(3)(f) of Companies Act, 2013.

*** Under section 2(78) of Companies Act, 2013 remuneration means any money or its equivalent given or passed to any person for services rendered by him and includes perquisites as defined under the Income-tax Act, 1961.

3. (c) No. Non-reduction of purchase consideration indicate that the purpose and effect of the transaction benefit Riddhi - a key managerial personnel of RISI Limited. Thus, any transaction with SIRI LLP would qualify as a related party transaction under SEBI Listing Regulations.

Reason: Under Regulation 2(1)(zc)(ii) of SEBI (LODR) Regulations, 2015 related party transaction means a transaction involving a transfer of resources, services or obligations between a listed entity or any of its subsidiaries on one hand, and any other person or entity on the other hand, the purpose and effect of which is to benefit a related party of the listed entity or any of its subsidiaries, with effect from April 1, 2023 regardless of whether a price is charged and a "transaction" with a related party shall be construed to include a single transaction or a group of transactions in a contract.

In the extant case the purchase of raw material is routed through entities with seemingly unrelated parties (unrelated party introduced as a subterfuge).

4. (b) Yes. Prior approval of the Audit Committee is required. Since the aggregate transactions exceed the qualifying threshold of INR 1,000 crores, prior approval of shareholder is also required.

Reason: Regulation 23(2) of SEBI (LODR) Regulation, 2015 inter alia prescribe that "All related party transactions [and subsequent material modifications] shall require prior approval of the audit committee "

Regulation 23(4) of SEBI Listing Regulation inter alia prescribe that "All *material related party transactions [and subsequent material modifications as defined by the audit committee under sub-regulation (2)*] shall require [prior] approval of the shareholders through resolution....."

* A transaction with a related party shall be considered material, if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceeds rupees one thousand crore or ten per cent of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity, whichever is lower.

5. (b) ii, iii

Reason: RISI Limited's core strategy spins around providing high-quality, affordable healthcare. This strategy has led to a **flat fee structure**, making healthcare accessible to a broader population in Assam. However, there's an emerging need to cater to newer generations **willing to pay a premium** for better healthcare experiences.

The company should consider updating its mission and strategic objectives to incorporate profitability, innovation, and ethical practices.

Unsuccessful efforts in establishing strategic alliance highlight the requirement for a revamped strategy in forming alliances and collaborations. Considering new joint ventures or strategic alliances with a more organized approach **may improve both profitability and service offerings.**

6. Paragraph B24 of Ind AS 116 provides that a customer has the right to direct the use of an identified asset throughout the period of use if the customer has the right to direct how and for what purpose the asset is used throughout the period of use. Paragraph B30 of Ind AS 116 states that a contract may include terms and conditions designed to protect the supplier's interest in the asset – generally known as protective rights. Protective rights typically define the scope of the customer's right of use but do not, in isolation, prevent the customer from having the right to direct the use of an asset. For example, a contract may include following protective rights:

➤ Specify the maximum amount of use of an asset or limit where or when the customer can use the asset,

- Require a customer to follow particular operating practices, or
- Require a customer to inform the supplier of changes in how an asset will be used.

In the given case, RISHI Limited has the right to direct the use of the ambulance van throughout the period of use as it has the right to direct how and for what purpose the truck is used, i.e., whether or when it is used and what it is used for throughout the period of use. The contractual limitations are meant to protect the interest of Vahan Chalak and hence are protective rights. RISHI Limited has the right to direct the use of the asset as prescribed under Ind AS 116.

7.

McKinsey factor	Recommendation
Shared values	1. Clear mission, vision and values are to be determined according to the existing requirements. In doing so all stakeholder groups should be identified, as well as their particular needs and performance expectations. 2. Senior management must constantly re-iterate the importance of values and beliefs to employees. 3. Innovation and creativeness are encouraged e.g. rewards for change, calculated risk-taking.
Strategies	1. RISI Limited's core strategy spins around providing high- quality, affordable healthcare. This strategy has led to a flat fee structure. 2. There's an emerging need to cater to newer generations willing to pay a premium. 3. Alternative fee structures can create new opportunities and in so doing acquire potential new clients. 4. Improve the competitive position e.g. Creation of alliances and partnerships and business requirements analysis. 5. Requirement for a revamped strategy in forming alliances and collaborations. 6. Should strive towards a greater market share by venturing to other states. 7. Strategies should be responsive to changes in market dynamics.
Skills	1. The organization has made significant investments in training and development. 2. By introducing gender diversity programs, the company can retain its talented female professionals. 3. Performance measurement criteria should be reassessed in light of the relevant business environment. 4. Appraisal must be done more engaging and according to a disciplined approach - rather than a form filling exercise. 5. Perhaps reward system and job enrichment and enlargement should be considered to provide growth opportunities.
Systems	1. Silo approach breeds inefficiencies. Integration of departmental systems and main system decision making at organisation level is key for real time data analysis and improved decision making. 2. Integration of systems will free up resources which can be mobilised in other functions. 3. The Company should quickly analyse the benefits that would accrue to the Company from the latest systems. It should also consider the underlying risk such as accuracy and reliability of results generated from these systems.
Structures	1. The organization functions with a multi-divisional framework, which is segregated into Strategic Business Units (SBUs). 2. A core process view of organisation should be carried out to align objective of entity with the SBUs. 3. Move from silo approach to an integrated structure where common functions are shared between SBUs. 4. Provide a basis where authorities and responsibilities are identified that is consistent.
Style	1. Current management style relies on a conventional method for performance evaluations (appraisals). 2. Data and information driven organisation should be promoted. 3. Continuous improvement based on valid measurement of regular processes and services should be promoted. Should continue to leverage technology.
Staff	1. Gender ratio at middle and top level should be improved. 2. Establish enablers to reduce exit of female professionals e.g. crèche facilities. 3. Connect with alumni are not limited to a meeting exercise; but should be leveraged to identify potential boomerang employees.

CASE STUDY 38

BASP & Co. Chartered Accountants are a firm of Chartered Accountants, having offices across major towns of South India. They provide consultancy in the field of GST, income-tax and corporate law. ABC Private Ltd is one of major clients of the firm having a dynamic and professional finance team., Tan & Kan, the Partners of BASP & Co, had regular meetings with Jay, the Director (Finance) of ABC Private Ltd and his team. During one of the meetings, Jay seemed to have quite some points for discussion with Tan & Kan. Having seen new members in the audit team, Jay gave a quick overview about the Company and its operations for their understanding. He explained that the Company manufactures and supplies air conditioners (AC), refrigerators, and other products.

He went on to explain the following points:

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

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

The civil construction cost of Rs 120 Lakhs above includes construction of foundation for installation of Plant and Machinery. The cost of construction of foundation is Rs 20 Lakhs. CGST and SGST for both civil construction and Plant and Machinery is 9% each i.e.18% in aggregate. The details of expenditure are as under:

Date	Details	Amount Rs Lakhs
1st April 2023	Advance given for Plant & Machinery	40
	Advance to contractor for civil construction	10
15th April 2023	Work of construction begins	
30th April 2023	Civil construction work expenses	25
31st July 2023	Civil construction work expenses	25
1st October 2023	Payment made to suppliers of Plant and Machinery and delivery received	90
31st December 2023	Construction work expenses	20
31st March 2024	Final payment made (including outstanding GST)	40

- (B) During the financial year 2023-24, in one of the Board meetings, the management sought an approval from the Board, for investing in equity shares of other Companies as per the provisions of the Companies Act, 2013. The Board approved the management's proposal, after due deliberations and discussions. The Company purchased 10,000 shares of Milaan Ltd. on 1st January 2023 at a price of Rs 20 per share. Milaan Ltd. declared bonus of one share for every 2 shares held on 31st March 2023 as record date for issue of bonus. The Company sold 10,000 shares purchased on 1st January 2023 on 31st August 2023 at Rs 15 per share.
- (C) In addition to manufacture and supply of ACs, the Company also does installation for the same. It had received advance of Rs5 Lakhs for supply of 5 split air-conditioners to Bavana Ltd. for installation at their factory in Haryana on 15thFebruary 2024. The Company supplied the ACs and installed them on 28thFebruary 2024 and issued the invoice on the same date i.e. 28th February 2024. The supply was chargeable to tax@ 18% but was reduced to 12% from 25th February 2024. The Company charged GST @ 18% while the buyer Bavana Ltd. contended that GST should have been charged @ 12% as the supply was made after the change of rate.
- (D) The Company had entered into an agreement with Hum log Enterprises, a proprietorship concern not registered under GST for providing transport services by road for carriage of air-conditioners to various parts of country. The said concern has a fleet of 50 vehicles for meeting requirements of its customers. During year 2023-24, company has made payment of around Rs.50.00 lakhs to Hum log Enterprises on account of above said services availed.
- (E) Jay was happy to inform that the Company's operations were going on smoothly and they were on a growth trajectory. During the financial year 2022-23, the Company had a turnover of Rs 100 Crores and there was Loan outstanding from a bank of Rs 75 Crores and deposits of Rs 30 Crores.
- (F) After the audit discussions were over, Jay and Kan had a general discussion. During the conversation he mentions that Shahi, a shareholder and non- executive director of the Company has become the present Member of Parliament. His son, Abhir is studying abroad in US. As the present term of Parliament is coming to an end next year, his term also will come to an end. Shahi is willing to contest next election as an independent candidate. He has many friends and relatives in US and he asked his son to contact them, to collect fund for his election. Jay also told Ranga that Shahi's friend who is a contractor working for Ministry of Transport, Shipping and National Highways also accompanied Shahi on the US trip as part of government delegation.

- (G) Jay asked Tan and Kan, if they could help his friend Merun, Partner Mahim & Co, Chartered Accountants. Jay and Merun were close friends and they often used to have professional and academic discussions. Tan and Kan gladly agreed to provide clarifications to Merun, if he had any technical query. Jay set up a zoom call between Merun and them. During the call, Merun said he would be more comfortable and confident, if some other Chartered Accountant reviews the financial statements and audit reports he is signing for purpose of quality control.

I. Multiple Choice Questions

1. Is ABC Private Ltd required to appoint an internal auditor during the financial year 2023- 24 for complying with the provisions of Companies Act, 2013?
 - (a) The Company is required to appoint internal auditor as one of limits of appointment of internal auditor is met by the company.
 - (b) The Company being a private company is not required to appoint internal auditors.
 - (c) The Company is not required to appoint the internal auditors, as the appointment of internal auditor is a matter of Board's decision.
 - (d) The Company is not required to appoint internal auditor because the thresholds prescribed under the Act, have not been met.
2. The Company will treat the loss on sale of shares as:
 - (a) Loss of Rs 50,000 on sale of 10,000 shares will be claimed as a loss.
 - (b) There will be gain of Rs 16,666.67 as the cost of shares will be spread across total 15,000 shares.
 - (c) The Company cannot claim the loss of Rs 50,000. However, this loss of Rs 50,000 will become cost of acquisition of remaining 5000 shares received as bonus.
 - (d) Loss of Rs 50,000 cannot be claimed as loss and the cost of acquisition of bonus shares will be 'nil'.
3. In the background of the facts given above, the amount which ABC Private Ltd. is entitled to take credit for Input tax (ITC) of Rs
 - (a) Rs 45 Lakhs
 - (b) Rs 27 Lakhs
 - (c) Rs 23.40 Lakhs
 - (d) Rs 21.60 Lakhs
4. Advise ABC Private Ltd, what is the correct position of law in the facts given in case study:
 - (a) Since payment was received prior to change of rate of tax, old rate will be applicable.
 - (b) Since provision of supply and issue of invoice is after the change in rate of tax, and only payment has been received before the change in rate, new rate shall be applicable.
 - (c) Since the time of supply shall be earlier of date of receipt of payment and date of issue of invoice, old rate shall be applicable.
 - (d) Since provision of service is after the change in rate of tax, new rate shall be applicable. Date of invoice is not relevant.
5. As regards discussion of Tan and Kan with Merun arranged by Jay, which of the following is most appropriate description of Engagement Quality Control Reviewer (EQCR) in accordance with professional standards?
 - (a) He can be a partner or other person in the firm (member of ICAI) or partner or employee of another firm (member of ICAI) with appropriate experience.
 - (b) He can be a partner of the firm or partner of another firm with appropriate experience.
 - (c) He can be partner or employee of another firm (member of ICAI) with appropriate experience.
 - (d) He can be partner of another firm with appropriate experience.

II. Descriptive Questions

6. Discuss implications, if any, in its hands, of payments made by ABC Private Limited to Hum log Enterprises under Income tax law and GST law.
7. Jay feels it is not appropriate for Shahi to seek funds for election in such a manner. With reference to the Foreign Contribution (Regulation) Act, 2010, explain who are prohibited from taking any contributions from a foreign source.
8. In background of Merun's discussion with Tan and Kan, answer the following:
 - (i) Can the financial statements and audit report signed by Merun be reviewed by some other Chartered Accountant for quality control? Which issues should be addressed by Merun for appointment of such a person?
 - (ii) What should be likely contents of such quality control review policy and procedures, if Merun's firm is required to establish such policy?

ANSWERS

1. (d) Rule 13 of the Companies (Accounts) Rules 2014 - The condition of deposit does not apply to a Private Company.

2. (c) According to section 94(8) of Income Tax Act, 1961 where (a) any person buys or acquires any securities or units within a period of three months prior to the record date; (b) such person is allotted additional securities or units without any payment on the basis of holding such securities or units on such date; (c) such person sells or transfers all or any of the securities or units referred to in (a) above within a period of nine months after such date, while continuing to hold all or any of the additional securities or units referred to in (b), then –
 - (i) the loss on sale of original securities or units sold within a period of 9 months after the record date will be ignored for the purpose of computing his income chargeable to tax and
 - (ii) the amount of such loss so ignored will be deemed to be the cost of purchase or acquisition of the bonus securities or units referred to in (b) above, held by him on the date of such sale or transfer

The Company cannot claim the loss of Rs 50,000. However, this loss of Rs 50,000 will become cost of acquisition of remaining 5000 shares received as bonus.

3. (b) On Foundation work = ₹ 20 Lakhs + Plant and Machinery ₹ 130 Lakhs = 150 Lakhs @ 18% = 27 Lakhs

4. (b) Section 14(b)(iii) of the CGST Act

5. (a) In accordance with SQC 1, Engagement Quality Control Reviewer is a partner, other person in the firm, suitably qualified external person, or a team made up of such individuals, with sufficient and appropriate experience and authority to objectively evaluate, before the report is issued, the significant judgments the engagement team made and the conclusions they reached in formulating the report.

Further, suitably qualified external person means an individual outside the firm with the capabilities and competence to act as an engagement partner, for example a partner or an employee (with appropriate experience) of another firm.

In view of above, option (a) is appropriate description of EQCR.

6. **Implications under Income tax law:** Under Section 194 C of Income Tax Act, any person responsible for paying any sum to any resident for carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract between the contractor and a specified person shall, at the time of credit of such sum to the account of the contractor or at the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, whichever is earlier, deduct an amount equal to one per cent where the payment is being made or credit is being given to an individual or a HUF.

In the given scenario, ABC Private Limited has paid a sum of Rs.50.00 lacs during year 2023-24 on account of transport services under an agreement to Hum log Enterprises, a proprietorship concern. Section 194 C also states that meaning of work includes carriage of goods by any mode of transport other than by railways. The payment is beyond threshold limit for deduction of tax under section 194 C. Further, Hum log Enterprises has a fleet of 50 vehicles. Therefore, exemption from deduction under section 194(6) does not apply.

Keeping in view above, there is an obligation for ABC Private Limited to deduct tax at source @ 1% on payments made during year 2023-24. The deduction has to be made at time of crediting such sum to account of Hum log Enterprises or at time of payment whichever is earlier.

Implications under GST law

Hum log Enterprises is unregistered tax payer. However, for carriage of goods by road, recipient of service has to pay GST @ 5% in terms of notification numbers 10/2017-IT (rates) and 13/2017-CT (rates) both dated 28.6.17.

Therefore, keeping in view above, ABC Private Limited has to pay GST on services availed from transporter @ 5% on bills of Rs.50.00 lacs raised by transporter during year 2023-24. Further, it is also entitled to claim ITC of such tax paid on reverse charge basis.

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

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

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

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

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

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

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

8. (i) As per SQC 1, some sole practitioners or small firms may wish to use other firms to facilitate engagement quality control reviews. Accordingly, financial statements and audit report signed by Merun can be reviewed by some other Chartered Accountant.
- The firm's policies and procedures should address the appointment of engagement quality control reviewers and establish their eligibility through:
- (a) The technical qualifications required to perform the role, including the necessary experience and authority; and
 - (b) The degree to which an engagement quality control reviewer can be consulted on the engagement without compromising the reviewer's objectivity.
- (ii) **Engagement Quality Control Review:** The firm should establish policies and procedures requiring, for appropriate engagements, an engagement quality control review that provides an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the report. Such policies and procedures should:
- (a) Require an engagement quality control review for all audits of financial statements of listed entities;
 - (b) Set out criteria against which all other audits and reviews of historical financial information, and other assurance and related services engagements should be evaluated to determine whether an engagement quality control review should be performed; and
 - (c) Require an engagement quality control review for all engagements meeting the criteria established in compliance with subparagraph (b).
- The firm's policies and procedures should require the completion of the engagement quality control review before the report is issued.
- The firm should establish policies and procedures setting out:
- (a) The nature, timing and extent of an engagement quality control review;
 - (b) Criteria for the eligibility of engagement quality control reviewers; and
 - (c) Documentation requirements for an engagement quality control review.

CASE STUDY 39

CASE STUDY 40

CASE STUDY 41

Established as a public sector undertaking (PSU) of Government of India, Bharat Chemicals Pharma Ltd. (BCPL) has served as a cornerstone of the Indian pharmaceutical industry since its inception. Headquartered in Kolar, Karnataka, India, BCPL plays a pivotal role in manufacturing high-purity chemicals crucial for various pharmaceutical applications.

BCPL takes immense pride in its unwavering commitment to quality. Their state-of-the-art manufacturing facilities are equipped with advanced technology and machinery. Stringent quality control measures are implemented throughout the production process, ensuring every batch of chemicals meets the highest standards of purity and consistency. This dedication to quality has not only positioned BCPL as a trusted supplier within the domestic market but has also garnered them recognition as a reliable source for pharmaceutical chemicals on the international stage.

Understanding the critical nature of their products for the pharmaceutical industry, BCPL prioritizes meeting the specific requirements of their clientele. They offer a comprehensive range of chemicals specifically tailored for pharmaceutical applications. These chemicals encompass a diverse spectrum, including active pharmaceutical ingredients (APIs), excipients, and solvents, all crucial for the safe and effective production of life-saving medications.

Looking ahead, BCPL is dedicated to continuous innovation and technological advancements. They actively invest in research and development to refine their manufacturing processes and explore the creation of new, high-purity chemicals catering to the evolving needs of the pharmaceutical industry. Furthermore, BCPL recognizes its social responsibility and strives to implement sustainable practices throughout its operations. Their commitment to a cleaner environment and responsible manufacturing processes ensures a brighter future for the communities they serve.

As part of its business expansion strategy, BCPL is in process of setting up a pharma intermediates business which is at very initial stage. For this purpose, BCPL has acquired on 18th April, 2023, 100% shares of BMD Ltd. (BMDL) that manufactures pharma intermediates. The purchase consideration for the same was by way of a share exchange valued at Rs 70 crores. The fair value of BMDL's net assets was Rs 30 crores, but does not include:

- (i) A patent owned by BMDL for an established successful intermediate drug that has a remaining life of 16 years. A consultant has estimated the value of this patent to be Rs 20 crores. However, the outcome of clinical trials for the same are awaited. If the trials are successful, the value of the drug would fetch the estimated Rs 30 crores.
- (ii) BMDL has developed and patented a new drug which has been approved for clinical use. The cost of developing the drug was Rs 24 crores. Based on early assessment of its sales success, valuer has estimated its market value at Rs 40 crores.
- (iii) BMDL's manufacturing facilities have received a favourable inspection by a government department. As a result of this, the Company has been granted an exclusive ten-year license to manufacture and distribute a new vaccine. Although the license has no direct cost to the Company, its directors believe that obtaining the license is a valuable asset which assures guaranteed sales and the value for the same is estimated at Rs 20 crores.

After acquisition of BMDL, BCPL made a gross profit of Rs 100 crores and incurred Indirect Expenses of Rs 40 crores. The market related details are as follows:

Risk Free Rate of Return	4.5%
Market Rate of Return	12%
β of the Company BCPL	0.9.
Number of issued Equity Shares	10 crores

In connection with assessment proceedings under GST, the proper officer issued summons to the senior management official of BCPL, Mr. Raj, after recording a brief of the proceedings in the case file and submitting the same to the officer who had authorized the issuance of such summons in the year 2023-2024.

The assessment order demanded payment of GST of Rs 20 crores along with interest against which BCPL went for appellate proceedings under GST. The company gets the order in its favour on 15th April, 2024, which resulted into reducing the tax liability as on 31st March, 2024. The financial statements for 2023-24 were approved by the board of directors on 15th May, 2024.

The management has not considered the effect of the transaction as the event is favourable to the company. The company's view is that favourable events after the reporting period should not be considered as it would hamper the realisation concept of accounting.

RK & Associates, an audit firm, has been entrusted with the task of auditing the IT department of BCPL. Mr. Rajesh Das, the engagement partner, will be leading the audit on behalf of RK & Associates. A checklist was handed over to him, which contained many questions such as,

- ◆ Are separate user names and passwords assigned to individual users?
- ◆ Are periodical changes of passwords ensured?
- ◆ Are external (offsite) data backups maintained at a place outside the premises?

Mr. Das assembled his audit team with the necessary expertise in IT auditing, then developed a detailed audit plan, outlining the specific procedures to be performed, the timeline for the audit, and the resources required. Mr. Das explained to his team that in an automated environment, the data stored and processed in systems can be used to get various insights into the way business operates. This data can be useful for preparation of Management Information System (MIS) reports and electronic dashboards that give a high-level snapshot of business performance. Accordingly, the controls over the IT system of the company are very crucial.

While auditing BCPL's IT department, Mr. Das stumbles upon an intriguing detail. He discovers information regarding a new pharma project recently commissioned near Bengaluru. This project, marked by new technology and a hefty price tag of Rs 1000 crores, has apparently experienced delays and cost overruns.

This information, though relevant to BCPL's overall operations, falls outside the specific scope of Mr. Das's assigned task - auditing the IT department

For the aforesaid project, BCPL imported machine from US through a vessel named 'Last Sails'. The events relating to its entry into India and the discharge and onward movement and storage of are as follows.

24th June	Vessel entered the Indian territorial waters
25th June	Import manifest was delivered to the customs authorities
27th June	XML Ltd filed bill of entry for the goods
29th June	Entry inwards granted to the vessel

The rate of customs duty on such machinery was increased from 7% to 9% on 28th June. The details of such import transaction are as follows:

S. No.	Particulars	Amount
1	Cost of the machine at the factory of the exporter	US\$ 40,000
2	Transport charges from the factory of exporter to the port for shipment	US\$ 2,000
3	Handling charges paid for loading the machine in the ship	US\$ 200
4	Buying commission paid by the importer	US\$ 200
5	Freight charges from exporting country to India	US\$ 4,000
6	Actual insurance charges paid are not ascertainable	---
7	Charges for design and engineering work undertaken for the machine in US	US\$ 10,000
8	Unloading and handling charges paid at the place of importation	Rs 3,000
9	Transport charges from Mumbai to Karwar port	Rs 50,000
10	Exchange rate to be considered: 1\$ = Rs 80	

I. Multiple Choice Questions

- What is a key factor contributing to BCPL's strategic positioning within the pharmaceutical industry?
 - Lack of innovation in manufacturing processes
 - Stringent quality control measures
 - Limited range of chemical products
 - Reliance solely on domestic market
- Choose the correct statement with respect to issue of summons to Mr. Raj by the proper officer?
 - The officer issuing summons to Mr. Raj should have submitted a report to the officer who had authorized the issuance of such summons and not just a recording a brief of the proceedings in the case file. Further, summons to Mr. Raj should not have been issued at the first instance.
 - Summons to Mr. Raj should have been issued at the first instance. Mr. Raj should have been summoned whether or not there are indications in the investigation of his involvement in the decision making process which has led to loss of revenue.
 - Summons to Mr. Raj should not have been issued at the first instance. Mr. Raj should have been summoned only when there are indications in the investigation of his involvement in the decision making process which has led to loss of revenue.
 - Summons to Mr. Raj should not have been issued at the first instance. However, Mr. Raj can be summoned whether or not there are indications in the investigation of his involvement in the decision making process which has led to loss of revenue

3. Choose the correct option relating to the receipt of the order under GST in the favour of the company?
 - (a) Such event is an adjusting event providing evidence of a condition existing at the end of the reporting period. Further, such event though favourable needs to be considered as per the relevant Ind AS.
 - (b) Such event is a non-adjusting event indicative of conditions that arose after the reporting period. So, the question of considering such event does not arise at all whether it is favourable or unfavourable.
 - (c) Such event is an adjusting event providing evidence of a condition existing at the end of the reporting period. However, as such event is favourable is not required to be considered as per the relevant Ind AS.
 - (d) Such event is a non-adjusting event indicative of conditions that arose after the reporting period and also, as it is a favourable event need not to be considered even though it would have been an adjusting event.
4. How does BCPL demonstrate its commitment to sustainable practices in line with its strategic positioning?
 - (a) By overlooking social responsibility in its operations
 - (b) Through heavy reliance on harmful manufacturing processes
 - (c) By investing in research and development for technological advancements
 - (d) By implementing sustainable practices and ensuring environmental responsibility
5. Referring above, which date would be considered for determining the rate of customs duty payable by BCPL and at what rate it should be payable?

(a) 29 th June, customs duty payable @ 9%	(b) 27 th June, customs duty payable @ 7%
(c) 29 th June, customs duty payable @ 7%	(d) 27 th June, customs duty payable @ 9%
6. Explain the accounting treatment in respect of the transactions with respect to acquisition of BMDL by BPCL under applicable Ind AS.
7. Being entrusted with the task of auditing the IT department of BCPL, Mr. Rajesh Das, the engagement partner, will be leading the audit on behalf of RK & Associates. Which type of audit of IT department of BCPL is being conducted by Mr. Rajesh? Also distinguish such audit from other audit types by providing **Reasons** for the same.
8. Determine the assessable value of the machinery imported by BCPL

ANSWERS TO THE CASE STUDY 41

1. (b) Stringent quality control measures

Reason: BCPL's strategic positioning within the pharmaceutical industry is significantly influenced by its commitment to maintaining stringent quality control measures throughout its manufacturing processes. This dedication ensures that every batch of chemicals produced meets the highest standards of purity and consistency, crucial for pharmaceutical applications. By consistently delivering high-quality products, BCPL has established itself as a trusted supplier within both the domestic and international pharmaceutical markets. This strategic emphasis on quality control not only enhances the company's reputation but also differentiates it from competitors and reinforces its position as a reliable source for pharmaceutical chemicals.

2. (c) Summons to Mr. Raj should not have been issued at the first instance. Mr. Raj should have been summoned only when there are indications in the investigation of his involvement in the decision making process which has led to loss of revenue.

Reason: The Central Board of Indirect taxes and Customs (CBIC) in the Department of Revenue, Ministry of Finance has issued guidelines from time to time to ensure that summons provisions are not misused in the field. Some of the important highlights of these guidelines, inter-alia, are given below:

- in all cases, where summons is issued, the officer issuing summons should submit a report or should record a brief of the proceedings in the case file and submit the same to the officer who had authorized the issuance of summons;
- senior management officials such as CEO, CFO, General Managers of a large companies or a Public Sector Undertakings should not generally be issued summons at the first instance. They should be summoned only when there are indications in the investigation of their involvement in the decision making process which has led to loss of revenue.

Here, the proper officer issued summons to the senior management official of PSU, Mr. Raj, after recording a brief of the proceedings in the case file and submitting the same to the officer who had authorized the issuance of such summons.

3. (a) Such event is an adjusting event providing evidence of a condition existing at the end of the reporting period. Further, such event though favourable needs to be considered as per the relevant Ind AS.

Reason: As per Ind AS 10, even favourable events need to be considered. What is important is whether a condition exists as at the end of the reporting period and there is evidence for the same making it an adjusting event.

Here, BCPL went under appellate proceedings under GST. The company got the order in its favour on 15th April, 2024, which resulted into reducing the tax liability as on 31st March, 2024. The financial statements for 2023-24 were approved by the board of directors on 15th May, 2024. The order was received before approval of financial statements of 2023-2024.

Accordingly, such event is an adjusting event providing evidence of a condition existing at the end of the reporting period. Further, such event though favourable needs to be considered as per the relevant Ind AS.

4. (d) By implementing sustainable practices and ensuring environmental responsibility.

5. (a) 29th June, customs duty payable @ 9%

Reason: As per Section 15 of the Customs Act, 29th June would be considered for determining the rate of customs duty payable by BCPL and the rate of duty will be 9%, because the bill of entry is deemed to have been filed on the date of entry inward though it was actually filed before the rate of duty increased.

6. As per para 13 of Ind AS 103 'Business Combination', the acquirer's application of the recognition principle and conditions may result in recognising some assets and liabilities that the acquiree had not previously recognised as assets and liabilities in its financial statements. This may be the case when the asset is developed by the entity internally and charged the related costs to expense.

Based on the above, the company can recognise following intangible assets while determining Goodwill / Gain on Bargain Purchase for the transaction:

applicable criteria includes industry regulations, internal IT policies, and data security best practices.

Here's a breakdown of the **Reasons** why a compliance audit is the most suitable option:

Focus on IT Controls: The checklist provided to Mr. Das includes questions about user access controls, password management, and data backups. These elements are all crucial for ensuring compliance with data security regulations and best practices.

Management Information Systems (MIS): Mr. Das emphasizes the importance of controls over IT systems due to the valuable data they store and their role in generating MIS reports. Compliance audits often assess an organization's adherence to data privacy regulations and information security standards.

Distinguishing from Other Audit Types

Comprehensive Audit: This is a broader assessment encompassing all aspects of an organization that whether the undertakings have fulfilled the objectives for which they have been established, whether value-for-money spent has been obtained, whether the targets have been achieved, etc. While a compliance audit might be part of a comprehensive audit, the scenario doesn't suggest such a wide-ranging scope.

Propriety Audit: This type of audit is directed towards an examination of management decisions in sales, purchases, contracts, etc. to see whether these have been taken in the best interests of the undertaking and conform to accepted principles of financial propriety. While IT security breaches could have legal implications, the scenario seems more focused on adherence to established IT controls and regulations.

Financial Audit: This audit primarily assesses the accuracy and fairness of an organization's financial statements. The information provided doesn't indicate a focus on financial transactions or accounting records, which are central to a financial audit.

Conclusion

Considering the emphasis on IT controls, data security, and adhering to relevant criteria, a compliance audit is the most likely type of audit being conducted by RK & Associates on BCPL's IT department. Mr. Das's focus on user access, password management, and data backups aligns perfectly with the objectives of a compliance audit in the IT domain.

7. Computation of assessable value of imported machinery

Particulars	Amount (US\$)
Price of the machine at the factory of the exporter	40,000
Add: Transport charges up to the port in the country of the exporter [Note 1]	2,000
Handling charges at the port in the country of the exporter [Note 1]	200
Charges for design and engineering work undertaken for the machine in US [Note 2]	10,000
Buying commission [Note 3]	Nil
FOB value	52,200
Add: Freight charges up to India	4,000
Insurance charges @ 1.125% of FOB [Note 4]	587.25
Transport charges from Mumbai to Karwar port [Note 5]	Nil
CIF value	56,787.25
Add: Unloading and handling charges paid at the place of importation [Note 6]	Nil
Assessable value	56,787.25
Assessable value in Indian rupees @ Rs 80/ per \$	45,42,980

Notes:

- (1) The cost of transport, loading, unloading and handling charges associated with the delivery of the imported goods to the place of importation are includible in the assessable value [Rule 10(2)(a) of the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007 (CVR)].
- (2) Design and engineering work undertaken elsewhere than in India and necessary for the production of the imported goods is includible in the assessable value [Rule 10(1)(b)(iv) of the CVR].
- (3) Buying commission is not included in the assessable value [Rule 10(1)(a)(i) of the CVR].
- (4) If insurance cost is not ascertainable, the same shall be added @ 1.125% of FOB value of the goods [Third proviso to rule 10(2) of the CVR].
- (5) Cost of insurance, transport, loading, unloading, handling charges associated with transshipment of imported goods to another customs station in India is not included in the assessable value [Sixth proviso to rule 10(2) of the CVR].
- (6) As per rule 10(2) of the CVR, only charges incurred for delivery of goods "to" the place of importation are includible in the transaction value.

The loading, unloading and handling charges associated with the delivery of the imported goods at the place of importation are not to be added to the CIF value of the goods.

CASE STUDY 42

Bound by the strong ties of friendship since childhood, Kushal Dabhoi, Raj Varia, and Kishan Kaneja had their paths diverge after graduation. Raj and Kishan, both armed with their shiny new MBA degrees in Finance, decided to join forces and embark on a business venture. Their shared passion for commerce and international trade led them to establish M/s. RK Enterprises, a partnership firm specializing in the wholesale and export of various goods. Their firm thrived, becoming a successful player in the market, thanks to their combined expertise in finance and their unwavering dedication.

Meanwhile, Kushal, who had always been fascinated by the intricacies of accounting and finance, pursued a different path. He diligently applied himself to his studies and emerged victorious, clearing the prestigious Chartered Accountancy exam in May 2023. This accomplishment marked the beginning of a promising career for Kushal. He leveraged his newly acquired qualifications to establish a Nidhi company.

Driven by a desire to give back to society, Kushal didn't stop there. He also co-founded a charitable trust alongside his brother. This trust focused on social causes close to their hearts, aiming to make a positive impact on their community.

Last year, the firm exported a shipment of goods to a buyer in Japan. These goods were covered by a warranty, which was essentially functionality for a specific period. During the current financial year, a situation arose where the Japanese buyer encountered some issues with the exported goods. As these issues fell within the warranty period, the buyer exercised their rights and returns the goods to the firm for repairs.

The firm reports a net profit of Rs 60,00,000 before deduction of the following items:

- (1) Salary of each partner Rs 1,00,000 p.m. payable to two working partners of the firm (as authorized by the deed of partnership).
- (2) Depreciation on plant and machinery under section 32 (Computed) Rs 5,00,000.
- (3) Interest on capital @15% per annum (as per the deed of partnership). The amount of capital eligible for interest Rs 10,00,000.

The firm filed the ITR of A.Y. 2024-25. The following are the particulars furnished for A.Y. 2024-25:

Particulars of total income	Rs
As per the return of income furnished u/s 139(1)	50,00,000
Determined under section 143(1)(a)	60,00,000
Assessed under section 143(3)	75,00,000
Reassessed under section 147	95,00,000

Tax audit u/s 44AB of the Income-tax Act, 1961 of the firm was conducted by CA Rajdeep who has received the audit fees of Rs 1,00,000 on progressive basis for the same for the year ended 31.03.2024. The audit report was, however, signed on 22.05.2024.

CA Kushal thought of setting up a finance business. He discussed his thought process with his Raj and Kishan and decided to start a Nidhi company as this was the most easy and affordable way to start a loan business in India which required only seven members with easy documentation. No approval, whatsoever, was also required from Reserve Bank of India as in the case of other finance companies. Further, the Nidhi company would be able to accept deposits from members and lend to them as well, besides earning periodical interests on loans while its main expenditure would be to pay interests on deposits and establishment charges, etc.

CA Kushal with his other trusted friends, including Raj and Kishan, incorporated a Nidhi company under the name Bhagya Nidhi Ltd., on 28th June, 2023, at Udaipur (Rajasthan). It was duly notified as Nidhi in the Official Gazette. It was mentioned in the Memorandum that as Nidhi, the company would cultivate the habit of thrift and savings amongst its members, receive deposits from and lend to, its members only, for their mutual benefit and it shall comply with Nidhi Rules, 2014.

The authorised capital of the company was Rs 1,00,00,000 divided into 10,00,000 equity shares of Rs 10 each and the issued, subscribed and paid-up share capital was Rs 95,00,000 (9,50,000 equity shares of Rs 10 each). Keeping in view the sufficiency of profits, the company declared a dividend of Rs 1 per share for the F.Y. 2023-24.

At the same time, CA Kushal and his brother established the 'Bhagya Sugam Charitable Trust' under section 12AB of the Income-tax Act, 1961. This trust is dedicated to charitable activities and is managed by his brother. The trust's name, 'Bhagya Sugam,' reflects its mission of facilitating a smooth and fortunate journey for those it serves.

The trust provides the following information relating to supply of its services during the first quarter of its establishment:

	Rs
Renting of residential dwelling for use as a residence to Mr. Nisarg, an unregistered person	15,00,000
Renting of rooms for devotees (Charges per day Rs 800)	7,00,000
Renting of kalyanamandapam (Charges per day Rs 15,000)	11,00,000
Renting of community halls and open space (Charges per day Rs 8,000)	9,00,000
Renting of shops for business (Charges per month Rs 9,000)	6,00,000
Renting of shops for business (Charges per month Rs 11,000)	8,00,000

I. Multiple Choice Questions

- Assuming that the underreporting of income is not on account of misreporting and none of the additions or disallowances made in assessment qualifies u/s 270A(6), penalty leviable on M/s. RK Enterprises u/s 270A at the time of assessment would be:
(a) Rs 3,12,000 (b) Rs 1,56,000 (c) Rs 4,68,000 (d) Rs 2,34,000
- Assuming that the underreporting of income is on account of misreporting, penalty leviable on M/s. RK Enterprises under section 270A at the time of reassessment would be:
(a) Rs 3,12,000 (b) Rs 2,34,000 (c) Rs 12,48,000 (d) Rs 6,24,000
- Which of the following category of technological advancement best describe installing passbook update kiosk at branch
(a) Automation (b) Extension (c) Transformation (d) Revolution
- Bhagya Nidhi Ltd. declared a dividend of Rs one per share. What is the maximum amount of dividend it is permitted to declare? Choose the correct option from those given below:
(a) Since Bhagya Nidhi Ltd. has declared maximum permitted dividend of Re. one per share, it cannot declare dividend in excess of Rs one per share.
(b) Bhagya Nidhi Ltd. can declare maximum permitted dividend of Rs two per share.
(c) Bhagya Nidhi Ltd. can declare maximum permitted dividend of Rs two and fifty paise per share.
(d) Bhagya Nidhi Ltd. can declare maximum permitted dividend of Rs three per share.

5. Which of the following conditions are to be satisfied by M/s. RK Enterprises to avail exemption on goods re-imported for repairs?
- M/s. RK Enterprises, at the time of importation, executes a bond.
 - Goods must be re-exported within 6 months or 1 year (if time is extended) of the date of re-importation.
 - In case goods are not repaired, new goods are to be sent by M/s. RK Enterprises, within 6 months
- Choose the most appropriate option.
- (a) (i) and (iii) (b) (i), (ii) and (iii) (c) (ii) and (iii) (d) (i) and (ii)
6. Compute:
- Book-profit of the firm under section 40(b) of the Income-tax Act, 1961.
 - Allowable working partner salary for the A.Y. 2024-25 as per section 40(b).
7. Referring to the above case study, comment on receipt of audit fees by CA Rajdeep on progressive basis from the firm.
- 8., Compute the GST liability of Bhagya Sugam Charitable Trust for the first quarter assuming that the above amounts are exclusive of GST and rate of GST, wherever applicable, is 18%.
- Note: The rooms/ Kalyanamandapam/ halls/ open space/ shops owned by the trust are located within the precincts of a religious place, meant for general public, owned by the trust.*

ANSWERS TO THE CASE STUDY 42

1. (d) Rs 2,34,000

Reason: As per section 270A(3) of the Income-tax Act, 1961, under-reported income would be Assessed income (-) Income determined under section 143(1)(a) i.e. Rs 75,00,000 – Rs 60,00,000 = Rs 15,00,000

As per section 270A(7) of the Income-tax Act, 1961, penalty in case of under reporting of income would be 50% of tax payable on underreported income = 50% of Rs 4,68,000 [(Rs 15,00,000 × 30%) + 4%] = **Rs 2,34,000**

2. (c) Rs 12,48,000

Reason: As per section 270A(3) of the Income-tax Act, 1961, under-reported income would be

Income reassessed or recomputed (-) Income assessed in a preceding order i.e. Rs 95,00,000 – Rs 75,00,000 = Rs 20,00,000

As per section 270A(8) of the Income-tax Act, 1961, penalty in case where under reporting of income results from misreporting of income by any person would be 200% of tax payable on such underreported income = 200% of Rs 6,24,000 [(Rs 20,00,000 × 30%) + 4%] = **Rs 12,48,000**

3. (a) Automation

Reason: Change in business model on account of technological advancements can be classified into automation, extension or transformation. Automation is the use of technologies for performing any function or process digitally which was earlier performed by humans. Installing passbook updation kiosk is automation.

4. (c) Bhagya Nidhi Ltd. can declare maximum permitted dividend of Rs two and fifty paise per share.

Reason: As per Rule 18 of the Nidhi Rules, 2014:

A Nidhi shall not declare dividend exceeding twenty five per cent in a financial year.

The issued, subscribed and paid-up share capital of Bhagya Nidhi Ltd. was Rs 95,00,000 (9,50,000 equity shares of Rs 10 each) and so, it can declare maximum permitted dividend of Rs two and fifty paise per share (Rs 10 × 25%) .

5. (d) (i) and (ii)

Reason: As per Notification No.158/95 Cus. dated 14.11.1995 as amended vide Notification No. 60/2018 Cus dated 11.09.2018: Goods manufactured in India and reimported for repairs or for reconditioning other than the specified goods:

- Goods must be re-exported within six months (extendable till one year) of the date of re-importation
 - The Assistant Commissioner/Deputy Commissioner of Customs is satisfied as regards identity of the goods.
 - The importer at the time of importation executes a bond
- Accordingly, (i) and (ii) are correct

6. (i) As per Explanation 3 to section 40(b), —book profit shall mean the net profit as per the profit and loss account for the relevant previous year computed in the manner 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 shall be as follows:

Computation of Book Profit of the firm under section 40(b)

Particulars	Rs	Rs
Net Profit (before deduction of depreciation, salary and interest)		60,00,000
Less: Depreciation under section 32	5,00,000	
Interest @ 12% p.a. [being the maximum interest allowable as per section 40(b)] (Rs 10,00,000 × 12%)	1,20,000	(6,20,000)
Book Profit		53,80,000

- (ii) Salary actually paid to working partners = Rs 1,00,000 × 2 × 12 = Rs 24,00,000. As per the provisions of section 40(b)(v), the salary paid to the working partners is allowed subject to the following limits –

On the first Rs 3,00,000 of book profit or in case of loss	Rs 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 partners' salary for the A.Y. 2024-25 in this case would be:

Particulars	Rs
On the first Rs 3,00,000 of book profit [(Rs 1,50,000 or 90% of Rs 3,00,000) whichever is more]	2,70,000
On the balance of book profit [60% of (Rs 53,80,000 - Rs 3,00,000)]	30,48,000
Maximum allowable partners salary	33,18,000

Hence, allowable working partners salary for the A.Y. 2024-25 as per the provisions of section 40(b)(v) is Rs 24,00,000, being lower than the maximum allowable salary.

7. As per Chapter X of Council General Guidelines, 2008 a member of the Institute in practice or a partner of a firm in practice or a firm shall not accept appointment as auditor of a concern while indebted to the concern or given any guarantee or provided any security in connection with the indebtedness of any third person to the concern, for limits fixed in the statute and in other cases for amount exceeding Rs 1,00,000/-.

However, the Research Committee of the ICAI has expressed the opinion that where in accordance with the terms of engagement of auditor by a client, the auditor recovers his fees on a progressive basis as and when a part of the work is done without waiting for the completion of the whole job, he cannot be said to be indebted to the company at any stage.

Conclusion: In the instant case, CA Rajdeep is appointed to conduct a tax audit u/s 44AB of the Income Tax Act, 1961. He has received the audit fees of Rs 1,00,000 in respect of the tax audit for the year ended 31.3.2024 which is on progressive basis. Therefore, Mr.D will not be held guilty for misconduct.

8. Renting of precincts of a religious place meant for general public, owned/managed by, inter alia, an entity registered as a charitable trust under section 12AA/12AB of the Income-tax Act are exempt from GST vide exemption notification. However, said exemption is not available if:

- charges for rented rooms are Rs 1,000 per day or more;
- charges for rented community halls, Kalyan mandapam, open area are Rs 10,000 per day or more;
- charges for rented shops are Rs 10,000 per month or more.

Further, services by way of renting of residential dwelling for use as residence to an unregistered person are also exempt vide exemption notification.

Computation of GST liability of Bhagya Sugam Charitable Trust for Quarter 1

Particulars	Value (Rs)	GST @18% (Rs)
Renting of residential dwelling for use as a residence to Mr. Nisarg, an unregistered person [Exempt vide exemption notification]	15,00,000	Nil
Renting of rooms for devotees (Charges per day Rs 800) [Exempt since charges per day are below Rs 1,000]	7,00,000	Nil
Renting of kalyanamandapam (Charges per day Rs 15,000) [Taxable since charges per day exceed Rs 10,000]	11,00,000	1,98,000
Renting of community halls and open space (Charges per day Rs 8,000) [Taxable since charges per day exceed Rs 10,000]	9,00,000	Nil
Renting of shops for business (Charges per month Rs 9,000) [Exempt since charges per month are below Rs 10,000]	6,00,000	Nil
Renting of shops for business (Charges per month Rs 11,000) [Taxable since charges per month exceed Rs 10,000]	8,00,000	1,44,000
Total		3,42,000

CASE STUDY 43

Home Décor Limited operate the brand WallKraft – the country's largest maker of home furnishing items. The Company is the partners of choice for premier home furnishing products around the country. It has evolved beyond wallpapers to provide a whole range of decor categories including bed and bath, blinds, curtains and rugs. The brand enjoys a leadership position in its category, with a strong retail presence throughout the country and with a wide network of multi-brand outlets and e-commerce platform. The production facilities are exemplary in embracing technology and the spirit of re-invention. The Company is listed in the National Stock exchange.

Wallpaper is one of their premium products and is an intricate manufacturing process, involving various phases. A typical paper roll of 65 inch and 6,707 m long is cut into six sub-rolls, each about 21 inch wide and 3,048 m long. Then the reverse side of the wallpaper is coated with PVC (vinyl), with thickness depending on the strippability and durability of paper under production. Next, the paper is sent for surface printing process. In surface printing, impregnated metal rollers with a rubber pattern are used. These are mounted on a single machine. Ink is applied to the surface roller. The ink lays in the rubber pattern sitting above the surface of the roller. Ink is then pressed on to the paper by the roller. Upon successful printing of the wallpaper, it is rolled with a wet cornstarch or wheat starch-based coating. Then it is dried thoroughly before packaging. Residential-use wallpapers are cut down into rolls of 15 yards or 13.71 meters. Commercial-use rolls are packaged in 30, 45 and 60 yards rolls. A run number, printed label, and hanging instructions are placed against each roll before storing them in a warehouse, where they await the final shipment. The entire production process consumes 20,000 litres of water every day. A large quantity of waste is generated everyday which is dumped in a landfill near the residential complex of its workers.

It is clear from the business strategies that the major purpose behind its functioning is to generate profits and all efforts are focused on doing just that. However, the Company stated witnessing a reduction in the key performance indicators like profits, revenue, margins, loss of customers, increase in customer complaints and growing employee dissatisfaction. The Company engaged an external consultation to advise them for continuing leadership position. The consultant advised that the ideology of the Company does not take into consideration the impact its operations have on the environment and the people around. The idea should be that a company is managed in such a way that not only generates the desired profits but also improves people's lives and the well-being of the planet.

The consultant proposed a complete overhaul of the Company's manufacturing process and advised that the Company should commit to measuring their social and environmental impact—in addition to their financial performance—rather than solely focusing on generating profit, or the standard “bottom line”. A summary of the observations/ recommendations of the consultant using Triple Bottomline theory is as follows.

Profit

The Company's success most heavily depends on its financial performance, or the profit it generates for shareholders. The Company follows Ind AS for the preparing the financial statements under Companies Act, 2013. Strategic planning initiatives and key business decisions are generally carefully designed to maximize profits while reducing costs and mitigating risk. Now, leading company have discovered that they have the power to use their businesses to effect positive change in the world without hampering financial performance. In many cases, adopting sustainability initiatives has proven to drive business success.

People

Traditionally, the Company have favoured shareholder value as an indicator of success, meaning they strive to generate value for those who own shares of the company. As many companies increasingly embrace sustainability, they've shifted their focus toward creating value for all stakeholders impacted by business decisions, including shareholders, customers, employees, and community members.

Some simple ways companies can make an impact on people—and serve future generations—include ensuring fair hiring practices and encouraging volunteerism in the workplace. They can also look externally to effect change on a larger scale. For instance, many organizations have formed successful strategic partnerships with nonprofit organizations that share a common purpose.

Planet

While businesses have historically been the greatest contributors to climate change, they also hold the keys to driving positive change. The Company should recognize their social responsibility to do so. This effort isn't solely on the shoulders of the

country's largest corporations—virtually all businesses have opportunities to make changes that reduce their carbon footprint. Adjustments like using ethically sourced materials, cutting down on energy consumption, and streamlining shipping practices are steps in the right direction toward long-term sustainability.

Basis the above suggestions the CFO decided to make the following changes:

1. At present the Company donate to PM CARE Fund for development for socio-economic development and relief of the Scheduled Castes, the Scheduled Tribes while fulfilling its CSR obligations under the Companies Act, 2013. In addition to donation of the Fund, the Company should allocate a significant portion of the CSR resources to advance human rights and fight poverty and hunger.
2. Commit to 100% organic cotton products. Urge suppliers to help in the development and implementation of greening the supply chain.
3. Employees can leave their jobs for up to two months with continued salary pay and benefits, to intern at an environmental organization of their choice.
4. Removal of unnecessary packaging materials thereby leading saving of 12 tons of packaging materials from ending up in the garbage, while at the same time saving the company INR 15 crores annually.
5. Presently, extended producer responsibility norms do not require the Company to recycle products that have reached the end of its life in a sustainable manner. These norms voluntarily be extended to cover discarded materials ending at landfill.

During the year, a search under section 132 of the Income-tax Act, 1961 was initiated in the business premises of Home Decore Ltd. and cash of INR 89 crores was found in the locker.

On the basis of the findings of the Investigation wing, Assessing Officer issued show cause notice to the Home Décor Limited to justify the cash identified during the search and seizure. In response, Home Décor Limited submitted the details along with few sample invoices relating to sale of old and discarded assets. The Assessing Officer observed that Home Décor Limited did not furnish ledger account of these parties, copies of the agreement, copies of supporting documents, standard operating procedure adopted for sale of old discarded assets and email address of the responsible persons. Therefore, Assessing Officer was of the view that there was substantive evidence that the Company have undisclosed income of INR 89 crores.

The Assessing Officer also asked the latest financial statements of the Company. A summary of key financial information of the Company are as follows:

INR crores

Profit and Loss			Balance sheet		
	3 Months ended 30 June 20X4	FY 20X3 -FY 20X4		30 June 20X4	31 March 20X3
Revenue	100	893	Non-current assets	900	1,000
Expenses	80	160	Current assets	800	100
Profit after tax	20	733	Surplus	320	300
			Reserves	300	580
			Total liabilities	1,080	220

The statutory auditor of the Company is of the view that revenue qualifies as a Key Audit Matter as prescribed in SA 701. Accordingly, following paragraph relating to Key Audit Matter is proposed in the audit report.

Key audit matters are those matters that, in our professional judgment, were of important to the users of the financial statements. These matters were addressed in the context of forming a separate opinion on these matters. For each matter below, our description of how our audit addressed thematter is provided in that context

Important matters	How our audit addressed the key auditmatter
Revenue recognition The Company derives significant portion of its revenue from sale of home furnishing items. Revenue is recognised when the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.. The Company considers whether there are other promises in the contract that are separate performance obligations to which a	We have performed the following procedures: ▪ We assessed the appropriateness of the revenue recognition accounting policies by comparing with applicable accounting standards. ▪ We evaluated the design, tested the implementation and operating effectiveness of key internal controls including general IT controls and key IT application controls over recognition of revenue. ▪ Performed substantive testing by selecting samples of revenue transactions recorded during the year by testing the underlying documents which

ANSWERS TO THE CASE STUDY 43

1. (b) Robotic Process Automation

Reason: Robotic Process Automation (RPA) uses software “robots” to automate high-volume repetitive tasks, freeing up human for more valuable work and strategic work.

2. (d) No. previous year's unrecognised income represents a prior period error and should be recognised in respective periods by restating the comparative information in accordance with Ind AS 8.

Reason: As per para 5 of Ind AS 8

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- (a) was available when financial statements for those periods were approved for issue; and
- (b) could **Reasonably** be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Further, para 42 of Ind AS 8 states that subject to paragraph 43, an entity shall correct material prior period errors retrospectively in the first set of financial statements approved for issue after their discovery by:

- (a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or
- (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

3. (a) Yes –Restatement of comparative information is a strong indicator of material weakness.

Reason: Guidance Note on ICFR: Each of the following is an indicator of a control deficiency that should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control:

Restatement of previously issued financial statements to reflect the correction of a material misstatement. (The correction of a misstatement includes misstatements due to error or fraud; it does not include restatements to reflect a change in accounting principle to comply with a new accounting principle or a voluntary change from one generally accepted accounting principle to another generally accepted accounting principle.)

4. (c) Yes. Undisclosed income is a fraud since it involve the use of deception to obtain an illegal advantage. Paragraph 3(xi)(a) of CARO 2020 requires reporting of material frauds committed on the Company.

Reason: Paragraph 3(xi)(a) of CARO requires the auditor to report whether any fraud has been noticed or reported either on the company or by the company during the year and is not limited to frauds by the officers or employees of the company. The definition of fraud as per SA 240 and the explanation of fraud as per section 447 of the Companies Act, 2013 are similar, except that under section 447 of the Act, fraud includes ‘acts with an intent to injure the interests of the company or its shareholders or its creditors or any other person, whether or not there is any wrongful gain or wrongful loss.’

5. (c) Penalty @30% of undisclosed income.

Reason: Under section 271AAB(1A) of Income-tax Act, 1961 – penalty of 30% of the undisclosed income is levied

6. The above paragraph on Key Audit Matters is not appropriate due to the following **Reasons**:

Observations	Reasons
The description of opening paragraph on Key Audit Matters is incorrect on account of the following: Described as matters of importance to the users of the financial statements. Forming a separate opinion on these matters	Under SA 701, Key audit matters are: Those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and the auditor does not provide a separate opinion on these matters

Observations	Reasons
Heading of the table incorrect	The auditor should include a separate section under the heading "Key Audit Matters"
Reference to where the matter is disclosed in the financial statements not provided	The description of key audit matters is not a mere reiteration of what is disclosed in the financial statements. A reference to any related disclosures enables intended users to further understand how management has addressed the matter in preparing the financial statements.
Description of policy of revenue recognition is incorrect and not in accordance with Ind AS 115.	Under Ind AS 115 revenue is recognised at the point in time when control of the asset is transferred, instead of recognising of revenue on transfer of risk & rewards. Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset.
Recognition of revenue due to price increase has not been disclosed publicly. Key Audit matter cannot be provided on information that is not made publicly available by the entity. However, the auditor may consider it necessary to include additional information to explain why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter, and how the matter was addressed in the audit, provided that disclosure of such information is not precluded by law or regulation.	Original information is any information about the entity that has not otherwise been made publicly available by the entity. Such information is the responsibility of the entity's management and those charged with governance.
Observations	Reasons
All audit procedures (instead of relevant procedures) described	Aspects of the auditor's response or approach that were most relevant to the matter or specific to the assessed risk of material misstatement should be stated. Listing of all procedures is not required.

7.

Suggestion	Category
CSR	Social equity bottom line An organization integrating CSR into their business strategy is good for business.
Use of organic cotton	Environmental bottom line There are many environmental benefits such as non- usage of pesticides and chemicals would positively impact the soil condition thereby improving production, saving of natural resources especially water.
Intern at environmental organisation	Environmental bottom line This offers Company's employees the opportunity to explore, learn, and actively participate in combating environmental issues, including conventional cotton.
Removal of unnecessary packaging materials	Economic bottom line Making changes that are advantageous for the environment is turning out to be economically beneficial for the Company.
Extended producer responsibility.	Environmental bottom line Affects ecological surroundings

CASE STUDY 44

Established in 1971 in Siliguri, West Bengal, HotSip Limited stands as a distinguished Indian company renowned for its expertise in the marketing and retailing of specialty tea products nationwide. With a rich history spanning over several decades, HotSip has emerged as a premier destination for tea enthusiasts seeking high-quality and unique blends.

At the heart of HotSip's operations lies its extensive workforce, comprising approximately 182,000 employees dedicated to delivering exceptional customer experiences. These employees are deployed across a vast network of 19,767 company-operated and licensed stores strategically located across the country. This widespread presence underscores HotSip's commitment to accessibility and customer convenience, ensuring that its diverse range of specialty teas are readily available to consumers across various regions.

Their product mix includes handcrafted high-quality/ premium priced tea, a variety of fresh food items and other beverages. They also sell a variety of tea products and license their trademarks through other channels such as licensed stores and grocery. As a listed entity, the Company adheres to stringent financial reporting standards, particularly those outlined in the Indian Accounting Standards (Ind AS). These standards serve as the guiding framework for the preparation and presentation of the Company's financial statements, ensuring transparency, comparability, and accuracy in financial reporting.

By following Ind AS, the Company upholds a commitment to best practices in accounting and financial disclosure, aligning its reporting practices with internationally recognized norms and standards. This not only enhances the credibility and reliability of the Company's financial statements but also instills confidence among investors, stakeholders, and regulatory authorities.

The core competence of HotSip has been its ability to effectively leverage their cornerstone product differentiation strategies by offering a premium product mix of high quality tea and snacks. HotSip's brand equity is built on selling the finest quality tea and related products, and by providing each customer a unique "HotSip Experience", which is derived from supreme customer service, clean and well-maintained stores that reflect the culture of the communities in which they operate, thereby building a high degree of customer loyalty with a cult following.

HotSip Limited primarily operates and competes in the retail tea and snacks store industry. This industry experienced a major slowdown in the recent past due to the advent of COVID 19 and changing consumer tastes, with the industry revenue declining 6.6% to INR 1,800 crores. Before this, the industry had a decade of growth consistent. Due to the economic disruptions, consumers spent less on luxuries like eating out, choosing to purchase low-price items instead of high-priced tea drinks due to shrinking budgets. The industry grew at a low annualized average growth rate of 0.9% from 20X1 till 20X3 with current industry revenues at INR 1,900

crores. The industry is now forecasted to grow at an annualized rate of 3.9% over the next five years, with a potential to reach INR 3,000 crores revenues. This growth would be mainly driven by an improving economy, increase in consumer confidence and expanding menu offerings within the industry. HotSip dominates the industry with a market share of 46.7%, DrinkTea Brand with 24.6% and other competitors like Donald's tea, HomeTea, etc. taking the rest.

This industry is in a mature stage with a medium level concentration. HotSip and DrinkTea make up more than 60% of the market share, giving them considerable market power in determining industry trends. The industry's demand for premium tea and snack products are mainly driven by a number of factors which include disposable income, per capita tea consumption, attitudes towards health, world pricing of tea and demographics. This industry is highly sensitive to the macroeconomic factors that affect the growth in household disposable. During the economic disruption, the decline in household disposable income due to increased unemployment and stagnant wages, caused a downward pressure on the revenue and profitability margins in the industry. Another crucial factor for analyzing the demand in the industry is the per capita tea consumption where the increase in tea consumption increases the revenue of tea and snack shops. The main driver of this consumption increase would be the increase disposable income, as the economy improves, and consumers start to relax their budgets. This driver has a positive effect on market revenue. Per capita tea consumption is expected to increase in 20X4.

As tea leaves are the primary input in the value chain of the industry participants, the prevailing volatile prices of tea leaves determines market costs and profitability margins. The world price of tea has risen sharply in recent years due to growing demand in other countries and the resulting supply shortages. During the next five years, tea leaves prices are projected to decrease, which will likely translate into lower market costs and higher profitability. Attitudes towards health also play an important role in determining the demand in the industry. There is an expected shift towards healthy eating and diet among the consumers in 2014, and this could be a potential threat to the industry as they become more aware of issues related to weight and obesity. There has been a proactive shift among the industry participants to tailor their menus towards more organic and healthy products mix.

HotSip Limited is planning to engage a firm as a consultant to analyse the retail tea and snacks industry using Porter's five forces. HotSip Limited, a company specializing in beverages, is in the process of considering hiring an external consulting firm to

conduct a thorough examination of the retail tea and snacks industry. The purpose of this analysis is to gain valuable insights into the competitive dynamics and market forces shaping the industry landscape. Specifically, HotSip Limited aims to leverage Porter's renowned five forces framework as a systematic approach to assess the industry's competitiveness and identify key factors influencing its profitability and sustainability. This strategic initiative reflects HotSip Limited's commitment to informed decision-making and proactive management of its business operations within the dynamic and evolving retail tea and snacks sector.

HotSip Limited, a prominent player in the beverage industry, embarked on a strategic journey to bolster its brand presence in the Southern state of Kerala. Recognizing the potential of this market and the need for a comprehensive approach to expansion, HotSip formulated plans to merge one of its subsidiary companies, HotBrew Limited. For HotBrew Limited, the merger provides a pathway to enhanced resources and market access through its affiliation with HotSip. As a subsidiary of HotSip, HotBrew stands to benefit from the parent company's scale, expertise, and brand reputation, positioning it for accelerated growth and market leadership in the competitive beverage industry. By keeping stakeholders informed and engaged throughout the process, HotSip can foster trust and confidence in its strategic direction, laying the foundation for long-term success and value creation. The merger proposal was carefully crafted in adherence to the regulatory framework outlined in the Companies Act of 2013, which provides a structured mechanism for corporate mergers and acquisitions in India. Under this scheme, HotBrew Limited, with its distinct portfolio and operations, would be seamlessly integrated into the parent company, HotSip Limited. HotBrew Limited boasted a significant amount of internally generated intangible assets that were still in the developmental phase. These assets, ranging from proprietary recipes to brand concepts, represented valuable intellectual property critical to the company's long-term success. However, as per the proposed merger scheme, it was determined that these intangible assets would be written off by debiting reserves and surplus of HotSip post-merger.

The Company has a centralised treasury department that arranges funds for all the requirements of the company including funds for working capital and expansion programs. During the year ended 31st March 2024, the company added further cost while constructing Plant 1 (out of general borrowings) and started construction of Plant 2 (out of specific borrowing). Both Plant 1 and Plant 2 are under construction. HotSip incurred interest of INR 15 lakhs (including interest on specific borrowing of INR 5 lakhs) during the previous year 2023-24. Total assets (other than those funded out of specific borrowings) at the beginning of the year were INR 500 lakhs and at the end of the year were INR 800 lakhs. Other the necessary details are as follows:

INR lakhs

Particulars	Plant 1	Plant 2
Balance of capitalised amount at the beginning of the year	20	-
Cost incurred during the P.Y. 2023-24	80	10
Balance of capitalised amount at the end of the year	100	60

I. Multiple Choice Questions

- The management of HotSip Limited plans to use the analysis from Porters Five Forces in isolation. Select the correct statement?
 - No. The analysis is a good starting point, but should not be used in isolation. May be combined with STEEPLE analysis.
 - Yes. The analysis is a good starting point, but can be used in isolation. Use of STEEPLE analysis is inappropriate.
 - No. The analysis is a good starting point, but should not be used in isolation. Use of STEEPLE analysis is inappropriate.
 - Yes. The analysis is a good starting point, but can be used in isolation. Use of STEEPLE analysis is appropriate.

- Following relevant information is available: (INR Lakhs)

	HotSip Limited	HotBrew Limited
Net profit	80	24
No of equity shares (lakhs)	16	4
Market Value per share (INR)	100	90

HotBrew Limited wants to ensure that earnings available to its shareholders are not reduced post merger. What should be the exchange ratio in that case?

- Exchange ratio of 1:9
 - Exchange ratio of 6:5
 - Exchange ratio of 3:1
 - Exchange ratio of 1:1
- The Company secretary was drafting the Board Resolutions for the upcoming Board Meeting. It appeared to the Company Secretary that the merger of HotBrew would qualify as a related party transaction under section 188 of the Companies Act, 2013 as it would involve transfer of assets and liabilities from a subsidiary company. Should the Company Secretary draft Board Resolution to ensure compliance with Section 188?
 - No. Mergers are not covered under Section 188 of the Companies Act, 2013.
 - Yes. Section 188 of the Companies Act, 2013 covers buying of assets.
 - No. Transactions in ordinary course of business and on an arm's length are excluded from Section 188.
 - Yes. The Company should also obtain approval of members, if the qualifying conditions are met

4. The Scheme of merger of HotBrew was approved by NCLT after the year end and was filed immediately with the Registrar of Companies. Which of the following statements would be true?
 - (a) Account for the merger in the next financial year since the scheme was approved after the year end.
 - (b) Account for the merger in the current financial year since Board approval is sufficient and rejection by NCLT is unlikely in case of merger of a subsidiary.
 - (c) Account for the merger in the next financial year since the scheme would be filed with Registrar of Companies after the year end.
 - (d) Account for the merger in the current financial year since the approval of scheme by NCLT is an adjusting event.
5. The auditor of the Company is specifically concerned with the accounting treatment in respect of write off of internally generated intangible assets. He is in a dilemma whether to modify the audit opinion since the accounting treatment is not in conformity with Ind AS. On the other hand, it is also widely understood that legal provisions have primacy over the requirements of Ind AS. What is the correct course of action that auditor should consider in such situation?
 - (a) He should consider issuing an adverse opinion – since the accounting treatment is not in accordance with Ind AS.
 - (b) He should give unmodified opinion and include an Emphasis of Matter paragraph in the audit report if the effect is material.
 - (c) He should give unmodified opinion (no Emphasis of Matter paragraph) in all cases – since the Schedule III to the Companies Act, 2013 requires specific disclosures.
 - (d) He should withdraw from the engagement – as this imposes a significant scope limitation for the auditor.
6. The Finance manager was computing the interest to be capitalised as per ICDS – IX. As per the finance manager, borrowing cost of INR 1 lakhs and INR 2 lakhs should be capitalised for Plant 1 and Plant 2, respectively. Do you agree?
7. You are required to analyse the retail tea and snacks industry using Porter's five forces.

ANSWERS TO THE CASE STUDY 44

1. (a) No. The analysis is a good starting point, but should not be used in isolation. May be combined with STEEPLE analysis.

Reason: *Porter's Five Forces is a good starting point to evaluate an industry but should not be used in isolation. You could, for example, combine it with a Value Chain Analysis or through the VRIO framework in order to get a better sense of where your company's competitive advantage is coming from and to better position your company among rivals. Moreover, Porter's Five Forces is often combined with the STEEPLE analysis to give a good overview of the organization's environment.*

2. (b) Exchange ratio of 1:9

Reason:

INR Lakhs

	HotSip	HotBrew
Current EPS	5 (INR 80 lakhs/ 16 lakhs shares)	6 (INR 24 lakhs/ 4 lakhs shares)
Exchange ratio	-	1.2(6/5)
No of shares to be issued	4,80,000 (4 lakhs shares X 1.2 i.e exchange ratio)	-
Total no of shares of Company	20.80 Lakhs(16 lakhs + 4.80 lakhs)	-
EPS after merger	5 (INR 104 lakhs i.e combined earnings/ 20.80 lakhs i.e total no of shares)	-

3. (a) MCA on 17 July 2014 have clarified that:

Reason: *Transactions arising out of Compromises, Arrangements and Amalgamations dealt with under specific provisions of the Companies Act, 1956/Companies Act, 2013, will not attract the requirements of section 188 of the Companies Act, 2013.*
4. (d) Account for the merger in the current financial year since the approval of scheme by NCLT is an adjusting event.

Reason: *In the financial statements assets should be recognised when an entity is able to exercise control. Approval of merger scheme is a substantive condition to demonstrate control. The approval is also a pre-requisite*

for giving effect to a scheme of merger in the financial statements of the Company. Approval of Scheme of merger is accorded after the year-end provide further evidence of conditions existing on the balance sheet date and would hence to be an adjusting event under Ind AS 10. Accordingly Scheme of merger with HotBrew should be recognised in the current financial year since HotBrew is already controlled by the Company. Approval of Scheme by NCLT is an adjusting event and hence should be recognised in the financial statements of the current year.

5. (b) He should give unmodified opinion and include an Emphasis of Matter paragraph in the audit report if the effect is material.

Reason: In this situation, the departure is not a non-compliance with the accounting framework but compliance with a modified framework. If the effect of doing this is material, the auditor should describe the resultant deviation from the framework in sufficient detail in an Emphasis of Matter Paragraph as provided by SA 706:

A4. Appendix 1 identifies SAs that contain specific requirements for the auditor to include Emphasis of Matter paragraphs in the auditor's report in certain circumstances. These circumstances include:

- ◆ When a financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation.

6. The Central Government has notified ten Income Computation and Disclosure Standards (ICDSs), to be followed by all assessees (other than individual or a HUF who is not required to get his accounts of the previous year audited in accordance with the provisions of Section 44AB of the Income-tax Act, 1961) following the mercantile system of accounting for the purpose of computation of income under the heads "Profits and gains of business or profession" or "Income from other sources".

ICDS IX relating to "Borrowing Cost" provides for capitalisation of borrowing costs in respect of qualifying assets. Qualifying assets are defined to mean tangible assets, intangible assets and inventories which take at least 12 months to become saleable. ICDS IX provides that actual borrowing costs incurred during the period, on funds borrowed specifically for the purposes of acquisition, construction or production of a qualifying asset, are to be capitalized on that asset.

In case of general borrowings i.e. not specifically borrowed for acquisition of a particular asset are utilised for acquisition, construction or production of a qualifying asset then general borrowing cost shall be capitalised in proportion of the cost of the qualifying asset to total assets of the taxpayer.

ICDS IX provides the formula for capitalisation of general borrowing cost i.e. $A^* \times B^{**}/C^{***}$

Where: *Borrowing costs incurred during the previous year except on specific borrowing

**Average of costs of qualifying asset as appearing in the balance sheet of a person on the first day and the last day of the previous year. In case the qualifying asset does not appear in the balance sheet of a person on the first day, half of the cost of qualifying asset.

***Average of the amount of total assets as appearing in the balance sheet of a person on the first day and the last day of the previous year, other than assets to the extent they are directly funded out of specific borrowings.

INR lakhs

	Plant 1 (Funded out of general borrowings)	Plant 2 (Funded out of specific borrowings)
Borrowing cost considered	10	5
Average cost of qualifying asset	60 (20 + 100)/2	
Average of the amount of total assets	650 (500 + 800)/2	
Borrowing cost to be capitalised	0.92 (10x60/650)	5

7. To analyze HotSip Limited in the retail tea and snacks industry using Porter's Five Forces framework, we must consider the impact of the following competitive forces:

1. Threat of New Entrants

Barriers to Entry: High

Economies of Scale: HotSip Limited operates on a large scale with 19,767 stores, creating significant barriers for new entrants due to the substantial initial investment required.

Brand Loyalty: HotSip enjoys a strong brand presence and a loyal customer base, making it challenging for new entrants to attract customers.

Capital Requirements: Competing with established players like HotSip necessitates substantial investments in store setup, marketing, and maintaining quality standards.

2. Bargaining Power of Suppliers

Supplier Concentration: Medium

Key Inputs: Tea leaves are a crucial input, and fluctuations in tea leaf prices can impact profitability. Global tea demand influences supply and prices.

Supplier Power: While there are multiple tea leaf suppliers, global price increases due to demand and supply imbalances give suppliers some leverage. However, an anticipated decrease in tea leaf prices could weaken supplier power in the future.

Switching Costs: HotSip may face challenges in switching suppliers due to the need to maintain quality standards and specific blends that align with their brand.

3. Bargaining Power of Buyers

Buyer Concentration: Low

Customer Base: HotSip boasts a large and diverse customer base across various locations, reducing the bargaining power of individual buyers.

Product Differentiation: High-quality, premium-priced tea offerings and unique customer experiences diminish buyer power as customers value these distinguishing factors.

Price Sensitivity: During economic downturns, consumers may seek lower-priced alternatives, increasing their bargaining power. However, as economic conditions improve and disposable incomes rise, buyer power may decline.

4. Threat of Substitutes

Availability of Substitutes: High

Substitute Products: Various alternatives such as coffee, soft drinks, juices, and low-priced tea options are easily accessible to consumers.

Switching Costs: Consumers face minimal costs when transitioning to other beverage options, thereby heightening the threat level.

Consumer Preferences: Shifting consumer preferences towards healthier beverage choices due to health trends could pose a threat to HotSip if it fails to adjust its product range accordingly.

5. Industry Rivalry

Competitive Intensity: High

Number of Competitors: HotSip faces significant competition from well-established brands like DrinkTea, Donald's Tea, and Home Tea.

Market Share: HotSip currently holds a dominant market share of 46.7%, with DrinkTea Brands following at 24.6%. The rest of the market is divided among other competitors.

Growth Rate: The industry is projected to grow at a rate of 3.9% annually over the next five years, indicating a potential increase in rivalry as companies strive to capture more market share.

Product Differentiation: HotSip distinguishes itself by offering high-quality, premium products and unique customer experiences, although competitors are likely to enhance their offerings as well.

Conclusion

Operating in a competitive landscape marked by high entry barriers, moderate supplier influence, low buyer power, significant threat of substitutes, and fierce rivalry, HotSip Limited must maintain its competitive edge. This can be achieved by capitalizing on its strong brand, expansive network, top-notch product range, adapting to evolving consumer preferences, and exploring strategic partnerships.

CASE STUDY 45

Indian Watches Private Ltd. (IWPL) manufactures smart watches. IWPL had a turnover of over Rs560 crores in the preceding financial year. It had outstanding loans or borrowings from banks upto Rs 80 crores in the preceding financial year. The paid up capital of the company is Rs 20 crores.

Smart watches require a number of electronic components like sensors, semi conductors, touch screen, batteries etc. Each smart watch requires many types of these components in order to be fully functional. The level of obsolescence is high in these components due to constant technological progress and design changes. Recently, during a management review meeting, the production manager complained about the delay in assembly line activities. Electronic components from the stores department were not being supplied on time at the assembly line. The store room manager explained that the delay was primarily caused because of fast obsolescence of components. There has been an inventory pile up of such obsolete components, many of which were bought in bulk but could not be used in the smart watch as there had been a technological / design change of the component in the meantime. Over the years, these items have accumulated and have started taking up substantial place within the storage area for components. Due to this, retrieval of components that are currently usable is taking time and hence the delay in delivering components to the assembly line.

Production of smart watches happens in large scale and is considered a high volume business. The company is using Total Productive Maintenance for maintaining and improving its production process. Total production per day is 5,000 watches each day. The smart watches are manufactured using several automated machines.

One of the processes in assembly uses an automated machine that requires 4 seconds per watch. The machine is operated on an 8 hour shift basis. In addition during each shift, the machine has a 60 minute break period and a 20 minute clean up period. Unplanned downtime is on an average 20 minutes for the machine per shift. Out of the 5,000 watches that undergo this assembly process each day, 95 watches are not assembled properly, so these are considered defective units.

Indian Watches Private Limited (IWPL) has decided to increase its production capacity to 20,000 watches per day. For this purpose, it imported an equipment from United States of America (USA) for \$100,000. The date of entering into contract was April 30, 2024. The date of actual importation was May 25, 2024. On this date, the price of the equipment increased to \$110,000. However, IWPL had already settled the contract by paying \$100,000 to the exporter on April 30, 2024. Post importation, IWPL has further agreed to pay \$20,000 as license fee and service fee for the equipment to the exporter in USA. This is part of the condition for sale.

IWPL imported sensors from Watches Inc. that is based in USA. These sensors are assembled onto the circuit boards of the smart watches and form a core component of the watch. Watches Inc. holds 4% of the equity share capital of IWPL. Each sensor is imported at \$10 per unit. Subsequently, following IWPL's plans to increase its production capacity from 5,000 watches to 20,000 watches, it was decided that revised price for each sensor would be \$8 per unit. When imports at the reduced price were effected, the Department rejected the transaction value stating that the price was influenced by the relationship between the said parties. It completed its assessment based on the earlier import price of \$10 per unit of sensor.

Until last year, IWPL was collaborating with OSoft Private Limited (OSPL) for its software requirements that are installed within the smartwatches. During these interactions, the management at IWPL noticed the talented pool of software engineers, who were able to provide unique software applications for IWPL. Therefore, after few rounds of negotiation, IWPL recently acquired OSPL for ₹20 crores. The operations of OSPL will continue as before. All the software developed by OSPL will be used exclusively in smartwatches manufactured by IWPL. These applications that can increase the efficiency and utility of its smart watches. Recently the software engineering team that integrated with IWPL developed a navigation application that helps the user navigate required routes as well as suggest alternate routes to avoid traffic. The smartwatch series that included this navigation application saw a spurt in sales due to this feature, giving IWPL a competitive advantage over its rivals.

I. Multiple Choice Questions

- Which of the following techniques may be useful in resolving the problem of delay in delivery of components from the store to the assembly line?
(a) Economic order quantity (b) 5S methodology (c) Just in Time production (d) Cellular Manufacturing
- By improving the process for timely availability of the electronic components to the assembly line, which of the components of Overall Equipment Effectiveness (OEE) is impacted?
(a) Availability of Machine (b) Performance of Machine (c) Quality Losses (d) Cost of machine
- Which of the following will hold true for IWPL as per the provisions of Companies Act, 2013?
 - By the Articles of Association, IWPL can appoint its founder Mr. Lal as its Managing Director for life.
 - IWPL has to have a Whole Time Company Secretary since it has a paid-up share capital of 20 crore rupees.
 - IWPL has to appoint is required to appoint an Internal Auditor and mandatorily conduct an internal audit.
 - IWPL is required to appoint Independent Directors on their Board with the view to boost the level of corporate governance.

Options

- (a) (i), (ii) and (iii) (b) (i) and (ii) (c) (ii) and (iii) (d) (i), (ii) and (iv)
4. Acquisition of OSPL by IWPL is an example of:
 (a) Backward integration (b) Forward integration (c) Horizontal integration (d) Merger
 5. If it is found that the navigation tool incorporated in the smartwatch is not user friendly and too complex to operation. Which attribute of the Kano Model will the aspect of complexity in usage fall under?
 (a) Performance attribute (b) Questionable attribute (c) Threshold attribute (d) Reverse quality
 6. (i) Calculate the following:
 (a) Availability ratio (b) Performance ratio (c) Quality ratio (d) Overall Equipment Effectiveness (OEE)
 (ii) How can OEE be used to improve performance measurement in Total Productive Maintenance (TPM) assessments?
 Compare the OEE of this process and equipment with the parameters suggested by Dal et al (2000), Nakajima (1998) to determine world class performance and identify the parameter that can be improved.
 7. (i) Given the increase in the price of the equipment between the date of contract and the date of actual importation, at what value should the imported equipment be assessed as per the Customs Act, 1962 and the relevant rules as applicable.
 (ii) What should be the treatment of the license and service fee that IWPL has to pay to the exporter post importation?
 (iii) With reference to IWPL's import of sensors from Watches Inc. the import price for each sensor was reduced from \$ 10 per unit to \$ 8 per unit. The Department completed its assessment based on the original import price of \$ 10 per unit of sensor, citing that the 4% share holding in equity capital by Watches Inc. influenced the price. Is the Department's action sustainable in law?

ANSWERS TO THE CASE STUDY 45

1. (b) 5S methodology
Reason: 5S methodology which is a Japanese methodology for Total Productivity Management (TPM) that is used to improve efficiency and effectiveness of an organization's workspace. The 5 S can be translated as They can be translated from the Japanese as "sort", "set in order", "shine", "standardize", and "sustain".
 EOQ relates to the quantity of inventory a company has to purchase to reduce inventory and storage cost. Just in time production refers to production of a product only as and when demand is generated by the customer. This will not help resolve the delay in delivery of components (raw materials for the finished product) from the store to assembly line. Cellular manufacturing refers to group of machines working in a cluster, operated by a single worker that will reduce work in progress and defective manufacturing.
2. (b) Performance of Machine.
Reason: Timely availability of the electronic components to the assembly line reduces machine idling and minor stoppages, two of the "six big losses" while calculating OEE. Reduction of idling and minor stoppage improves the performance of the machine and thereby the OEE of the machine. Availability of electronic component i.e. raw material, does not directly impact the availability of the machine nor the quality of the product. Cost of the machine is not any part of the "six big losses" used to measure Total Productive Maintenance, for which Overall Equipment Effectiveness (OEE) is calculated.
3. (c) Statements (ii) and (iii) are true for IWPL as per the provisions of Companies Act, 2013.
Reason: Option (i) is wrong Section 196(2) of the Companies Act, 2013 lays down that no company shall appoint or re-appoint any person as its managing director, whole-time director or manager for a term exceeding five years at a time.
 Option (ii) is correct Section 203 and Rule 8A requires a private company with paid up share capital of ₹10 crores or more shall have whole time Company Secretary.
 Option (iii) is correct Section 138 of the Companies Act 2013, every private company having a turnover of ₹200 crore and above during the preceding year or having outstanding loans or borrowings from banks or public financial institutions exceeding ₹100 crores at any point of time during the preceding financial year has to appoint an internal auditor and mandatorily conduct an internal audit. IWPL has turnover of ₹560 crores in the preceding year and therefore has to appoint an internal auditor.
 Option (iv) is incorrect as appointment of Independent Directors as per Section 149 applies to listed companies and other public companies.

4. (a) Backward integration
Reason: Backward integration, OSPL was a supplier of software applications and solutions to IWPL before the integration. OSPL was part of its upstream supply chain. IWPL acquired its supplier OSPL for ₹20 crores. Hence, this is an example of backward integration.

5. (d) Reverse quality
Reason: Reverse quality, where complexity in using the navigation tool leads to dissatisfaction of customers.

6. (i) (a) to (d)
 (a) Availability Ratio (Table 1)

Sr.No.	Particulars	For 1 machine per shift
1	Total time available (in minutes) 8 hours * 60 minutes	480
	Less Planned downtime in minutes	
2	Break in minutes	60
3	Clean up time in minutes	20
4	Planned production time in minutes Step 1 - (Step 2 + Step 3)	400
5	Unplanned downtime (in minutes)	20
6	Available time in minutes Step 4 - Step 5	380
7	Availability ratio per shift (Step 6 / Step 4)	95.00%

- (b) Performance Ratio (Table 2)

Sr.No.	Particulars	For 1 machine per shift
1	Actual production per day (units)	5000
2	Standard time (seconds)	4
3	Standard time required (minutes) Step 1 * Step 2 / 60	333.33
4	Actual Time taken (minutes) (Refer Step 6 from Table 1)	380
5	Performance Ratio (step 3/step 4 in %)	87.72%

- (c) Quality Ratio (Table 3)

Sr. No.	Particulars	Units
1	Actual Production per day	5,000
2	Defective units per day	95
3	Quality Ratio (Step 1 - Step 2)/Step 1 in %	98.10%

- (d) Overall Equipment Efficiency (OEE) = Availability Ratio * Performance Ratio * Quality Ratio
 $= 95\% \times 87.72\% \times 98.10\% = 81.75\%$

- (ii) Total Production Maintenance (TPM) study is undertaken improve the efficiency of manufacturing process by minimizing breakdowns and delays. Calculating Overall Equipment Efficiency (OEE) requires the identification of "six big losses"
- Equipment failure / breakdown
 - Set-up adjustments
 - Idling and minor stoppages
 - Reduced Speed
 - Reduced Yield and
 - Quality Defects and Rework

The first two losses (breakdown and set up adjustments) determine the availability of equipment, the next two losses (idling and minor stoppages and reduced speed) determine productivity efficiency and the last two losses (reduced yield and quality defects/rework) determine quality losses. Identification of these losses can provide information that can be used to improve the efficiency of manufacturing process.

Comparing the performance at the assembly line process with the parameters suggested by Dal et al (2000), Nakajima (1998)

Parameter	Suggested benchmark	Actual at assembly line
Availability	>90%	95.00%
Performance Ratio	>95%	87.72%
Quality Ratio	>99%	98.1 %
Overall OEE	85%	81.75%

The overall OEE of 85% and above is considered world class performance. The actual OEE at the assembly line process is 81.75%, close to but below the world class performance. As can be seen above, the performance ratio of 87.72% is below the benchmark of 95% and above. The actual time taken is influenced by both planned downtime and unplanned downtime. The production manager can investigate this further to determine where improvements can be made.

7. (i) As per section 14 of the Customs Act, 1962, the value of the equipment will be the actual price paid or payable that is the transaction value for the equipment. In this case, the transaction value will be \$100,000 which is the price of the contract and the amount actually paid by IWPL to the exporter on April 30, 2024. Price increase between the date of contract and the date of actual importation is therefore irrelevant for the purpose of valuation under Customs Act, 1962.
- (ii) IWPL has agreed to pay the exporter, as a condition for the sale, \$20,000 as license and service fee post importation of the equipment. As per explanation to Rule 10(1), this has to be included in the value of the equipment as this payment is being made as a condition to sale.
- (iii) No, the Department's action is not sustainable in law. Rule 2(2) of the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007, inter alia provides that persons shall be deemed to be "related" if one of them directly or indirectly controls the other. The word control has not been defined under the Rules. As per common parlance, control is established when one enterprise holds at least 51% of the equity shareholding of the other company. However, in this case Watches Inc. holds only 4% of the shareholding of the IWPL. So, the two parties cannot be said to be related. The fact the IWPL decided to expand its operations, leading to increase in bulk imports could be a **Reason** for the reduction in import price. The burden to prove undervaluation lies with the Revenue. In the absence of evidence to prove under-valuation, the price declared by IWPL is acceptable.

CASE STUDY 46

Due to increased urbanization, there has been a strong demand for residential housing facilities in various cities in India. Residential housing construction in each region is largely a fragmented market dominated by local and regional builders. Few builders have a nationwide presence. Residential construction is segmented by type, that is apartments and condominiums, villas and other types. Most of the apartments' construction is aimed at the mid-range income to luxury segment of customers. There are very few players targeting the low-income customers who are also in need of affordable housing facilities. The need for affordable housing is especially felt in well-developed cities like Pune, Bangalore, Gurgaon and Ahmedabad that have become urban centers in the last few decades. Housing facilities catering to the low-income customer segment are generally of poor quality, consequently, are prone to unfortunate accidents.

Bhartiya3D (B3D) is a company established by Mrs. Sinha, an architect and avid innovator. She has been a seasoned professional having more than 25 years of experience in the construction industry. She is also an innovator who wishes to harness the power of technology that can revolutionize the construction industry. **"Provide over each head a safe and secure roof, without a huge debt" is the current vision for her latest project.** B3D specializes on building 600 sq. ft to 800 sq. ft single- and two-bedroom homes using 3D technology. This is a revolutionary innovation in the construction industry. Traditional construction involved developing a blueprint for the home, then procure men, material and machines to work on the home. Completing a project the traditional way can take months, up to even more than a year in some cases.

B3D plans to turn this concept on the head, by introducing 3D printing technology for construction. Once the blueprint is finalized, the 3D construction printer takes over and creates the physical structure by printing out layers of concrete based on the design and specifications in the blue print. This substantially reduces wastes, errors and time required for construction in addition to generating better quality output. One housing project can be built within 6 months as compared to a period of 18 months for a similar project built using traditional construction techniques.

As compared to traditionally built homes, the cost of construction of 3D printed homes are expected to be cheaper. An advantage of using 3D construction technology is that it reduces the need for construction labourers as many of the processes are automated. This results in the reduction of construction labour cost by almost 40%. Also, reduction in wastes and errors helps in managing costs better. B3D is in talks with 3D construction printer manufacturers to procure machines needed for construction. These are costly machines that require huge initial investment. B3D is considering financing options for procurement of these machines, currently the loan financing rates are high. Due to limited supply in the face of high demand for prime locations, the cost of land procurement in these fast-developing urban centres is also high.

Inflationary pressures on cost of materials, labour and other constructions costs, high financing costs etc. are challenges that B3D expects to encounter. Hence, generating a quick inventory turnover is critical.

B3D has well qualified engineers and architects who will be working on this project. Since B3D plans to build these 3D homes across different cities, their expertise will be required at multiple locations. Hence, in order to retain them and motivate them, the company has offered good remuneration packages to them. For the staff it is a matter of pride to be able to be part of such innovative projects.

B3D wants construction material such as cement and steel need to be of specific quality. There are limited suppliers who can provide material of such grade quality. Moreover, B3D's material requirements form a very small portion of the suppliers' market. Many times, the lead times for procuring these materials are uncertain. Construction material includes bricks and glass that are very fragile and difficult to store. These materials are widely available in the market with many suppliers and can be procured easily on demand. B3D is considering its strategy for inventory management for each of the requirements like cement, steel, bricks and glass.

B3D targets to achieve low cost of production, less lock in of time and capital for each project. Keeping this in mind, the company plans to price the houses at a very attractive price of Rs 10 lakhs for a single bedroom flat and Rs 12 lakh for double bedroom flat in prime locations in urban cities across India. On average, similar traditional homes costs around Rs 15 lacs per single bedroom flat and Rs 18 lakh for double bedroom flat in the same locality. This will bring a lot of relief for this segment of customers who until now were dependent on the traditional builders for their home shelter needs. B3D targets to make a profit of at least 8% on sale price per flat. At present, it plans to have a uniform selling prices for single bedroom and double bedroom flats across cities in order to popularize the projects. However, there is flexibility for B3D to charge according to the exact cost considerations for each location in each city. Incumbents in the real estate cannot compete at this low range pricing, hence the company expects them to concentrate their business on the higher end segments for middle income and luxury class segments.

B3D has received the requisite approvals for the projects from town planning and other regulatory authorities. To create awareness and generate demand among the lower income groups, it plans to advertise its products in vernacular newspapers and TV channels. This would ensure better reach to the target customer segment. The cost of advertising in these channels is also cheaper as compared to other mediums. B3D will have a sales office at each project website, which will handle customer enquiries and take them on site tours in order to familiarize themselves with this novel building project.

B3D wishes to create traction on its sales quickly in order to capitalize on its revolutionary concept. Hence, B3D has tied up with Smart Bank Ltd. This is a reputed bank that has a national presence. It has vetted and listed B3D's project across various cities as one of its approved projects for which it is willing to provide loans along with assistance with loan processing. This tie-up gives further credibility in the market for this novel housing project.

Since customers are of the lower income group, the probability of their requirement for loan financing would be higher. Hence where felt appropriate, the sales team of B3D would encourage customers to approach Smart Bank Ltd. for home loans. Fast loan processing due to pre-approved tie-up, speeds up fund procurement and the transaction can be completed quickly, improving churn in sales. Smart Bank Ltd. will also use its digital marketing activities and direct selling agents who will advertise the availability of home loan facilities through these channels. For each loan that gets approved through this tie-up, B3D gets a small commission on each transaction. B3D expects at least 85% of the potential customers to utilize the tie-up with Smart Bank Ltd. to avail loans.

Bhavna, an engineer in the research and development team, has been working on making the construction process more efficient. Consequently, it can reduce the cost of construction. Given, the spectre of inflationary pressures on cost of operations, this project is considered to be critical to business and has the support of the senior management at B3D. Required finances have been approved by the management for this project i.e., efficient 3D construction technology. Project costs are easily identifiable and quantifiable. Bhavna believes that the cost reductions will exceed the project costs within 36 months of their implementation. Regulatory testing, health and safety approvals were obtained on June 1, 2022. This removed uncertainties concerning the project, which was finally completed on April 30, 2023. Costs of Rs 24,00,000 incurred until March 31, 2023 have been recognized as an intangible asset. An offer of Rs 17,00,000 has been received from a third party potential buyer, but it was rejected by B3D, believes that the project will be a major success and that the B3D has the potential to save Rs 19,00,000 in perpetuity. However, Mrs. Sinha, the head of the research and development team, is concerned about the long term prospects of the new process. She is of the opinion that competitors would have developed new technologies at some time which would require to replace the new process within five years. She estimates the present value of future cost savings over this period to be Rs 18,00,000. After that, she feels there is no certainty about the future.

In order to know the state of art developments in the 3D construction business, B3D engages technical consulting services of Pathway Consulting GMBH, a consulting company in Germany. In December 2023, it had paid Rs 25,00,000 as fees for technical services fees to this company. This was paid to the company's account in Germany. The accountant engaged at B3D was new to the job and did not deduct TDS on this payment. B3D paid the relevant TDS in December 2024.

The management of B3D is considering the following capital budgeting report for its first project in Pune. Due to the novel nature of the project, the management wishes to know the guaranteed return that it would rather accept as compared to a higher but uncertain return. Accordingly, the capital budgeting analysis has incorporated the certainty equivalent co-efficient of future cash flows.

Total investment in the project in Pune Rs 5 crores. Risk free return 3%

Expected cash flow for the next five years.

Year	Expected cash flow (Rs)	Certainty Equivalent co-efficient
1	1 crore	0.95
2	2 crores	0.90
3	2 crores	0.85
4	3 crores	0.80
5	2 crores	0.75

In May 2023, B3D enters into a lease with AK Enterprises for a 3D construction printer for the Pune project for a period of 3 years. The contract stipulates that AK Enterprises will perform maintenance of the leased 3D construction printer and receive consideration for that maintenance service. The contract contains the following fixed prices for the lease and non- lease component:

Lease component for 3D printer	Rs 6,00,000 per annum
Maintenance component for 3D printer	Rs 1,00,000 per annum
Total payment made to AK Enterprises	Rs 7,00,000 per annum

Assume that the stand-alone prices cannot be readily observed, so B3D makes estimates maximizing the use of observable information of the lease and non-lease components as follows.

Lease component for 3D printer	Rs 8,00,000 per annum
Maintenance component for 3D printer	Rs 2,00,000 per annum
Total payment made to AK Enterprises	Rs 10,00,000 per annum

B3D has not opted for the practical expedient option regarding the lease and non-lease component.

I. Multiple Choice Questions

- Which type of disruption does the introduction of 3D printing in the real estate sector represent?
 - Low end disruption
 - New market disruption
 - competitive disruption
 - Generic disruption
- From the case scenario, which stage of startup is B3D in and what is the value proposition match has it achieved?
 - Pre-start up stage with problem-market FIT stage
 - Pre-start up stage with problem-solution FIT stage
 - Start up stage with product-market FIT stage
 - Start up stage with scale-FIT stage
- B3D is considering its strategy for inventory management. Given the information in the case study about the lead times, availability of suppliers and negotiating powers with suppliers, which of the following inventory management methodologies can the company follow for these products?
 - Just in Time Purchasing for all construction materials like bricks and glass, cement and steel.
 - Just in Time Production for all construction materials like bricks and glass, cement and steel.
 - inventory to stock for materials like bricks and glass and Just in Time Production for construction materials like cement and steel.
 - Inventory to stock for construction materials like cement and steel while Just in Time purchasing for materials like bricks and glass.
- Which of the following is instrumental in B3D's low cost advantage strategy?
 - Cost effective inputs
 - Low cost distribution channels
 - Economies of scale
 - Process Innovation and re-engineering
- The net present value of the project in Pune using the certainty equivalent technique would be:
 - Rs 3.35 crores
 - Rs 2.60 crores
 - Rs 4.07 crores
 - Rs 5.00 crores
- What will be the allocation of consideration paid by B3D for the lease and non-lease component against the contract with AK Enterprises for 3D printer?
 - Lease component Rs 6,00,000 per annum and non lease component Rs 1,00,000 per annum
 - Entire payment of Rs 7,00,000 per annum as lease component as B3D has not opted for practical expedient regarding the lease and non lease components
 - Lease component Rs 8,00,000 per annum and non lease component Rs 2,00,000 per annum
 - Lease component Rs 5,60,000 per annum and non lease component Rs 1,40,000 per annum
- What would be the implication of non-deduction of TDS in the P.Y. 2023-24 for the fees for technical services of Rs 25,00,000 paid to Pathway Consulting GMBH?
 - There is no implication of non-deduction of TDS for fees for technical services as it is paid outside India, namely to Pathway Consulting GMBH account in Germany.
 - There is no implication of non-deduction of TDS for fees for technical services as it was paid in December 2024.
 - The fees for technical services will not be allowed as a deductible expenditure for the Assessment Year 2024-25.

- (d) The fees for technical services is not subject to the TDS provisions and hence B3D need not have paid the TDS at all in December 2024.
8. B3D wants to ensure that its business model has a competitive advantage over its rivals. DEVELOP Osterwalder's Business Model Canvas to help the management understand the key elements of its business model.
9. ADVISE the appropriate accounting treatment for the research and development costs incurred by Bhavna to make construction process more efficient that will consequently result in future cost savings.

ANSWERS TO THE CASE STUDY 46

1. (a) Low end disruption.

Reason: B3D is targeting low-income customer segment currently existing in the real estate market by offering them affordable homes using innovative 3D technology at highly attractive rates that cannot be matched by incumbents. Hence, it plans to enter the market at the lower priced product segment.

Incumbents due to their inability to compete with the company, are expected to concentrate their business on higher end segments for middle income and luxury class segments.

Also, disruptive innovation is of two type low end disruption and new market disruption

2. (c) Start up stage with product-market FIT stage

Reason: B3D is in the start up stage with product-market FIT stage. Getting regulator approvals, arranging for operational requirements in terms of men, machines and money, strategic tie-ups that will help its reach in the market, ongoing research and development activities to reduce costs of operations. All this indicates a commitment from B3D to get customer validation for the 3D affordable housing project that it wants to the market. Its offering will be tested in the market through its first project in Pune, where customer demand is expected to be generated and the value proposition starts generating cash flow, the company moves to the start — up stage with product-market FIT of its value proposition.

3. (d) Inventory to stock for construction materials like cement and steel while Just in Time purchasing for materials like bricks and glass.

Reason: Inventory to stock for construction materials like cement and steel. B3D wants the materials to be of specific quality grade. It also seems from the scenario, that the company may not be able to have sufficient negotiating power with the suppliers. Also, the lead time for procurement of material is uncertain. Hence, the ideal method would be the stock these inventories.

Just in Time purchasing will work well where the construction material like bricks and glass are very fragile and difficult to store. These materials can be procured only when needed in order to avoid loss due to storage due to their fragility. Loss will be incurred if the inventory is stocked and stored due to their fragility. It is given that These materials are widely available in the market with many suppliers and can be procured easily on demand. Hence, Just In Time purchasing requirements would be an ideal method for these inventories.

4. (d) Process innovation and re-engineering

Reason: Process innovation and re-engineering achieved through the use of 3D printing technology

5. (b) Rs 2.60 crores. Calculation as below

$$DCF = \frac{('1 \text{ crore}) \times 95}{(1.03)} + \frac{('2 \text{ crore}) \times 0.90}{(1.03)^2} + \frac{('2 \text{ crore}) \times 0.85}{(1.03)^3} + \frac{('3 \text{ crore}) \times 0.80}{(1.03)^4} + \frac{('2 \text{ crore}) \times 0.75}{(1.03)^5}$$

$$= \text{Rs } 92,23,300 + \text{Rs } 1,69,66,726 + \text{Rs } 1,55,57,408 + \text{Rs } 2,13,23,689 + \text{Rs } 1,29,39,131$$

$$= \text{Rs } 7,60,10,356$$

$$NPV = DCF - \text{initial investment} = \text{Rs } 7,60,10,356 - \text{Rs } 5,00,00,000 = \text{Rs } 2,60,10,356 \text{ that is Rs 2.60 crores.}$$

6. (d) Lease component Rs 5,60,000 per annum and non lease component Rs 1,40,000 per annum

Reason: The stand alone price for the lease component represents 80% of the total estimated stand alone prices [Rs 8,00,000/Rs 10,00,000]. Therefore, B3D allocates the consideration in the contract i.e. Rs 7,00,000 per annum as follows:

Lease component for 3D printer 80% × Rs 7,00,000 per annum	Rs 5,60,000 per annum
Maintenance component for 3D printer 20% × Rs 7,00,000 per annum	Rs 1,40,000 per annum
Total payment made to AK Enterprises	Rs 7,00,000 per annum

7. (c) The fees for technical services will not be allowed as a deductible expenditure for the Assessment Year 2024-25
Reason: Under section 40(a)(i), where fees for technical services is paid outside India on which tax is deductible at source under Chapter XVIIIB and such tax has not been deducted, the expense shall be disallowed. Therefore, the fees for technical service will not be allowed as a deductible expenditure for the A.Y. 2024-25. However, since tax has been paid in December, 2024, the fees for technical services will be allowed in A.Y. 2025-26.
8. Osterwalder's Business Model Canvas comprises of nine elements, wherein four elements pertain to cost (key partners, key activities, key resources and cost structure). These are connected to the other four elements pertaining to revenue (customer relationships, channels, customer segments and revenue streams). This link is established through the ninth segment, value proposition.

Key Partners:

B3D relies on several key partners to support its operations and growth in the construction industry. This includes **suppliers of essential components** such as 3D construction printing machines, specialized cement, and steel required for 3D printers, as well as other construction materials like bricks and glass. **Suppliers of construction labour** are also crucial partners in executing projects efficiently.

Furthermore, B3D has formed a **strategic tie-up with banks like Smart Bank Ltd.** This partnership enhances market reach by facilitating easier access to financing for potential customers. Additionally, **consulting firms providing technical insights** on the latest developments in construction technology play a vital role in B3D's innovation and continuous improvement efforts.

Key Activities:

B3D engages in several key activities to drive its business and innovation in the construction industry. First and foremost, it meticulously follows **advanced construction techniques, coordinating the necessary manpower, materials, and machinery** to complete projects within a swift 6-month timeframe. This efficient project management ensures timely delivery and customer satisfaction.

Secondly, B3D places a strong emphasis on ensuring that construction materials meet the required specifications and quality standards necessary to support 3D printing technology. This **commitment to quality** enhances the durability and efficiency of its construction processes.

Additionally, B3D invests significantly in **research and development activities to maintain a competitive edge**. These efforts focus on innovation in 3D printing technology and construction methodologies, enabling B3D to stay ahead in the market and continuously improve its offerings.

To facilitate quick inventory turnover and boost sales, B3D employs **targeted advertisements and leverages its strategic partnership** with Smart Bank Ltd. This collaboration not only expands its customer reach but also facilitates easy financing options for potential buyers, thereby accelerating sales and project timelines.

Moreover, B3D **evaluates the creditworthiness of customers** interested in outright purchases and actively encourages the use of home loans through Smart Bank Ltd. This approach ensures that financing solutions are accessible to a broader customer base, making homeownership more achievable for low-income segments.

Key Resources:

B3D relies on key resources essential for its operations and innovation in the construction sector. At the core of its technological advancement are **3D construction printers**, which enable efficient and precise construction of residential units. These printers are pivotal in realizing B3D's goal of delivering high-quality, affordable housing using advanced technology.

Another critical resource for B3D is its **team of employees specialized in engineering and architecture**. These professionals bring expertise in designing and overseeing the implementation of 3D printing technology in construction projects. Their skills and knowledge are crucial for maintaining operational excellence and driving continuous improvement.

In addition to tangible resources like 3D printers and skilled personnel, B3D leverages **intangible assets** such as patents and process improvements generated through its research and development activities. These intangible assets not only protect B3D's innovations but also provide a competitive edge in the market by enhancing efficiency, reducing costs, and improving the quality of its construction projects.

Value Proposition of B3D:

B3D addresses the pressing customer problem of the **lack of good quality, affordable housing facilities** in urban cities in India. By leveraging 3D construction printing technology and other innovative technological solutions, B3D **provides secure and affordable housing facilities**, revolutionizing the construction industry and meeting the urgent needs of low-income customers in these urban centers.

Customer Relationships:

B3D maintains customer relationships by managing a mass customer base through sales offices at each project site. These **offices conduct site tours and handle queries** about the novel 3D construction project, ensuring that potential buyers are well-informed and engaged throughout the purchasing process.

Channels:

B3D utilizes multiple channels to reach its customers effectively. **Sales offices are established at each project site** to directly engage with potential buyers. Additionally, B3D **leverages its tie-up with Smart Bank Ltd.**, which publicizes the projects through digital marketing activities and direct selling agents, ensuring wide reach and visibility among potential customers.

Customer Segments:

B3D targets lower-income customers in urban cities across India who are in need of affordable housing facilities. The customer base consists of two types: those making **outright purchases** and those **requiring financial assistance** for home purchases.

Revenue Streams:

B3D's primary revenue stream comes from the **sale of residential units**, with a uniform selling price of Rs 10 lakh per single bedroom flat and Rs 12 lakh per double bedroom flat to popularize the scheme. There is flexibility to adjust prices upward based on cost considerations for each project across multiple cities, with a target profitability of 8% of the sale price of each flat.

In addition to direct sales revenue, B3D **generates ancillary income through commissions** from its partnership with Smart Bank Ltd. This collaboration facilitates loan approvals for customers, enhancing affordability and enabling quicker sales turnover.

This dual revenue model ensures that B3D not only meets the housing needs of lower-income segments but also maximizes its financial performance through strategic pricing and financial partnerships.

Cost Structure:

B3D's cost structure involves various management opportunities and challenges. On the **opportunity side**, utilizing 3D construction technology yields higher quality construction while reducing waste, errors, and time due to automated processes. This efficiency allows for better inventory management of materials like cement, steel, bricks, and glass, and decreases construction time, lowering labor costs by almost 40% and reducing overhead expenses. However, B3D **faces several challenges**, including high land acquisition costs, significant expenses for 3D printing machines, and the need for higher remuneration for skilled employees such as engineers and architects. Additionally, the specialized materials required for 3D printing are costly, inflation impacts other construction costs, and financing costs remain high.

9. Ind AS 38 'Intangible Assets' requires an intangible asset to be recognized if, and only if, certain criteria are met.

- ◆ Intention to complete the asset is apparent as it is a major project with full support from board
- ◆ Finance is available as resources are focused on project
- ◆ Costs can be reliably measured
- ◆ Benefits are expected to exceed costs – (in 3 years)
- ◆ Regulatory approval which was received on June 1, 2022

Regulatory approval for the project was received on June 1, 2022. The project was completed on April 30, 2023. Costs of Rs 24,00,000 incurred until March 31, 2023 have been recognized as an intangible asset. This is incorrect.

Expenses incurred prior to June 1, 2022 should be expensed out: $\text{Rs } 24,00,000 \times 2/12 = \text{Rs } 4,00,000$. Retrospective recognition of expense as an asset is not allowed.

Expenses incurred between June 1, 2022 and March 31, 2023 should be capitalized: $\text{Rs } 24,00,000 \times 10/12 = \text{Rs } 20,00,000$

Ind AS 36 'Impairment of assets' requires an intangible asset not yet available for use to be tested for impairment annually. As of March 31, 2023 the asset is not yet available for use, hence it has to be tested for impairment. Cash flow of Rs 19,00,000 in perpetuity would clearly have a present value in excess of Rs 19,00,000 and hence there would be no impairment. However, the research head Mrs. Sinha is technically qualified, so impairment tests should be based on her estimate of a five-year remaining life and so present value of the future cost savings of Rs 18,00,000 should be considered in that case. Rs 18,00,000 is greater than the offer received (fair value less cost to sell) of Rs 17,00,000 and so Rs 18,00,000 should be used as the recoverable amount.

The carrying amount should be consequently reduced to Rs 18,00,000. Calculation of Impairment loss of intangible asset under development:

Particulars	Amount (Rs)
Carrying amount of intangible asset as of March 31, 2023	20,00,000
Less Recoverable amount	18,00,000
Impairment loss	2,00,000

Impairment loss of Rs 2,00,000 is to be recognized in the profit and loss for the year 2022-23. Necessary adjusting entry to correct books of account will be:

Particulars		Rs	Rs
Operating expenditure - Development expenditure	Dr	4,00,000	
Operating expenses - Impairment loss	Dr	2,00,000	
To Intangible asset under development			6,00,000

CASE STUDY 47

CASE STUDY 48

Manpower Services Private Limited is a subsidiary of a Singapore based Company. The Company has received a land on lease for 99 years from the Government to carry out its activities. At the inception of the lease, the land is utilised by the company and a building has been constructed. As per the terms and conditions of the lease, the Company is supposed to return the land to the Government after 99 years on a "as it is where it is basis".

The Company has entered into secondment agreements of employees with group companies located in USA, UK, Dublin, Singapore etc. Key terms and conditions of the agreement are as follows:

- ◆ When required, the Indian Company requests foreign Group companies for managerial and technical personnel to assist in its business. Accordingly seconded employees are selected by foreign Group company and are transferred to the Indian Company.
- ◆ During the term of secondment, the seconded employee would act in accordance with the instructions and directions of the Indian Company. The seconded employees would devote their entire time and work to Indian Company.
- ◆ The seconded employees would continue to be on the payroll of the foreign group company for purpose of continuation of social security/ retirement benefits, but for all practical purposes, Indian Company would be the employer.
- ◆ The seconded employees would receive the salary, bonus, social benefits, out of pocket expenses and other expenses from foreign group company and the foreign group company would raise debit note on the Indian Company to recover the said expenses without any mark-up.

The Company is registered with GST authorities under the categories of 'manpower recruitment agency service'. During an audit, the GST department contended that the seconded employee cannot be called as employee of Indian Company and there cannot be any relief from payment of GST under reverse charge. The authorities alleged that the Indian Company has failed to pay GST under reverse charge for the services of manpower supply received from the foreign group entities. Accordingly, a demand for unpaid amount of GST, interest and penalty was raised on the Indian Company.

The CFO informed the Board of Directors regarding the above demand. The Board of Directors enquired about the financial position of the company as of the end of the year to assess the potential implications. Following is the summary of the financial position at the year-end, prepared as per Accounting Standards issued under Companies (Accounting Standards) Rules, 2021:

INR crores

Profit and Loss Account			Balance sheet		
	Current year	Previous year		Current year	Previous year
Revenue	50	40	Total assets	900	1,000
Expenses	10	15	Equity	400	600
Profit after tax	40	25	Total liabilities (including third party loan of INR 10 crores in current year and INR 5 crores in previous year)	500	400

The CFO also mentioned that the financial statements and annual return of the previous year have not yet been filed by the Company. Basis the above financial information, the CFO note that the Company meet the exemption criteria as available to a private company and accordingly the Company would be exempted from audit of internal financial control with reference to financial statements as prescribed under section 143(3)(i) of the Companies Act, 2013. In the Board meeting the CFO also mentioned that UK is strengthening its data privacy norms thereby significant investment would be required to overhaul the internal controls for ensuring compliance with the amended data protection norms. Non-compliance would lead to significant punitive damages on the Company/ directors. The Board decided that considering the cost benefit, it would be prudent to exit the UK jurisdiction. The Board authorised the Managing Director to initiate the next steps.

The Managing Director also informed the Board that the Company have been hit by a series of cyber security incidents that has impacted some of its valued stakeholders and their personal information. These cyber incidents resulted in an unauthorised third-party gaining access to the Company's data systems. The Company had provided necessary intimations to the Regulatory authorities. Once aware of the unauthorised access to data, the Company worked urgently to contain the threat and investigated what occurred. The Company also engaged external cyber security experts to assist with their response to the incident and to ensure the ongoing safety and security of its systems. It has been identified that only the following types of personal information are likely to have been extracted by unauthorised third party. Investigations have confirmed that no bank account was included in the affected files.

Sr. No	Type of cyber attack	Type of information expected to be leaked				Total
		Surname	Pin code	Email address	Date of birth	
1	Malware – or malicious software – is any program or code that is created with the intent to do harm to a computer, network or server.	2	5	1	-	8
2	Denial-of-Service attack is a malicious, targeted attack that floods a network with false requests in order to disrupt business operations.	3	2	20	5	30
3	Phishing is a type of cyberattack that uses email, SMS, phone, and social media to entice a victim to share sensitive information	7	-	5	5	17
4	Spoofing is a technique through which a cybercriminal disguises themselves as a known or trusted source.	10	10	-	-	20
5	Identity-driven attacks - a valid user's credentials have been compromised and an adversary is masquerading as that user.	5	-	1	-	6
6	Supply chain attack - targets a trusted third-party vendor who offers services or software vital to the supply chain.	-	2	1	1	4
	Total	27	19	28	11	85

Further, following general precautionary steps to reduce the risk of harm in future:

Remain alert to increased scam activity or any unsolicited communications via email, SMS or phone.

- ◆ Do not click on any suspicious links or provide your passwords or any personal information.
- ◆ Consider changing your online account passwords.

I. Multiple Choice Questions

1. The management estimated that INR 10 crores would be incurred at the end of 99 years to dismantle/ demolish the building and return the land to the Government. Accordingly provision was recognised by adding to the corresponding item of property, plant and equipment. Is the accounting treatment appropriate?
 - (a) Yes– Under IND AS 37, provision should not be discounted to its present value.
 - (b) No– Under IND AS 37, provision for decommissioning, etc that has material effect on the time value of money should be discounted to its present value.
 - (c) No– Under IND AS 37, provision for decommissioning, etc should have been recognised as an expense in the Profit and Loss Account.
 - (d) Yes– Under IND AS 37, provision should not be discounted to its present value. However, the provision should have been recognised as an expense in the Profit and Loss Account.
2. The management proposes to appoint the auditor to design and implement financial information system of the Company. Can the auditor accept such engagement?
 - (a) No– Since an auditor cannot design and implement financial information system of any audit client as such service is prohibited under section 144 of the Companies Act, 2013.
 - (b) Yes– Since the auditor is prohibited from designing and implementing financial information system of a listed audit client as provided under section 144 of the Companies Act, 2013.
 - (c) Yes– Since the auditor of a private limited company is permitted to design (but not implement) financial information system as provided under section 144 of the Companies Act, 2013.
 - (d) No. Since the auditor of a private limited company is specifically prohibited under Section 144 to the Companies Act, 2013 to assume a management responsibility.

3. The auditor of the Company has initiated audit planning discussions with the management. The management informed that the audit of internal control with reference to financial statements is not applicable considering that the Company meet the exemption criteria provided by MCA for certain private company. The auditor believes that audit of the internal controls would be required. Do you agree with the auditor?
 - (a) No. The exemption criteria are met. Non-filing of financial statements is not relevant.
 - (b) No. The exemption criteria are met. Non-filing of Annual Return is not relevant.
 - (c) Yes. No exemption has been prescribed under the Companies Act, 2013 in respect of internal control with reference to financial statements of private/ public companies.
 - (d) Yes. The exemption criteria are not met since the Company has committed a default in filing financial statements/ Annual Return.
4. From the perspective of risk management, the Company is facing risk in UK jurisdiction?
 - (a) Strategic. (b) Operational (c) Compliance (d) Financial.
5. The Company plans to use Pareto's analysis. Which of the following statement is the correct description of this concept?
 - (a) Commonly known as the 80:20 Rule states that for many outcomes, roughly 20% of consequences come from 80% of causes.
 - (b) Commonly known as the 80:20 Rule. It is a fixed % Rule.
 - (c) Commonly known as the 80:20 Rule states that for many outcomes, roughly 80% of consequences come from 20% of causes.
 - (d) Commonly known as the 80:20 Rule. It is a detective mechanism and not a control mechanism.
6. Perform Pareto Analysis of total cyber incidents and the type of data leakage using the above and provide recommendations to the management of the Company.
7. The CFO is unsure whether the secondment arrangement fall under the purview of the Goods and Services Tax Act, 2017 and accordingly whether a provision should be recognised as at the end of the year. Describe the accounting scenarios that are possible under Ind AS 37 for recognition of the demand?

ANSWERS TO THE CASE STUDY 48

1. (b) No– Under IND AS 37, provision for decommissioning, etc that has material effect on the time value of money should be discounted to its present value.
Reason: Para 45 of Ind AS 37 States that:
Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation.
2. (a) No– Since an auditor cannot design and implement financial information system of any audit client as such service is prohibited under section 144 of the Companies Act, 2013.
Reason: Section 144 of the Companies Act, 2013 prohibits auditor to directly/ indirectly design and implement financial information system of a company, its holding or subsidiary company.
3. (d) Yes. The exemption criteria are not met since the Company has committed a default in filing financial statements/ Annual Return.
Reason: Refer MCA notification dated 5 June 2015 which provides that In case of Private Company section 143(3)(i) would not apply to:-
 - (i) which is a one person company or a small company; or
 - (ii) which has turnover less than rupees fifty crores as per latest audited financial [statement and] which has aggregate borrowings from banks or financial institutions or any body corporate at any point of time during the financial year less than rupees twenty five crore.*The exceptions, modifications and adaptations shall be applicable to a private company which has not committed a default in filing its financial statements under section 137 of the said Act or annual return under section 92 of the said Act with the Registrar.*
4. (c) Compliance
Reason: Compliance risk is the potential damage businesses face when they fail to comply with industry standards, laws, and regulations. This risk involves both financial penalties and reputational damage.
5. (c) Commonly known as the 80:20 Rule states that for many outcomes, roughly 80% of consequences come from 20% of causes.
 1. The Pareto Principle is a concept that specifies that 80% of consequences come from 20% of the causes, asserting an unequal relationship between inputs and outputs. It is not a fixed percentage rule. In a general sense, it means

that a few products/ services can make up most of the value of an entity. Named after economist Vilfredo Pareto, the Pareto Principle serves as a general reminder that the relationship between inputs and outputs is not balanced. The Pareto Principle can be applied in a wide range of areas such as manufacturing, management, and human resources. The Pareto Principle is even more applicable to businesses that are client-service based and has been adopted by a variety of customer relationship management software programs.

In the present case the Denial of Service incidents are the most common cyber incidents encountered by the Company and represented 35% of the total number of cyber incidents. Spoofing , Denial-of-Service attack and Phishing accounted for 79% of the total cyber attacks. Refer computation below:

Pareto Analysis of total cyber incidents	Nos	% total	Cumulative %
Denial-of-Service attack	30	35	35
Spoofing	20	24	59
Phishing	17	20	79
Malware	8	9	88
Identity-driven attacks	6	7	95
Supply chain attack	4	5	100
Total	85		

So these are considered as key incidents and the Company must allocate resources to mitigate these threats. Else, the Company might face implications and loose reputation in the market.

Further, a second level Pareto analysis reveal that that the email address was the common data that got leaked. Email address and Surname together accounts for 64% of the type of data leakage. So, the Company must direct its efforts and develop specific controls to safeguard this information and avoid the data leakage in future.

Pareto Analysis of type of data leakage	Nos	% total	Cumulative %
Email address	28	33	33
Surname	27	32	65
Pincode	19	22	87
Date of birth	11	13	100
Total	85		

6. Ind AS 37 applies to the accounting for provisions, contingent liabilities and contingent assets. A provision is recognised when (a) a present obligation as a result of a past event exists; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If these conditions are not met, no provision should be recognised. In almost all cases it will be clear whether a past event has given rise to a present obligation. In rare cases, for example in a legal demand, it may be disputed either whether certain events have occurred or whether those events result in a present obligation.

Regarding the demand received for GST, the Company should determine whether a present obligation exists at the balance sheet date by taking account of all available evidence. Further information might become available between the balance sheet date and the date on which the Company's financial statements are finalised. Where this happens, that information should be taken into account in determining whether or not a present obligation exists at the balance sheet date. For example, the Company should assess whether any clarifications, etc have been issued by the GST department or any judgements have been passed by Supreme Court which lays down the principal in this regard. To seek more clarity on this matter the Company may obtain opinion of legal experts and assess the appropriateness of the rational for reaching the position.

On the basis of the evidence the Company should decide the following regarding the GST demand received:

- Where it is more likely than not that a present obligation exists at the balance sheet date: Ind AS does not put a numerical measure of probability but requires management to assess the likelihood of occurrence basis facts and circumstances. This implies where the outflow of resources is more likely than not to occur (that is, the probability of occurring is greater) a provision would be required under Ind AS 37. Accordingly in this scenario, the Company should recognise a provision (if the recognition criteria are met) for the estimated amount of GST liability.
- Where it is more likely that no present obligation exists at the balance sheet date: The Company should disclose a contingent liability regarding the amount of estimated GST liability, unless the possibility of an outflow of resources embodying economic benefits is remote.

CASE STUDY 49

CA. M has a flourishing practice spanning in areas of auditing, taxation (both direct as well as indirect), consultancy (particularly in foreign exchange laws) in Chennai. His clients include many HNIs (High net worth individuals) apart from corporates and non-corporates.

One day, one of his HNI clients, Mr. P, called him to inquire about tweaking of certain rules pertaining to taxation on redemption of mutual fund investments. He had heard that redemption for certain types of mutual fund investments is now going to attract increased income tax payouts. He had also heard news of the same on BTBC news channel but was unable to comprehend it lucidly. There was no clarity to him whether changes have been made in income tax law or in rules framed by SEBI.

Rely Consultancy, an AMFI registered mutual fund distributor through which MF investments were made, was continuously forwarding messages received from AMFI (Association of Mutual Funds in India) to his mobile. The messages were, at the best, cryptic and required investors to be in touch with their Chartered Accountants/tax consultants.

Mr. P had an impressive investment portfolio of around Rs 50 crores in various mutual funds and any changes in income tax payouts pertaining to it could affect his ROI adversely. Under stress, he sought for an immediate appointment with CA M. Armed with summary of investments made in mutual funds, he came to CA's office and sought his much-needed advice. The summary of mutual fund investments as on 31st March, 2023 looked as under: -

S.No.	Type of fund in which money invested	Date of Investment	Amount invested (in Rs crores)
1	MTL Low Duration Fund	3/4/2020	10
2	Bon India Low Duration Fund	12/12/2020	15
3	ABD New Green Energy Fund	2/12/2022	15
4	SBA Life Arbitrage Fund	8/11/2021	10

Besides, he had also invested Rs 5 lacs in a liquid fund. Since amount invested was small, he was not bothered about same.

He also informed to CA M that funds stated at 1 and 2 are debt funds and funds stated at 3 and 4 are equity funds. He further informs that these debt funds have invested 30% of their proceeds in equity shares of domestic companies and equity funds have invested 70% of their proceeds in equity shares of domestic companies. The investment pattern of funds is going to remain unchanged in coming years too. He was planning to redeem his entire mutual fund investment portfolio in month of October 2023 tentatively depending upon suitable market conditions.

Their discussion also veered towards returns from debt funds. Debt funds invest predominantly in government and high-grade corporate bonds. Mr. P was of the view that interest rates in economy are likely to go up in few months' times keeping in view broad macroeconomic indicators.

The discussion stretched a bit and it came out that he plans to buy a villa in Goa. He is already 65 and wants to spend quality time in scenic beauty of Goa. In fact, it transpires that he is going to make an advance payment of Rs 1.00 crore to owner of villa, Mr. Christopher, an Indian citizen who is non-resident. The non-resident owner of villa had acquired this ancestral property through registered will of his late father. The total consideration to be paid to Mr. Christopher amounts to Rs 5 crores (including advance payment of Rs 1 crores).

In fact, it is also one of the **Reasons** for planned redemption of MF investments in current financial year. He enquires from CA M regarding any precautions to be taken/legal requirements to be complied with at the time of entering such transaction. Mr. P also discusses the matter with said Mr. Christopher over phone who happens to be in India at that time for a short visit. He, in turn, also enquires from CA M regarding investment avenues, if any available to non-residents like purchase of other house/investments in NHA bonds, under taxation laws to save capital gains tax and other requirements pertaining to filing of income tax return. It also transpires that India does not have any DTAA with the country of which Mr. Christopher is a resident.

Mr. Christopher plans to repatriate proposed sale proceeds of villa to the country in which he is resident. He does not know about modalities of the same and inquires from CA M in this matter.

MCQ

- Mr. P has invested Rs 10 crores in SBA Life Arbitrage fund. Which of the following statements is most appropriate about arbitrage funds?
 - Such funds tend to provide better returns than equity. However, they have lower volatility in comparison to equity. Besides, they seek to capitalize on price differential between spot and futures market. Expense ratios in arbitrage funds are likely to be lower as compared to liquid funds.
 - Such funds tend to provide better returns than debt instruments. However, they have higher volatility in comparison to equity. Besides, they seek to capitalize on price differential between spot and futures market. Expense ratios in arbitrage funds are likely to be higher as compared to liquid funds.

- (c) Such funds tend to provide better returns than debt instruments. However, they have lower volatility in comparison to equity. Besides, they seek to capitalize on price differential between spot and futures market. Expense ratios in arbitrage funds are likely to be higher as compared to liquid funds.
- (d) Such funds tend to provide better returns than equity. Therefore, they have higher volatility in comparison to equity. Besides, they do not seek to capitalize on price differential between spot and futures market. Expense ratios in arbitrage funds are likely to be lower as compared to liquid funds.
2. Mr. P is of the view that interest rates in economy are likely to rise. What likely impact it would have on NAV of debt fund? (Ignore other factors like duration of bonds etc.)
- (a) It is likely to lead to fall in NAV of debt fund. (b) It is likely to lead to rise in NAV of debt fund.
- (c) NAV of debt fund is likely to remain at past level. (d) NAV of debt fund is not affected by movement in interest rate.
3. As regards proposed purchase of villa in Goa from Mr. Christopher is concerned, which of the following statements is likely to be correct as regards deduction of tax at source (TDS) is concerned? Assume he does not have any other taxable income in India except capital gain from proposed sale of villa. Ignore surcharge and cess.
- (a) Mr. P is required to obtain TAN. TDS is required to be deducted @ 1% of Rs 5 crores. Entire TDS can be deducted at time of/before registration of title deed.
- (b) It is not mandatory for Mr. P to obtain TAN. TDS is mandatorily required to be deducted @ 20% on Rs 5 crores. However, TDS would be deducted at time of making advance payment as well as at time of making balance payment.
- (c) It is not mandatory for Mr. P to obtain TAN. An application can be made to Assessing Officer for determining capital gains on which tax is to be deducted. In that case, TDS would be deducted at lower rate after determination of capital gains by AO in the international wing. If lower deduction certificate is not available, TDS would be deducted at maximum marginal rate of 30% on Rs 5 crores. However, TDS would be deducted at the time of making advance payment as well as at time of making balance payment.
- (d) Mr. P is required to obtain TAN. An application can be made to Assessing Officer for determining capital gains on which tax is to be deducted. In that case, TDS would be deducted at lower rate after determination of capital gains by AO in the international wing. If lower deduction certificate is not available, TDS would be deducted at 20% on Rs 5 crores. However, TDS would be deducted at the time of making advance payment as well as at time of making balance payment.
4. As regards Mr. Christopher's enquiry regarding purchase of another residential property in India and investment in bonds of NHAI (National Highways Authority of India) and filing of income tax return, which of following statements is most appropriate? (Ignore issue of refund arising on account of TDS deduction for return filing.)
- (a) Non-residents can make above said investments to save capital gains tax. However, after making investments, if he has no taxable income, there is no legal obligation to file income tax return.
- (b) Non-residents can make above said investments to save capital gains tax. However, if his total income before giving effect to deduction against such investments exceeds basic exemption limit, there is legal obligation to file income tax return.
- (c) Non-residents cannot make above investments to save capital gains tax. Such investments can be made by residents only to save capital gains tax. Therefore, question of obligation of filing of return would become superfluous as he would be compulsorily required to file income tax return showing taxable income from sale of villa.
- (d) Non-residents can make investments by purchase of another residential property in India but cannot make investments in bonds of NHAI which can be subscribed by residents only. Therefore, filing of return would depend upon whether he has taxable income left after investing in residential house property.
5. Mr. Christopher plans to repatriate from India sale proceeds of villa. Which of the following statements is most appropriate in this regard?
- (a) Proceeds up to USD 250000 can be repatriated in a financial year by using Liberalised Remittance Scheme (LRS) as it is a capital account transaction falling under the scheme.
- (b) Proceeds up to USD 250000 can be repatriated in a calendar year by using Liberalised Remittance Scheme (LRS) as it is a capital account transaction falling under the scheme.
- (c) Proceeds can be repatriated using NRO account subject to certain restrictions in a financial year.
- (d) Proceeds up to USD 200000 can be repatriated in a financial year by using Liberalised Remittance Scheme (LRS) as it is a capital account transaction falling under the scheme.

6. Since Mr. P wants to redeem his entire portfolio in month of October 2023, what should be the advice of CA. M to him regarding income tax implications of such redemption? (Do not calculate income tax liability in each case. Just describe manner of taxation and rates. Ignore surcharge and cess). What further advice he should offer regarding news heard on TV/messages received on mobile?
7. Mr. P has also plan to invest further amount of Rs10 crores in MTL Low Duration Fund and Bon India Low Duration Fund taken together in FY 2023-24. What are tax implications on redemption of above investment after holding it for more than 3 years down the line? (Assume that tax law as applicable in FY 2023-24 remains unchanged at time of redemption).
8. Mr. Christopher, a non-resident, is planning to sell his villa in Goa. Examine validity of transaction w.r.t FEMA, 1999.

Answers

1. (c) Arbitrage funds provide better returns than debt instruments as they work on the principle of capitalizing price differential between spot and futures market. Equities are riskiest and obviously have high rate of returns. However, arbitrage funds have lower volatility as compared to equity. Typically, expense ratios in arbitrage funds are likely to be higher as compared to liquid funds. Since arbitrage funds would carry large number of trades to capitalize price differential between different markets, expense ratios tend to be higher as compared to liquid funds. Liquid funds invest in highly liquid money market instruments and debt securities of short tenure which are normally held till maturity resulting in lower expenses.
2. (a) Debt funds invest in government bonds/securities, high grade corporate bonds etc. There is inverse relationship between market value of bond and interest rates. As interest rate goes up, market value of bond falls and vice-versa. In economic conditions of rising interest rates, people would be unwilling to buy bonds carrying lower interest rates issued previously. Therefore, price of bond falls exhorting people to buy such bonds which were issued at a lower coupon rate. It, in turn, leads to fall in NAV.
3. (d) Tax on purchase of immovable property from non-resident owner is deducted u/s 195 of Income Tax Act, 1961 where the deductor is required to obtain TAN. There is no DTAA agreement with overseas country in which Mr. Christopher is residing. TDS would be deducted @ 20% on Rs 5 crores. However, application can be made to AO u/s 195(2) or 197 for determination of capital gains on which tax is to be deducted. In that case, tax would be deducted at lower rate. Tax is deducted u/s 195 at the time of credit of such income to the account of payee or at the time of payment, whichever is earlier. Therefore, TDS deduction is required at time of paying advance as well as at the time of making balance payment.
4. (b) Non-residents can make investments by purchasing another residential property u/s 54 and/or by purchasing bonds of NHAI in accordance with provisions of section 54EC. There is no bar in these sections for investments to be made by Non-residents. Under Section 139 of Income Tax Act, every person, if his total income without giving effect to the provisions of section 54 or section 54B or section 54D or section 54EC or section 54F or section 54G or section 54GA or Chapter VI-A exceeded the maximum amount which is not chargeable to income-tax, shall, on or before the due date, furnish a return of his income. Therefore, there is a legal obligation to file the return when total income before giving effect to deduction u/s 54 & 54EC exceeds basic exemption limit.
5. (c) Liberalised Remittance Scheme is available for resident individuals only. Sale proceeds of villa would be repatriated by non-resident Mr. Christopher using NRO account subject to certain restrictions in accordance with relevant regulations/circulars i.e. USD 1 million per financial year.
6. MTL Low Duration Fund and Bon India Low Duration Fund are debt funds. However, in case of MTL Low Duration Fund, holding period would likely to be more than 36 months. It would qualify as a long- term capital asset by virtue of provisions of 2(29AA) and 2(42A) of Income tax act. Therefore, long term capital gain would arise on redemption of units of this fund. Indexation benefit would be available and long- term capital gain would be taxable @ 20% u/s 112 of Income-tax Act, 1961.

In case of Bon India Low Duration Fund (another debt fund), holding period would likely to be less than 36 months. Therefore, short term capital gains would arise on redemption of units of this fund. Short-term capital gain would arise on redemption of these units taxable at normal rates of tax applicable to Mr. P. There is no special rate for short term capital gain on debt funds.

ADB New Energy Green Fund is an equity- oriented fund as it has invested more than 65% of its proceeds in equity

shares of domestic companies. Short-term capital gains would arise due to redemption of units of this Fund in month of October 2023 as holding period would be less than 12 months in accordance with provisions of section 2(42A) of Income-tax Act. Such short-term capital gains of equity-oriented funds would be taxable @15% u/s 111A of Income-tax Act, 1961.

SBA Life Arbitrage Fund is also an equity-oriented fund just like ADB New Energy Green Fund. However, long term capital gains would arise on redemption of units of this fund as holding period would be more than 12 months. Such long- term capital gains would be taxable @10% u/s 112 A of Income-tax Act, 1961 exceeding Rs 1 lakh.

CA M should inform Mr. P that there is no change in taxation pertaining to redemption of his investment portfolio as it stood on 31st March, 2023 and these would continue to be taxed as discussed above. The news/messages received by him are applicable to investments made on or after 1st April, 2023.

7. Both MTL Low Duration Fund and Bon India Low Duration Fund have invested 30% of their proceeds in equity shares of domestic companies. Finance Act, 2023 has introduced new section 50AA which states that capital gains arising on redemption of units of a Specified Mutual Fund which has been acquired on or after 1st April, 2023 shall deemed to be arising from transfer of a short-term capital asset. Specified Mutual Fund is a mutual fund which invests not more than 35% of its total proceeds in the equity shares of domestic companies.

Therefore, if Mr. P redeems his proposed investment even holding it for a period of more than 3 years down the line, indexation benefit would not be available to Mr. P and such income would be deemed as short-term capital gains and it would be taxable in accordance with slab rates applicable to him.

8. As per section 6(5) of the FEMA, 1999, a person resident outside India may hold, own, transfer or invest in Indian currency, security or any immovable property situated in India if such currency, security or property was acquired, held or owned by such person when he was resident in India or inherited from a person who was resident in India.

In the given case, villa at Goa was an ancestral property and was obtained through registered will of his father, who was an Indian resident. Sale of villa by a non-resident owner, is a valid transaction.

Case Study-50

An article singing paeans for India's space-tech start-ups appeared in "The New York Times" recently. The article underlined that India has become home to many such start-ups. It pointed out that space technology is fulfilling smaller-scale and commercial purposes like helping farmers in timely insurance of their crops. Space technology is also helping commercial fishing fleets in tracking their catch by sending images back to Earth. Satellites are bringing phone signals to country's remotest corners and are helping in operation of solar farms far away from India's megacities. It's also one of India's most sought-after sectors for venture capital investors.

Start-ups are mushrooming in different sectors of India's economy as varied as education, health, agriculture, fintech, clean energy, electric vehicles, bio technology, waste management, food processing and even drones. Economic Survey for year 2022-23 highlights that by capitalising on the digital infrastructure support, India has also emerged as one of the world's most vibrant destinations for start-up ecosystems. Start-ups are being envisioned as the spine of new India. In fact, India is home to world's third largest start-up eco system.

GrowFine is an ed-tech start-up incorporated as a private company in April 2023. The founders of start-up believe that some benefits are available to start-ups under income tax law. However, they are unaware about nitty-gritty of the same as they are from engineering and management backgrounds. The company had launched its products in year 2023-24 itself and had a turnover of Rs 20 crores. It is recognized by DPIIT (Department for Promotion of Industry and Internal Trade under Ministry of Commerce and Industry) and holds a certificate of eligible business and is recognized as a technology driven start-up by competent authority.

GrowFine has issued shares to certain investors who are familiar with founders of this ed-tech start-up during year 2023-24. They believe in the business idea of founders of the company and have decided to invest money out of their own resources. These investors are wedded to idea of providing quality affordable education to all and promoting standards of education in the country. In this way, their ideological belief stands aligned with mission of founders of start-up.

The start-up GrowFine has issued equity shares having face value of Rs 10/-per share to these individuals @ Rs 50/-per share during year 2023-24. The fair market value of equity shares of start-up as on valuation date is Rs 11/-per share. The existing paid up share capital of company is Rs 1.50 crores. The company has not issued shares at premium anytime in past.

GrowFine is still in nascent stages. However, it has already launched its products and has entered a segment of the market. The market has a considerable potential for company's business to grow. Start-ups not only need finance but they also require favourable and conducive eco system to grow. It includes not only hand holding at time of germination of a business idea but also policy measures having a legislative backing. In India, relaxations and benefits have been provided to start-ups under various laws like under Income tax Act,1961 and Companies Act,2013.

GrowFine needs talented and skilled employees for its business. However, the company is not in a position to pay high cash salaries to attract and retain employees. It is, therefore, considering route of employee stock option plans (ESOPs). Employee stock option plans provide a chance to employees to become shareholders in the company and also be benefitted by its future growth. The company plans to draft an ESOP scheme containing matters relating to grant of option, vesting period and manner of determining exercise price among others. The company is approaching many talented persons for assuming various senior roles in its organizational set-up. One such senior person, Mr. X, has shown interest in joining the company. However, he is sceptical regarding income tax implications pertaining to ESOPs. He has a doubt that it may lead to withholding of tax by start-up impacting his immediate "in-hand" salary.

GrowFine is planning to merge another start-up company engaged in similar line of activity to increase its size, revenue and scalability. However, founders of the company are clueless regarding modalities of the same under relevant laws.

Valuation of start-ups is often required for bringing in investments. The value of a start-up is dependent upon its future growth prospects. It is also quite likely that such a business idea has never been tested before. It only lies in realms of future. Another problem in start-up valuation is totally new or non-comparable business products and strategies. Start-ups also depend upon many rounds of funding. GrowFine may also approach another set of investors in further rounds of funding.

1. From the description given in case study relating to finance brought by individuals from their own resources and whose belief in promoting affordable education to all in the country and also improving its standards is aligned with mission of founders, which type of financing for a start-up is being referred to?
(a) Bootstrapping (b) Venture capital-financing (c) Funding by angel investors (d) Factoring
2. The founders of GrowFine believe that some benefits are available to start-ups. Considering the description provided in case study, which of the following statements is in accordance with provisions of income tax law?
 - (a) Company is eligible to deduction @ 75% of its profits from eligible business for any 5 consecutive assessment years out of 10 years beginning from the year in which start-up is incorporated. Further, certificate of eligible business in this regard is provided by Inter-Ministerial Board for Certification.
 - (b) Company is eligible to deduction @ 100% of its profits from eligible business for any 3 consecutive assessment years out of 10 years beginning from the year in which start-up is incorporated. Further, certificate of eligible business in this regard is provided by Inter-Ministerial Board for Certification.
 - (c) Company is eligible to deduction @ 75% of its profits from eligible business for any 5 consecutive assessment years out of 10 years beginning from the year in which start-up is incorporated. Further, certificate of eligible business in this regard is provided by CBDT.
 - (d) Company is eligible to deduction @ 100% of its profits from eligible business for any 3 consecutive years out of 10 years beginning from the year in which start-up is incorporated. Further, certificate of eligible business in this regard is provided by CBDT.
- 3 As regards doubt of Mr. X regarding withholding tax in relation to ESOPs is concerned, which of the following statements is most appropriate?
 - (a) Income tax would be withheld at rates in force when option is exercised and shares are allotted to Mr. X.
 - (b) The company is an eligible start-up holding certificate of eligible business. Income tax would not be withheld when option is exercised and shares are allotted to Mr. X as such transactions are exempted from withholding tax in case of eligible start- ups.
 - (c) The company is an eligible start-up holding certificate of eligible business. However, such start-up is allowed to defer withholding tax when option is exercised and shares are allotted to Mr. X. It is deducted in required manner after expiry of certain timelines and/ or happening of certain events.
 - (d) Income tax would be withheld when option is granted. Such withholding tax would be deducted at the rates in force at time option is granted to Mr. X.

4. The start-up is planning merger with another start-up engaged in similar activities. Which of the following statements is in line with provisions of law regarding proposed merger of these start-ups?
 - (a) It requires filing of proposed scheme with NCLT and final order in respect of merger is made by NCLT after following a detailed procedure.
 - (b) It involves giving notice of proposed scheme to Registrar and Official Liquidators and approval of scheme by both the companies. After approval of scheme by creditors, the scheme is approved by Registrar of Companies.
 - (c) It involves giving notice of proposed scheme to Registrar and Official Liquidators and approval of scheme by both the companies. After approval of scheme by creditors, the scheme is filed with Regional Director, Registrar and Official Liquidators. The scheme is finally registered by Regional Director.
 - (d) It requires filing of proposed scheme with NCLT and final order in respect of merger is made by NCLT after following a fast-track procedure.
5. Which of the following is not a factor to be considered for valuing a start-up like GrowFine?
 - (a) Past performance indicators
 - (b) Educational background of founders
 - (c) Uniqueness of product launched by start-up
 - (d) Traction
6. GrowFine has issued equity shares to individuals having face value of Rs10/-per share at a price of Rs 50/-per share. What are income tax implications for the same for GrowFine? What is such tax commonly and popularly known as? Under which circumstances can GrowFine claim exemption from such a tax?
7. Start-up GrowFine is also planning to approach other investors to fund its business requirements. What specific points shall be considered while carrying out due diligence of such start-up for picking up an equity interest by a prospective investor?

Answers

1. (c) Angel investors typically use their own money. Often, they are among an entrepreneur's family and friends. They generally invest in small-start-ups and are attached to the idea of the business floated by start-up. However, venture capitalists take care of pooled money from other investors and place them in a strategically managed fund. Bootstrapping is an attempt to build the company from personal finances or from operating revenues of the company. Factoring is a method of bootstrapping.
2. (b) Under section 80-IAC (1) of Income tax act, 1961, where the gross total income of an assessee, being an eligible start-up, includes any profits and gains derived from eligible business, there shall, in accordance with and subject to the provisions of this section, be allowed, in computing total income of the assessee, a deduction of an amount equal to 100 per cent of the profits & gains derived from such business for 3 consecutive assessment years.
 - (2) The deduction may at the option of the assessee, be claimed by him for any three consecutive assessment years out of ten years beginning from the year in which the eligible start-up is incorporated.

Further, explanation to section 80-IAC also defines eligible start-up which fulfils the following conditions namely: -

 - (a) it is incorporated on or after the 1st day of April, 2016 but before the 1st day of April, 2024
 - (b) the total turnover of its business does not exceed one hundred crore rupees in the previous year relevant to the assessment year for which deduction under sub-section (1) is claimed and it holds a certificate of eligible business from the Inter-Ministerial Board of Certification as notified in the Official Gazette by the Central Government
3. (c) Under section 192(1C), a person, being an eligible start-up referred to in section 80-IAC, responsible for paying any income to the assessee being perquisite of the nature specified in sub clause (vi) of sub-section (2) of section 17 in any previous year relevant to the assessment year, shall deduct or pay, as the case may be, tax on such income within fourteen days—
 - (i) after the expiry of forty-eight months from the end of the relevant assessment year or
 - (ii) from the date of the sale of such specified security or sweat equity share by the assessee or
 - (iii) from the date of the assessee ceasing to be the employee of the person

whichever is the earliest, on the basis of rates in force for the financial year in which the said specified security or sweat equity share is allotted or transferred.

Therefore, section 192(IC) provides for deferment of withholding tax in case of eligible start-ups.
4. (c) In case of merger between small companies/ start-ups, fast track procedure for merger has been prescribed under section 233 of Companies Act, 2013. It does not require filing of application with NCLT. The notices are to be given to registrar, official liquidator and Central Govt (powers delegated to Regional Director). After

considering objections of registrar and official liquidator, the scheme is finally registered by Regional Director.

5. (a) In valuation of a start-up like GrowFine, there is no historical data on basis of which future projections can be drawn. Valuation of a start-up entirely rests on its future growth potential. The assessments of future growth are dependent upon competence and drive of persons running the business.
6. Under clause (viib) of Sub-section 2 of Section 56 of Income Tax Act, where a company, not being a company in which the public are substantially interested, receives, in any previous year, from any person, any consideration for issue of shares that exceeds the face value of such shares, the aggregate consideration received for such shares as exceeds the fair market value of the shares is chargeable to income tax under head "Income from other sources". Amount received by company which is in excess of fair market value of shares shall be taxable under the head "Income from Other Sources." This tax is commonly and popularly called as "Angel tax".

However, this clause shall not apply where the consideration for issue of shares is received—

- (i) by a venture capital undertaking from a venture capital company or a venture capital fund or a specified fund; or
- (ii) by a company from a class or classes of persons as may be notified by the Central Government in this behalf.

Accordingly, the Central Government has, vide Notification No. 30/2023 dt. 24.5.23 notified that the provisions of section 56(2)(viib) of Income-tax Act shall not apply to consideration received by a company for issue of shares that exceeds the face value of such shares, if the said consideration has been received from any person, by a company which fulfils the following conditions specified in para 4 of notification number GSR 127(E) dated 19.2.2019 issued by Ministry of Commerce & Industry in the Department for Promotion of Industry & Internal Trade (DPIIT).

- (i) it has been recognised by DPIIT under this notification or as per any earlier notification on the subject
- (ii) Aggregate amount of paid-up share capital and share premium of the startup after issue or proposed issue of share, if any, does not exceed, twenty five crore rupees.
- (iii) It has not invested in any of the following assets, –
 - (a) Building or land appurtenant thereto, being a residential house, other than that used by the Startup for the purposes of renting or held by it as stock-in-trade, in the ordinary course of business
 - (b) land or building, or both, not being a residential house, other than that occupied by the Startup for its business or used by it for purposes of renting or held by it as stock-in trade, in the ordinary course of business
 - (c) loans and advances, other than loans or advances extended in the ordinary course of business by the Startup where the lending of money is substantial part of its business capital contribution made to any other entity
 - (d) shares and securities
 - (e) a motor vehicle, aircraft, yacht or any other mode of transport, the actual cost of which exceeds ten lakh rupees, other than that held by the Startup for the purpose of plying, hiring, leasing or as stock-in-trade, in the ordinary course of business
 - (f) jewellery other than that held by the Startup as stock-in-trade in the ordinary course of business
 - (g) any other asset, whether in the nature of capital asset or otherwise, of the nature specified in section 56(2)(vii)(d) (iv) to (ix) of the Act.

It has been further provided that the startup should not invest in any of the above assets for the period of seven years from the end of the latest financial year in which shares are issued at premium.

A start-up fulfilling above conditions has to file a form with DIPP which is forwarded by it to CBDT. By fulfilling above conditions and taking advantage of above notification, start-up can claim exemption from paying angel tax.

7. A prospective investor shall carry out due diligence before picking up equity interest in a start-up. Background of the promoters and credentials would be looked into. It is necessary to verify start-up's claims regarding future growth and numbers. The prospective investor should be convinced about business model of start-up and type of service provided by it. The start-up should be differentiated to meet specific customer needs or to solve a unique customer problem. Besides, start-up should show potential to scale up in near future in accordance with a suitable business plan.

The prospective investor would also look for market size and likely obtainable market share and macroeconomic drivers for the market. The extent of competition in the market in this segment also needs to be looked at. Nonetheless, investor would also be looking for exit avenues. The investor would also be taking into account the fact whether a start-up is showcasing potential future acquirers or alliance partners. It is a valuable parameter for the investor. Subsequent rounds of fundings and acquisitions all are examples of exit options.

CASE STUDY DIGEST (Till Nov 2023)

CASE STUDY 1

Para 1

Amiysam Ltd. is an unlisted public company, registered under GST, incorporated since 2011, with seven directors on its board, and is engaged in the manufacturing and selling of chemical products through its several units across the country. It also exports its chemical products to certain European & Middle East countries.

Visam (P) Ltd. (VPL) is another company engaged in manufacturing and selling of only one chemical product named, 'KOH'. Its 55% equity shares were recently acquired by Amiysam Ltd. during F.Y. 2022-23, due to which the paid-up capital of VPL increased from Rs 8 crore to Rs 12 crore.

For acquiring such shares, Amiysam Ltd. paid a cash consideration of Rs 10 crore to VPL and the fair value of non-controlling interest on the date of acquisition of such shares of VPL was Rs 3 crores. VPL had incurred a loss of Rs 4 lakhs during F.Y. 2021-22 as per its Income Tax Return (ITR) which was brought forward by it.

Para 2

Thereafter, VPL appointed Mr. Divarkar, as its whole-time company secretary and Mr. Devraj as its managing director, respectively, which are also serving on the same positions in its holding company, Amiysam Ltd.

After being appointed as managing director in VPL, Mr. Devraj acquired its 1000 shares with face value of Rs 100/share at issue price of Rs 130/share whereas the fair market value of such shares was Rs 115/ share.

On 25th August, 2022, VPL sold its two machineries to Mr. Devraj, wherein one machinery was sold in exchange of a vehicle of Mr. Devraj and the other machinery was sold for Rs 1,20,000, respectively, the WDV of which at the time of sale was Rs 90,000. However, such other machinery was reacquired by VPL on 10th September, 2022, at a cost of Rs 1,40,000.

Para 3

The CFO of Amiysam Ltd., Mr. Diggpal, told Mr. Devraj that from F.Y. 2022-23 onwards, the financial statements of Amiysam Ltd. would be required to be prepared on consolidation basis as the company has acquired its first subsidiary, VPL, during F.Y. 2022-23.

However, Mr. Devraj told him that he is of the view that, there would be no requirement to do so as Amiysam Ltd. is an unlisted company and also all the members of the company would be intimated in writing that for F.Y. 2022-23, the company will not be preparing consolidated financial statements and will only issue standalone financial statements for the said year.

Para 4

Mr. Praveen has been appointed as the engagement partner for conducting the audit of Amiysam Ltd. for F.Y. 2022-23 on behalf of Ved & Co. for the 3rd consecutive year.

For the current year's audit, Mr. Praveen planned to use the audit evidence from previous year's audit about the operating effectiveness of specific controls.

For that purpose, he decided to obtain audit evidence for the significant changes that may have occurred in those controls subsequent to the previous audit. After obtaining audit evidence on the same, Mr. Praveen concluded that there were certain factors that indicated there have been changes in the controls that would require retesting the controls during the current year's audit and reliance cannot be made on the audit evidence obtained in the previous audit about such controls.

Para 5

Mr. Devraj consulted Mr. Praveen on the issue of standalone financial statements by Amiysam Ltd. to which Mr. Praveen explained him the statutory requirements applicable in the case and accordingly, Mr. Devraj was compelled to change his decision.

Rao & Co. is another firm of Chartered Accountants, in which Mr. Praveen is having 22% profit sharing ratio. The management of VPL proposed Rao & Co. to provide internal audit services to VPL from F.Y. 2022-23 onwards. However, Mr. Praveen told the management that due to certain legal restrictions, Rao & Co. would not be able to provide internal audit services to VPL.

I. Multiple Choice Questions

1. With reference to the information given under Para 2, whether there was any statutory requirement for VPL to appoint a whole time Company Secretary (CS) and whether Mr. Divarkar was eligible to be appointed as its whole time Company Secretary?
 - (a) There is no requirement to appoint a Whole time CS in a Private limited company and also Mr. Divarkar was not eligible as he was already holding office as a whole time CS in one other company i.e. Amiysam Ltd.
 - (b) Yes, as its paid up capital had exceeded the prescribed limit and also Mr. Divarkar was eligible to be appointed as its whole time CS in VPL as it was the subsidiary company of Amiysam Ltd
 - (c) Yes, as its paid up capital had exceeded the prescribed limit. However, Mr. Divarkar was not eligible to be appointed as its whole time CS as he was already holding office as a whole time CS in one other company i.e. Amiysam Ltd.
 - (d) No, as its paid up capital had not exceeded the prescribed limit. However, Mr. Divarkar was eligible to be appointed as its whole time CS as it was the subsidiary company of Amiysam Ltd.
2. With reference to the information given under Para 1, whether VPL would be allowed to set off the loss of Rs 4 lakhs for P.Y. 2021-22 and what amount would be chargeable as its income in respect of its shares acquired by Mr. Devraj?
 - (a) No, as there was change in its shareholding and an amount of Rs 15,000 would be chargeable as its income under 'Income from Other Sources' in respect of shares acquired by Mr. Devraj.
 - (b) Yes, as it became a subsidiary company and so it was exempted even though there was a change in its shareholding and an amount of Rs 30,000 would be chargeable as its income in respect of shares acquired by Mr. Devraj.
 - (c) Yes, as it became a subsidiary company and so it was exempted even though there was a change in its shareholding and an amount of Rs 15,000 would be chargeable as its income in respect of shares acquired by Mr. Devraj.
 - (d) No, as there was a change in its shareholding and no amount would be chargeable as its income in respect of shares acquired by Mr. Devraj as the FMV of shares was less than their issue price.
3. With reference to the information given under Para 2, what shall be considered as the cost of machinery reacquired by VPL from Mr. Devraj, for income tax purpose?
 - (a) Rs 1,40,000
 - (b) Rs 1,20,000
 - (c) Rs 90,000
 - (d) Rs 90,000 would be considered as cost and Rs 50,000 would be allowed to be claimed as an expense under section 37 of the Income Tax Act, 1961.
4. With reference to the information given under Para 1, what shall be the value of goodwill for Amiysam Ltd. on acquisition of 55% shares of VPL as per fair value method if the value of VPL's identifiable net assets as per Ind AS 103 is Rs 12 crore?
 - (a) Rs 5 crore
 - (b) Rs 1 crore
 - (c) There is no goodwill arising but there is a gain on bargain purchase of Rs 1 crore
 - (d) Rs 2 crore
5. With reference to the information given under Para 1, what shall be the value of goodwill for Amiysam Ltd. on acquisition of 55% shares of VPL as per proportionate share method if the value of VPL's identifiable net assets as per Ind AS 103 is Rs 12 crore?
 - (a) Rs 7.4 crore
 - (b) Rs 5 crore
 - (c) There is no goodwill arising but there is a gain on bargain purchase of Rs 1 crore
 - (d) Rs 3.4 crore

II. Descriptive Questions

6.
 - (i) With reference to the information given under Para 2, explain the manner in which VPL would have appointed Mr Divarkar and Mr. Devraj, respectively?
 - (ii) With reference to the information given under Para 3, explain what statutory requirements, Mr. Praveen would have explained to Mr. Devraj that would have made him change his contention?
7. With reference to the information given under Para 2, whether there were any restrictions for VPL to sale its machinery to Mr. Devraj in exchange of a vehicle and if yes, then what legal requirements would have been followed by it?
8.
 - (i) With reference to the information given under Para 5, due to what legal restrictions, Rao & Co. would not be able to provide internal audit services to VPL?
 - (ii) With reference to the information given under Para 4, what was the responsibility of Mr. Praveen in the given case with respect to his planning to use the audit evidence from the previous audit and whether it can be said that he has adhered to his responsibility?

- (iii) With reference to the information given under Para 4, due to presence of whattype of factors, Mr. Praveen might have considered to retest the controls and not to rely upon the audit evidence obtained in the previous audit about such controls?

ANSWERS

1. (b) Yes, as its paid up capital had exceeded the prescribed limit and also Mr. Divarkar was eligible to be appointed as its whole time CS in VPL as it was the subsidiary company of Amiysam Ltd.

Reason: Requirement of Company Secretary in certain other companies- Section 203 read with Rule 8 and Rule 8A of Companies (Appointment and Managerial Personnel) Rules 2014, as amended provides that every Listed company or Public company having paid up share capital INR 10 crore or more or every Private company having paid up share capital of INR 10 crore or more **shall have a Whole time Company Secretary.**

Bar on multiple appointments- A whole-time key managerial personnel shall not hold office in more than one company at the same time **except in its subsidiary company.** [Section 203 (3)]

2. (a) No, as there was change in its shareholding and an amount of Rs 15,000 would be chargeable as its income under 'Income from Other Sources' in respect of shares acquired by Mr. Devraj.

Reason: As per Section 79 of the Income Tax Act, 1961, Notwithstanding anything contained in this Chapter, where a change in shareholding has taken place during the previous year in the case of a company, not being a company in which the public are substantially interested, no loss incurred in any year prior to the previous year shall be carried forward and set off against the income of the previous year, unless on the last day of the previous year, the shares of the company carrying not less than fifty-one per cent of the voting power were beneficially held by persons who beneficially held shares of the company carrying not less than fifty-one per cent of the voting power on the last day of the year or years in which the loss was incurred.

During P.Y. 2022-23, there was change in the shareholding of VPL by 51% as 55% of its shares were acquired by Amiysam Ltd. and this situation is not covered in exemption to Section 79, so, VPL would not be allowed to set off loss of Rs 4 lakhs in P.Y. 2022-23 of P.Y. 2021-22.

As per Section 56 (2)(viib) of the Income Tax Act, 1961, where a company, not being a company in which the public are substantially interested, receives, in any previous year, from any person being a resident, any consideration for issue of shares that exceeds the face value of such shares, the aggregate consideration received for such shares as exceeds the fair market value of the shares shall be taxable under Income from other sources.

Mr. Devraj acquired 1000 shares of VPL with face value of Rs 100/share at issue price of Rs 130/share whereas the fair market value of such shares was Rs 115/ share. Accordingly, shares were issued at premium at a price greater than its FMV. So, the amount taxable would be $1000 \text{ shares} \times (130 - 115) = \text{Rs } 15,000$ in the hands of VPL under the head income from other sources.

3. (c) Rs 90,000

Reason: As per Explanation 4 to section 43 of the Income Tax Act, 1961, of the Act-

Where any asset which had once belonged to the assessee and had been used by him for the purposes of his business or profession and thereafter ceased to be his property by **Reason** of transfer or otherwise, is re-acquired by him, the actual cost to the assessee shall be—

- (i) the actual cost to him when he first acquired the asset as reduced by the amount of depreciation that would have been allowable to the assessee.
- (ii) the actual price for which the asset is re-acquired by him, whichever is less.

The other machinery of VPL was sold for Rs 1,20,000, respectively, the WDV of which at time of sale was Rs 90,000. However, such other machinery was reacquired by VPL on 10th September, 2022, at a cost of Rs 1,40,000.

Accordingly, the WDV of such machinery at the time of sale was Rs 90,000 and reacquisition cost was Rs 1,40,000

Thus, Rs 90,000 shall be considered as the cost of machinery reacquired by VPL from Mr. Devraj, for income tax purpose and Rs 50,000 would not be allowed to be claimed as expense.

4. (b) Rs 1 crore

Reason:

Fair value method	(Rs)' crore
Fair value of consideration transferred	10
Fair value of non-controlling interest	3
	13
Value of subsidiary's identifiable net assets as per Ind AS 103	(12)
Goodwill	1

5. (d) Rs 3.4 crore

Reason:

Proportionate share method	(Rs)' crore
Fair value of consideration transferred	10
Proportional share of non-controlling interest in the net identifiable assets of acquiree (12 x 45%)	5.4
	15.4
Value of subsidiary's identifiable net assets as per Ind AS 103	(12)
Goodwill	3.4

II. Answers to Descriptive Questions

6. (i) As per Section 203(2) of the Companies Act, 2013,

- Every whole-time key managerial personnel of a company shall be appointed by means of a resolution of the Board. The resolution shall contain the terms and conditions of the appointment including the remuneration.
- A whole-time key managerial personnel shall not hold office in more than one company at the same time **except in its subsidiary company.**

As per third proviso to Section 203(2) of the Companies Act, 2013, if a person is MD or manager in some other company, it is permissible for a company to appoint him as its managing director. The modus operandi is as under:

- The person so appointed or employed as managing director should be managing director or manager of one, and of not more than one, other company.
- Such appointment or employment is made or approved by Board resolution at a meeting of the Board with the consent of all the directors present at the meeting.
- Further, specific notice of such meeting, and of the resolution to be moved thereat has been given to all the directors then in India.

In the given instance, VPL would have appointed Mr. Divarkar, as its whole time company secretary by passing a board resolution that should have contained the terms and conditions of the appointment of Mr. Divarkar including his remuneration.

As Mr. Devraj is also holding office as managing director in Amiysam Ltd., Visam Pvt Ltd. would have appointed him by passing a board resolution with the consent of all the directors present at the meeting and a specific notice of such meeting and the of the resolution to be moved would have been given to all the directors then in India.

It is presumed that Mr. Devraj is holding office as managing director/ manager of only Amiysam Ltd. apart from VPL.

- (ii) **Section 129(3) of the Companies Act, 2013**, has made the consolidation of financial statements mandatory. It states that where a company has one or more subsidiaries, it shall, in addition to the financial statements provided above (i.e. standalone financial statements), prepare consolidated financial statements of the company and of all the subsidiaries in the same form and manner as that of its own which shall also be laid before the annual general meeting of the company along with its financial statements under section 129 (2) .

Exemptions from preparation of CFS: As per Rule 6 of Companies (Accounts) Amendment Rules, 2016, preparation of CFS by a company is not required if it meets the following conditions:

- it is a wholly-owned subsidiary, or is a partially-owned subsidiary of another company and all its other members, including those not otherwise entitled to vote, having been intimated in writing and for which the proof of delivery of such intimation is available with the company, do not object to the company not presenting consolidated financial statements;

- (ii) it is a company whose securities are not listed or are not in the process of listing on any stock exchange, whether in or outside India; and
- (iii) its ultimate or any intermediate holding company files consolidated financial statements with the Registrar which are in compliance with the applicable Accounting Standards.

In the given instance, Mr. Devraj contended that there would be no requirement to prepare CFS, as Amiysam Ltd. is an unlisted company and all the members of the company would be intimated in writing that the company will not prepare consolidated financial statements and will only issue standalone financial statements for F.Y. 2022-23.

However, Mr. Praveen, the auditor of Amiysam Ltd. would have explained to Mr. Devraj the aforesaid provisions of the Companies Act, 2013, and told him that even though it is presumed that the first two conditions as aforesaid might be satisfied by Amiysam Ltd. but still it is not having holding company of its own that would be preparing consolidated financial statements and filing the same with the Registrar and thus, the third condition would remain unsatisfied because of which it would be required to prepare consolidated financial statements.

7. According to **Section 192(1)** of the Companies Act, 2013, no company shall enter into an arrangement by which—

- (a) **a director of the company or its holding, subsidiary or associate company or a person connected with him acquires or is to acquire** assets for consideration other than cash, from the company; or
- (b) **the company acquires** or is to acquire assets for consideration other than cash, from such director or person so connected.

Relaxation of restriction: The above restriction shall be relaxed i.e. the company may enter into an arrangement involving non-cash transactions as stated above, if prior approval for such arrangement is accorded by a resolution of the company in general meeting.

Where the director or connected person is a director of its holding company, approval shall also be required to be obtained by passing a resolution in general meeting of the holding company.

Contents of notice issued for approval of resolution: The notice for approval of the resolution in general meeting issued by the company or holding company shall include the particulars of the arrangement. It shall also include the value of the assets involved in such arrangement duly calculated by a registered valuer.

In the given instance, VPL entered into a non-cash transaction with its managing director, Mr. Devraj by selling its machinery in exchange of a vehicle.

For doing so, VPL would have taken prior approval for such arrangement vide a resolution in its general meeting and also as Mr. Devraj is a director of its holding company, Amiysam Ltd., as well, prior approval would also have been taken by passing a resolution in the general meeting of Amiysam Ltd.

Further, the contents of notice of aforesaid meetings would have included the particulars of such arrangement between VPL and Mr. Devraj and the value of the assets involved in such arrangement duly calculated by a registered valuer.

(i) Section 144 of the Companies Act, 2013, prescribes certain services not to be rendered by the auditor. An auditor appointed under this Act shall provide to the company only such other services as are approved by the Board of Directors or the audit committee, as the case may be, but which shall not include any of the following services (whether such services are rendered directly or indirectly to the company or its holding company or subsidiary company), namely:

- accounting and book-keeping services;
- internal audit;
- design and implementation of any financial information system;
- actuarial services;
- investment advisory services;
- investment banking services;
- rendering of outsourced financial services;
- management services; and
- any other kind of services as may be prescribed.

Further, in case of auditor being an individual, either himself or through his relative or any other person connected or associated with such individual or through any other entity, whatsoever, in which such individual has significant influence or control, or whose name or trade mark or brand is used by such individual, shall be termed as rendering of services directly or indirectly by the auditor; and in case of auditor being a firm, either itself or through any of its partners

or through its parent, subsidiary or associate entity or through any other entity, whatsoever, in which the firm or any partner of the firm has significant influence or control, or whose name or trade mark or brand is used by the firm or any of its partners, shall be termed as rendering of services directly or indirectly by the auditor.

In the given instance, Mr. Praveen is having significant influence in Rao & Co. by having a profit sharing ratio of more than 20% in the said firm and Mr. Praveen is also a partner in Ved & Co. which is the company auditor of Amiysam Ltd., the holding company of VPL.

Now, if Rao & Co. provides internal audit services to VPL, it will amount to indirect provision of a prohibited service by Ved & Co. to the subsidiary company of a company of which it is an auditor and therefore, Rao & Co. would not be able to provide internal audit services to VPL.

(ii) **As per SA 330, 'The Auditor's Responses to Assessed Risks'**, if the auditor plans to use audit evidence from a previous audit about the operating effectiveness of specific controls, the auditor shall establish the continuing relevance of that evidence by obtaining audit evidence about whether significant changes in those controls have occurred subsequent to the previous audit. The auditor shall obtain this evidence by performing inquiry combined with observation or inspection, to confirm the understanding of those specific controls, and:

- (a) If there have been changes that affect the continuing relevance of the audit evidence from the previous audit, the auditor shall test the controls in the current audit.
- (b) If there have not been such changes, the auditor shall test the controls at least once in every third audit, and shall test some controls each audit to avoid the possibility of testing all the controls on which the auditor intends to rely in a single audit period with no testing of controls in the subsequent two audit periods.

In the given instance, for the current year's audit, Mr. Praveen planned to use the audit evidence from the previous year's audit about the operating effectiveness of specific controls and accordingly, as required by SA 330, he obtained audit evidence for the significant changes that may have occurred in those controls subsequent to the previous audit on the basis of which he concluded that there were certain factors that indicated that there have been changes in the controls that would require retesting the controls during the current year's audit and reliance cannot be made on the audit evidence obtained in the previous audit about such controls.

Thus, on the basis of given facts, it appears that Mr. Praveen has adhered to his responsibility with respect to his planning to use the audit evidence from the previous audit about the operating effectiveness of specific controls, as per SA 330, as aforesaid.

As per SA 330, 'The Auditor's Responses to Assessed Risks', factors that may decrease the period for retesting a control, or result in not relying on audit evidence obtained in previous audits at all, include the following:

- A deficient control environment.
- Deficient monitoring of controls.
- A significant manual element to the relevant controls.
- Personnel changes that significantly affect the application of the control.
- Changing circumstances that indicate the need for changes in the control.
- Deficient general IT-controls.

Thus, due to presence of any of such aforesaid factors, Mr. Praveen might have considered to retest the controls and not to rely upon the audit evidence obtained in the previous audit about such controls.

CASE STUDY 3

M/s Parv fabrics, a partnership firm, registered under GST, having partners Mr. Parth and Mr. Aarav, is in business of manufacturing designed and printed fabric and its plant is located on the outskirts of a mofussil town near Varanasi in state of Uttar Pradesh. The main raw material consisting of raw plain fabric is supplied by two companies i.e. Costa Industries Pvt. Ltd. and Zosta Industries Pvt. Ltd. located in UT of Daman on the western coast of India. The firm is a profit-making concern and gist of some of its main financial indicators/information is as under:

Particulars	Financial year ending 31/03/2022	Financial year ending 31/03/2023
Capital	3,25,00,000	5,05,00,000
Machinery term loans from bank	1,50,00,000	1,25,00,000
Overdraft facility from Bank	10,00,00,000	14,19,50,000
Unsecured loans	2,50,00,000	3,25,00,000
Inventories	7,50,00,000	2,00,00,000
Trade Receivables	8,35,00,000	10,50,00,000
Other current assets	40,00,000	10,95,00,000
Trade payables	4,00,00,000	2,00,00,000
WDV of Fixed Assets in Balance Sheet	5,00,00,000	XXXXXXXX
Turnover	60,00,00,000	45,00,00,000
PBT	1,80,00,000	XXXXXXXX
Gross Margin ratio	10%	10%
WDV of block consisting of Building @10%	1,25,00,000	XXXXXXXX
WDV of block consisting of Machinery@15%	3,00,00,000	XXXXXXXX

Way back in the year 2011, a fire broke in the night at factory premises which lead to loss of inventory, furniture turning into ashes, building premises covered in smoke. The fire department was informed as soon as the fire was seen by the passer-by, but it was too late to save the loss suffered. Recollecting that day of fire, Mr. Parth, partner in M/s Parv fabrics, understood the need of considering fire insurance policies for their fabric business. He understood, although one may take great caution using latest technologies at the premises, possibility of accidents can't be entirely mitigated. He understands the safety risk a textile company faces and how an insurance policy could help cover their losses. He believes it is better to be safe than sorry. Mr. Parth explains Mr. Aarav the following importance of fire insurance for the business:

- (i) Coverage for damage of stock and premises due to smoke caused by fire and water used to extinguish the fire.
- (ii) Coverage for funds due to financial loss.
- (iii) Fire insurance may also cover natural calamities like lightening, explosion, etc.
- (iv) Business may be started again using claim amount.
- (v) Coverage for building, plant, machinery, furniture along with stock.

Mr. Parth further explained the options/ coverage available for investing in different types of fire insurance policies:

- (i) Valued Policy - An agreement is framed for a particular property and the insurer pays in the event of destruction of property by fire.
- (ii) Specific Policy- It insures a risk for a specific amount. The compensation is provided under the limit of determined amount.
- (iii) Average Policy - A policy where property is insured for a smaller value than the value of the property.
- (iv) Floating policy- It covers goods lying at various locations for one amount and one premium.
- (v) Blanket Policy- It covers fixed as well as current assets under one policy.
- (vi) Comprehensive Policy- It covers risks such as riots, strikes, burglary etc., along with fire.
- (vii) Consequential Loss Policy- A policy covering against loss of profit caused by fire- outbreak.
- (viii) Replacement Policy- It covers compensation at market value for the loss of property due to fire.
- (ix) Reinstatement Policy- It is a policy where insurer pays sufficient compensation to reinstate property destroyed.

Considering the benefits and compensation covered in fire insurance policies, Mr. Aarav agrees to go for coverage of risk and have insurance policy for the purpose. They together, in the name of firm, opted a policy covering loss for building, machinery and inventories due to fire and approached a PSU insurer for the same.

Unfortunately, a major fire had occurred on 06/01/2023 in plant of the firm resulting in damages to its building, machinery and inventories. A major part of inventories consisting of raw material comprising raw plain fabric and finished goods comprising designed and printed fabric was affected and damaged in this sudden incident. Stock worth Rs 8.80 crores was damaged and affected during fire consisting of raw material and other inputs such as dyes & chemicals, etc., costing Rs 2 crores and finished goods costing Rs 6.80 crores.

Further, out of above damaged stock of finished goods of Rs 6.80 crores, stock worth Rs 0.50 crores was smoke affected only and remaining stock of Rs 6.30 crores was completely burnt and destroyed. The firm has received Rs 8 crores as insurance compensation against loss of such stock. It was decided to get smoke cleaned and removed by availing third party services at a cost of Rs 10 lacs, ITC of the third party services has been availed. The unit is selling finished goods at prescribed GST rate of 5%. Besides, certain information regarding ITC availment and output liability of GST, for the month of January, 2023, is as under:-

ITC availed on raw material and other inputs destroyed during fire	Rs 15.00 lacs	ITC availed on inputs contained in smoke affected stock	Rs 3.00 lacs
ITC availed on inputs contained in destroyed finished stock	Rs 35.00 lacs		
Output liability of GST in respect of smoke affected stock	Rs 2.50 lacs		
Output liability of GST in respect of normal finished stock	Rs 31.5 lacs		

Besides, substantial part of building (WDV as on 31/03/2022 Rs 0.95 crores) was damaged and needed extensive reconstruction works. It is also provided that Rs 1.75 crore is needed for extensive reconstruction of damaged building. However, firm has incurred Rs 15.00 lacs up-to 31/03/2023 for reconstruction works. The firm received Rs 0.75 crores as insurance compensation against the damages to its building.

Further, main machinery feeding about 75% capacity of plant was also gutted (WDV Rs 2.10 crore as on 31/03/2022). The cost of new machinery with the same capacity and build up is Rs 2.50 crore. The orders of new machinery are yet to be placed. Against loss of machinery, it received insurance compensation of Rs 1.80 crores.

Further, the firm has purchased plain raw fabric from M/s Costa Industries Pvt. Ltd. vide bill dated 27/03/2023 having quantity of 50,000 metres valuing Rs 10 lacs. Besides, IGST of Rs 0.50 lacs is charged in the bill. The said goods were received in plant on 02/04/ 2023. M/s Costa Industries Pvt. Ltd. has filed its GSTR-1 for the month of March 2023 well before its due date and therefore IGST of Rs 0.50 lacs is also reflected in GSTR-2A of M/s Parv Fabrics before filing its GSTR-3B of March 2023.

I. Multiple Choice Questions

- In light of information provided above pertaining to inventories damaged and affected during fire, which of the following statements is MOST LIKELY to be true regarding GST?
 - The taxpayer firm is required to reverse ITC of Rs 50.00 lacs in GSTR-3B and also simultaneously reduce output liability of Rs 31.50 lacs.
 - The taxpayer firm is required to reverse ITC of Rs 53.00 lacs in GSTR-3B and also simultaneously reduce output liability of Rs 34.00 lacs.
 - The taxpayer firm is required to reverse ITC of Rs 50.00 lacs in GSTR-3B and there would no effect on output liability.
 - The taxpayer firm is required to reverse ITC of Rs 53.00 lacs in GSTR-3B and there would be no effect on output liability.
- What would be impact on profits of the firm on account of damage of stock due to fire and receipt of insurance compensation towards such loss while computing income under the head "Profits and gains from business or profession" under the Income-tax Act, 1961?
 - The profits of firm would be reduced by Rs 0.30 crores, being the difference between cost of damaged stock and insurance compensation.
 - The profits of firm would be reduced by Rs 8.30 crores and insurance compensation would be taxable under the head "Capital Gains".
 - The profits of firm would be reduced by Rs 0.80 crores, being the difference between cost of damaged stock and insurance compensation.
 - There would be no impact on profits as the firm has received insurance compensation.
- The firm has sent its smoke affected stocks of Rs 0.50 crore to third party in Varanasi for cleaning and removal of smoke. In light of provisions of GST and rules made thereunder, consider the following statements:

Statement I- The firm can send goods to third party by raising a proper tax invoice and after performing necessary services,

the third party can send goods back to the firm under the cover of proper tax invoice. The firm shall disclose output liability in GSTR-3B and avail ITC on services availed from third party.

Statement-II – The firm can send goods to third party under the cover of delivery challan without charging GST and third party can also return the goods under delivery challan. The third party can, thereafter, raise tax invoice in respect of services performed and the firm can avail ITC on services availed from third party. However, firm has to file form ITC- 03 on GST portal for quarter ending March, 2023.

Statement-III – The firm can send goods to third party under the cover of delivery challan without charging GST and third party can also return the goods under delivery challan. The third party can, thereafter, raise tax invoice in respect of services performed and the firm can avail ITC on services availed from third party. However, firm has to file form ITC- 04 on GST portal for half yearly from October to March, 2023.

Statement-IV- The firm can send goods to third party under the cover of delivery challan without charging GST and third party can also return the goods under delivery challan. The third party can, thereafter, raise tax invoice in respect of services performed and the firm can avail ITC on services availed from third party. The filing of a separate statement is not mandated in such a case as firm has availed ITC on services rendered by third party and third party has also discharged its tax liability.

Which of the above statements is in accordance with provisions of law and rules made thereunder?

- (a) Statement II (b) Statement III (c) Statement IV (d) Statement I

4. While preparing e-way bill for movement of goods to third party for cleaning and removal of smoke, the accountant of the firm is in dilemma regarding its preparation. What would be most likely correct position in this regard?
 - (a) Value of goods on e-way bill portal should be reflected as Rs 0.50 crores.
 - (b) Value of goods on e-way bill portal should be reflected as Rs 0.40 crores.
 - (c) Value of goods on e-way bill portal should be reflected as Rs 0.10 crores.
 - (d) Value of goods on e-way bill portal should be reflected as ₹ 0.30 crores.
5. What would be the most likely impact on financial statements and availment of ITC by the firm for year ending 31st March, 2023, in respect of the plain raw fabric purchased from M/s Costa Industries Pvt. Ltd. on 27/03/2023?
 - (a) The profits of firm would be reduced by Rs 10.00 lacs and ITC of Rs 0.50 lacs can be availed.
 - (b) The profits of firm would be reduced by Rs 10.00 lacs and ITC of Rs 0.50 lacs cannot be availed.
 - (c) There would be no impact on profits of firm and ITC of Rs 0.50 lacs cannot be availed.
 - (d) There would be no impact on profits of firm and ITC of Rs 0.50 lacs can be availed.

II. Descriptive Questions

6. The firm has lodged its claim with PSU insurer consisting of damages to building, machinery and stocks. Besides, the firm has also included in its claim bill lodged with insurers certain un-incurred estimated expenses for debris removal amounting to Rs 5.00 lacs as on 31st March, 2023. Kindly suggest how these expenses should be treated in financial statements of the firm for year ending 31st March, 2023 along with **Reasons** therefor.
7. In light of provisions of Income-tax Act, compute the amount of depreciation allowable as deduction on building and plant & machinery for the previous year 2022-23.
8. Analyse working capital position of the firm vis-à-vis last year by discussing each component of working capital cycle and overall working capital requirements of firm including effect of incident of fire on its working capital requirements. Also dwell upon how working capital requirements are being met as compared to last year.

I. Answers to the Multiple Choice Questions

1. (c) The taxpayer firm is required to reverse ITC of Rs 50.00 lacs in GSTR-3B and there would no effect on output liability.

Reason: As per provisions of section 17(5)(h) of CGST Act, 2017, input tax credit is not available in respect of goods stolen, lost, destroyed or written off. Fire occurred in plant of the firm on 6.01.2023. ITC availed on destroyed raw material and inputs is Rs 15 lacs. Further, ITC on inputs in finished stocks destroyed is Rs 35 lacs. Hence, ITC on inputs in stock destroyed is Rs 50 lacs. Since, the stocks have been destroyed, ITC on inputs contained in these destroyed stocks is not available and, is, therefore liable to be reversed in GSTR-3B of January 2023. However, smoke affected stock is not destroyed and is reusable after cleaning. Hence, there is no **Reason** for reversal of ITC on inputs contained in such stocks. Further, destruction of stocks due to fire does not lead to change in output tax liability as stocks have been destroyed due to **Reason** of fire and there is no supply.

2. (a) The profits of firm would be reduced by Rs 0.30 crores, being the difference between cost of damaged stock and insurance compensation.

Reason: Since value of stock destroyed is Rs 8.30 crores against which Rs 8 crores are received as insurance compensation, loss of stocks valuing Rs 0.30 crores would be allowable as deduction while computing Income under the head "Profits and gains from business or profession".

3. (b) Statement III.

The firm can send goods to third party under the cover of delivery challan without charging GST and third party can also return the goods under delivery challan. The third party can, thereafter, raise tax invoice in respect of services performed and the firm can avail ITC on services availed from third party. However, firm has to file form ITC-04 on GST portal for half yearly from October to March, 2023.,

Reason: It pertains to statement III which is in accordance with provisions of law and rules made thereunder. The firm can send goods for cleaning which is a kind of job work activity under the cover of delivery challan without charging GST in accordance with rule 45 of CGST rules. The services supplying concern can raise tax invoice thereafter. Further, detail of such goods showing challan number and other particulars have to be furnished in form ITC-04 annually/half yearly on the GST portal in accordance with rule 45.

With effect from 01.10.2021, rule 45(3) has been amended. Amended rule 45 reads as under:

The details of challans in respect of goods dispatched to a job worker or received from a job worker **during the specified period** shall be included in Form GST ITC-04 furnished for that period on or before 25th day of the month succeeding **the said period**.

Now Form GST ITC-04 is required to be furnished by the principal on annual/half yearly basis, depending upon the quantum of his aggregate turnover during immediately preceding financial year.

Aggregate turnover of principal during preceding F.Y.	Form GST ITC-04 to be filed on	Due date(s) for filing Form GST ITC-04
upto Rs 5 crore	annual basis	25 th April
greater than Rs 5 crore	half yearly basis	25 th October & 25 th April

[Notification No. 35/2021 CT dated 24.09.2021]

In this case the firm has to furnish form ITC-04 up to 25th April as its aggregate turnover during preceding Financial year was more than 5 crore ie 6 crore.

4. (a) Value of goods on e-way bill portal should be reflected as Rs 0.50 crores.

Reason: The value of goods has to be filled on e-way bill portal. It is provided that value of smoke affected finished stocks is Rs 0.50 crores. However, as stock has been affected by smoke, its value has been reduced by Rs 0.10 crores which is the extra cost to be incurred for removing smoke. Hence, value of these goods at the time of movement from premises of the firm is Rs 0.40 crores.

5. (c) There would be no impact on profits of firm and ITC of Rs 0.50 lacs cannot be availed.

Reason: The firm has purchased raw material vide invoice dated 27/03/2023. However, it has still not been received by the firm as on close of financial year. Therefore, these are goods in transit without impacting profits. Further, as per provisions of section 16(2)(b), to claim ITC, the goods should have been received. In the given scenario, the goods consisting of raw material have not been received up to 31/03/2023. Hence, the firm cannot claim ITC in GSTR-3B for March 2023. It can claim ITC of the same while filing GSTR-3B for April 2023. It is immaterial that supplier has filed its return in time and said invoice is reflecting in GSTR-2A for March 2023 as goods have not been received.

II. Answers to the Descriptive Questions

6. The firm has included certain un-incurred estimated expenses on account of debris removal amounting to Rs 5.00 lacs in its claim bill lodged with insurance company. In accordance with Indian Accounting Standard (Ind AS) 1, Presentation of Financial Statements, an entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting. When the accrual basis of accounting is used, an entity recognises items as assets, liabilities, equity, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the Framework. The Conceptual Framework for Financial Reporting under Indian Accounting Standards provides that the accrual accounting depicts the effects of

transactions and other events and circumstances on a reporting entity's economic resources and claims in the periods in which those effects occur, even if the resulting cash receipts and payments occur in a different period. In the given scenario, costs on account of debris removal expenses are not incurred up to 31.03. 2023. Although these have been included by firm in claim bill lodged with insurance company, these are not to be recognized in financial statements for 2022-23 as these are not incurred. Hence, no treatment of such expenses is required in financial statements

7. Computation of depreciation on Building

WDV as at beginning of year	1,25,00,000
Less: Insurance compensation for building destroyed in fire	75,00,000
	=====
	50,00,000
Depreciation on Rs 50 lacs @ 10%	5,00,000

Depreciation would be available on Rs 50 lacs for full year @ 10% amounting to Rs 5 lacs only. As reconstruction of building is in progress as on 31/03/2023, it implies that reconstructed part of building on which Rs 15 lacs has been incurred is not put to use by 31/03/2023. Hence, depreciation is not available on Rs 15 lacs.

Computation of depreciation on Plant & Machinery

WDV as at beginning of year	3,00,00,000
Less: Insurance compensation for machinery destroyed in fire	1,80,00,000
	=====
	1,20,00,000
Depreciation on 120 lacs @ 15%	18,00,000

8. The working capital position & requirement of firm as on 31.03.2022 & 31.03.2023 are as under: (Rs crore)

Particulars	31.03.2022	31.03.2023
Inventories	7.500	2.000
Trade receivables	8.350	10.500
Other Current assets	0.400	10.950
Total current assets	16.250	23.450
Less:		
Trade payables	4.000	2.000
Working capital requirement	12.250	21.450
Met through overdraft facility from bank	10.000	14.195

As reflected in above table, working capital requirements of the firm grew from Rs 12.25 crore as on 31.03.2022 to Rs 21.45 crore as on 31.03.2023. Break-up of different components of working capital cycle are discussed below in comparative manner:

Inventories

Inventories have reduced from Rs 7.50 crores as on 31.03.2022 to Rs 2.00 crore on 31.03.2023. This is mainly due to destruction of major part of inventories due to fire and probable consequent hampering of operations of the firm.

Trade receivables

Trade receivables have increased from Rs 8.35 crores as on 31.03.2022 to Rs 10.50 crore on 31.03.2023. It shows that payments from debtors are stuck up and not coming fast enough. Further, turnover of the firm has reduced mainly due to hampering of operations due to fire. However, trade receivables have increased leading to longer realisation period.

Other Current assets

Other current assets have increased from Rs 0.40 crores as on 31.03.2022 to Rs 10.95 crores as on 31.03.2023. The increase appears to be mainly on account of claim receivable from insurance company.

Trade Payables

Trade payables have decreased from Rs 4.00 crore as on 31.03.2022 to Rs 2.00 crore as on 31.03.2023 meaning faster payment to creditors. However, due to lower trade credit available, overall working capital requirements have increased.

Meeting of working capital requirements

Overdraft facility from bank has increased from Rs 10 crore as on 31.03.2022 to Rs 14.195 crore implying to increased funds tied up in working capital which are partially being met through overdraft facility from bank. Since substantial funds have been tied up in other current assets on account of insurance claim receivable from insurers, it has led to increased borrowing from bank to tide over liquidity concerns. Further, part of increased working capital requirement has been met through bringing partners' capital and raising fresh unsecured loans.

CASE STUDY 4

Dalmia & Associates, a practising CA firm, submitted its application to ICAI for carrying out the bank audit for nationalised banks. After following the designated procedures and approvals required for appointment of bank auditors, the firm was appointed as branch auditor of Eastern Bank of India, a public sector bank headquartered in Kolkata. The audit offered was for branch located in Kolkata for year ending as on 31st March, 2023.

Before commencing the audit, the teammates of the firm decided to first understand the nature of activities carried out at the bank branch. Besides the core business of bank of accepting deposits and sanctioning advances, newer banking products are being periodically introduced. The teammates discussed about the basics of the core business of the bank and the products offered at the branch to have the complete knowledge of the same. They studied the financial implications of all the products offered at the branch along with the types of facilities provided to borrowers and the Standard Operating Procedures (SOP) followed. The teammates acquainted themselves with the basic understanding of the core banking solution (CBS) used by the bank and understood the authority levels. Based on the features of the products offered, the teammates also need to draw up a suitable audit plan to verify the transactions of the activities being provided by the Bank. They also carried out the risk assessment based on clear understanding of the business profile of the Bank. They assessed the resource requirements for audit to be completed within the stipulated timeline. Based on the volume and nature of transactions executed at branch, staff were deployed. The leader of the audit team updated his teammates with banking law and regulations and RBI Guidelines.

The audit firm sent detailed requirement letter seeking information from branch management so that necessary information is received during the planning stage and accordingly proper audit plans could be prepared. The audit firm also called for previous year's inspection and other important reports so that beforehand they are aware of the past key issues. They also look at the previous period's report of the previous statutory auditors and its compliance status. To gain an understanding of the issues at the branch, they also went through the previous year's LFAR.

Finally, the detailed audit was started on time with proper planning and during the course of audit, following were observed by engagement team of Dalmia & Associates conducting audit of Kolkata branch of Eastern Bank of India: -

- (i) As per instructions of Head office, there exists a system in the bank for obtaining reports on stock audits in respect of borrowers sanctioned fund-based facilities exceeding Rs 5.00 crores. It was noted that one borrower was having overdraft facility amounting to Rs 2.75 crore, term loan of Rs 1.00 crore, packing credit facility of Rs 0.75 crore, inland letter of credit facility of Rs 0.35 crore and foreign bill purchased facility of Rs 0.40 crore. The stock audit of said borrower was not carried out during the year.
- (ii) It was also observed during the course of audit that advances of branch stood at Rs 350.00 crore as on 31st March 2023. Out of advances of Rs 350.00 crore, advances pertaining to foreign exchange portfolio stood at Rs 200.00 crore. Due to high foreign exchange portfolio, auditors have assessed many potential risk areas which might lead to perpetuation of fraud. However, upon applying extensive audit procedures as required by Standards on Auditing, the auditors have not found any instance of fraud during the course of audit.
- (iii) During the course of audit, it was observed that branch is dealing with many exporters who are enjoying credit facilities from branch. Some of the exporters are exporting to Nepal whereas others are exporting to Bangladesh due to proximity of both countries to Kolkata.
- (iv) During the course of audit, it was also observed that one company had an amount of Rs 25.00 crore stuck up with one of its overseas clients based in US to whom it had exported goods last year as apparent from the financial statements of the company. The company had availed duty drawback in respect of such export in accordance with the Customs Act and its rules. The turnover of company for financial year 2021-22 was Rs. 30.00 crores. It has prompted auditors to undertake detailed checking of all credit facilities enjoyed by the company.

- (v) It was further observed that M/s Poriborton Industries is enjoying credit facilities to the tune of Rs 20.00 crore consisting of cash credit limit and outstanding balance as on 31.03.2023 is Rs 19.98 crore. It is also observed that there is inadequate drawing power on the basis of latest available stock statement for the month of February, 2023. The borrower was having adequate drawing power in previous months of the year.
- (vi) It was also observed by the engagement team members that there have been instances of “quick mortality” in some of cash credit accounts.

I. Multiple Choice Questions

1. How the matter concerning stock audit is to be reported by branch auditors in LFAR?
 - (a) The matter should be reported by branch auditors in LFAR in advances section.
 - (b) The matter should be reported by branch auditors in general matter section under the sub-heading “Management Information System.”
 - (c) The matter should be reported by branch auditors in general matter section under the sub-heading “Miscellaneous section.”
 - (d) It does not require reporting at all in LFAR by branch auditors.
2. What is the duty cast upon branch auditor as far as reporting of matters regarding fraud is concerned in LFAR?
 - (a) The auditors have not found any instance of fraud. Hence, no reporting is to be made on potential risk areas. However, suspected fraud cases reported by branch, if any, to higher office during the year are to be stated along with details and status of investigation.
 - (b) The auditors have not found any instance of fraud. Hence, no reporting is to be made on potential risk areas. However, suspected fraud cases reported by branch, if any, to higher office during the year are to be stated along with details and status of investigation. Besides, frauds detected/classified at branch but whose confirmation of reporting to RBI is not available from records of branch are also to be stated.
 - (c) The potential risk areas which might lead to perpetuation of fraud are to be reported. Further, suspected fraud cases reported by branch, if any, to higher office during the year are to be stated along with details and status of investigation. Besides, frauds detected/classified at branch but whose confirmation of reporting to RBI is not available from records of branch are also to be stated.
 - (d) The potential risk areas which might lead to perpetuation of fraud are to be reported. Further, suspected fraud cases reported by branch, if any, to higher office during the year are to be stated along with details and status of investigation. Besides, frauds detected/classified at branch but whose confirmation of reporting to RBI is not available from records of branch need not be stated.
3. In the context of foreign exchange transactions dealt in by the branch, identify which of the following statement is likely to be most appropriate?
 - (a) The auditor has to obtain from branch management a list of all “VOSTRO” accounts maintained/operated by branch. A VOSTRO account is an account that a bank holds in foreign currency in another bank.
 - (b) The auditor has to obtain from branch management a list of all “NOSTRO” accounts maintained/operated by branch. A NOSTRO account is an account that a bank holds in foreign currency in another bank.
 - (c) The auditor has to obtain from branch management a list of all “VOSTRO” accounts maintained/operated by branch. A VOSTRO account is an account in local currency of the bank where money is being held.
 - (d) The auditor has to obtain from branch management a list of all “NOSTRO” accounts maintained/operated by branch. A NOSTRO account is an account in local currency of the bank where money is being held.
4. In the context of export procedures, which of the following statements is correct?
 - (a) The terms “Shipping bill” and “Bill of export” are used interchangeably. There is no distinction between the two terms. Let Export Order (LEO) date cannot be before shipping bill date.
 - (b) The terms “Shipping bill” and “Bill of export” have different purposes. Let Export Order (LEO) date can be before shipping bill date.
 - (c) The terms “Shipping bill” and “Bill of export” have different purposes. Let Export Order (LEO) date cannot be before shipping bill date.
 - (d) The terms “Shipping bill” and “Bill of export” have different purposes. Let Export Order (LEO) date can be either before or after shipping bill date.
5. In terms of customs procedures, exporters and importers have to get themselves registered on a portal for filing various documents online. Which of the following statements is correct in this regard?
 - (a) The importers and exporters have to get registered on portal of CBIC. It provides host of services like electronic filing of bill of entry, shipping bills and a web based common signer utility for signing all customs documents.

- (b) The importers and exporters have to get registered on portal of DGFT. It provides host of services like electronic filing of bill of entry, shipping bills and a web based common signer utility for signing all customs documents.
- (c) The importers and exporters have to get registered on portal of ICEGATE. It provides host of services like electronic filing of bill of entry, shipping bills and a web based common signer utility for signing all customs documents.
- (d) The importers and exporters have to get registered on portal of CBIC. It provides host of services like electronic filing of bill of entry, shipping bills and a web based common signer utility for signing all customs documents and facility of document tracking status.

II. Descriptive Questions

6. What shall be the consequences for the company in respect of amount of Rs 25.00 crore stuck up with one of its clients in an export trade for which duty draw back had been availed under Customs laws?
7. The auditors want to change asset classification from "Standard" to "Sub-Standard" for M/s Poriborton Industries. Discuss. Discuss what is understood by "quick mortality" and also list out reporting requirements in respect of such accounts in LFAR to be submitted by the auditor. What could be probable significance of such reporting?

I. Answers to the Multiple Choice Questions

1. (d) It does not require reporting at all in LFAR by branch auditors.
Reason: There is system in bank for stock audit of borrowers having sanctioned fund-based facility exceeding Rs 5.00 crore. However, inland letter of credit facility does not fall under fund-based facilities. Therefore, aggregate of fund-based facilities sanctioned to the borrower is Rs 4.90 crore. Hence, stock audit is not applicable as per instructions laid down by Head office. There is no deviation and no reporting is required in LFAR.
2. (c) The potential risk areas which might lead to perpetuation of fraud are to be reported. Further, suspected fraud cases reported by branch, if any, to higher office during the year are to be stated along with details and status of investigation. Besides, frauds detected/classified at branch but whose confirmation of reporting to RBI is not available from records of branch are also to be stated.
Reason: As per LFAR reporting requirement relating to fraud discovered during the year under audit.
3. (b) The auditor has to obtain from branch management a list of all "NOSTRO" accounts maintained/operated by branch. A NOSTRO account is an account that a bank holds in foreign currency in another bank.
Reason: In respect of branches dealing in foreign exchange transactions, auditor has to obtain a list of NOSTRO accounts maintained/operated by branch. A NOSTRO account is an account that a bank holds in foreign currency in another bank.
4. (c) The terms "Shipping bill" and "Bill of export" have different purposes. Let Export Order (LEO) date cannot be before shipping bill date.
Reason: The term "shipping bill" is used in case of export through air/sea. However, in case of export through land, term "Bill of export" is used. Let Export Order (LEO) date cannot be before shipping bill date. LEO date means the date on which custom clearance procedures have been completed with customs by filing shipping bill and other necessary documents with customs.
5. (c) The importers and exporters have to get registered on portal of ICEGATE. It provides host of services like electronic filing of bill of entry, shipping bills and a web based common signer utility for signing all customs documents.
Reason: The exporters and importers are registered on national portal of ICEGATE for filing shipping bills and other documents etc.

II. Answers to the Descriptive Questions

6. It is given in situation that company has not been able to realize Rs 25.00 crore stuck up with overseas client based in US.
Under Rule 18 of Customs and Central Excise Duties Drawback Rules, 2017, where duty drawback has been paid to an exporter but the sale proceeds in respect of such goods have not been realised within period allowed under the FEMA, 1999, including any extension of such period, such draw back shall be recovered from such exporter.
Further in terms of Section 75A of Customs Act, 1962, interest at rate fixed under section 28AA shall also be recoverable along with duty drawback amount. The amount of interest shall have to be paid for the period beginning from the payment of duty drawback to the claimant till the date of recovery of such amount.

7. As per RBI master circular relating to prudential norms on income recognition, asset classification and provisioning related to advances, the classification of an asset as NPA should be based on record of recovery. Bank should not classify an advance account as NPA merely due to existence of some deficiencies which are temporary in nature such as non-availability of drawing power based on latest available stock statement, balance exceeding limit temporarily, non-renewal of limits on due dates etc. In the case of M/s Poriborton Industries, drawing power is inadequate on basis of stock statement of February 2023 only. Hence, it is nature of temporary deficiencies. Hence, proposed action of auditors is not in line with above norms.
8. "Quick mortality" means that credit facilities sanctioned to a borrower have become non-performing within a short period time from date of its first sanction. Such accounts where facility became non-performing within 12 months from date of first sanction are to be specifically reported in LFAR under "credit appraisal". The account number, account name and balances as at year end in respect of such accounts have to be reported.

Its significance lies in the fact that it helps in highlighting and understanding serious short comings in credit appraisal. It means that credit appraisal may not have been carried out diligently leading to quick slippage of sanctioned credit facility to non-performing asset.

CASE STUDY 11

1. CA Ashish Kulkarni & CA Nita Goswami were best friends since childhood. They were also neighbors and had same aspirations and almost all their hobbies were similar at that time. While kids, they spent much of their time with each other and in fact they initially prepared for the CA Foundation test together and after clearing the said test, Ashish moved to Delhi for better internship opportunities and better coaching facilities but Nita decided to do the preparation of exams by remaining at her hometown at Ludhiana in Punjab. After 5 years of becoming CA, they both met in the marriage of one of their common friends although they were well connected over phone in this period of 5 years.
2. CA Ashish was trying to convince CA Nita to start their own practice being partners in Delhi considering the opportunities in Delhi. But Nita wanted to remain in her hometown. She said to Ashish that they both can be partners by remaining at different places as well. Moreover, they would be able to capture two different markets as Punjab is also a hub of many industries. Now a days, video conferencing has dramatically changed the way to communicate, and one can communicate easily with other by remaining at different places as well. They decided to form a partnership firm of Chartered Accountants by staying & working at their respective places
3. They initially started their small practice in both the cities with the name "KG & Co." The firm also created its own website, 'www.kgco.com'. The website besides containing details of the firm and bio-data of the partners, also contained the passport size photographs of CA Ashish & CA Nita. But in the earlier days of the partnership, the firm did not get enough work, as it takes time to settle a new business. So, to cover the operating expenses of branch, CA Nita Goswami started private tutorship to students doing CA course for 3 days in a week for 2 hours in a day, but she forgot to take special permission for private tutorship from the Council. But CA Ashish Kulkarni informed her that the council has passed resolution granting general permission for private tutorship, and part time tutorship under coaching organization of the Institute and specific permission is required in case of part-time or full time tutorship under any educational institute other than coaching organization of the institute. Such general & specific permission granted is subject to condition that direct teaching hours devoted to such activities taken together should not exceed certain hours in order to be able to undertake attest functions
4. With the passage of time & their strong dedication and quality services, they have achieved what they desired. The firm has now been connected with various prestigious clients of the market. The growth of the firm is directly attributable to transparency and mutual discussions between both partners, as both the partners spare their time in the evening for discussing the prevailing issues of the client which helps them to arrive at a valuable conclusion. Hence, it results in effective solution of the problem which ultimately leads to customer satisfaction.
5. One fine evening, CA Nita Goswami was discussing the case of one of their valuable clients, Creations Ltd. Creations Ltd. has two industrial undertakings — one engaged in production of Ladies Hand Bags and the other engaged in production of Luggage

Bags. As a restructuring drive, the company has decided to sell its undertaking producing Luggage bags as a going concern by way of slump sale for Rs 225 lakh to a new company called Rockstar Bags Ltd. in which it holds 75% equity shares. The balance sheet of Creations Ltd., as on March 31, 2023 reads as follows.

	(Rs in lakhs)	(Rs in lakhs)
	<u>Hand Bags unit</u>	<u>Luggage Bags unit</u>
Fixed assets	75.00	112.50
Debtors	75.00	56.25
Inventories	37.50	18.75
Liabilities (Current & Ascertained)	21.00	37.50
Paid-up shares capital		Rs 189 lakh
General reserve		Rs 111 lakh
Shares premium		Rs 16.5 lakh

6. The company set up the Luggage Bags unit on April 1, 2005. The written down value of the block of assets for tax purposes as on March 31, 2023 is Rs 100 lakh of which Rs 42.5 lakh are attributable to Luggage Bags unit. There is not any immovable property included in the fixed assets of Luggage Bags unit. CA Nita wanted to discuss with her partner about the taxation liability which would arise to Creations Ltd. from slump sale and any other advise, firm can give to client to make it more tax efficient

7. While they were discussing the issue of Creations Ltd., CA Ashish got a call from a client Ram Electricals, registered under GST in Delhi, is registered supplier of air conditioners. He has provided the following information of consignment which needs to be supplied to Punjab :-

- Taxable value of supplies indicated on tax invoice: Rs 32,500/- (Applicable GST rate 18 %)
- Value of Exempted Goods: Rs 5,500/-
- Value of goods to be sent to job worker on delivery challan: Rs 15,500/-

The accountant of Ram Electricals called CA Ashish Kulkarni, being their GST consultant, to seek advise on issuance of e-way bill in respect of the above consignment.

8. After the discussion of above parties, Ashish brought into the knowledge of Nita the case of one of their new clients, "Sai Kripa International Ltd.", the accounting manager of which approached their firm for determination of refund admissible under GST Law. The company supplies various goods in domestic and international markets. The company manufactures the product in in-house as well does the business of trading. The company is registered under GST in Uttar Pradesh. The company exports goods without payment of tax under LUT in accordance with the provisions of GST Act. The company has made the following supplies during a tax period:-

S. No.	Particulars	Amount (in Rs)
1)	Export of Product "X" for \$ 12,500. Assessable value under customs in India Rupees. Export Duty is levied on above product at the time of exports. (Value of like goods domestically supplied by the similarly placed supplier is Rs 6,00,000)	9,00,000
2)	Domestic supplies of taxable product "Y"* during the period (excluding GST rate @ 5%) (Inputs used in manufacturing of such goods are taxable @ 18%) *not notified as a product, in respect of which refund of unutilised ITC shall not be allowed under section 54(3)(ii)	15,00,000
3)	Export of exempt supplies of goods (Value of like goods domestically supplied by the similarly placed supplier is Rs 5,00,000)	6,00,000
The ITC available for the above tax period is as follows:		
1)	On inputs	2,50,000
2)	On capital goods	1,25,000
3)	On input services (including Rs 30,000 on outdoor catering)	1,80,000

When CA Ashish Kulkarni filed refund application of "Sai Kripa International Ltd." on GST Portal, there were some deficiencies noticed by GST department and such deficiencies were communicated to applicant in a FORM through the common portal electronically, requiring him to file a fresh refund application after rectification of such deficiencies. When the accountant of the company had logged in the portal, he noticed a Form displayed on the portal & communicated to CA Ashish Kulkarni. Then CA Ashish Kulkarni was approached to resolved the above issue.

I. Multiple Choice Questions

- Whether the creation of website in aforesaid manner amounts to violation of provisions of Chartered Accountants Act, 1949 and its relevant rules & regulations?
 - Yes, as creation of website itself is not allowed as the provisions of Chartered Accountants Act, 1949 and its relevant rules & regulations.
 - Yes, as the bio-data of partners and photographs posted on website amounts to soliciting of clients and professional work
 - No, as the guidelines of ICAI allows a firm to put up the details of firm, bio-data of partners & display of passport size photograph.
 - No, as it is permissible that the firm can advertise their professional work through its website.
- With reference to the information given in para (7), what would be the consignment value sent by Ram Electricals Ltd. for the purpose of generating E-way bill for inter- state supply of goods?
 - Rs 38,350
 - Rs 53,850
 - Rs 59,350
 - Rs 48,000

3. Ques is not there though options are there

- (a) Not exceed 20 hours a week. (b) Not exceed 25 hours a week. (c) Not exceed 25 hours a month. (d) Not exceed 20 hours a month.

- With reference to the information given in para (8), accountant of the company, Sai Kripa International Ltd., may have noticed Form of GST on GST-Portal.
 - GST RFD-01
 - GST RFD-02
 - GST RFD-03
 - GST RFD-04
- With reference to the information given in para (5), the income arising on above transaction shall be chargeable to income tax under the head:-
 - Profit and gains from Business or Profession.
 - Other Sources.
 - House Property
 - Capital Gain.

II. Descriptive Questions

- Determine the maximum amount of Refund admissible to Sai Kripa International Ltd. for the given tax period.
- Determine the tax liability, which would arise to Creations Ltd. from slump sale assuming it does not opt for section 115BAA.
 - Suggest modification of the restructuring plan of Creations Ltd., without changing the amount of sales consideration, so as to make it more tax efficient.

I. Answers to the Multiple Choice Questions

- (c) No, as the guidelines of ICAI allows a firm to put up the details of firm, bio-data of partners & display of passport size photograph.

Reason: In the above case, it does not appears to be violation of Chartered Accountants Act, 1949 as the guidelines of ICAI allow a firm to put up the details of the firm, bio-data of the partners and display of a passport size photograph. However, the website should be so designed that it does not solicit clients or professional work and should not amount to direct or indirect advertisement.

- (b) Rs 53,850

Reason: The consignment value will be as follows:

S. No.	Particulars	Consignment Value (Rs)	
1	Taxable value of supplies indicated on tax invoice	32,500	
	Add: GST 18%	5,850	38,350
2	Value of exempt Goods (The same shall not be included)		-----
3	Value of goods to be sent to job-worker on delivery challan		15,500
4	Consignment Value for the purpose of generating of E-way bill		53,850

- (b) Not exceed 25 hours a week.

Reason: Regulation 190 A of Chartered Accountants Regulations, 1988 provides that a Chartered Accountant in practice shall not engage in any business or occupation other than the profession of accountancy except with the

permission granted in accordance with a resolution of the council. The council has passed resolution granting general permission (for private tutorship, and part time tutorship under Coaching organization of the institute) and specific permission (for part-time or full time tutorship under any educational institute other than Coaching organization of the institute). Such general & specific permission granted is subject to condition that direct teaching hours devoted to such activities taken together should not exceed 25 hours a week in order to be able to undertake attest functions.

4. (c) GST RFD-03

Reason: Where any deficiencies are noticed in refund application, the proper officer shall communicate the deficiencies to the applicant in FORM RFD-03 through the common portal electronically, requiring to file a fresh refund application after rectification of such deficiencies.

5. (d) Capital Gain.

Reason: Any Profit or Gains arising from the slump sale of one or more undertakings shall be chargeable to income tax under the head Capital Gain.

II. Answers to the Descriptive Questions

6. Calculation of maximum amount of refund admissible to Sai Kripa International Ltd.

S. No.	Particulars	Note	Amount (in Rs)
1)	Export of product "X"	1	Nil
2)	Domestic Supplies of taxable product "Y" during the period	2	81,395
3)	Export of exempt supplies of goods	3	80,000
	Total refund claim admissible		1,30,000

Working Notes:

- Export of goods is a zero rated supply in terms of Sec 16(1)(a) of IGST Act ,2017.Further, Sai Kripa International Ltd. exports goods without payment of tax under letter of undertaking in accordance with the provisions of Section 16(3)(a) of IGST Act ,2017.Therefore as per clause (i) of first proviso of Sec 54(3) of CGST Act, 2017 a registered person may claim refund of any unutilized ITC in case of zero rated supply at the end of any tax period .However, second proviso to Sec 54(3) lays down that the refund of unutilized ITC is not allowed if the goods exported out of India are subject to export duty.
- Refund of unutilized ITC is allowed in case of inverted duty structure, i.e. where the credit has accumulated on account of rate of tax on inputs being higher than rate of tax on output supplies (other than nil rated or fully exempt supplies) except supplies of goods or services or both as may be notified by the Government on the recommendations of the GST Council.

As per Rule 89(5) of CGST Rules, 2017

Maximum Refund Amount = {(Turnover of inverted rated supply of goods and services) x Net ITC/ Adjusted Total Turnover} - [tax payable on such inverted rated supply of goods and services x (Net ITC ÷ ITC availed on inputs and input services)].

"NET ITC" means ITC availed on inputs during the relevant period other than the ITC availed for which refund is claimed under sub-rules (4A) or (4B) or both of rule 89.

"Adjusted Total Turnover" means sum total of the value of:

- The turnover in a state /Union Territory as defined under Section 2(112) excluding turnover of services; and
- Turnover of zero rated supply of services determined in terms of specified manner and non- zero rated supply of services,

excluding:

- Value of exempt supplies other than zero rated supplies and
- The turnover of supplies in respect of which refund is claimed under sub-rule (4A) or (4B) or both, if any, during the relevant period

Maximum Amount of refund admissible on account of inverted duty structure

S. No.	Particulars	(Rs)
1)	Net ITC i.e. input tax credit availed on inputs during the relevant period	2,50,000
2)	Turnover of inverted rated supply of Goods	15,00,000
3)	Adjusted Total Turnover i.e. (6,00,000+15,00,000+9,00,000)	30,00,000
4)	Tax payable on such inverted rated supply of Goods (15,00,000*5%)	75,000
5)	ITC availed on inputs and input services	4,30,000
6)	Maximum Refund $\{[(\text{Item (2)}/\text{Item (3)}) \times \text{item (1)}] - [\text{Item(4)} \times (\text{Item (1)}/\text{Item (5)})]\}$	81,395

1. Section 16(2) of IGST Act, 2017 stipulates that subject to provisions of Sec 17(5) of CGST Act, ITC may be availed for making zero rated supplies, notwithstanding that such supply may be an exempt supply. Section 54(3) of CGST Act, 2017 allows refund of ITC in the case of zero-rated supply made without payment of tax.

Rule 89(4) of CGST Rules, 2017 stipulates that in the case of zero-rated supply of goods or services or both without payment of tax under bond /LUT in accordance with the provisions of Section 16(3) of the IGST Act, 2017, refund of ITC shall be granted as per the following formula

$$\text{Refund amount} = \frac{(\text{Turnover of zero rated supply of goods} + \text{Turnover of zero rated supply of services})}{\text{Net ITC} / \text{Adjusted Total Turnover}}$$

Where,

“Net ITC” means ITC availed on inputs & inputs services during the relevant period other than ITC availed for which refund is claimed under sub-rules (4A) or (4B) or both of rule 89.

“Turnover of zero rated supply of Goods” means the value of zero- rated supply of goods made during the relevant period without payment of tax under bond or LUT or the value which is 1.5 times the value of like goods domestically supplied by the same or, similarly placed, supplier, as declared by the supplier, whichever is less, other than the turnover of supplies in respect of which refund is claimed under section 89(4A) or (4B) or both.

Maximum Amount of refund admissible on account of Zero rated supply (Amount in Rs)

1)	Net ITC i.e input tax credit availed on inputs and inputs services during the relevant period (Rs 2,50,0,00 + Rs 1,80,000 – Rs 30,000)	4,00,000
2)	Turnover of zero rated supply of goods i.e value of zero rated supply of goods made during the relevant period without payment of tax under Bond or LUT) (Lower of Rs 6,00,000 or 1.5 times of Rs 5,00,000 i.e. 7,50,000, whichever is lower)	6,00,000
3)	Adjusted Total Turnover i.e. (Rs 6,00,000 + Rs 15,00,000 + Rs 9,00,000)	30,00,000
5)	Maximum Refund (Item (2)/ Item (3))*item (1)	80,000

7. (a) As per section 50B of the Income Tax Act, 1961, any profits and gains arising from the slump sale effected in the previous year shall be chargeable to income- tax as capital gains arising from the transfer of capital assets and shall be deemed to be the income of the previous year in which the transfer took place.

If the assessee owned and held the undertaking transferred under slump sale for more than 36 months before slump sale, the capital gain shall be deemed to be long-term capital gain. Indexation benefit is not available in case of slump sale as per section 50B(2) of the said Act.

Computation of tax liability of creations Ltd. from slump sale

Particulars	(Rs)
Full value of consideration for slump sale	2,25,00,000
Less: cost of acquisition (Net Worth - See Note 2)	<u>80,00,000</u>
Long- term capital gain	<u>1,45,00,000</u>
Tax on long term capital gain @ 20%	29,00,000
Add: Surcharge (7% of Rs 29,00,000)	2,03,000
Tax and surcharge	31,03,000
Add: Health & Education cess (4% of 31,03,000)	<u>1,24,120</u>
Tax liability	<u>32,27,120</u>

Note:

1. Computation of Full value of consideration

Particulars	(Rs' in lakhs)
Fair market value of the capital assets transferred by way of slump sale	
Fixed assets [Book value as appearing in the books of accounts] [A]	112.5
Debtors [Book value as appearing in the books of accounts] [B]	56.25
Inventories [Book value as appearing in the books of accounts] [C]	18.75
	187.5
Less: Liabilities [L]	37.5
Fair market value of the capital assets transferred by way of slump sale [A+B+C- L] [FMV1]	150
Fair market value of the consideration received or accruing as a result of transfer by way of slump sale [value of the monetary consideration received] [FMV2]	225
Full value of consideration [Higher of FMV1 or FMV2]	225

2. Computation of net worth

Particulars	(Rs)
WDV of block of assets	42,50,000
Debtors	56,25,000
Inventories	18,75,000
Total Assets	1,17,50,000
Less: Liabilities	37,50,000
Net worth	80,00,000

Note: For computing net worth, the aggregate value of total assets in the case of depreciable assets shall be the written down value of the block of assets as per section 43(6).

- (b) As an alternative to slump sale, Creations Ltd., should acquire 100% shareholding in Rockstar Bags Ltd. so that Rockstar Ltd. becomes a 100% Indian subsidiary company of Creations Ltd. and, consequently, capital gain arising on transfer of Luggage unit to Rockstar Bags Ltd. shall not be chargeable to tax by virtue of provision of section 47 (iv).

Also, the company may go for demerger. In demerger the tax impact is neutral. Therefore, in the present case, the company should not have effected slump sale. It could either:

- Go for demerger where tax impact is neutral or
- Make Rockstar Bags Ltd. as its 100% subsidiary company and claim exemption under section 47.

CASE STUDY 12

Whirlsonic Ltd. is a large sized listed Indian company having two business segments, namely light and electrical consumer durables. It is one of the oldest brands in the country and has a rich legacy associated with reliability and superior engineering quality. In the last few years, the company has launched some breakthrough products like India's first anti dust fan and anti-bacterial LED bulbs. The company is a leading Indian brand with significant global presence. The company operates with its philosophy to carve out a niche in the global industry and to evolve into a premier lifestyle home solution provider. With operations spanning in over 20 countries, the company has earned trust of millions of customers by providing cutting edge lifestyle electrical products.

Whirlsonic Ltd. has received many prestigious awards and accolades to date for its commitment to manufacture quality lifestyle electrical solutions that benchmark against the best in industry. The company is proud to be the recipient of the New Product Innovation Award in the antibacterial LED bulbs industry in India and has been recognised as New Product Innovation leader in the Indian LED bulbs industry.

The company works towards getting the right products to market faster and developing long term product strategies and coherent roadmaps. During the FY 2022-23, the company decided to manufacture the LED lights and bulbs with a unique feature which will enable the users of such products to operate them from any distance, with the help of their mobiles. Such technology requires the use of an electronic chip which is to be imported from Indonesia. So far, LED lights and bulbs with such unique feature have been developed by two more companies. According to market survey done by the marketing team of Whirlsonic Ltd., the demand of these new products is increasing day by day. Further, the management of the company has decided to offer a discount of 20% on the list price of such product to

its distributors. The list price of the LED light and LED bulb is Rs 150/- and Rs 200/- respectively. In the invoice, the list price of the product will be mentioned on which a discount of 20% will be given to arrive at the final price.

During the year, Whirlsonic Ltd. sponsored a sports event organised by Ballika City Club in Jaipur. Ballika City Club was established in the year 1986 for the protection of the rights of the girl child. The company has paid an amount of Rs 5,00,000/- for such sponsorship of the sports event. Consequently, the said event was named after the brand name of Whirlsonic Ltd.

M/s S.M. Mehta & Associates are the statutory auditors as well as the tax auditors of the company for the F.Y. 2022-23. CA Mehta, the Managing Partner of the said Chartered Accountant firm had set up the practice soon after becoming the member of the Institute of Chartered Accountant of India in the year 1990. Today the firm has its Head Office in Delhi with branches in 6 different states of the country. The firm has expertise in Audit including Statutory, Management and Internal Audit, due diligence and taxation matters including international taxation.

During the course of audit, CA Mehta, the engagement partner, asked one of his team members, Mr. Rudra to analyse the taxability/allowability of various receipts and expenditures under the provisions of the Income Tax Act, 1961. While analysing the same, Mr. Rudra was sceptical with respect to the following two points:

- (i) The company paid dollars equivalent to Rs 40 lakhs as sales commission for the year ended 31.03.2023, without deducting tax at source, to Mr. Meril, a citizen of UK and non-resident who acted as agent for booking orders, from various customers who are outside India.
- (ii) An amount on account of secret commission was paid during the previous year 2022-23.

Further, Mr. Rudra had certain confusion with respect to the allowance or disallowance of the following expenditure under the provisions of the Income Tax Act 1961, incurred by the company:

- Interest amounting to Rs 55,000/- payable to Goods and Services Tax Department which was paid after the due date of filing income tax return.

He asked CA Mehta to clear his confusion on the above points.

During the year under audit, the company has entered into a high sea sales transaction with Lavish Ltd. for its products. The management of Whirlsonic Ltd. is of the view that GST on such high sea sales transaction is payable at the time of such sale and basic custom duty is payable at the time of filing the bill of entry for import of goods.

Further, Whirlsonic Ltd. has established a vigil mechanism to enable its directors and employees to report genuine concerns and seek protection against victimization. The details of the mechanism are available on the company's intranet which is accessible by the directors and employees.

While discussing about the status of the audit work with CA Mehta, one of the directors of the company, Mr. Somesh, discussed about the various corporate governance compliance requirements for their company. He asked CA Mehta to brief him about the compliance requirements with respect to the Risk Management Committee. Accordingly, CA Mehta briefed him about the Risk Management Committee in terms of the relevant SEBI Regulation.

Also Mr. Somesh was very impressed with the quality of services and the effectiveness and efficiency of the audit work done by the team of CA Mehta. He, accordingly, requested CA Mehta to provide services for F.Y. 2022-23, of actuarial, investment advisory and investment banking to Whirlsonic Ltd., after the same is duly approved by the Board of Directors of the company.

I. Multiple Choice Questions

1. With respect to the payment made by Whirlsonic Ltd. for sponsorship of the sports event, which of the following is the correct statement regarding the GST liability?
 - (a) GST shall be payable by Whirlsonic Ltd., being the recipient of the sponsorship service, under the reverse charge mechanism.
 - (b) GST shall be payable by Ballika City Club, being the supplier of the sponsorship service.
 - (c) GST liability is not leviable on the sponsorship service of the sports event.
 - (d) GST liability with respect to sponsorship service is payable by the recipient of such service provided the recipient is not a body corporate. So, in the present case, GST liability is payable by the service provider which is Ballika City Club.
2. What should be the value of supply of the LED bulb with unique feature to be manufactured by Whirlsonic Ltd.?
 - (a) Rs 200
 - (b) Rs 160
 - (c) Rs 120
 - (d) Rs 150
3. Are the measures taken by the company with respect to vigil mechanism in line with the LODR (Listing Obligations and Disclosure Requirements) Regulations?
 - (a) No, as apart from making the details of such mechanism available on the company intranet the same should be disclosed by the company on its website.

- (b) No, as apart from making the details of such mechanism available on the company intranet the same should be disclosed by the company in the Board Report.
 - (c) Yes, the measures taken by the company are in line with the relevant regulation of the LODR Regulations.
 - (d) No, as apart from making the details of such mechanism available on the company's intranet, the same should be disclosed by the company on its website and in the Board Report.
4. What is the correct course of action for CA Mehta with respect to the request made by Mr. Somesh for providing services other than statutory audit and tax audit?
- (a) CA Mehta should not accept the appointment unless he takes the approval from the ICAI.
 - (b) CA Mehta can accept the appointment for other services as the same will be duly approved by the Board of Directors.
 - (c) CA Mehta can accept the appointment after the same is approved by the shareholders as well as the Board of Directors.
 - (d) CA Mehta should not accept the offer for other services.
5. Whether the interest payable by the company to the GST department which is not paid before the due date specified u/s 139(1), will be disallowed?
- (a) No, such interest will not be disallowed as such interest is separate from the GST i.e. the tax payable but not paid is only disallowed under the provisions of the Income Tax Act, 1961.
 - (b) Yes, the interest payable to GST department which is not paid before due date of filing of return of income would attract disallowance under the provisions of the Income Tax Act, 1961.
 - (c) Such interest will be disallowed as the same is not allowed under the Income Tax Act, 1961, even if it is paid within the due date of filing of return of income.
 - (d) 50% of the interest payable by the company to the GST department shall be disallowed if the same is not paid before the due date of filing return of income.

II. Descriptive Questions

6. Explain how GST would be levied and what would be the nature of supply in case of import of the electronic chip to be made by Whirlsonic Ltd.?
- Also examine, whether the view of the management of the company is correct with regard to the high sea sale transaction entered by the company with Lavish Ltd.?
7. Explain what CA Mehta would have briefed to Mr. Somesh relating to the Risk Management Committee in terms of the LODR (Listing Obligations and Disclosure Requirements) Regulations?
8. Examine the allowability of the two expenditures incurred by Whirlsonic Ltd., under the relevant provisions of the Income Tax Act, 1961, related to payment of sales commission and secret commission with respect to which Mr. Rudra has certain confusions?

I. Answers to the Multiple Choice Questions

1. (a) GST shall be payable by Whirlsonic Ltd., being the recipient of the sponsorship service, under the reverse charge mechanism.
- Reason:** Notification no 13/2017 CT (R) dated 28.06.2017 as amended (hereinafter referred to as reverse charge notification), provides that sponsorship services provided by any person to a body corporate or partnership firm located in the taxable territory, shall be liable to GST under reverse charge in the hands of recipient. In the present case, Ballika City Club is the supplier of sponsorship services which is receiving the consideration in the form of sponsorship fee of Rs 5,00,000 from Whirlsonic Ltd., against the provision of sponsorship service. Since the recipient of sponsorship services- Whirlsonic Ltd. is a body corporate, the tax on said services is payable by the recipient – Whirlsonic Ltd., under reverse charge.
2. (b) **Rs 160**
- Reason:** The value is Rs 160, as the discount is allowed at the time of supply and shown in the invoice.
3. (d) No, as apart from making the details of such mechanism available on the company's intranet, the same should be disclosed by the company on its website and in the Board Report.
- Reason:** Under Regulation 22 of the LODR (Listing Obligations and Disclosure Requirements) Regulations, the vigil mechanism can be used by directors, employees and any other person. To that effect, Regulation 46 of the LODR requires the details of establishment of such mechanism to be disclosed by the Company on its website and in the Board Report. By only providing the details in the intranet, the Company has failed to meet the LODR Regulations.
4. (d) CA Mehta should not accept the offer for other services.
- Reason:** Services not to be Rendered by the Auditor- Section 144 of the Companies Act, 2013 prescribes certain services not to be rendered by the auditor. An auditor appointed under the Act shall provide to the company only such other services as are approved by the Board of Directors or the audit committee, as the case may be, but which shall not include any of

the following services (whether such services are rendered directly or indirectly to the company or its holding company or subsidiary company), namely:

- a) accounting and book keeping services;
- b) internal audit;
- c) design and implementation of any financial information system;
- d) actuarial services;
- e) investment advisory services;
- f) investment banking services;
- g) rendering of outsourced financial services;
- h) management services; and
- i) any other kind of services as may be prescribed.

CA Mehta should not accept the services as these services are specifically notified in the services not to be rendered by him or his firm as an auditor as per section 144 of the Act.

5. (b) Yes, the interest payable to GST department which is not paid before due date of filing of return of income would attract disallowance under the provisions of the Income Tax Act, 1961.

Reason: Interest payable to Goods and Services Tax department is part of Goods and Services Tax.

Therefore, interest payable to Goods and Services Tax department, which is not paid before the “due date” of filing of return of income, would attract disallowance under section 43B [Mewar Motors v. CIT (2003) 260 ITR 218 (Raj)]

II. Answers to the Descriptive Questions

6. (i) **Goods imported into India:** All imports are deemed as inter-State supplies and accordingly IGST shall be levied on imported goods in addition to the applicable custom duties.

The integrated tax on goods imported into India shall be levied and collected in accordance with the provisions of the Customs Tariff Act, 1975 on the value as determined under the said Act at the point when duties of customs are levied on the said goods under the Customs Act, 1962. The integrated tax on goods shall be in addition to the applicable Basic Customs Duty (BCD) which is levied as per the Customs Tariff Act. In addition, GST compensation cess, may also be leviable on certain luxury and demerit goods under the Goods and Services Tax (Compensation to States) Cess Act, 2017.

Thus, the above GST implications would be there with respect to the import of the electronic chip by Whirlsonic Ltd.

- (ii) **The view of the management of the company about the high sea sale transaction is partially correct.**

Supply of goods by the consignee to any other person, by endorsement of documents of title to the goods, after the goods have been dispatched from the port of origin located outside India but before clearance for home consumption (high sea sale) is neither treated as supply of goods nor supply of services in terms of paragraph 8(b) of Schedule III to the CGST Act. Thus, GST is not leviable on high sea sales. Therefore, the management's view that GST is payable on a high sea sale transaction at the time of sale, is not correct.

As per section 14 of the Customs Act, 1962, the value for the purpose of charging customs duty on imported goods is the value at the time of importation, i.e. at the time of filing of the bill of entry. Further, IGST on imported goods is also levied at the time of filing of bill of entry. Therefore, in case of high sea sales, the assessable value of imported goods for levying customs duty and IGST is determined on the basis of the price paid by the last high sea sales buyer who files the bill of entry for home consumption. Therefore, the management's view that basic customs duty is payable at the time of filing the bill of entry for import of goods is correct.

7. **CA Mehta should have briefed the following to Mr. Somesh with respect to the composition of the Risk Management Committee as per Regulation 21 of the LODR (Listing Obligations and Disclosure Requirements) Regulations:**

- (a) The Board of Directors shall constitute a Risk Management Committee.
- (b) The Risk Management Committee shall have minimum three members with majority of them being members of the board of directors, including at least one independent director and in case of a listed entity having outstanding SR equity shares, at least two thirds of the Risk Management Committee shall comprise independent directors.
- (c) The Chairperson of the Risk Management Committee shall be a member of the Board of Directors and senior executives of the listed entity may be members of the committee.
- (d) The risk management committee shall meet at least twice in a year.
- (e) The quorum for a meeting of the Risk Management Committee shall be either two members or one third of the members of the committee, whichever is higher, including at least one member of the board of directors in attendance.
- (f) The meetings of the risk management committee shall be conducted in such a manner that on a continuous basis not more than one hundred and eighty days shall elapse between any two consecutive meetings.
- (g) The Board of Directors shall define the role and responsibility of the Risk Management Committee and may delegate monitoring and reviewing of the risk management plan to the committee and such other functions as it may deem fit and such function

shall specifically cover cyber security.

- (h) It may be noted that the role and responsibilities of the Risk Management Committee shall mandatorily include the performance of functions specified in Part D of Schedule II.
- (i) The provisions of this regulation shall be applicable to top 1000 listed entities, determined on the basis of market capitalisation, as at the end of the immediate previous financial year and a high value debt listed entity.
- (j) The Risk Management Committee shall have powers to seek information from any employee, obtain outside legal or other professional advice and secure attendance of outsiders with relevant expertise, if it considers necessary.

These procedures shall be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework. A majority of this Committee will be the members of the Board of Directors. Senior executives of the company may also be members of the Committee, but the Chairperson of the Committee shall be a member of the Board of Directors.

8. The allowability of the expenditures related to sales commission & secret commission paid by Whirlsonic Ltd. is as under:

1. A foreign agent of an Indian exporter operates in his own country and no part of his income accrues or arises in India. His commission is usually remitted directly to him and is, therefore, not received by him or on his behalf in India. The commission paid to the non-resident agent for services rendered outside India is, thus, **not chargeable** to tax in India. Since commission income for booking orders by non-resident who remains outside India is not subject to tax in India, disallowance under section 40(a)(i) is not attracted in respect of payment of commission to such non-resident outside India even though tax has not been deducted at source.

Thus, the amount of Rs 40 lakhs remitted to Mr. Merlin outside India in foreign currency towards commission **would not attract disallowance** under section 40(a)(i) for non-deduction of tax at source.

2. Secret commission is one of the forms of commission payment generally made by business organizations. Secret commission is a payment for obtaining business orders or contracts from parties and /or customers and paid to employees and / or officials of those parties and / or customers or companies from whom business orders are obtained by the assessee.

Explanation 1 below section 37(1) of Income-tax Act, 1961 provides that any expenditure incurred by an assessee for any purpose which is an offence or which is prohibited by law, shall not be deemed to have been incurred for the purpose of business and no deduction or allowance shall be made in respect of such expenditure. In view of the Explanation, any expenditure incurred for a purpose which is an offence and prohibited by law cannot be allowed as expenditure.

*Therefore, if secret commission payment could be established as a payment for an offence prohibited by law, the same **cannot be allowed as deduction**.*

CASE STUDY 14

Lakshya has been recently appointed as Chartered Accountant, with effect from 1st April, 2022 in a company namely, Lotus Private Limited which was incorporated 6 years ago with the paid-up capital of Rs 1.5 crores. Lotus private limited is a maintenance company and is operating in a commercial complex, a state-of-the-art mall located in Delhi. The mall has been developed by another company, hereinafter referred as 'mall developer', but after the commencement of operations, the maintenance services in respect of mall have been outsourced to Lotus Private Limited.

Since Lakshya wants to ascertain the GST liability to be paid for the month of April 2022, he needs to do reconciliation of the data fed in the books of accounts for cross verification to remove discrepancy, if any. For this purpose, Lakshya has gathered the following facts and information for doing the reconciliation exercise and to compute the exact GST liability.

All the units which have been sold by mall developer are occupied by owner themselves. Some units of mall which have not been sold have been provided on lease by the mall developer to tenants. Lotus private limited does billing of each charge to only those units which are either occupied or which are taken on rent; that is either it should have been purchased by the respective unit owner or it should have been rented by the person from company which has constructed the mall i.e. mall developer.

Assume that GST rate wherever, applicable is 18%.

The description of nature of revenue which the Lotus private Limited collects from its customers is mentioned as follows:

Common area maintenance charges: Common Area Maintenance (CAM) charges are fees paid by unit owners/tenants to Lotus private limited to help cover costs associated with overhead and operating expenses for common areas. Common areas are spaces used for or benefited by all unit owners/tenants and include, but are not limited to, elevators, parking lots, lobbies, public bathrooms and building security. Lotus private limited charges common area maintenance charges from the customers at the rate of Rs 10 per square feet. The charges are to be paid on the basis of super built-up area allotted to the landlord or the tenant, as the case may be.

Electricity charges: It collects the electricity charges from its customers on reimbursement basis; a separate billing is done in this regard wherein the goods & service tax is not levied thereon. There are separate meter connections attached to the shop, from where Lotus private limited on the basis of meter reading collects charges from the customers, in the form of reimbursement. The state government which supplies electricity to the mall and its units thereon does not charge any good & services tax along with the bill

amount. For the limited purpose of this case, assume that billing of electricity charges is exempt from tax, on the contention that the supplier is acting as a pure agent and covered under the provisions of Rule 33 of CGST Rules, 2017.

DG backup/DG unit charges: Due to vague interpretation of power outages in the region, electricity through Gensets (DG) is provided. Lotus private limited has its own DG set to provide electricity supply in such a case. DG Fix charges Per KW = Rs 500 and unit charges on the basis of main meter (DG) consumption is Rs 12 per unit.

Interest: Customers who fail to make the payment within the due stipulated time, they are required to deposit the interest amount for late payment of outstanding dues to Lotus private limited at the rate of 15 percent per annum after the past due.

Vending charges: Lotus private limited on each bill prepared of common area maintenance charges levy vending charges from each customer at the rate of Rs 25/-.

Interest-Free Maintenance Security (IFMS): IFMS is a lump sum amount which the mall developer charges in lieu of maintaining the mall. As per the agreement made between mall developer and Lotus private limited, IFMS amount is to be credited in the account of Lotus private limited at the time of registry by the concerned person. The amount so collected is refundable and transferable to concerned persons/landlords, after certain duration as per the terms of agreement.

During the month of April, 2022, Lotus private limited has incurred certain expenses, the details of which are as follows:

Particulars	Amount (Rs)
Total expenses incurred	15,00,000
CGST receivable on expenses as per total invoicing (as per MIS report prepared by data operator in MS excel for each & every Invoice received)	70,000
SGST receivable on expenses as per total invoicing (as per MIS report prepared by data operator in MS excel for each & every Invoice received)	70,000
IGST receivable on expenses as per total invoicing (as per MIS report prepared by data operator in MS excel for each & every Invoice received)	25,000
CGST receivable on expenses which is considered as eligible input (as per entries done by accountant in the books of accounts after every voucher approval by Indirect taxes manager)	60,000
SGST receivable on expenses which is considered as eligible input (as per entries done by accountant in the books of accounts after every voucher approval by Indirect taxes manager)	60,000
IGST receivable on expenses which is considered as eligible input. (as per entries done by accountant in the books of accounts after every voucher approval by Indirect taxes manager)	20,000

Other relevant data for the month of April 2022, is as follows:

Particulars	Amount (Rs)
Common area maintenance charges (Includes billing done for common area maintenance charges against advance received in earlier months)	(Refer note 1)
Electricity charges	Rs 5,50,000
DG backup fix charges	(Refer note 1)
Gross Interest received from customers, as reflected in bank statement	Rs 3,18,600
DG unit charges	(Refer note 1)
Credit notes with respect to common area maintenance charges issued to customers within the same month of billing i.e. April month	Rs 80,000
Gross Advance received from customers for common area maintenance charges, as reflected in bank statement	Rs 3,54,000
Billion done to customers for common area maintenance charges, from whom Gross advance, as reflected in bank statement (amount as in corresponding column) was received in February, 2021	Rs 70,800
Vending charges	(Refer note 1)
Receipt of Interest free security deposit	(Refer note 2)

Note 1:

There are 500 units in the mall, additional information of respective units for April month is as follows:

Particulars	Owner occupied units	Let-out units	Units held in Inventory
Number of units	300	100	100
Carpet area (in square feet)	1,20,000	40,000	30,000
Super built-up area (in square feet)	1,50,000	50,000	40,000
KW taken for DG back up	750 KW	250 KW	Nil
DG units consumption	4000	1000	Nil

Note 2:

Number of registries done during the month of April, 2022	25
Amount of IFMS receivable from each customer, excluding GST	Rs 30,000

Meanwhile, the accounts department has received a request from a unit owner Mukesh who runs his own business at Noida, Uttar Pradesh. He wants to receive the bill as per his business address situated in Noida since he will be able to take the benefit of GST input accordingly at his Noida address.

During the year, Lotus private limited in the month of October 2022 took a loan of Rs 1,00,00,000 from another corporate Humara Limited which is related to Lotus Private Limited. Loan was taken with a purpose to deposit statutory dues of GST which was pending for a long period of time. The loan taken was repaid by Lotus private limited to Humara Limited in the month of February 2023. Hence the closing balance of loan in the books of Lotus private limited as on 31st March, 2023 is Nil. Lakshya believes since the closing balance of loan is Nil, it does not need to be reported anywhere in the financials or in the report of auditors.

Further, Lotus private limited has defaulted in payment of service tax amount of Rs 30,00,000 for the long time (6 years), as per notice received from service tax department and this liability is pending even at 31st March, 2023. The said amount could not be deposited even after 31st March, 2023 at any point of time during the year. The disputed matter is still pending at CESTAT for litigation, after going through appropriate levels of adjudicating authorities at various forums.

According to the Association of Certified Fraud Examiners' 2020 Report to the Nations, expense reimbursement frauds account for 21 percent of fraud in small businesses (those with less than 100 employees), and 11 percent in large businesses (those with 100 or more employees.)

Company's internal controls are not up-to mark so Lakshya has been told by the management to implement the policies which make the system robust. Especially the company's policy with respect to expense reimbursement has always been weak and has been exploited accordingly by the employees.

Lotus Private Limited has the policy of expense reimbursement wherein the person who is claiming the reimbursement has to follow the set procedure to claim the expenses incurred by him. However, there have many instances in the past wherein it has been reported that the false claims are being taken by the employees by creating fake vouchers. The employees have been billing for travel and expenses that never materialized (cancelled airline tickets, seminar or convention registration fees, tuition reimbursement and professional dues payments). It may also happen that concerned employees who are authorised persons may also be the part of this practice. Company wants to fix this problem to ensure there is no siphonage of funds. At present, only bill along with voucher needs to be provided to accounts department for claiming an expense. Thereafter it gets approved by the accounts department without any further questioning.

Lotus private limited during the year has donated the amount of Rs 8,000 in cash to one of the NGO – 'UTHO' in the area which is working for the upliftment of weaker sections of the society. 'UTHO' is registered with the Income tax authorities as per the rules framed there under and the donations so made to NGO get eligible for section 80G deductions. Lotus private limited has shown it as an expense in the books of accounts.

Lotus Private Limited reported profit before tax of Rs 5,40,000 for the financial year 2022-23. Other particulars for relevant assessment year are as follows:

	Amount (Rs)
Wages to casual workers	15,00,000
Interest on late payment of TDS	1,00,000
Depreciation as per Companies Act, 2013	12,00,000
Depreciation as per Income tax Act, 1961	18,00,000
Interest on fixed deposits	2,50,000

I. Multiple Choice Questions

- Suggest how the issue can be resolved for the request received from a unit owner, Mukesh to send his Invoice with corresponding GST to his Noida address.
 - Invoice can be prepared of Noida (UP) address and IGST would be levied in that case.
 - Invoice cannot be prepared of Noida (UP) address since IGST would be levied in that case.
 - Invoice can be prepared of Noida (UP) address & corresponding CGST & SGST would be levied in that case.
 - None of the above.
- Lotus private limited does the billing of those services separately which are subject to exemption from goods and services tax like electricity in this case. What should be the terminology for such kind of document as per provisions

mentioned in GST Act?

- (a) Tax Invoice (b) Bill of Supply (c) Refund Voucher (d) Exempt Invoice
3. Calculate the taxable amount under the head 'Profits and gains from business and profession' of Lotus Private Limited for Assessment Year 2023-24.
(a) Rs 2,90,000 (b) Rs 8,90,000 (c) Rs (2,02,000) (d) Rs 15,40,000
4. How much deduction, Lotus Private Limited can claim under section 80G for donations contributed to NGO 'UTHO'?
(a) Rs 4,000 (b) Rs 8,000 (c) Rs 2,000 (d) None of the above.
5. Whether the loan obtained from Humara Limited needs to be reported in Form 3CD by the auditors?
(a) Loan need not be reported since the closing balance of loan is Nil .
(b) It is optional for the auditor to check whether loan should be reported or not as per his professional judgment.
(c) Loan should be reported even though it has been squared off during the year.
(d) Reporting of loan is not needed if loan is taken for the purpose of depositing statutory dues from related party.

II. Descriptive Questions

6. Analyze the issue of Lotus Private Limited for the billing done to customers and accordingly compute the net GST liability to be paid for the month of April 2022. Support your answer with detailed workings & explanations, wherever necessary.
7. Being Lakshya, how you would strengthen the Company's internal controls as suggested by the management to make the system robust by framing the company's policy with respect to expense reimbursement? What should be the procedure or minimum steps to claim expense reimbursement so that the loopholes if any can be avoided to the maximum extent.
8. What would be the implications in company's audit report as a reporting by the company's auditor, for default committed by Lotus private limited in non-deposit of service tax dues amounting to Rs 30,00,000 for 6 years, as demanded by department. Show required disclosures, if any.

I. Answers to the Multiple Choice Questions

1. (b) Invoice cannot be prepared of Noida (UP) address since IGST would be levied in that case.
Reason: Place of supply of services provided in relation to an immovable property is the location of the immovable property which means GST payable by Lotus Private Limited will be CGST and SGST. Since Lotus private limited is located in Delhi and providing services at Delhi only (mall); hence a bill with corresponding IGST of another state cannot be made.

2. (b) Bill of Supply
Reason: Bill of Supply is a document to be issued by a registered person supplying exempted goods or services or both or paying tax under the provisions of section 10 instead of a tax invoice.

A bill of supply needs to be issued when:

- A Bill of Supply is issued in case where a registered person is a supplier of exempted goods; or
- If a registered person opts for composition scheme

In these cases, as the registered person cannot issue tax invoice, so he has to issue a Bill of Supply.

3. (c) Rs (2,02,000)

Reason:

Particulars	Amount (Rs)
Profit before taxation	5,40,000
Add: Interest on late payment of TDS	1,00,000
Add: Depreciation as per Companies Act, 2013	12,00,000
Add: Donation	8,000
Less: Depreciation as per Income Tax Act, 1961	18,00,000
Less: Interest on Fixed Deposit	2,50,000
Loss under the head 'Profits and gains from business and profession'	(2,02,000)

4. (d) None of the above.

Reason: Donations made in cash exceeding Rs 2,000 are not allowed as deduction under section 80G.

5. (c) Loan should be reported even though it has been squared off during the year.
Reason: As per clause 31 of Form 3CD, particulars of each loan or deposit in an amount exceeding the limit specified in section 269SS/269ST taken or accepted or repaid respectively, during the previous year need to be reported against corresponding: Name, address and PAN of the lender or depositor, Amount of loan or deposit taken or accepted, whether the same was squared up during the year, maximum amount outstanding at any time during the previous year, whether the same was taken or accepted by cheque or bank draft (specify if account payee) or use of ECS through a bank account, etc.

II. Answers to the Descriptive Questions

6. Calculation of Taxable supplies:

Particulars	Amount (Rs)	Remarks
Common area maintenance charges	20,00,000	Refer Note-1
Electricity charges	-	Refer Note-2
DG backup fix charges	5,00,000	Refer Note-3
Interest received, excluding GST	2,70,000	[3,18,600/1.18]; since GST is included in the value of supply, gross up done
DG unit charges	60,000	Refer Note-4
Credit notes with respect to common area maintenance charges issued to customers within the same month of billing i.e.; April 2021	(80,000)	Refer Note-5
Advance received from customers for common area maintenance charges	3,00,000	Refer Note-6
Billing done to customers for common area maintenance charges, from whom stated advance excluding GST amount was received in February, 2021	(60,000)	Refer Note-7
Vending charges	10,000	Refer Note-8
Receipt of Interest free security deposit	-	Non-taxable, since the deposit is refundable
Total Taxable Supplies	30,00,000	

Calculation of GST Payable and GST Receivable:

	Amount (Rs)	Remarks
CGST payable @9% on taxable supplies	2,70,000	(Rs 30,00,000 x 9%)
SGST payable @9% on taxable supplies	2,70,000	(Rs 30,00,000 x 9%)
Total GST payable	5,40,000	
CGST Input receivable	60,000	Eligible input only considered
SGST receivable	60,000	Eligible input only considered
IGST receivable	20,000	Eligible input only considered
Total GST Input	1,40,000	

Calculation of Net GST liability to be paid:

Particulars	CGST payable @ 9%	SGST payable @ 9%	Total
GST payable (A)	2,70,000	2,70,000	5,40,000
CGST Input receivable (B)	(60,000)	-	(60,000)
SGST Input receivable (C)	-	(60,000)	(60,000)
IGST Input receivable (D)	(20,000)	-	(20,000)
Net GST payable (A)-(B)-(C)-(D)	1,90,000	2,10,000	4,00,000

Note-1: Calculation of Common area maintenance charges:

Super built-up area of owner occupied units	1,50,000 sq.ft.	
Super built-up area of let-out units	50,000 sq. ft.	
Total billable super built-up area	2,00,000 sq. ft.	
Rate per square feet	Rs 10/-	
Billable Common area maintenance charges	Rs 20,00,000	(2,00,000 sq.ft. x Rs 10/-)

Note-2: Electricity charges:

Electricity charges are exempt from tax, on the contention that the supplier is acting as a pure agent and covered under the provisions of Rule 33 of CGST Rules, 2017. Further, the requirement of question specifically excludes electricity as taxable supply for the limited purpose of calculations.

Note-3: Calculation of DG backup fix charges:

Particulars	Owner occupied units	Let-out units	Total billable
Number of units	300	100	400
KW taken for DG back up	750 KW	250 KW	1000KW
DG backup fix charges per KW			Rs 500
Billing of charges	Rs 5,00,000= (1000 KW x Rs 500/KW)		

Note-4: Calculation of DG unit charges:

Particulars	Owner occupied units	Let-out units	Total billable
Number of units	300	100	400
DG units consumption	4000	1000	5000
DG unit charges per unit consumption			Rs 12
Billing of charges	Rs 60,000 = (5000 units x Rs 12/unit)		

Note-5: As per 34(1) where a tax invoice has been issued for supply of any goods or services or both and the taxable value or tax charged in that tax invoice is found to exceed the taxable value or tax payable in respect of such supply, or where the goods supplied are returned by the recipient, or where goods or services or both supplied are found to be deficient, the registered person, who has supplied such goods or services or both, may issue to the recipient a credit note containing such particulars as may be prescribed.

As per 34(2) any registered person who issues a credit note in relation to a supply of goods or services or both shall declare the details of such credit note in the return for the month during which such credit note has been issued but not later than September following the end of the financial year in which such supply was made, or the date of furnishing of the relevant annual return, whichever is earlier.

Hence, Tax liability of the supplier gets reduced in this case when the credit notes are issued.

Note-6: The time of supply is the base to determine the time of payment of tax and as per provisions of section 12 (2) of the Central Goods and Service Tax Act, 2017 the time of supply shall be earliest of the following –

- Date of issuance of the invoice or the last date on which invoice should have been issued; and
- Date of receipt of the payment;

Hence if the advance is received before the issue of invoice the time of supply would be the date of receipt of advance.

Thus taxpayer receiving advance must pay GST on the money received.

The advance received should be grossed up. This means that advance received is considered inclusive of GST. Hence, GST on advance received comes to Rs [3,54,000- (3,54,000/1.18)] = Rs 54,000 and advance received excluding GST is Rs 3,00,000

Note-7: The taxpayer has to declare the advance that has to be adjusted in the tax period in which advance is received. Subsequently when invoice is issued, then taxpayer can adjust the tax liability of the invoice issued of that tax period, in the GSTR-1 of that period. This can be shown in the advance adjustment table of GSTR-1.

Since Rs 70,800 advance was received in February, 2022; advance received would have been grossed up to make the GST taxable supply at that time to Rs 60,000 (70,800/1.18).

Note-8: Calculation of Vending charges:

Particulars	Owner occupied units	Let-out units	Total billable
Number of units	300	100	400
Vending charges per unit			Rs 25
Billing of charges	Rs 10,000 = (400 units x Rs 25/unit)		

7. Following steps and minimum procedures may be implemented for expense reimbursement policy in the organisation to check any fraud and to strengthen internal controls:

- It should be duly submitted in a standard application form (as a voucher) whose format is common for all class of employees.

- Application form must be signed by the claimant.
- Application date cannot be earlier than that of Invoice date.
- The application form should be supported by original invoices of expense for claim reimbursement.
- Frame and maintain a strong reimbursement policy or guidelines so as to process the reimbursements within the given framework.
- The nature and purpose for which expense was done needs to be ascertained.
- Check that particulars mentioned in invoice are correct and is complete in all respects
- The invoice particulars should correspond to the particulars mentioned in application form filed by the employee.
- Application form must be approved by competent authority as decided by management. If the claim amount exceeds a specified limit, it should be approved by higher competent authority.
- The person who is filling the application form and the one who is approving it, cannot be same.
- Competent authority must ensure that claims being approved are valid and eligible as per the company's policies and incurred within the framework of company's guidelines.
- There must be approved rate for each nature of expense with terms and condition along with eligible criteria like Conveyance rate per kilometre, Daily allowance etc.
- Claim Application forms which have not been properly made or supported or with other **Reason**, should not be processed. The claimant should be provided **Reasons** for rejecting the claim.
- If any advance was provided to the employee and is still outstanding for a long time, ensure that loan amount to be received has been deducted unless the company's policy provide otherwise.
- There should be deadline for timely submission of claims. Thereafter, claims should not be processed further except with the approval of higher authority.
- Reimbursement in the form of cash should be prohibited.

8. **Following Private Companies are exempt from the requirements of CARO, 2020 :**

- Not a holding or subsidiary of a public company.
- Paid up Capital plus Reserves less than or equal to Rs 1 crore as at the reporting date
- Borrowings less than or equal to Rs 1 crore at any time during the year
- Revenue less than or equal to Rs 10 crores in the financial year

Accordingly, CARO 2020 is applicable to Lotus Private Limited, since company's paid-up capital is Rs 1.5 crores.

The auditors of such companies to whom CARO 2020 is applicable, are required to report on the matters specified in this order.

The auditor shall report under CARO, 2020 with respect to Statutory Dues that whether the company:

- Is regular in deposit of statutory dues;
- And if it is not regular, then statutory dues outstanding for more than 6 months need to be disclosed/reported
- If any taxes have not been deposited because of any dispute, the amount of dispute and the forum where the litigation is pending should also be disclosed

The auditor should disclose following in its CARO report:

According to the information and explanation given to us and on the basis of our examination of the records of the company, details of dues of service tax which has not been deposited as on 31st March, 2023 on account of dispute is given below:

Name of Statute	Nature of the Dues	(Rs)	Forum where dispute is pending
Finance Act, 1994 (Service Tax Provisions)	Service Tax and Penalties	30,00,000	CESTAT

CASE STUDY 16

Shanaya Limited owns a Building A which is specifically used for the purpose of earning rentals and had been classified as 'Property, Plant and Equipment' in the financial statements, before the applicability of financial reporting framework as per the principles of Indian accounting standards. The Company has not been using building A or any of its facilities for its own use for a long time. The company is also exploring opportunities to sell the building if it gets the **Reasonable** amount in consideration.

Following information is relevant for the Building A for the year ending 31 st March, 2023:

Building A was purchased 5 years ago at the cost of Rs 10 crore and building life is estimated to be 20 years. The company follows straight line method for depreciation.

During the year, the company has invested in another Building B with the purpose to hold it for capital appreciation. The property was purchased on 1st April, 2022 at the cost of Rs 2 crore. Expected life of the building is 40 years. As usual, the company follows straight line method of depreciation.

Further, during the year the company earned/incurred following direct operating expenditure relating to Building A and Building B, however the accountant instead of capitalising the same, has directly debited it to Profit and Loss:

Rental income from Building A	=	Rs 75 lakhs
Rental income from Building B	=	Rs 25 lakhs
Sales promotion expenses	=	Rs 5 lakhs
Fees & Taxes	=	Rs 1 lakh
Ground rent	=	Rs 2.5 lakhs
Repairs & Maintenance	=	Rs 1.5 lakhs
Legal & Professional	=	Rs 2 lakhs
Commission and brokerage	=	Rs 1 lakh

The company does not have any restrictions and contractual obligations against Property - A and B. For complying with the requirements of Ind AS, the management sought an independent report from the specialists so as to ascertain the fair value of Buildings A and B. The independent valuer has valued the fair value of property as per the valuation model recommended by International valuation standards committee. Fair value has been computed by the method by streamlining present value of future cash flows namely, discounted cash flow method.

The other key inputs for valuation are as follows:

The estimated rent per month per square feet for the period is expected to be in the range of Rs 50 – Rs 60. And it is further expected to grow at the rate of 10 percent per annum for each of 3 years. The weighted discount rate used is 12% to 13%. Assume that the fair value of properties based on discounted cash flow method is measured at Rs 10.50 crores. The treatment of fair value of properties is to be given in the financials as per the requirements of Indian accounting standards.

One of the Shanaya Limited's manufacturing units is situated at one of the remotest areas of India. Being the company, whose main objective is also concerned with the welfare of masses, it has been specifically told by the Government of India to take part in initiatives such as 'Swach Bharat Abhiyaan'. Its main objective would be to create awareness amongst the rural people to be more cautious towards cleanliness and thereby also constructing toilets and imparting training programs. With the passage of time, the costs are expected to be increased. The campaign would run for 4 years and the expected costs to be incurred by company from year to year are expected as follows:

Year 1	=	Rs20 crore
Year 2	=	Rs 40 crore
Year 3	=	Rs 70 crore
Year 4	=	Rs 120 crore

The company has also received the grant of Rs 35 crore from Government of India to compensate for the costs which it is going to incur over a period of 4 years.

Meanwhile assume that the financial statements have been prepared for the year ending March 2023; the auditor of Shanaya Limited has noted following observation in its audit report, said observation has been documented after discussions with 'Those charged with governance':

"The Holding Company also owns various immovable properties that have been let out to Group Companies/ third parties for varied lease periods. Ind AS 40 'Investment Property' requires assets to be classified as Investment Property in case certain conditions are met. This involves significant judgment and estimation with respect to the lease term, management intention etc., basis which the assets are classified either a property, plant and equipment or investment property in the Balance sheet."

Corresponding to above observation, issue has been addressed in the audit report by auditors as follows:

"We obtained an understanding of financial statement closure process, including the process of assessment and classification

of immovable properties and preparation of relevant disclosures. We also understood design and implementation of controls, tested the operating effectiveness of these controls, including validation of management review controls.

We assessed various lease agreements entered into by with group Companies / third parties and evaluated terms of agreements, along with requirements of Ind AS.

We read the judgements and assumptions made by the management with respect to classification of investment properties.

We assessed the disclosure of investment property made in the consolidated Ind AS financial statements.”

Shanaya Limited's turnover during the P.Y. 2020-21 and 2021-22 was Rs 500 crore and Rs 600 crores respectively. The company's turnover for the P.Y. 2022-23 is Rs 800 crores. Net profit as per the Statement of Profit and Loss Account for the previous year 2022-23 is Rs 500 crores. Details of the expenses debited to the Statement of Profit and Loss A/c for the year ended 31.3.2023:

Particulars	(Rs crores)
Depreciation as per the Companies Act, 2013	80.00
Interest on borrowings from banks not paid up to tax return filing	2.75
Provision for bad and doubtful debts	6.20
Corporate social responsibility expenses	2.50
Expenses incurred for services taken from Saurashtra Pvt. Ltd., a company registered in Maharashtra region, on which corresponding TDS under section 194C has not been deducted	7.00
Bonus paid on April 30th, 2023	3.00
Expenses incurred on voluntary retirement scheme	2.40

During the previous year 2022-23, company has not deducted tax at source on the amount of expenditure of Rs 15.73 crores incurred and paid to PQR Private Limited. Company has collectively deducted tax at source on the further payment made to PQR Limited and deposited the same to the credit of Central Government in the financial year 2021-32 along with interest.

Following information relates to Block of assets for financial year 2022-23 as per Income-tax Act, 1961:

Block of assets	WDV on the first day of PY	Purchase of new asset	Date of purchase	Date of ready to use	Date of put to use
Land	Nil	50	01/04/2022	-	-
Plant and Machinery	480	Nil	-	-	-
Office Building	200	75	08/02/2023	15/02/2023	
Furniture and fittings	65	35	10/09/2022	13/09/2022	25/09/2022
Intangible assets	-	40	25/05/2022	25/05/2022	25/05/2022

The brought forward business loss as per Income-tax return for A.Y. 2022-23 is Rs 35 crores and the company's retained earnings balance for FY 2021-22 is Rs 1,200 crores.

The company is doing well for some time as the company has witnessed rise in its revenue due to its aggressive marketing campaigns. Although the revenue has increased since past, but the debtors are also accumulating over a period of time. Most of its clients are related to Government sector which takes **Reasonably** long period of time to get the payment cleared. The company is facing liquidity problems due to non-availability of cash; hence it has not been able to pay the statutory dues within the time. As a consequence, company filed the return of income on 31st December, 2023 and paid the due taxes accordingly.

The tax audit of the company started in the month of November 2023 due to delay on the part of the management. It was finally signed by auditor on 20th January, 2024. It may be noted that the transfer pricing audit is not applicable to the company for assessment year 2023-24.

I. Multiple Choice Questions

- What appropriate term of the following would be used for auditor's observation on the analysis of issue regarding Investment property in the audit report as per relevant standard on auditing?
 - Emphasis of matter
 - Other matter
 - Key audit matter
 - Opinion Para
- If Income tax provision at the year beginning was Rs 150 crores as per books and Income tax paid during the year is Rs 126.09 crores, then the closing balance of Income tax provision as per books of accounts is:
 - Rs 129.20 crores
 - Rs 177.66 crores
 - Rs 102.45 crores
 - Rs 146.89 crores

3. There are certain carve-outs and significant differences between IFRS and Ind AS. Which of the following statements is correct in reference to Ind AS 40 vis-à-vis- IAS 40?
 - (a) Ind AS 40 permits both cost model and fair value model for measurement of investments after initial recognition.
 - (b) IAS 40 permits only cost model for measurement of investments after initial recognition.
 - (c) Ind AS 40 permits only fair value model for measurement of investments after initial recognition.
 - (d) IAS 40 permits both cost model and fair value model for measurement of investments after initial recognition.
4. Calculate the amount, Shanaya Limited would recognise in its books of accounts in first year, for the grant received from Government of India amounting to Rs 35 crores.
 - (a) Rs 8.40 crores
 - (b) Rs 8.75 crores
 - (c) Rs 35 crores
 - (d) Rs 2.80 crores
5. Whether Shanaya Limited is liable to pay any penalty for failure to furnish tax audit report in accordance with the relevant provisions of Income-tax Act, 1961 and if yes, then what would be amount of penalty leviable?
 - (a) Yes, Shanaya Limited is liable to pay penalty of Rs 1,50,000.
 - (b) Yes, Shanaya Limited it is liable to pay penalty of Rs 4 crores.
 - (c) Yes, Shanaya Limited is liable to pay penalty of Rs 8 crores.
 - (d) No, Shanaya Limited is not liable to pay penalty, since the company has filed the tax audit report before the end of relevant assessment year.

II. Descriptive Questions

6. What would be the treatment of Building A and Building B in the Balance Sheet of Shanaya Limited? Provide detailed disclosures and computations in line with relevant Indian accounting standards. Treat it as if you are preparing a separate note or schedule, of the given assets in the Balance Sheet.
7. Compute total income and tax liability of Shanaya Limited for the assessment year 2023- 24, as per provisions of Income-tax Act, 1961. Ignore the provisions of Minimum Alternate Tax.
8. Compute the amount of advance tax payable along with due date for payment of instalments of advance tax during the previous year 2022-23 as per the provisions of Income-tax Act, 1961.

I. Answers to the Multiple Choice Questions

1. (c) Key audit matter
Reason: As per SA 701, 'Communicating Key Audit Matters in the Independent Auditor's Report', Key audit matters are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance.
2. (b) Rs 177.66 crores
Reason:

Particulars	Amount (Rs)
Opening Provision of Income tax	150.00 crores
Provision made during the year	153.75 crores
Tax paid during the year	(126.09 crores)
Closing Provision of Income tax	177.66 crores
3. (d) IAS 40 permits both cost model and fair value model for measurement of investments after initial recognition.
Reason: This is due to difference between Ind AS 40 and IAS 40 not resulting into carve out. IAS 40 permits both cost model and fair value model (except in some situations) for measurement of investment properties after initial recognition. Ind AS 40 permits only the cost model.
4. (d) Rs 2.80 crores
Reason: As per Ind AS 20, Government grants shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. Accordingly, amount to be recognised in Year 1 = $(20/250) \times 35 = \text{Rs } 2.80 \text{ crores}$
5. (a) Yes, Shanaya Limited is liable to pay penalty of Rs 1,50,000
Reason: If a taxpayer who is required to obtain the tax audit report under section 44AB or to furnish auditor's report with income tax return but if it fails to do so, then it is penalized accordingly. The defaulters of tax audit report are penalised under section 271B of Income-tax Act.
 Penalty is lower of Rs 1,50,000 or 0.5% of total sales/turnover (Rs 4 crores in this case)

II. Answers to the Descriptive Questions

6. Investment property is held to earn rentals or for capital appreciation or both. Ind AS 40 shall be applied in the recognition, measurement and disclosure of investment property. An investment property shall be measured initially at its cost. After initial recognition, an entity shall measure all of its investment properties in accordance with Ind AS 16's requirements for cost model.

The measurement and disclosure of Investment property as per Ind AS 40 in the Balance Sheet would be depicted as follows:

INVESTMENT PROPERTIES:	
Particulars	Period ended March 31st, 2023(Rs In crores)
Gross Amount:	
Opening balance (A)	10.00
Additions during the year (B)	2.00
Closing balance (C) = (A) + (B)	12.00
Depreciation:	
Opening balance (D)	2.50
Depreciation during the year (E) (0.5 + 0.05)	0.55
Closing balance (F) = (D) + (E)	3.05
Net balance (C) - (F)	8.95

The changes in the carrying value of investment properties for the year ended 31st March, 2023 are as follows

Amount recognised in Profit and Loss with respect to Investment Properties

Particulars	Period ending 31st March, 2023 (Rs In crores)
Rental income from investment properties (0.75 + 0.25)	1.00
Less: Direct operating expenses generating rental income (5+1+2.5+1.5+2+1)	(0.13)
Profit from investment properties before depreciation and indirect expenses	0.87
Less: Depreciation	(0.55)
Profit from earnings from investment properties before indirect expenses	0.32

Disclosure Note on Investment Properties acquired by the entity

The investment properties consist Property A and Property B. As at March 31st, 2023, the fair value of the properties is Rs 10.50 crores. The valuation is performed by independent valuers, who are specialists in valuing investment properties. A valuation model as recommended by International Valuation Standards Committee has been applied. The Company considers factors like management intention, terms of rental agreements, area leased out, life of the assets etc. to determine classification of assets as investment properties.

The Company has no restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

Description of valuation techniques used and key inputs to valuation on investment properties:

Valuation technique	Significant unobservable inputs	Range (Weighted average)
Discounted cash flow (DCF) method	-Estimated rental value per sq. ft. per month -Rent growth per annum -Discount rate	-Rs 50 to Rs 60 -10% every 3 years -12% to 13%

1. **Computation of Total Income and Tax Liability of Shanaya Limited for the Assessment year 2023-24**

Particulars	Rs' in crores	Rs' in crores
Profit as per the Statement of Profit & Loss A/c		500.00
Add: Items debited but to be considered separately or to be disallowed		
- Depreciation as per the Companies Act, 2013 [Disallowed, since depreciation as per Income-tax Act is allowed]	80.00	
- Interest on borrowings from banks [Disallowed as per section 43B, since interest payable to banks not paid on or before the due date for filing return of income under section 139(1)]	2.75	
- Provision for bad and doubtful debts [Provision for doubtful debts is allowable as deduction under section 36(1)(viiia) only in case of banks, public financial institutions, state financial corporations, state industrial investment corporations and non-banking financial corporations. Such provision is not allowable as deduction in the case of other person. Since the same has been debited to Statement of profit and loss, it has to be added back for computing business income]	6.20	

- Corporate social responsibility expenses [CSR expenditure incurred under the Companies Act, 2013 is not allowable as deduction by virtue of section 37(1)]	2.50	
- Expenses payable to Saurashtra Pvt. Ltd. [30% of Rs 7 lakhs, being payment to Saurashtra Pvt. Ltd., would have been disallowed under section 40(a)(ia) while computing the business income of A.Y.2022-23, since tax has not been deducted during the previous year 2022-23]	2.10	
- Expenses incurred on voluntary retirement scheme [As per section 35DDA, where an Indian company incurs expenditure in connection with voluntary retirement, one-fifth of the amount so paid shall be deducted in computing the profits and gains of the business for that previous year, and the balance shall be deducted in equal installments for each of the four immediately succeeding previous years. Since whole amount debited to the profit and loss account, 4/5 th would be added back]	1.92	95.47
Less: Permissible expenditure and allowances		
- 30% of the amount of Rs 15.73 crores, being payment to PQR Limited was disallowed during the previous year 2021-22 due non-deduction of tax at source would be allowed during the current previous year, since TDS has been deducted and deposited this year.	4.72	
- Depreciation as per Income-tax Act, 1961	115.75	120.47
Income from business or profession		475.00
Less: Brought forward business loss from the A.Y. 2022-23		35.00
Gross Total Income		440.00
Less: Deduction under Chapter VI-A		Nil
Total Income		440.00
Tax @ 30% on the above total income		132.00
Add: Surcharge @ 12% (since total income exceeds Rs 10 crore)		15.84
		147.84
Add: Health and Education Cess @ 4%		5.91
Total Tax Liability		153.75

Working Note: Computation of Depreciation as per Income-tax Act, 1961

Block of assets	Opening WDV (A)	Depreciation rate (B)	Additions (put to use for 180 days or more) (C)	Additions (less than 180 days) (D)	Total (E) =(A) + (C) +(D)	Depreciation (F)
Land	Nil	-	50	-	50	-
Plant and Machinery	480	15%	-	-	480	72 (480 x 15%)
Office Building	200	10%	-	75	275	23.75 [200 x 10% + 75 x 5% (50% of 10%)]
Furniture and fittings	65	10%	35	-	100	10 (100 x 10%)
Intangible assets	-	25%	40	-	40	10 (40 x 25%)
TOTAL	745		125	75	945	115.75

1. Computation of advance tax liability and due date for payment of advance tax:

Particulars			(Rs' crores)
Total tax liability of the company for the assessment year 2023- 24 payable as advance tax			153.75
Due date of installment	Advance tax payable till date (%)	Amount payable (Rs in crore)	Net amount payable
On or before 15.06.2022	15%	23.06 (153.75 x 15%)	23.06
On or before 15.09.2022	45%	69.18 (153.75 x 45%)	46.13 (69.18 - 23.06)
On or before 15.12.2022	75%	115.31 (153.75 x 75%)	46.13 (115.31 - 69.18)
On or before 15.03.2023	100%	153.75	38.43 (153.75 - 115.31)

CASE STUDY 17

Shivani is a newly qualified chartered accountant. After qualification, her interest was in consultancy and so she decided to first gain exposure in consultancy firms and thereafter start own practice. She has been approached by one of the consultancy firms, M/s ABC, to work for it. The consultancy firm M/s ABC has also provided flexibility to Shivani by allowing her to do her own independent assignments if she is able to grab it over a period of time. M/s ABC is showing Shivani as the consultant of firm instead of being an employee. Initially, the consultancy firm ABC is paying Rs 40,000 per month to Shivani and issuing Form 16A to her on regular basis.

After gaining exposure across varied areas, Shivani was assigned a statutory audit in another assignment. The company to be audited is UBA Private Limited which is subsidiary of its parent company, namely MAR Limited. MAR Limited is listed on the stock exchange. The statutory auditors of MAR Limited are M/s XYZ which is one of the top-rated firms of region.

As the finance team of UBA Private limited is unaware of the changes and latest developments in the field of accounting standards, they seek guidance from Shivani for few matters for the preparation of financials of UBA Private Limited as per the applicable financial reporting framework.

The registered office of UBA Private Limited has been shifted to a complex at the beginning of year which is taken on rent from complex owner at Rs 80,000 per month. As per the rent agreement, the company is also required to deposit amount of Rs 1,00,000 as security to Landlord. However, the landlord would not pay any interest on the said amount of security. This clause has also been added in the rent agreement. The duration for which the agreement has been entered into between the company and landlord is for 3 years. The repayment of principal amount as well would be at the end of 3rd year. The interest rate for a similar deposit in market is 12%. The accountant of company initially recognised the security amount of Rs 1,00,000 as deposit in the liabilities. At the end of year also, its carrying value is standing at Rs 1,00,000.

The UBA Private Limited has following information about Employee benefits:

Contribution by employers during the year	Rs 75,000
Benefits paid during the year from designated fund	Rs 80,000
Fair value of Plan assets at the beginning of year	Rs 2,00,000
Return expected on plan assets	Rs 20,000
Fair value of plan assets at the end of year	Rs 2,50,000

UBA Private Limited has presented certain material liabilities as non-current in its financial statements for periods up to 31st March, 2022. While preparing annual financial statements for the year ended 31st March, 2023, management discovers that these liabilities should have been classified as current. The management intends to restate the comparative amounts for the prior period presented (i.e., as at 31st March, 2022). Management thinks that this reclassification of liabilities from non-current to current in the comparative amounts will not be considered to be correction of an error and thereby the entity does not need to present a third balance sheet.

After the completion of audit, M/s XYZ has asked M/s ABC to bring to the principal's auditor immediate attention any significant findings requiring to be dealt with at entity level and further M/s XYZ has asked for a detailed questionnaire from M/s ABC for the information on those matters which require special attention from M/s XYZ as an auditor for discharging their duties effectively.

After completing the assignment of UBA Private Limited, Shivani has assumed her role back in office. Meanwhile, one of the paid assistants of the consultancy firm has sought the help of Shivani for the firm's clients to complete the draft notice to be presented before the annual general meeting/ board meeting, as the case may be:

NOTICE 1:

"That pursuant to the provisions of, and in supersession of the...passed by the members in General Meeting held on 30th September, 2022 the company hereby accords its consent to the Board of directors borrowing from time to time all such sums of monies as it may deem requisite or proper for the purpose of the business of the Company notwithstanding that monies to be borrowed together with the monies already borrowed by the Company (apart from Cash Credit and temporary loans obtained from the Company's bankers in the ordinary course of business) exceed the aggregate of the paid-up capital of the company and its free reserves, that is to say, reserves not set apart for any specific purpose provided that the total amount up-to which monies may be borrowed by the Boards of directors (apart from Cash Credit and temporary loan obtained from the company's bankers in the ordinary course of business) shall not exceed the sum of Rs 30,00,00,000 (Rupees Thirty crore only)".

The Chairman will put the motion for discussion and thereafter to vote and after taking count of the votes "for" and "against" separately on a show of hands by members personally present, the Chairman will declare the result.

NOTICE 2:

The Board resolves that in accordance with section..... of the Companies Act, 2013 and subject to the approval of, M/s TPR, Chartered Accountants, the auditor of the Company be removed from his office as auditor;

RESOLVED FURTHER THAT an extraordinary general meeting of the Company be held to transact the business as set out in the draft notice of the meeting tabled at this meeting which, together with the explanatory statement to be annexed thereto, are approved;
 RESOLVED FURTHER THAT Mr. Amit Saxena, Secretary of the Company is authorised to issue the notice of the extraordinary general meeting to the members of the Company;
 RESOLVED FURTHER THAT Mr. Amit Saxena, Secretary of the Company is authorised to inform the Auditor of the decision of the Board as required under the Act;

RESOLVED FURTHER THAT Mr. Amit Saxena, Secretary of the Company is authorised to digitally sign e-form for making an application to the for approval for the removal of the Auditor under section of the Act.

After the end of financial year 2022-23, Shivani has to file her return of Income. Since she has not filed her own return of income in the past, she wants to corroborate it from her firm's partner regarding the selection of appropriate return of income to file, for her income received from the consultancy firm M/s ABC, as she is not interested in presumptive income scheme. Assume that in the FY 2022-23, Shivani has not been able to receive any other source of income.

Shivani files the return of Income of her sister each year. This year too, as the deadline to file the income tax return approaches, Shivani was called by Reena to file it within the due time. The particulars regarding the income and other relevant information of her married sister, who is 35 years old and is currently employed in a MNC in Delhi is as follows:

Particulars	Amount (Rs)
Basic salary	6,00,000
Dearness Allowance	2,00,000
House rent allowance	4,00,000

During the year, Reena is paying Rs 25,000 per month as rent to landlord.

Reena has given one of her owned houses on rent in Lucknow from where she belongs. She has been getting the annual rent of Rs 3,60,000 for 3 years from that house. Municipal taxes annually amount to Rs 24,000 for her owned house in Lucknow. She has taken the loan of Rs 10,00,000 for that particular house against which the annual interest of Rs 90,000 is to be payable annually. During the year, she repaid the principal instalment of loan amounting to Rs 50,000.

Reena has invested in public provident fund for Rs 50,000 in the October, 2022. In it, interest is compounded on an annual basis and the maturity period of the scheme is 15 years.

Reena has further invested in a fixed deposit of Rs 2,00,000 which is due to be repaid after 2 years along with interest. As per the agreement of fixed deposit policy, Reena can withdraw her fixed deposit balance within 2 years whenever she wants it to be.

The interest from her bank savings account and interest from fixed deposits for FY 2022-23 is Rs 9,000 & Rs 15,800 respectively and the closing balance of her savings account at the year-end 31st March, 2023 is Rs 1,25,000.

During the year, Reena took the medical insurance for herself and her 2 children amounting to Rs 35,000. Reena has also donated the amount of Rs 20,000 in cash to the local religious group for organising Jagrata in the area where she lives. Reena has also given the private tuition fees of Rs 75,000 during the year for her 2 children.

Reena has also received a gift of Rs 50,000 during the year from her father as a token gift for her affection and care towards the family over the years.

Assume that TDS of Rs 1,15,000 has been deducted from the income of Reena for FY 2022-23 and it has been correctly reflected in corresponding TDS certificates.

Reena has asked her sister Shivani to help her ascertain the income for FY 2022-23 and file the return thereon.

I. Multiple Choice Questions

- As per which section of the Companies Act, 2013 corresponding to Companies (Audit and auditors) Rules, 2014, the Company is required to pass a resolution at its meeting to remove auditor from his office as auditor? Provide your answer with reference to Notice 2 of case study.
 - Section 140(1) of the Companies Act, 2013 read with rule 7 of Companies (Audit and auditors) Rules, 2014 and subject to the approval of the Company at a general meeting, the auditor of the Company be removed from his office as auditor.
 - Section 139 of the Companies Act, 2013 read with rule 7 of Companies (Audit and auditors) Rules, 2014 and subject to the approval of the Company at a general meeting, the auditor of the Company be removed from his office as auditor.
 - Section 140(1) of the Companies Act, 2013 read with rule 7 of Companies (Audit and auditors) Rules, 2014 and subject to the approval of the Company at a general meeting with corresponding previous approval of Central Government, the auditor of the Company be removed from his office as auditor.
 - No requirement to pass any resolution to remove auditor as Companies Act, 2013 is silent on the issue, hence auditor can be removed directly.

2. For which appropriate authority, the Company is required to sign e-form for making an application, for approval to remove the auditor under the Companies Act, 2013. Provide your answer with reference to Notice 2 of case study.
 - (a) Company is required to digitally sign e-form ADT-1 for making an application to the Central Government for approval for the removal of the Auditor.
 - (b) Company is required to digitally sign e-form ADT-1 for making an application to the Registrar of Companies for approval for the removal of the Auditor.
 - (c) Company is required to digitally sign e-form ADT-2 for making an application to the Registrar of Companies for approval for the removal of the Auditor.
 - (d) Company is required to digitally sign e-form ADT-2 for making an application to the Central Government for approval for the removal of the Auditor.
3. Under which section of the Companies Act, 2013, the members are required to pass a resolution in its general meeting held on 30th September, 2022, for the nature of business/agenda mentioned in Notice 1 of the question?
 - (a) Section 186 (b) Section 180 (c) Section 179 (d) Section 185
4. Which form of Income tax return, Shivani is required to file of herself, for the relevant assessment year?
 - (a) ITR-4 (b) ITR-3 (c) ITR-2 (d) ITR-1
5. How much amount of expenses/income for employee benefits, UBA Private Limited is required to recognise in the 'Other Comprehensive Income' section of its financials? Ignore deferred tax, if any.
 - (a) Actuarial gain – Rs 35,000 (b) Actuarial gain – Rs 55,000 (c) Actuarial loss – Rs 35,000
 - (b) Nil, since all expense/income related to employee benefits are to be recognised in profit before taxation

II. Descriptive Questions

6. Would the reclassification of liabilities from non-current to current in the comparative amounts be considered to be correction of an error? Would the entity, UBA Private Limited need to present a third balance sheet? Support your answer with reference to relevant Ind AS.
7. How UBA Private Limited is required to account for the security deposit in its books of accounts, for the rent agreement made between it and the complex owner. Pass journal entries for the entire duration of security deposit since its inception.
8. How should M/s XYZ, Chartered Accountants indicate in its report for responsibilities of their work and M/s ABC, Chartered accountants work in the course of audit, so that the concerned stakeholders could clearly differentiate for their respective defined roles. Provide your answer with the relevant lines of standard on auditing, which M/s XYZ has to consider while drafting the report for aforementioned matter.
9. How much income tax is to be payable by Shivani's sister Reena? Calculate the taxable income of Reena to be shown in her income tax return as per the information mentioned in question and calculate income tax thereon. Ignore calculations under sections 234 A/B/C.

I. Answers to the Multiple Choice Questions

1. (c) Section 140(1) of the Companies Act, 2013 read with rule 7 of Companies (Audit and auditors) Rules, 2014 and subject to the approval of the Company at a general meeting with corresponding previous approval of Central Government, the auditor of the Company be removed from his office as auditor.

Reason: As per section 140(1) of the Companies Act, 2013, the auditor appointed under section 139 may be removed from his office before the expiry of his term only by a special resolution of the company, after obtaining the previous approval of the Central Government in that behalf.
2. (d) Company is required to digitally sign e-form ADT-2 for making an application to the Central Government for approval for the removal of the Auditor.
Reason: Section 140 read with Rule 7 of Companies (Audit & Auditors) Rules, 2014 mandates that the application to the Central Government for removal of auditor shall be made in Form ADT-2 and shall be accompanied with fees as provided for this purpose under the Companies (Registration Offices and Fees) Rules, 2014.
3. (b) Section 180
Reason: Section 180(1)(c) of the Companies Act, 2013 states that the Board of Directors of a company shall exercise the following power only with the consent of the company by a special resolution to borrow money, where the money to be borrowed, together with the money already borrowed by the company will exceed aggregate of its paid-up share capital and free reserves, apart from temporary loans obtained from the company's bankers in the ordinary course of business.
4. (b) ITR-3
Reason: The status of Shivani in the given case is not that of an employee as firm is deducting her TDS under section

194J (TDS on Professionals/consultants), hence the manner of tax computation would also differ. As there is no employer-employee relationship in this case, income won't be taxed under 'Salaries' while furnishing her Income tax return.

Professional/Contract based employees are required to disclose their income (net off expenses) under the head 'Profit and gains from business or profession'. Accordingly, ITR-3 would be furnished by Shivani (as she is not interested in presumptive income scheme to file ITR-4).

5. (a) Rs 35,000

Reason:

Particulars	Amount (Rs)
Fair value of Plan assets at the beginning of year	2,00,000
Employer contribution	75,000
Expected return on plan assets	20,000
Benefits paid during the year	(80,000)
Actuarial gains (balancing figure)	35,000
Fair value of plan assets at the end of year	2,50,000

II. Answers to the Descriptive Questions

6. **Paragraph 41 of Ind AS 8 states as follows:** "Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Ind ASs if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are approved for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period."

In accordance with the above, the reclassification of liabilities from noncurrent to current would be considered as correction of an error under Ind AS 8. Accordingly, in the financial statements for the year ended March 31st, 2023, the comparative amounts as at 31st March, 2022 would be restated to reflect the correct classification.

Ind AS 1 requires an entity to present a third balance sheet as at the beginning of the preceding period in addition to the minimum comparative financial statements, if, inter alia, it makes a retrospective restatement of items in its financial statements and the restatement has a material effect on the information in the balance sheet at the beginning of the preceding period. Accordingly, the entity should present a third balance sheet as at the beginning of the preceding period, i.e., as at 1st April 2021 in addition to the comparatives for the financial year 2021-22.

7. **Treatment of Security Deposit as per Ind AS 109**

Deposit details:	
Initial Security Deposit amount	Rs 1,00,000
Amount to be repaid at each year end	Nil
Interest receivable annually	Nil
Maturity period	3 years
Market interest rate for a similar deposit	12%

Initial measurement of Security deposit (as per fair value):

Fair value of deposit = Rs 71,178 $[1,00,000/(1.12)(1.12)(1.12)]$ Accounting entry at the time of deposit

	Debit (Rs)	Credit (Rs)
Security Deposit (Balance sheet)	71,178	
Deferred Rent Expense (Balance sheet)	28,822	
To Bank A/c		1,00,000
(Being the security deposit made with the landlord)		

Subsequent measurement (Amortized cost at each year end):

Accounting entry at the end of Year 1:

	Debit (Rs)	Credit (Rs)
Security Deposit (Balance sheet)	8,541	
To Interest Income A/c (Profit & Loss A/c) (71,178 x 12%)		8,541
(Being the interest income on deposit booked as per effective interest rate)		

	Debit (Rs)	Credit (Rs)
Finance Expenses (Profit & Loss A/c)	9,607	
To Deferred Rent Expense (Balance sheet) (28,822/3)		9,607
(Being deferred rent expenses amortized)		

Accounting entry at the end of Year 2:

	Debit (Rs)	Credit (Rs)
Security Deposit (Balance sheet)	9,566	
To Interest Income A/c (Profit & Loss A/c) (79,719 x 12%)		9,566
(Being the interest income on deposit booked as per effective interest rate)		
	Debit (Rs)	Credit (Rs)
Finance Expenses (Profit & Loss A/c)	9,607	
To Deferred Rent Expense (Balance sheet)		9,607
(Being deferred rent expenses amortized)		

Accounting entry at the end of Year 3:

	Debit (Rs)	Credit (Rs)
Security Deposit (Balance sheet)	10,715	
To Interest Income A/c (Profit & Loss A/c) (89,285 x 12%)		10,715
(Being the interest income on deposit booked as per effective interest rate)		
	Debit (Rs)	Credit (Rs)
Finance Expenses (Profit & Loss A/c)	9,608	
To Deferred Rent Expense (Balance sheet)		9,608
(Being deferred rent expenses amortized)		
	Debit (Rs)	Credit (Rs)
Bank A/c	1,00,000	
To Security Deposit (Balance sheet)		1,00,000
(Being Security deposit refunded to company)		

1. In the given case, 'SA 600: Using the work of another auditor' is applicable between Principal auditor & other auditor.

The provisions regarding 'Division of Responsibility' between Principal auditor and other auditor as mentioned in SA 600 are as follows, which the principal auditor has to consider while drafting his report on the matter of responsibility.

The principal auditor would not be responsible in respect of the work entrusted to the other auditors, except in circumstances which should have aroused his suspicion about the reliability of the work performed by the other auditors.

When the principal auditor has to base his opinion on the financial information of the entity as a whole relying upon the statements and reports of the other auditors, his report should state clearly the division of responsibility for the financial information of the entity by indicating the extent to which the financial information of components audited by the other auditors have been included in the financial information of the entity, e.g., the number of divisions/branches/subsidiaries or other components audited by other auditors.

2. **Computation of Taxable Income & Income tax of Reena for assessment year 2023-24:**

Particulars	Amount (Rs)
Income from Salary (Note-1)	9,30,000
Income From House Property (Note-2)	1,45,200
Income From Other Sources (Note-3)	24,800
Gross Total Income [A]	11,00,000
Deductions (Note-4) [B]	1,34,000
Net Taxable Income [C] = [A] - [B]	9,66,000
Income Tax on [C]; [D]	1,05,700
Health and Education Cess @ 4% on [D]; [E]	4,228
Total Tax Liability [D] + [E]; [F]	1,09,928
TDS [G]	1,15,000
Tax payable/(refundable) [F] - [G]	(5,072)

Note 1 - Income from Salary:

The least of below three would be HRA exempt tax is as follows:

Particulars	Amount (Rs)
50% of Basic Salary (including DA)	4,00,000
HRA received	4,00,000
Excess of Rent paid over 10% of salary	2,20,000

Hence Amount exempted from HRA is Rs 2,20,000 and HRA chargeable to tax is Rs 1,80,000

Accordingly, following amount would be taxable under the head 'Salaries':

Particulars	Amount (Rs)
Basic salary	6,00,000
Dearness Allowance	2,00,000
House rent allowance	1,80,000
Total [A]	9,80,000
Less: Standard deduction [B]	(50,000)
Net taxable [A] - [B]	9,30,000

Note 2 - Income from Let out House Property:

Particulars	Amount (Rs)
Annual lettable value or rent received or receivable	3,60,000
Less: Municipal Taxes Paid During the Year	<u>24,000</u>
Net annual value	3,36,000
Less: Standard Deduction @ 30% of Net Annual Value	1,00,800
Less: Interest on Housing Loan	<u>90,000</u>
Income from Let-out House Property	1,45,200

Hence Income from House property chargeable to tax would be Rs 1,45,200.

Note 3 - Income from Other Sources:

Particulars	Amount (Rs)
Interest on savings bank account	9,000
Interest on fixed deposits	15,800
Gift from father (Gift received from relative is exempt from income tax)	<u>-</u>
	<u>24,800</u>

Note 4 - Deductions:

Particulars	Amount (Rs)
Deductions under section 80C:	
Investment in PPF	50,000
House loan principal payment	<u>50,000</u>
Total [A]	<u>1,00,000</u>
Deductions under section 80D:	
Medical insurance premium	<u>25,000</u>
Total [B]	<u>25,000</u>
Deductions under section 80TTA:	
Interest from savings account in bank [C]	<u>9,000</u>
Grand Total [A] + [B] + [C]	1,34,000

Note: 80C deductions are not available in the cases of: Investment in non-tax saver FD, private tuition fees and donations in cash to local religious groups, which are not registered as a charitable institution under the provisions of income tax act.

CASE STUDY 18

Para 1

Aspan Ltd. is an unlisted public company, located in Chennai, Tamil Nadu, with thirteen directors, engaged in the business of manufacturing and Steel trading. Trulor (P) Ltd., is another company, with five shareholders as its directors, engaged in the business of exploration, mining and processing of Iron Ore. In order to have business synergies, it was proposed to amalgamate Trulor (P) Ltd. ('Transferor Company') with Aspan Ltd. ('Transferee Company').

For approval of the matter relating to such amalgamation, a meeting of board of directors of Aspan Ltd. was held which was attended by seven directors, out of which five directors attended the meeting through physical presence and two directors were able to attend such meeting through video conferencing. Afterwards, an application was made to the Tribunal ('NCLT') for sanctioning such scheme for amalgamation between the aforesaid companies.

Para 2

On receipt of such application, the tribunal ordered a meeting of members of both the companies to be held. The Tribunal dispensed with calling of meeting of creditors of Aspan Ltd. as the creditors with requisite value of debts in aggregate, out of total outstanding debt of Rs 150 lakhs of the company, agreed and confirmed by way of affidavit to such scheme for amalgamation. A meeting of members of Aspan Ltd. was then convened, as per the orders of the Tribunal, for the purpose of considering the scheme of amalgamation with Trulor (P) Ltd. The meeting was attended by 200 members holding 6,00,000 shares out of which 95 members holding 4,30,000 shares in aggregate voted in favour of the scheme, 80 members holding 1,40,000 shares in aggregate voted against the scheme and 25 members holding 30,000 shares were abstained from voting, respectively.

Para 3

Tribunal made an order dated 20th September, 2022, sanctioning the said scheme for amalgamation, which was received by both the companies on 23rd September, 2022, and then it was filed with the Registrar of Companies ('ROC') on 5th October, 2022, by both of them, by the advocate appointed for such amalgamation procedure by Aspan Ltd. for the two companies. The appointed date indicated in the scheme was 1st October, 2022.

Due to such amalgamation, Mr. Rohit, the whole time director of Aspan Ltd., was removed from his office, with a condition that he will get compensation for his early vacation of office. The office of Mr. Rohit was vacated on 31st May, 2022 and his original tenure of appointment with Aspan Ltd. was up to 31st October, 2024. The remuneration drawn by Mr. Rohit, since the date of his joining the office is as follows:

F.Y.	Remuneration (Rs in lakhs)
2020-21	55
2021-22	62
2022-23 (upto 31 st May, 2022)	13

Para 4

This was considered as the acquisition by Aspan Ltd. of Trulor (P) Ltd. in a business combination as per Ind AS 103. However, there was an existing share-based plan in Trulor (P) Ltd. with a vesting condition for 4 years in which 3 years had already lapsed at the date of such business acquisition. Aspan Ltd. agreed to replace the existing award for the employees of combined entity. The details are as below —

Acquisition date fair value of share-based payment plan	Rs 400
Number of years to vest after acquisition	1 year
Fair Value of award which replaces existing plan	Rs 500

Para 5

Aspan Ltd., GST registered in Tamil Nadu, got a contract from a Public Sector Undertaking, GST registered in Karnataka, for supply of steel TMT bars worth Rs 22,00,000 (excluding taxes), to its site of construction in Coimbatore, Tamil Nadu. The following details are given below:

Particulars	(Rs)
Price of Steel TMT bars	22,00,000
Freight	1,00,000
Insurance on Freight	10,000
Loading and handling charges incurred after removal from factory	70,000
Packing charges	20,000

A cash discount of 5% was allowed on the price of steel TMT bars, as the full payment was received in advance from the PSU on 31st December, 2022 and invoice was raised against the same, dated 6th January, 2023.

It was an over dimensional cargo, removed from the factory in Chennai, on 9th January, 2023, and was delivered at the customer's site in Coimbatore on 6th February, 2023, after travelling a distance of 540 kms. E-way Bill for the same was generated on 12:00 pm on 9th January, 2023. The PSU deducted tax at the time of payment to Aspan Ltd. on 31st December, 2022, which was deposited on 16th February, 2023

I. Multiple Choice Questions

1. With reference to the information given under Para 1, whether the meeting held by board of directors of Aspan Ltd. with respect to approval of the matter relating to amalgamation can be considered as valid?
 - (a) No, as such a matter cannot be dealt in a meeting through video conference.
 - (b) No, as the requisite quorum for the meeting was not present.
 - (c) No, as prior approval of Registrar is required to deal such a matter in a meeting through video conference.
 - (d) Yes, as the requisite quorum for the meeting was present through physical presence of directors.
2. With reference to the information given under Para 2 and 3, what shall be considered as the effective date for scheme of amalgamation and creditors holding what minimum value of debt would have agreed and confirmed to the scheme for amalgamation?
 - (a) Effective date shall be 1st October, 2022 and creditors with debt of at least Rs 112.5 lakhs would have agreed and confirmed to the scheme for amalgamation.
 - (b) Effective date shall be 1st October, 2022 and creditors with debt of at least Rs 135 lakhs would have agreed and confirmed to the scheme for amalgamation.
 - (c) Effective date shall be 20th September, 2022 and creditors with debt of at least Rs 135 lakhs would have agreed and confirmed to the scheme for amalgamation.
 - (d) Effective date shall be 5th October, 2022 and creditors with debt of at least Rs 112.5 lakhs would have agreed and confirmed to the scheme for amalgamation.
3. With reference to the information given under Para 5, what amount of tax would have been deducted by PSU under GST law and by what date it should have been remitted?
 - (a) Rs 48,000 to be remitted by 10th January, 2023
 - (b) Rs 48,000 to be remitted by 10th February, 2023
 - (c) Rs 44,000 to be remitted by 10th January, 2023
 - (d) Rs 48,000 to be remitted by 5th January, 2023
4. With reference to the information given under Para 5, what shall be the interest liability for late deposit of TDS amount by the PSU under GST law?
 - (a) Rs 876
 - (b) Rs 142
 - (c) Rs 803
 - (d) Rs 584
5. With reference to the information given under Para 5, till what date the E-way Bill generated on 9th January, 2023, would be valid?
 - (a) Till 12:00 midnight of 5th February, 2023 – 6th February, 2023
 - (b) Till 12:00 midnight of 15th January, 2023 – 16th January, 2023
 - (c) Till 12:00 midnight of 6th February, 2023 – 7th February, 2023
 - (d) Till the date when the cargo reaches its destination i.e. 6th February, 2023.

II. Descriptive Questions

6.
 - (i) With reference to the information given under Para 2, examine how the scheme for amalgamation was approved by the required majority of members of Aspan Ltd.?
 - (ii) With reference to the information given under Para 3, to what amount of compensation, Mr. Rohit will be eligible to get from Aspan Ltd.?
7. With reference to the information given under Para 4, calculate the share-based payment value as per Ind AS 102?
8.
 - (i) With reference to the information given under Para 5, what shall be the place of supply and time of supply with respect to supply of steel TMT bars in an over dimensional cargo made by Aspan Ltd. to PSU?
 - (ii) With reference to the information given under Para 5, what shall be the value of supply with respect to the supply made by Aspan Ltd. to PSU?

I. **Answers to the Multiple Choice Questions**

1. (d) Yes, as the requisite quorum for the meeting was present through physical presence of directors.

Reason: Section 173 (2) of the Companies Act, 2013 states (2) The participation of Directors in a meeting of the Board may be either in person or through video conferencing or other audio visual means, [as may be prescribed](#), which are capable of recording and recognising the participation of the Directors and of recording and storing the proceedings of such meetings along with date and time:

Provided that the Central Government may, [by notification, specify such matters](#) which shall not be dealt with in a meeting through video conferencing or other audio visual means.

[Provided further that where there is quorum in a meeting through physical presence of Directors, any other [director](#) may participate through video conferencing or other audio visual means in such meeting on any matter specified under the first proviso.]

However, Rule 4 of the Companies (Meetings of Board and its Powers) Rules, 2014 which dealt with matters not to be dealt with in a meeting through video conferencing or other audio visual means is deleted.

Thus, as per Section 174(1) of Companies Act, 2013 the quorum for the board meeting is complied with. Thus, the correct answer is d.

2. (b) Effective date shall be 1st October, 2022 and creditors with debt of at least Rs 135 lakhs would have agreed and confirmed to the scheme for amalgamation.

Reason: Refer Section 232 and Section 230 of the Companies Act, 2013, respectively.

The Tribunal may dispense with calling of a meeting of creditor or class of creditors where such creditors or class of creditors, having at least ninety per cent value, agree and confirm, by way of affidavit, to the scheme of compromise or arrangement. [Section 230(9)]

Thus, 90% of creditors having value Rs 150 lakhs = Rs 135 lakhs

Effective date specified in scheme [Sub-section 232(6)]: The scheme under this section shall clearly indicate an appointed date from which it shall be effective and the scheme shall be deemed to be effective from such date and not at a date subsequent to the appointed date.

Thus, the effective date for scheme of amalgamation shall be 1st October, 2022.

3. (a) Rs 48,000 to be remitted by 10th January, 2023

Reason: Section 20 of IGST Act provides that in the case of tax deducted at source, the deductor shall deduct tax at the rate of 2% from the payment made or credited to the supplier.

The amount of tax deducted at source should be deposited to the Government account by deductor by 10th of the succeeding month. –

Value of Supply = Rs 24,00,000. TDS = 2% of 24,00,000 = Rs 48,000 and to be remitted by 10th day of the month succeeding the month in which TDS was collected. TDS was collected on 31st December, 2022 so it should be remitted by 10th January, 2023.

4. (a) Rs 876

Reason: If the deductor has not remitted the amount deducted as TDS to the Government within the prescribed time limit, he is liable to pay penal interest under Section 50 i.e. @ rate of 18% p.a., in addition to the amount of tax deducted.

TDS was to be remitted by 10th January, 2023 and it is remitted on 16th February, 2023, so there is delay of 37 days.

Therefore, the interest liability for late deposit of TDS amount by the PSU = Rs 48,000*18%*37/365 = Rs 876.

5. (a) Till 12:00 midnight of 5th February, 2023 – 6th February, 2023

Reason: Relevant date means the date on which the e-way bill has been generated and the period of validity shall be counted from the time at which the e-way bill has been generated and each day shall be counted as the period expiring at midnight of the day immediately following the date of generation of e-way bill.

It was an over dimensional cargo, for which the validity of E-way Bill for a distance of 540 kms, would stay for 27 days (540 kms/20 kms).

E-way Bill was generated on 12:00 pm on 9th January, 2023, so it be valid for 12:00 midnight of 5th February, 2023 – 6th February, 2023.

II. Answers to the Descriptive Questions

6. (i) Legal Position:

As per Section 230 of the Companies Act, 2013, where, at a meeting held, majority of persons representing three-fourths in value of the creditors, or class of creditors or members or class of members, as the case may be, voting in person or by proxy or by postal ballot, agree to any compromise or arrangement and if such compromise or arrangement is sanctioned by the Tribunal by an order, the same shall be binding on the company, all the creditors, or class of creditors or members or class of members, as the case may be, or, in case of a company being wound up, on the liquidator [appointed under this Act or under the Insolvency and Bankruptcy Code, 2016, as the case may be,] and the contributories of the company.

Analysis and Conclusion:

Members who attended the meeting	200 members
Shares held by members who attended the meeting	6,00,000
Members who voted in favour of the scheme	95 members
Shares held by members who voted in favour of the scheme	4,30,000
Members who voted against the scheme	80 members
Shares held by members who voted against the scheme	1,40,000
Members who abstained from voting	25 members
Shares held by members who abstained from voting	30,000
Number of members who have voted, in favour or against the scheme	175 members
Shares held by members who have voted, in favour or against the scheme	5,70,000
Number of members who should have voted in favour for approving the scheme	88 members or more
Shares that should have been held by members who have voted in favour for approving the scheme	4,27,500 or more

The scheme has been approved by them members holding 4,30,000 shares. Thus, the requirement of approval of the scheme by the members representing $\frac{3}{4}^{\text{th}}$ in the value of members present and voting at the meeting (i.e. members holding 4,27,500 shares or more, in this case) has been satisfied.

The scheme has approved by the required majority (i.e. 88 members or more, in this case) and so this condition has also been satisfied.

Accordingly, due to compliance of aforesaid conditions, the tribunal would have sanctioned the scheme for amalgamation.

(ii) Legal Position:

As per Section 202(1) of the Companies Act, 2013, a company may make payment to a managing or whole-time director or manager, but not to any other director, by way of compensation for loss of office, or as consideration for retirement from office or in connection with such loss or retirement.

As per Sub-section (3), any payment made to a managing or whole-time director or manager in pursuance of sub-section (1) shall not exceed the remuneration which he would have earned if he had been in office for the remainder of his term or for three years, whichever is shorter, calculated on the basis of the average remuneration actually earned by him during a period of three years immediately preceding the date on which he ceased to hold office, or where he held the office for a lesser period than three years, during such period.

Analysis and Conclusion:

Average remuneration drawn by Mr. Rohit during the period immediately preceding the date of cessation of office = $(55L+62L+13L)/26$ months = Rs 5 lakhs per month

Unexpired residue term of office of Mr. Rohit was 29 months (from 01.06.2022 to 31.10.2024). Compensation payable shall be lower of unexpired residue term of office i.e. 29 months or 3 years i.e. 36 months. **Thus, the maximum amount of compensation to which Mr. Rohit is entitled = Rs 5 lakhs*29 months = Rs 1.45 crores.**

7. Pre-acquisition period = 3

Post-acquisition period = 1

Total fair value at acquisition date = Rs 400

Value to be recorded as per business combination under Ind AS 103 = Rs 400/4 x 3 = Rs 300

Value to be recorded as per Ind AS 102 (A) = Rs 400/4 x 1 = Rs 100 Fair value of the replacement of such award = Rs 500

Difference from acquisition date fair value (B) = Rs 500 – Rs 400 = Rs 100

Total value to be accounted over vesting period as per Ind AS 102 = A + B = Rs 100 + Rs 100 = Rs 200

8. (i) (a) As per Section 10(1)(a) of the IGST Act, 2017, where the supply involves movement of goods, whether by the supplier or the recipient or by any other person, the place of supply of such goods shall be the location of the goods at the time at which the movement of goods terminates for delivery to the recipient.

In the given case, goods are supplied from factory of Aspan Ltd. in Chennai to a site of PSU in Coimbatore i.e. the movement of goods terminates for delivery to the recipient i.e. PSU at Coimbatore. Hence, the place of supply is **Coimbatore, Tamil Nadu**.

- (b) As per Section 31(1)(a) of the CGST Act, 2017, A registered person supplying taxable goods shall, before or at the time of removal of goods for supply to the recipient, where the supply involves movement of goods, issue a tax invoice showing the description, quantity and value of goods, the tax charged thereon and such other particulars as may be prescribed.

As per Section 12(2) of CGST Act, 2017, time of supply of goods shall be the earlier of the following dates, namely:-

- (a) the date of issue of invoice by the supplier or the last date on which he is required, under section 31, to issue the invoice with respect to the supply; or
- (b) the date on which the supplier receives the payment with respect to the supply

Analysis and conclusion:

Date of removal of goods from factory - 9th January, 2023 Date of Invoice - 6th January, 2023

Date of payment - 31st December, 2022

Time of supply shall be considered on 'invoice basis' and not 'payment basis', in case of receipt of advance money as per Notification No. 66/2017- CT dated 15-11-2017.

So, time of supply will be the date of invoice i.e. **6th January, 2023**.

(ii) Computation of Value of Supply of Aspan Ltd.:

Particulars	(Rs)
Price of Steel TMT bars	22,00,000
Add: Freight	1,00,000
Add: Insurance on Freight	10,000
Add: Loading and handling charges incurred after removal from factory	70,000
Add: Packing charges	20,000
Less: Cash Discount (5% on 22,00,000)	(1,10,000)
Value of Supply	22,90,000

Notes:

As per Section 15(2)(b) of the CGST Act, 2017, any amount that the supplier is liable to pay in relation to such supply but which has been incurred by the recipient of the supply and not included in the price actually paid or payable for the goods or services or both;

As per Section 15(2)(c) of the CGST Act, 2017, incidental expenses, including commission and packing, charged by the supplier to the recipient of a supply and any amount charged for anything done by the supplier in respect of the supply of goods or services or both at the time of, or before delivery of goods or supply of services.

As per Section 15(3) of the CGST Act, 2017, the value of the supply shall not include any discount which is given before or at the time of the supply if such discount has been duly recorded in the invoice issued in respect of such supply.

CASE STUDY 19

Below is presented the Profit and Loss extract of Surya Limited for FY 2022-23.

Particulars	Amount (Rs)
Revenue from operations	2,75,00,00,000
Interest Income	50,54,500
Cost of goods sold	5,15,61,510
Change in inventory	45,84,840
Loss of subsidiary written off	25,25,000
Salary and wages	1,84,98,890
Bonus to employees (not in lieu of profit or dividend)	12,54,120
Penalty for service tax demand	15,75,000
Contribution to employee related funds	19,88,090
Donation in cash to 'Sab ka Sath NGO'	75,000
Other expenses	1,95,14,700

Other Items which are omitted in above extract:

Duty drawback (due from authorities)	Rs 5,50,000
Dividend Income	Rs 1,00,000

Particulars regarding stock information (Metal semis)	Units (ton)
Opening stock	5,150
Quantity manufactured	15,750
Sales during the period	12,900

Surya Limited has sold a land namely, ABC Park at Delhi on 1st December 2022. The said land was purchased by Surya Limited on 7th August 2012 at the cost of Rs 10,00,00,000. Surya Limited has sold this land for Rs 15,00,00,000. However, the consideration as assessed by land authority is measured at Rs 18,00,00,000 as per circle rates. Surya Limited has paid the stamp duty as per circle rates. Surya Limited has accordingly shown the gain of 18,00,00,000 while computing the taxable income as per section 50C of Income-tax Act.

Further, Surya Limited has discarded a part of its plant and machinery at nil value on 31st October 2022 due to its obsolescence. The book value of plant and machinery as on relevant date was Rs 1,00,00,000.

Following particulars are shown with respect to pending matters relating to TDS for FY 2022- 23, which still require the consideration. TDS has not been deducted on the following:

Date of payment	Amount of payment	Nature of payment	Name of the payee	PAN of the payee	Address	Remarks
05/04/2022	1,00,000	Sale of goods	Dharmveer	ABCPD1234O	Delhi	-
07/07/2022	20,000	Professional services	PQR Pvt. Ltd.	ABCCD7234O	Mumbai	-
11/12/2022	25,000	Contractor services	Chotu Ram	ABCPD1234O	Gujarat	-
28/03/2023	90,000	Interest for car financing loan	Ghanshyam HUF	ABCCD1934O	Mumbai	According to accountant, no TDS is required to be deducted against interest payment to HUF

Surya Limited has filed the TDS returns of form 24Q and 26Q (containing information of all transactions as are required to be reported) during the year as follows:

Tax deduction & collection Account Number (TAN)	Type of Form	Due date for furnishing	Date of furnishing
DELMXXXXXP	Form 26Q	30/04/2022	27/04/2022
DELMXXXXXP	Form 24Q	30/04/2022	28/04/2022
DELMXXXXXP	Form 26Q	31/10/2022	26/10/2022
DELMXXXXXP	Form 24Q	31/10/2022	02/11/2022
DELMXXXXXP	Form 24Q	31/01/2023	25/01/2023
DELMXXXXXP	Form 26Q	31/01/2023	02/02/2023
DELMXXXXXP	Form 26Q	31/05/2023	30/04/2023
DELMXXXXXP	Form 24Q	31/05/2023	29/05/2023

The tax audit of Surya Limited is due; however, the tax auditor had told his assistant to prepare the draft Form 3CD of company. Instead of having prior discussion with the tax auditor, he directly sent the draft form 3CD to the Direct tax head of Surya Limited. The assistant has filled the following details in Form 3CD.

EXTRACT OF FORM NO. 3CD (DRAFT)

Statement of particulars required to be furnished under section 44AB of the Income-tax Act, 1961

- Name of the assessee : **SURYA LIMITED**
- Previous year : **01/04/2022 to 31/03/2023**
- Assessment year : **2022-2023**
- Amounts not credited to the profit and loss account, being: -

a The items falling within the scope of:
section 28

Description	Amount
Nil	Nil

b The proforma credits, drawbacks, refunds of duty of customs or excise or service tax or refunds of sales tax or value added tax, where such credits, drawbacks or refunds are admitted as due by the authorities concerned

Description	Amount

d Any other item of income :

Description	Amount
Nil	Nil

e Capital receipt, if any :

Description	Amount
Nil	Nil

- Where any land or building or both is transferred during the previous year for a consideration less than value adopted or assessed or assessable by any authority of a State Government referred to in section 43CA or 50C, please furnish:

Details of property	Address	Consideration received or accrued	Value adopted or assessed or assessable
Land	ABC Park, Delhi	15,00,00,000	15,00,00,000

- Particulars of depreciation allowable as per the Income-tax Act, 1961 in respect of each asset or block of assets, as the case may be, in the following Form :-

Description of the block of assets	Rate of depreciation	Opening WDV	Additions	Deductions	Depreciation allowable	Written down value at the end of the year
Plant & Machinery	15%	5,00,00,000	3,00,00,000	0	1,20,00,000	6,80,00,000
Building	10%	15,00,00,000	0	0	1,50,00,000	13,50,00,000
Furniture & Fittings	10%	3,00,00,000	1,00,00,000	0	40,00,000	3,60,00,000
Total		23,00,00,000	4,00,00,000	0	3,10,00,000	23,90,00,000

Additions : Furniture & Fittings @ 10%

Date of purchase	Date of put to use	Amount
18/06/2022	18/06/2022	1,00,00,000

Additions : Plant & Machinery @ 15%

Date of purchase	Date of put to use	Amount
02/05/2022	02/05/2022	2,00,00,000
05/06/2022	05/12/2022	1,00,00,000

- Any sum paid to an employee as bonus or commission for services rendered, where such sum was otherwise payable to him as profits or dividend. [section 36(1)(ii)]

Description	Amount
Nil	Nil

- Please furnish the details of amounts debited to the profit and loss account, being in the nature of capital, personal, advertisement expenditure etc.

Capital expenditure :

Particulars	Amount
Nil	Nil

Personal expenditure :

Particulars	Amount
Nil	Nil

Expenditure by way of penalty or fine for :
violation of any law for the time being force

Particulars	Amount

Expenditure by way of any other penalty or :
fine not covered above

Particulars	Amount
Nil	Nil

- Amounts inadmissible under section 40(a):-

ii. as payment referred to in sub-clause (ia)

(A) Details of payment on which tax is not deducted:

Date of payment	Amount of payment	Nature of payment	Name of the payee	PAN of the payee	Address line 1
Nil	Nil	Nil	Nil	Nil	Nil

Other Matters:

Surya Limited is based in Delhi and is also registered under GST in Delhi jurisdiction. For the assignments sent on 1 January, 2023, IDT manager has been told by CFO to provide the taxable inter-state and intra-state details on the basis of following information.

Location (where goods would reach)	Amount (Rs)	Remarks
Japan	5,51,065	Goods come under the exempt category
Delhi	56,520	Purchaser in Mumbai has instructed Surya Limited to deliver the goods at his residence in Delhi
Madhya Pradesh	1,46,650	Purchaser in Delhi has instructed Surya Limited to deliver the goods at Madhya Pradesh
Delhi	2,98,500	Purchaser will arrange his own transport for goods

Surya Limited sells various products in various segments. One of the popular products of company is product 'Kanti', whose details for the January, 2023 are as under:

	Amount (Rs)	Quantity	Rate (Rs)
Opening inventory	3,12,500	12,500	25
Goods purchased (all within the state) inc. GST	15,45,750	57,250	27
Closing inventory	5,53,000	19,750	28
Goods sold (all within the state) inc. GST	17,50,000	50,000	35

GST is applicable at the rate of 18%.

A new assistant of IDT manager has been hired. Since the software was not in operation on a particular day due to technical issues, IDT manager told his assistant to prepare the invoice manually for sale of 'Kanti' products to a registered buyer. Following invoice is prepared by the assistant:

Following are the details of supplies made by Surya Limited for one of the segments 'Beauty and Personal care' in February, 2023:

Item	Amount (Rs)
Beauty products	15,14,842
Skincare products	6,98,161
Salary and wages	5,64,564
Saloon services	8,48,123
Hair oil products	3,48,564
Reimbursement of conveyance expenses (to employees)	1,98,840
Shaving creams	4,98,516
Services provided to the United Nations for an event	75,650
Interest from debtors for late payment of dues	45,645

INVOICE**Surya Limited****123, Near SBI Building, Karol Bagh, Delhi, 110005**

GSTIN: 07ABCCP1234B1AB PAN NO. ABCCP1234B

DUPLICATE FOR
RECIPIENT

Invoice No: Surya/2021-202/XX2			
Date: 18-01-2023			
Buyer: Night Limited, 52, Praja colony, Noida, UP - 201301			
Description	Quantity	Rate	Amount (Rs)
Supply of Goods	5	10,000	50,000
Terms & conditions	Total		50,000
• Make payment within 15 days of receipt.	CGST @	9%	4,500
• Interest at 20% will be charged after 15 days of due date. Note: GST will also be charged on interest	SGST @	9%	4,500
Total Amount (In Words): Fifty-nine thousand only			59,000
Grand Total			

For :

Surya Limited

Mr. Vaibhav Saxena Manger, F&A

Surya Limited has conducted following board meetings during the year:

S.no.	Date of board meeting
1	02-04-2022
2	26-07-2022
3	27-11-2022
4	15-03-2023

Surya Limited is considering to get itself listed. As per the latest audited financial statements, the paid up share capital of the Surya Limited is Rs 90 crore and turnover of the Surya Limited is Rs 275 crore.

The company secretary of Surya Limited is insisting the management to include a woman director in the board of directors as per the requirements of Companies Act, 2013.

You are required to analyse the above scenarios and then answer the following questions on the basis of your understanding.

I. Multiple Choice Questions

- Whether the concern of company secretary holds good in including a woman director in the board of directors.
 - Yes, as the Surya Limited is thinking to get itself listed.
 - No, as the Surya Limited is not a listed company on the relevant date.
 - Yes, as it is mandatory to appoint women directors in the board.
 - No, as the Surya Limited has not met the prescribed criteria to get the woman director included in board.
- Whether the Surya Limited has defaulted in conducting board meetings as per Companies Act, 2013?
 - There is no default since four board meetings have been conducted in the year.
 - There is default by Surya Limited as not more than 4 board meetings have been conducted in the year.
 - There is no default since Companies Act, 2013 does not prescribe any criteria for board meetings as it is the internal matter of Surya Limited.
 - There is default by Surya Limited since board meetings have not been conducted in the prescribed frequency.

3. Calculate the net GST liability of 'Kanti' for January, 2023.
 (a) Rs 31,158 (b) Rs 67,844 (c) Rs 80,055 (d) Rs 36,765
4. Calculate the amount of taxable supply of 'Beauty and Personal care' segment for February, 2023?
 (a) Rs 47,92,905 (b) Rs 40,29,501 (c) Rs 39,53,851 (d) Rs 35,30,180
5. Calculate the amount of taxable inter-state and intra-state supplies with respect to assignments sent on various locations on 1 January, 2023.
 (a) Rs 6,07,315; Rs 4,45,150 (b) Rs 56,250; Rs 4,45,150
 (b) Rs 4,45,150; Rs 56,250 (d) Nil; Rs 5,01,400

II. Descriptive Questions

6. Being the direct tax head of Surya Limited, what are your observations in respect of Form 3CD prepared by the assistant of tax auditor. You are required to discuss the points which need the attention of auditor for correction in draft audit report. Also state the correct treatment.
7. Being the IDT manager, what are your observations under the scope of GST rules and regulations for the manual Invoice issued by your assistant.

I. Answers to the Multiple Choice Questions

1. (d) No, as the Surya Limited has not met the prescribed criteria to get the woman director included in board.
Reason: As per second Proviso to Section 149(1) read with Rule 3 of the Companies (Appointment and Qualification of directors) Rules, 2014, following are the Companies which need to appoint women directors:
 - Every listed company
 - Every other public company having : a) paid-up share capital of one hundred crore rupees or more; or b) turnover of three hundred crore rupees or more.

The paid-up share capital or turnover, as the case may be for this purpose is considered as on the last date of latest audited financial statements.
2. (d) There is default by Surya Limited since board meetings have not been conducted in the prescribed frequency.
Reason: As per section 173(1) of Companies Act, 2013, every company shall hold minimum of 4 meetings every year but the gap between two consecutive board meetings shall not be more than 120 days. However, there is a gap of more than 120 days for the meeting between 26.07.2022 and 27.11.2022.
3. (a) Rs 31,158

Reason:

	CGST (Rs)	SGST (Rs)	Calculation of CGST/SGST
GST on goods purchased	1,17,896	1,17,896	(15,45,750 /1.18)*.09
GST on goods sold	1,33,475	1,33,475	(17,50,000/1.18)*.09
Net GST Liability	15,579	15,579	

1. (c) Rs 39,53,851

Reason:

Item	Amount (Rs)	Remarks
Beauty products	15,14,842	Taxable supply
Skincare products	6,98,161	Taxable supply
Saloon services	8,48,123	Taxable supply
Hair oil products	3,48,564	Taxable supply
Shaving creams	4,98,516	Taxable supply
Interest from debtors for late payment of dues	45,645	Taxable supply
Total	39,53,851	

2. (b) Rs 56,250; Rs 4,45,150

Reason:

Place of Supply	Nature of Supply	IGST supply (Rs)	CGST/SGST supply (Rs)
Japan	Exempt	-	-
Mumbai	Inter-state	56,520	-
Delhi	Intra-state	-	1,46,650
Delhi	Intra-state	-	2,98,500
		56,520	4,45,150

II. Answers to the Descriptive Questions

3. Errors/Observations in Form 3CD:

- Assessment Year should be 2023-24 instead of 2021-32. Since the given information pertains to FY 2022-23, hence the corresponding assessment year should be 2023-24.
- As per **Clause 16**; the particulars of those amounts should be provided which are not credited to the profit and loss account, being,-
 - the items falling within the scope of section 28;
 - the proforma credits, drawbacks, refund of duty of customs or excise or service tax, or refund of sales tax or value added tax, where such credits, drawbacks or refunds are admitted as due by the authorities concerned;
 - escalation claims accepted during the previous year;
 - any other item of income;
 - capital receipt, if any.

The items which were omitted in profit & loss have not been reported in Form 3CD too. Hence, they need to be reported in Form 3CD as per clause 16 as follows:

Clause 16(b) -The proforma credits, drawbacks, refunds :
of duty of customs or excise or service tax or refunds of sales tax or value added tax, where such credits, drawbacks or refunds are admitted as due by the authorities concerned

Description	Amount
Duty drawback	5,50,000

Clause 16(d) - Any other item of income :

Description	Amount
Dividend Income	1,00,000

- Although Surya Limited has determined the sale value of land at Rs 18,00,00,000 for the purpose of Income tax computation but that fact has not been presented as per clause 17. Hence it needs to be reported in Form 3CD as per clause 17 as follows:

Clause 17: Where any land or building or both is transferred during the previous year for a consideration less than value adopted or assessed or assessable by any authority of a State Government referred to in section 43CA or 50C, please furnish:

Details of property	Address	Consideration received or accrued	Value adopted or assessed or assessable
Land	ABC Park, Delhi	15,00,00,000	18,00,00,000

- The particulars of depreciation allowable as per Income-tax Act, 1961 are to be shown as per clause 18 in Form 3CD.

Depreciation on Plant & machinery is incorrectly calculated. Depreciation on Plant & machinery should be at half rate since it is put to use on 05/12/2022, which is less than 180 days.

The correct information as per clause 18 should be shown as follows:

Description of the block of assets	Rate of depreciation	Opening WDV	Additions	Deductions	Depreciation allowable	WDV at the end of the year
Plant & Machinery	15%	5,00,00,000	3,00,00,000	0	1,62,50,000	6,87,50,000
Building	10%	15,00,00,000	0	0	1,50,00,000	13,50,00,000
Furnitures & Fittings	10%	3,00,00,000	1,00,00,000	0	40,00,000	3,60,00,000
Total		23,00,00,000	4,00,00,000	0	3,52,50,000	23,47,50,000

Note: Calculation of Depreciation as per Income-tax Act,1961

Asset	Depreciation on opening block (A)	Depreciation on additions at full rate (B)	Depreciation on additions at half rate (C)	Additional Depreciation	Total Depreciation (A) + (B) + (C)
Plant and machinery (15%)	75,00,000	30,00,000	7,50,000	40,00,000 (2,00,00,000*20%) 10,00,000 (1,00,00,000*10%)	1,62,50,000
Building (10%)	1,50,00,000	-	-		1,50,00,000
Furniture & fittings (10%)	30,00,000	10,00,000	-		40,00,000
Total	2,55,00,000	40,00,000	7,50,000		3,52,50,000

Additional depreciation on new plant and machinery will be allowable as per sec32(1)(ia) @20% of actual cost of plant and machinery. If the asset is put to use for less than 180 days, then depreciation will be restricted to 50% of the additional depreciation. Balanced depreciation can be claimed in the next assessment year.

Note: No treatment for sale of plant & machinery (Book value- Rs 1,00,00,000) at nil value as no consideration is received against sale.

- Under Clause 21(a), the details of those amounts need to be reported which are debited to the profit and loss account, being in the nature of Capital, personal, advertisement expenditure etc.

In accordance with above clause, the following needs to be reported in Form 3CD as per clause 21(a):

Capital expenditure	:	Particulars	Amount (Rs)
		Loss of subsidiary written off	25,25,000
Expenditure by way of penalty or fine for violation of any law for the time being force	:	Particulars	Amount (Rs)
		Penalty under service tax law	15,75,000

- Under Clause 21(b)(ii)(A), company needs to furnish the details of those payment details on which tax is not deducted. In accordance with above clause, the following needs to be reported in Form 3CD Details of payment on which tax is not deducted:

Date of payment	Amount of payment	Nature of payment	Name of the payee	PAN of the payee	Address
28/03/2023	90,000	Interest	Ghyanshyam HUF	ABCCD1934O	Mumbai

Note: TDS under section 194A needs to be deducted for Ghyanshyam HUF. For other parties, there is no need to deduct the TDS as per relevant provisions of Income-tax Act,1961.

- There has been a cash payment in respect of donation exceeding Rs 10,000/- by the assessee during the relevant year. Details of payments should be stated under clause 21(d)(b) as follows:

On the basis of the examination of books of account and other relevant documents/evidence, whether the payment referred to in section 40A(3A) read with rule 6DD were made by account payee cheque drawn on a bank : **No** or account payee bank draft If not, please furnish the details of amount deemed to be the profits and gains of business or profession under section 40A(3A)

Date of payment	Nature of payment	Amount	Name of the payee	PAN of the payee
X-X-20XX	Donation in cash	75,000	Sab Ka Saath NGO	XXXXXXXXXX

- As per clause 34(b) of Form 3CD, assessee is required to furnish the statement of tax deducted or tax collected as per following details:

Tax deduction and collection Account Number (TAN)	Type of Form	Due date for furnishing	Date of furnishing	Whether the statement of tax deducted or collected contains information about all transactions which are required to be reported
DELMXXXXXP	Form 26Q	30/04/2022	27/04/2022	Yes
DELMXXXXXP	Form 24Q	30/04/2022	28/04/2022	Yes
DELMXXXXXP	Form 26Q	31/10/2022	26/10/2022	Yes
DELMXXXXXP	Form 24Q	31/10/2022	02/11/2022	Yes
DELMXXXXXP	Form 24Q	31/01/2023	25/01/2023	Yes
DELMXXXXXP	Form 26Q	31/01/2023	02/02/2023	Yes
DELMXXXXXP	Form 26Q	31/05/2023	30/04/2023	Yes
DELMXXXXXP	Form 24Q	31/05/2023	29/05/2023	Yes

- Under clause 35 (b) of Form 3CD, In the case of a manufacturing concern, provide quantitative details of the principal items of raw materials, finished products and by-products as follows:

(B) Finished products

Item Name	Unit	Opening stock	Purchase during the previous year	quantity manufactured during previous year	Sales during previous year	Closing Stock	Shortage/ Excess, if any
Metal Semis	ton	5,150	0	15,750	12,900	8,000*	0

*Closing stock = 5,150+15,750-12,900 = 8000 ton

4. Observations on Invoice as per GST rules and regulations:

- The type of invoice to be issued depends upon the category of registered person making the supply. If a registered person is making or receiving supplies (from unregistered persons), then a tax invoice needs to be issued by such registered person.

In this case, word 'Invoice' is used in place of 'Tax Invoice', which is incorrect.

- The invoice shall be prepared in triplicate, in case of supply of goods, in the following manner:
 - The original copy being marked as ORIGINAL FOR RECIPIENT.
 - The duplicate copy being marked as DUPLICATE FOR TRANSPORTER.
 - The triplicate copy being marked as TRIPLICATE FOR SUPPLIER.

In this case, original copy to buyer has been marked as DUPLICATE FOR RECIPIENT, which is incorrect. The original copy to buyer should be marked as ORIGINAL FOR RECIPIENT.

- GST is a destination-based tax. Under GST, IGST is a tax levied on all Inter-State supplies of goods and CGST/SGST is a tax levied on all Intra- State supplies of goods. Hence there should have been levied IGST by the supplier instead of CGST/SGST since the buyer is located in Noida, UP and supplier is located in another state, Delhi.
- Name, address and GSTIN of the recipient, if registered is required on mandatory basis. In this case, the GSTIN of registered recipient is missing.
- Description of goods 'Kanti' is missing in the invoice.
- Signature or digital signature of the supplier or his authorized representative is missing.
- HSN Code of the sold product is missing in the invoice.
- "I/We hereby declare that though our aggregate turnover in any preceding financial year from 2017-18 onwards is more than the aggregate turnover notified under sub-rule (4) of [rule 48](#), we are not required to prepare an invoice in terms of the provisions of the said sub-rule."

CASE STUDY 20

SSP & CO. LLP, a Chartered Accountancy Firm has been into Practice since year 2009 at Vadodara, Gujarat. The Senior Partners of the Firm – CA Sagar Shah, CA Simran Kaur & CA Pankaj Bansal started the firm after practicing individually for almost 3 years and now it has grown into a big firm of 7 Partners. Since its inception, this CA Firm has always been in news among the Chartered Accountants and the Articled Trainees for its unique way of working. The 3 Partners have given their best to inculcate a working culture of hard work, learning, training, development and rendering best quality in the service industry it belongs to. Under one of the unique ways of its working, the firm annually holds a one month long and continuous competition among its Articled Trainees to motivate them towards working hard and reward 3 best candidates as the "Winning Articled Assistants" who get incentives in the form of important roles with the Senior Partners in handling crucial work projects of different clients of the firm.

This year, around 25 Articled Trainees, excluding the recently joined ones, were a part of this annual competition & after a one-month continuous assessment of their performance, Pratham, Shivam & Ragini were declared as the winning Articled Trainees for the said year. As a part of the incentive, they were assigned important roles with the 3 Senior Partners as follows:

- Pratham would assist CA Sagar in carrying out the tax-audit work of the 3 major clients of the Firm.
- Shivam would be leading the team headed by CA Simran to carry out the work of accounting for different projects handled by one of their important clients.
- Ragini would be an important part of the team headed by CA Pankaj to conduct "TDS Audit" of the major clients of the Firm to check their TDS compliance and report thereon.

Pratham assisting CA Sagar Shah

CA Sagar briefs his team about the various objectives, guidelines and working involved in carrying out different audits by a Chartered Accountant with special emphasis on Tax Audit. He tells them that for ensuring compliance sometimes audit becomes a necessity. Therefore, various statutes, including legislations governing direct tax provisions have incorporated audit provisions in some or the other form. Under direct taxes, the Central Board of Direct taxes has posed onerous responsibility on the auditor via Income-tax Act, 1961 which has various provisions requiring compulsory audit. The Income-tax Act, 1961 contains several provisions for audit of accounts of public charitable trusts, non-corporate assesses and other assesses to meet the specific objectives of the Act. Under the Act, several sections such as 12A, 35D, 35E, 44AB, 80IA, 80-IAB, 80-IB, 80-IC, 80-ID, 80-IE, 142(2A), etc., require audit of accounts for tax purposes. He deliberates them in detail on the various provisions as entailed in Section 44AB of the Income Tax Act, 1961 and its various clauses and sub clauses on applicability of the Tax audit provisions to any enterprise. He also tells them about the amendments which had been made in the Tax audit Provisions by the Government of India whereby with effect from assessment year 2023-24, the threshold limit, for a person carrying on business, had been increased from Rs 5 crore to Rs 10 crores in case when cash receipts and payments made during the year does not exceed 5% of total receipt or payment, as the case may be. Section 44AB provides for the compulsory audit of accounts of certain persons carrying on business or profession. Now, he delegates his team to work out the tax audit applicability of various client firms for the Financial Year 2022-23 and Pratham gets to work out the Tax audit applicability on various clients as follows:

1. PQR Ltd. is engaged in the business of manufacturing of threads and having 97% of the receipts and payments through account payee cheque. The company has recorded turnover of Rs 10.50 crores during the financial year 2022-23 before adjusting the following:

Discount allowed in the Sales Invoice	Rs	9,50,000
Cash discount (other than allowed in Cash memo/ sales invoice)	Rs	10,30,000
Trade discount	Rs	5,30,000
Commission on Sales	Rs	7,80,000
Sales Return (F.Y. 2020-21)	Rs	6,60,000
Sale of Investment	Rs	15,30,000

2. Mr. Anurag Basu, owning an Agency of Samsung Mobile, has turnover of Rs 97 lacs during the F.Y. 2022-23.
3. XYZ & Co. (a Partnership firm) engaged in trading of electronic goods is having a turnover of Rs 175 lacs for the F.Y. 2022-23.

Shivam with CA Simran Kaur

CA Simran and her team would handle the accounting of various complex operations of their client firms and provide consultancy accordingly. This year, CA Simran is dealing with the Grants received from the Government during the COVID-19 Pandemic period and how to deal with them in the accounts of their various clients. She enlightens her team members on this topic and tells them that the government gives grants to entities for various purposes including for industrial, geographic and social development, to facilitate the flow of foreign investments, to promote entrepreneurship, as subsidies to reduce the prices of goods and services offered by these entities. The grant could be in different forms, e.g., monetary or non-monetary government grants. Government grants may be significant for an entity and require appropriate treatment in the books of accounts and disclosures in financial statements to facilitate comparison with other entities and with prior periods. She delegates this work of different clients among her team members and Shivam gets to work on the case of 2 Client companies as follows:

1. Spectra Limited is carrying out various projects for which the company has either received government financial assistance or is in the process of receiving the same. The company has received two grants of Rs 2,00,000 each, relating to the following ongoing research and development projects:
 - (i) The first grant relates to the "Clean river project" which involves research into the effect of various chemicals waste from the industrial area in Madhya Pradesh. However, no major steps have been completed by Spectra Limited to commence this research as at 31st March, 2023.
 - (ii) The second grant relates to the commercial development of a new equipment that can be used to manufacture eco-friendly substitutes for existing plastic products. Spectra Limited is confident about the technical feasibility and financial viability of this new technology which will be available for sale in the market by April 2024.

In September 2022, due to the floods near one of its factories, the entire production was lost and Spectra Limited had to shut down the factory for a period of 3 months. The State Government announced a compensation package for all the manufacturing entities affected due to the floods. As per the scheme, Spectra Limited is entitled to a compensation

based on the average of previous three month's sales figure prior to the floods, for which the company is required to submit an application form on or before 30th June, 2023 with necessary figures. The financial statements of Spectra Limited are to be adopted on 31st May, 2023, by which date the claim form would not have been filed with the State Government.

2. BCD Pharmaceuticals Ltd.: Government gives a grant of Rs 20,00,000 for past research of COVID-19 vaccine to BCD Pharmaceuticals Limited, one of the top clients of SSP & CO., LLP. There is no condition attached to the grant.

Ragini with CA Pankaj Bansal

CA Pankaj lectures his team on various TDS provisions to carry out the below mentioned tasks and also makes them aware of the amendments brought into effect via Budget 2022 as well as the relaxations provided by the Government during the COVID-19 Pandemic Period to infuse capital into the economy by way of TDS relaxations during this hard period so that they are able to:

- examine the provisions relating to deduction and collection of tax at source to determine whether tax needs to be deducted/collected at source;
- compute the amount of tax to be deducted/collected at source;
- analyse and apply the provisions relating to deduction and collection of tax at source to address related issues;
- examine the provisions relating to advance tax obligations, the instalments and due dates, and interest and penal consequences of non-payment or delayed payment of advance tax; analyse and apply such provisions to determine the quantum of advance tax payment and interest liability, if any, and address related issues;
- examine the provisions relating to chargeability of interest for defaults in furnishing return of income, for non-payment of advance tax and deferral of advance tax; analyse and apply such provisions to compute interest and address related issues;
- analyse and apply the provisions relating to refunds to compute the refund due and address related issues.

After this, he hands over TDS working & compliance of various client firms to all the team members and Ragini, being a part of the winner trio, gets the following responsibilities of various important clients under the supervision of CA Pankaj:

- (i) On 17.6.2022, a commission of Rs 60,000 was retained by the consignee 'PQR Packaging Ltd.' and not remitted to the consignor 'ABC Developers Ltd.', the client company of SSP & Co., LLP, while remitting the sale consideration. Ragini had to examine the obligation of the client firm to deduct tax at source.
- (ii) Raj is working with ABC Developers Ltd. He is entitled to a salary of Rs 60,000 per month w.e.f. 01.04.2022. He has a house property which is self-occupied. He paid an interest of Rs 90,000 on loan, during the previous year 2022-23. The loan was taken for construction of house. He has notified his employer ABC Developers Ltd. that there will be a loss of Rs 90,000 in respect of this house property for financial year ended 31.03.2023. Raj is not opting for the provisions of section 115BAC.
- (iii) By virtue of an agreement with ABC Developers Ltd., a catering organisation receives a sum of Rs 55,000 per month towards supply of food, water, snacks etc. during office hours to the employees of the company.
- (iv) DK, a part time director of ABC Developers Ltd., was paid an amount of Rs 3,50,000 as fees which was actually in the nature of commission on sales for the period 01.07.2022 to 30.09.2022.
- (v) ACD Ltd., a Pharmaceutical company, credited Rs 18,000 towards fees for professional services and Rs 17,000 towards fees for technical services to the account of HG in its books of account on 06.10.2022. The total sum of Rs 35,000 was paid by cheque to HG on 18.12.2022.
- (vi) XYZ Ltd., a foreign company, pays outside India, salary to its employee, Mr. Raghav, a foreign national and a non-resident, for services rendered in India for 265 days during the Previous Year 2022-23.

You are required to work out the following questions as to how the Winning Articled Assistants would have worked out on the issues given to them w.r.t the various important clients and projects of the firm SSP & CO. LLP.

I. Multiple Choice Questions

1. The Winning Articled Trainee is told that the Partnership firm – XYZ & Co. would not be able to ensure that the aggregate of all amounts received including amount received for sales, turnover or gross receipts during the previous year, in cash, does not exceed five per cent of the said amount and aggregate of all payments made including amount incurred for expenditure, in cash, during the previous year does not exceed five per cent of the said payment. Which of the following statements hold true w.r.t. taxability of business profits of the firm?
 - (a) The Partnership Firm can opt for presumptive scheme under section 44AD.
 - (b) Section 44AB would only be applicable to the Partnership Firm and it can't avail the benefit of Presumptive taxation scheme as the same is available to Individuals & HUF only.

- (c) If the firm opts for Presumptive income scheme under section 44AD, even then, it has to get its books of accounts audited u/s 44AB of the Act, being a Partnership firm.
 - (d) It can declare the minimum profit @ 6% of the turnover as its turnover during the PY 2022-23 is not expected to exceed Rs 2 crores.
2. What should be the outcome of the Tax Audit applicability as worked upon by Pratham in the case of Mr. Anurag Basu?
 - (a) He can opt for section 44AD. Hence, he is not liable for tax audit.
 - (b) He needs to get his books of accounts audited u/s 44AB of the Act.
 - (c) He need not get his books of accounts audited u/s 44AB of the Act.
 - (d) He can opt for section 44ADA. Hence, he is not liable for tax audit.
 3. XYZ Ltd. is required to deduct tax at source as follows in case of the payment made by it to Mr. Raghav-
 - (a) TDS u/s 192 of the Income tax Act, 1961.
 - (b) TDS u/s 194J of the Income tax Act, 1961.
 - (c) TDS u/s 195 of the Income tax Act, 1961.
 - (d) No liability of TDS as it being a foreign company and the remuneration is paid outside India.
 4. What should be the TDS liability on the payment made by ACD Ltd. to the account of HG?
 - (a) TDS u/s 194J is applicable and would be deducted @ 30% w.r.t each kind of payment.
 - (b) TDS u/s 194J is applicable considering the aggregate payment made.
 - (c) TDS u/s 194C would be applicable as it becomes a Contract when two services got clubbed.
 - (d) TDS u/s 194J is applicable on such payments but the threshold limit is w.r.t. each kind of payment and therefore, no TDS liability in this case.
 5. Examine how the Government grant be recognised in the books of BCD Pharmaceuticals Limited.
 - (a) To be capitalized in the Books of account.
 - (b) The entire grant should be recognised immediately in profit or loss.
 - (c) To be deferred till the research work proves to be marketable.
 - (d) Credited to a special Research Fund.

II. Descriptive Questions

6. Help Pratham in working out the applicability of Income tax Audit on PQR Ltd.
7. Explain the accounting treatment of, if any, for the two grants received and the flood - related compensation in the books of accounts of Spectra Limited as on 31st March, 2023, to be worked out by Shivam.
8. State all the TDS provisions applicable on ABC Developers Ltd. w.r.t. their transactions as stated in the above case scenario.

I. Answers to the Multiple Choice Questions

1. (a) The Partnership Firm can opt for presumptive scheme under section 44AD.
Reason: Section 44AD of the Income Tax Act, 1961 would be applicable to Partnership Firm. Thus, XYZ & Co. can declare the minimum profit @ 8% of the turnover since its turnover during the P.Y. 2022-23 is not expected to exceed Rs 2 crores. If the firm does not opt for presumptive income scheme under section 44AD, it has to get its books of account audited u/s 44AB of the said Act.
2. (c) He need not get his books of accounts audited u/s 44AB of the Act.
Reason: Though Section 44AD of the Income Tax Act, 1961 is applicable to an Individual, it is not applicable to person carrying on agency business. In the given case, since, Mr. Anurag is running an agency business, he cannot take the benefit of section 44AD. And since his total turnover during the F.Y. 2022-23 is not expected to exceed Rs 1 crore, therefore, he need not get his books of accounts audited u/s 44AB of the said Act.
3. (a) TDS u/s 192 of the Income tax Act, 1961.
Reason: Section 195 requires deduction of tax at source by any person responsible for making payment to a non-resident, any interest or any other sum chargeable under the provisions of the Income-tax Act, 1961 (other than income chargeable under the head "Salaries"). Section 192(1) requires "any person" responsible for paying income under the head "Salaries" to deduct tax at source. Therefore, even if the payer is a foreign company, section 192 would be applicable. TDS provisions under section 192 are attracted, if the salary payable to a non-resident is chargeable to tax in India. Under section 9(1)(ii), income which falls under the head "Salaries" shall be deemed to accrue or arise in India, if it is earned in India. Salary payable for service rendered in India shall be regarded as income earned in India. Therefore, salary paid to Mr. Raghav, a non-resident, attracts tax liability in India, as he has rendered services in India.

4. (d) TDS u/s 194J is applicable on such payments but the threshold limit is w.r.t each kind of payment and therefore, no TDS liability in this case.

Reason: The limit of Rs 30,000 for non-deduction of tax under section 194J would apply separately for fees for professional services and fees for technical services. This means that if a person has rendered services falling under both the categories, tax need not be deducted if the fee for each category does not exceed

Rs 30,000 even though the aggregate of the amounts credited to the account of such person or paid to him for both the categories of services exceed Rs 30,000. Therefore, ACD Ltd. is not required to deduct tax at source in respect of the fees either at the time of credit or at the time of payment.

5. (b) The entire grant should be recognised immediately in profit or loss.

Reason: Government grants, including non-monetary grants at fair value, should be recognised only when there is **Reasonable** assurance that:

- (a) the entity will comply with the conditions attaching to them; and
- (b) the grants will be received.

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised in profit or loss of the period in which it becomes receivable.

II. Answers to the Descriptive Questions

6. Applicability of Income tax Audit on PQR Ltd.

The provisions relating to tax audit under section 44AB of the Income Tax Act, 1961 apply to every person carrying on business, if his total sales, turnover or gross receipts in business exceed the prescribed limit of Rs 1 crore (Provided that in the case of a person whose aggregate of all amounts received including amount received for sales, turnover or gross receipts during the previous year, in cash, does not exceed five per cent of the said amount and aggregate of all payments made including amount incurred for expenditure, in cash, during the previous year does not exceed five per cent of the said payment, the limit of one crore rupees shall change to ten crore rupees) and to a person carrying on a profession, if his gross receipts from profession exceed the prescribed limit of Rs 50 lakhs in any previous year. However, the term "sales", "turnover" or "gross receipts" are not defined in the Act, and therefore the meaning of the aforesaid terms has to be considered for the applicability of the section.

Some of the points for merit consideration in this regard as discussed in the Guidance Note issued by ICAI are given below-

- (i) Discount allowed in the sales invoice will reduce the sale price and, therefore, the same can be deducted from the turnover.
- (ii) Cash discount otherwise than that allowed in a cash memo/sales invoice is in the nature of a financing charge and is not related to turnover. Therefore, should not be deducted from the turnover.
- (iii) Turnover discount is normally allowed to a customer if the sales made to him exceed a particular quantity. As per trade practice, it is in the nature of trade discount and should be deducted from the figure.
- (iv) Special rebate allowed to a customer can be deducted from the sales if it is in the nature of trade discount. If it is in the nature of commission on sales, the same cannot be deducted from the figure of turnover.
- (v) Price of goods returned should be deducted from the turnover even if the returns are from the sales made in the earlier year/s.
- (vi) Sale proceeds of any shares, securities, debentures, etc., held as investment will not form part of turnover. However, if the shares, securities, debentures etc., are held as stock-in-trade, the sale proceeds thereof will form part of turnover.

In the given case, PQR Ltd. is engaged in manufacturing business and also having 97% of the receipts and payments through account payee cheques. Therefore, the tax audit would be applicable if the turnover exceeds Rs 10 crores during the financial year 2022-23. The calculation of effective turnover for the prescribed limit purpose, in accordance with above-mentioned conditions, is given below:

Turnover during the year	Rs 10,50,00,000
Less: (i) Discount allowed in the Sales Invoice	(Rs 9,50,000)
(ii) Trade Discount	(Rs 5,30,000)
(iii) Sales Return	(Rs 6,60,000)
Effective turnover	Rs 10,28,60,000

The expected effective turnover of PQR Ltd. is Rs 10,28,60,000 which is over and above the prescribed limit for tax audit under section 44AB of the Income Tax Act, 1961. Thus, the provisions related to tax audit would be applicable to the company and would therefore be liable for tax audit.

7. Accounting treatment for: First Grant

The first grant for “Clear River Project” involving research into effects of various chemicals waste from the industrial area in Madhya Pradesh, seems to be unconditional as no details regarding its refund has been mentioned. Even though the research has not been started nor any major steps have been completed by Spectra Limited to commence the research, yet the grant will be recognised immediately in profit or loss for the year ended 31st March, 2023.

Alternatively, in case, the grant is conditional as to expenditure on research, the grant will be recognised in the books of Spectra Limited over the year the expenditure is being incurred.

Second Grant

The second grant related to commercial development of a new equipment is a grant related to depreciable asset. As per the information given in the question, the equipment will be available for sale in the market by April, 2024. Hence, by that time, grant relates to the construction of an asset and should be initially recognised as deferred income. The deferred income should be recognised as income on a systematic and rational basis over the asset's useful life.

The entity should recognise a liability on the balance sheet for the years ending 31st March, 2023 and 31st March, 2024. Once the equipment starts being used in the manufacturing process, the deferred grant income of Rs 2,00,000 should be recognised over the asset's useful life to compensate for depreciation costs.

Alternatively, as per Ind AS 20, Spectra Limited would also be permitted to offset the deferred income of Rs 2,00,000 against the cost of the equipment as on 1st April, 2024.

For Flood related compensation

Spectra Limited will be able to submit an application form only after 31st May, 2023 i.e. in the year 2023-2024. Although flood happened in September, 2022 and loss was incurred due to flood related to the year 2022-2023, the entity should recognise the income from the government grant in the year when the application form related to it is submitted and approved by the government for compensation.

Since, in the year 2022-2023, the application form could not be submitted due to adoption of financials with respect to sales figure before flood occurred, Spectra Limited should not recognise the grant income as it has not become receivable as on 31st March, 2023.

8. Various TDS Compliances to be made by ABC Developers Ltd. are as follows:

- (i) Section 194H requires deduction of tax at source @ 5% from commission and brokerage payments to a resident. However, no tax is to be deducted at source where the amount of such payment does not exceed Rs 15,000. In the given case, 'PQR Packaging Ltd.', the consignee, has not remitted the commission of Rs 60,000 to the consignor 'ABC Developers Ltd.' while remitting the sale consideration.

Since the retention of commission by the consignee/agent amounts to constructive payment of the same to him by the consignor/principal, deduction of tax at source is required to be made from the amount of commission [CBDT Circular No.619 dated 4/12/1991].

Therefore, ABC Developers Ltd. has to deduct tax at source on Rs 60,000 at the rate of 5%, amounting to Rs 3,000.

- (ii) Section 192 provides that tax is required to be deducted on the payment made as salaries. Tax is to be deducted on the estimated income at the average of income tax computed on the basis of the rates in force for the financial year in which payment is made.

The employee may declare details of his other incomes (including loss under the head “Income from house property” but not any other loss) to his employer. In this case, since Mr. Raj has notified his employer ABC Developers Ltd. of loss from self-occupied house property, the employer has to take the same into consideration for deduction of tax at source.

Therefore, ABC Developers Ltd. is required to deduct tax at source on the salary of Rs 60,000 per month paid to Mr. Raj, in the following manner:

Income under the head salaries (Rs 60,000 x 12)	7,20,000
Less: Standard deduction under section 16(ia)	<u>50,000</u>
	6,70,000
Income under the head “house property”	<u>(90,000)</u>

Gross total income	5,80,000
Less: Deduction under Chapter VI-A	Nil
Total Income	<u>5,80,000</u>
Tax on Rs 5,80,000	28,500
Add: Health and Education cess @ 4%	<u>1,140</u>
Tax to be deducted at source	29,640

The definition of “work” under Explanation to section 194 -C includes catering services and therefore, TDS provisions under section 194C are attracted in respect of payments to a caterer. As the payment exceeds Rs 30,000, the Company is required to deduct tax at source at 2% on the payments made to catering organisation. If the catering organization is an individual or HUF, then the tax deduction shall be made @1%.

- (iii) Section 194J provides for deduction of tax at source @ 10% on any remuneration or fees or commission, by whatever name called, paid to a director, which is not in the nature of salary in respect of which tax is deductible at source under section 192. Hence, tax is to be deducted at source under section 194J @ 10% by ABC Developers Ltd. on the commission of Rs 3,50,000 paid to DK, a part-time director. The tax deductible under section 194J would be Rs 35,000, being 10% of Rs 3,50,000.

CASE STUDY 21

- (1) Ideal Fabrics Ltd. is a Ludhiana based company incorporated in 1996. The company is one of the leading textile manufacturers of India having its presence across a wide spectrum, from manufacturing lowest to highest range of fabrics. The Company expanded its product offerings and entered into strategic alliance with leading global textile players to gain access to state-of-the-art technologies. Ideal Fabrics Ltd. is one of the very few vertically integrated fabric manufacturers in India producing large variety of fabrics in the apparel segment serving large retailers across USA, Europe, Asia and other emerging nations.
- (2) In recent board meeting, the following particulars are extracted from statement of profit and loss of the company for the year ended 31.03.2023:

Particulars	Amount (Rs)
Gross Profit	90,00,000
Profit on sale of building (Cost Rs 15,00,000 and written down value Rs 9,00,000)	7,50,000
Salaries & Wages	3,75,000
Sundry Repairs to Fixed Assets	1,50,000
Compensation for breach of contract	1,50,000
Depreciation as per section 123 of the Companies Act, 2013	2,10,000
Loss on sale of current Investments	3,00,000
Interest on unsecured loans	75,000
Interest on Debentures issued by Company	1,50,000
Repair Expenses to Fixed Assets (Capital in nature)	3,00,000
Net Profit (after giving effect of all the items given above)	19,50,000

The management of the company is asking from Company Secretary of the company regarding the overall managerial remuneration payable as per the provisions of Companies Act, 2013.

- (3) Mr. Rajesh is an independent director of the company. He plays a vital role in the management of the Company and contributes to major decision-making process of organisation. The Company pays sitting fees of Rs 60,000 to him for every Board meeting he attends. The Articles of Association of the company have fixed the payment of sitting fees for each Meeting of Directors subject to a maximum of Rs 60,000. In view of increased responsibilities of independent directors of companies, the company proposes to increase the sitting fees to Rs 1,25,000 per meeting.
- (4) Ideal Fabrics Ltd. is registered under GST in Punjab. The product of the company is making its market worldwide because of its quality and price. One of the customer from Haryana, Mr Raju, is asking for a sample of the company. The company is first time sending its sample in Haryana. The company is generally involved in high value transactions but this time company is sending goods of taxable value of Rs 48,000. The billing department of the company strongly believes that there is no need to generate e- way bill in respect of this consignment as the value is less than Rs 50,000. The GST applicable on the above goods is 18%. Hence the company did not issue the e-way bill in respect of above consignment.
- (5) The company wanted to add a new product in its range of products. In order to achieve this goal, the company has purchased a new machinery from USA for \$ 1,00,000 on 01.01.2023. The exchange rate on the date of transaction is 1 \$ = Rs 68. The

company is not required to pay for this purchase until 30.06.2022. The exchange rate as on 31.03.2023 is 1 \$ = Rs 65. Mr. Mohan, the CFO of the company feels that the exchange fluctuation would not affect the financial statements of the Company. Hence, he did not make any changes in respect of currency fluctuations as on 31.03.2023.

- (6) The accounts team of the company is not able to understand the new TCS provision under section 206C(1H) which has come into force with effect from 1st October, 2021. So, Mr. Mohan discussed the issue with management of the company. Hence the company called their statutory auditors CA Rakesh Asija for the meeting. CA Rakesh visited the company and gave presentation on the above topic. CA Rakesh discussed the provisions in a brief manner. Mohan also discussed with him about the prestigious customers of the company i.e. Kunal Textiles & Madhu Textiles. The company has made sales to Kunal Textiles of Rs 85 lakhs from 1st April 2022 to 30th September 2022 out of which payment of Rs 45 lakhs was received till 30th September and amount received on or after 01.10.2022 is Rs 40 lakhs. There is another buyer of the company Madhu Textiles to whom the company made sales up-to 30.09.2022 Rs 65 lakhs. Amount received up-to 30.09.2022 is Rs 55 lakhs. Sales made on or after 01.10.2022 is Rs 30 lakhs. Amount received after 1.10.2022 is Rs 40 lakhs. Company's turnover for the financial year 2021-22 exceeds Rs 10 crores. The sales made to Kunal Textiles & Madhu Textiles are inclusive of GST and both the buyers have furnished their PAN.

I. Multiple Choice Questions

- As per relevant Section of TCS, the amount of TCS collected by seller shall be paid to the credit of Central Government within _____ from the last day of the month in which the collection is made. These transactions are to be reported by the sellers in the Form no _____.
 (a) 15 days, 26Q (b) 7 days, 27EQ (c) 7 days, 27Q (d) 15 days, 27EQ
- If Ideal Fabrics Ltd. makes sale to Madhu Textiles of Rs 18,00,000 (exclusive of GST @ 18%) on 18.02.2023 in addition to the sales data given in the case study, what would be the amount of TCS to be collected by Ideal Fabrics Ltd. on such additional sales, the payment in respect of such sales is made on the same date?
 (a) Rs 1,800 (b) Rs 1,350 (c) Rs 1,593 (d) Rs 2,124
- With respect to para no. (4), which of the following statement is not correct in respect of E-way bill?
 (a) E-way bill is not valid for movement of goods without vehicle number on it.
 (b) Once E-way bill is generated, it can be edited for any mistake.
 (c) E-way bill can be cancelled within 24 hours of generation.
 (d) E-way bill is required to be generated even if movement of goods is by **Reasons** other than supply.
- Calculate the amount of loss/gain as per IndAS 21 in respect of machinery purchased by Ideal Fabrics Ltd. in foreign currency that needs to be recognised in the statement of profit and loss.
 (a) Gain – Rs 6 Lakhs (b) Loss – Rs 6 Lakhs (c) Gain – Rs 3 Lakhs (d) Loss – Rs 3 Lakhs
- With reference to para no. (3), the director may receive remuneration under the Companies Act, 2013 by way of sitting fee for attending meetings of the board which shall not exceed:
 (a) Rs 75,000 (b) Rs 1,00,000 (c) Rs 50,000 (d) Rs 80,000

II. Descriptive Questions

- (a) Whether e-way bill in respect of material sent to Raju in Haryana is required to be generated?
 (b) With reference to last part of para no. (4), what will be the consequence for non-issuance of e-way bill?
- (a) Compute the amount of TCS which needs to be collected from-
 - Kunal Textiles Ltd., &
 - Madhu Textiles Ltd.
 (b) Discuss about the due dates of filing TCS Returns and furnishing of certificates to the buyer.
- With reference to para no. (2), compute the overall managerial remuneration payable under the provisions of Companies Act, 2013 subject to provisions under Schedule V.

I. Answers to the Multiple Choice Questions

- (b) 7 days, 27EQ
Reason: The person responsible for collecting tax shall deposit the TCS amount within 7 days from the last day of the month in which the tax was collected. Every tax collector shall submit Statement of TCS in Form 27EQ in respect of the tax collected by him.
- (d) Rs 2,124
Reason: The Government of India (GOI) in the [Finance Bill, 2020](#) introduced a new sub section (1H) to section 206C

of the Income Tax Act, 1961 (IT Act) that “Every person, being a seller, who receives any amount as consideration for sale of any goods of the value or aggregate of such value exceeding fifty lakh rupees in any previous year, other than the goods being exported out of India or goods covered in sub-section (1) or sub-section (1F) or sub-section (1G) shall, at the time of receipt of such amount, collect from the buyer, a sum equal to 0.1 per cent of the sale consideration exceeding fifty lakh rupees as income-tax.” CBDT also clarified that the GST portion included in sale value would attract TCS u/s 206C(1H) of the Act.

Hence amount of TCS would be calculated as follows: Taxable value = 18,00,000

Add: GST = 18,00,000 * 18% = 3,24,000

Total Invoice value = 21,24,000 TCS = 0.1% on 21,24,000 = 2,124

3. (b) Once E-way bill is generated, it can be edited for any mistake.

Reason: Once e-way bill is generated, it cannot be edited for any mistake. However, it can be cancelled within 24 hours of generation.

4. (c) Gain – Rs 3 Lakhs

Reason: As per Ind AS 21 “The effects of change in foreign Exchange Rates” the asset and liability would initially be recognised at the rate of exchange in force at the transaction date i.e. 01.01.2023. Therefore, amount initially recognised would be Rs 68,00,000 (\$ 1,00,000 * Rs 68)

The liability is a monetary item, so it is retranslated using the rate of exchange in force at 31.03.2023. This makes the closing liability of Rs 65,00,000 (\$ 1,00,000 * Rs 65)

The exchange gain of Rs 3,00,000 (Rs 68,00,000 – Rs 65,00,000) on translation of monetary items is recognised in statement of profit and loss.

5. (b) Rs 1,00,000

Reason: As per Sec 197(5) of Companies Act, 2013, a director may receive remuneration by way of fee for attending meetings of the board or Committee thereof or for any other purpose whatsoever as may be decided by the Board subject to conditions imposed by Rule 4 of the companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 as under-

- The sitting fees shall not exceed Rs 1,00,000 per meeting of the Board or Committee thereof
- The sitting fee payable to the independent directors and women directors shall not be less than that payable to other directors. (As per Proviso to Rule 4)

II. Answers to the Descriptive Questions

6. (a) Rule 138(1) of CGST Rules, 2017 provides that e-way bill is mandatorily required to be generated inter alia if a registered person causes movement of goods of consignment value exceeding, 50,000 in relation to a supply. Further explanation 2 to Rule 138(1) stipulates that the consignment value of goods shall be value determined in accordance with the provisions of Sec 15, declared in an invoice, a bill of supply or a delivery challan as the case may be, issued in respect of the said consignment and also includes CGST, SGST/UGST, IGST and cess charged, if any, in the document and shall exclude the value of exempt supply of goods where the invoice is issued in respect of both exempt and taxable supply of goods.

Accordingly, in the given case the consignment value will be as follows- = Rs 48,000 * 1.18 = Rs 56,640

Since the movement of goods is in relation to supply of goods and the consignment value exceeds Rs 50,000, e-way bill is mandatorily required to be issued in the given case.

- (b) **Consequence of non-issuance of e-way bill:** It is mandatory to generate e-way bill in all cases where the value of consignment being transported is more than Rs 50,000 and it is not otherwise exempted in terms of Rule 138(14) of CGST Rules, 2017. If e-way bills, wherever required, are not issued in accordance with the provisions contained in rule 138, the same will be considered as contravention of rules. As per Sec 122(1)(xiv) of CGST Act, 2017, a taxable person who transports any taxable goods without the cover of specified documents (e-way bill is one of the specified documents) shall be liable to penalty of Rs 10,000 or tax sought to be evaded (wherever applicable) whichever is greater.

Moreover, as per Section 129(1) of CGST Act, 2017, where any person transports any goods or stores any goods while they are in transit in contravention of the provisions of this Act or the Rules made thereunder, all such goods and conveyance used as a means of transport for carrying the said goods and documents relating to such goods and conveyance shall be liable to detention or seizure.

7. (a) Kunal Textiles

S. No.	Particulars	Amount (Rs)
(1)	Sales up-to 30-09-2022	85 Lakhs
(2)	Amount received up-to 30-09-2022	45 Lakhs
(3)	Amount received from 01-10-2022	40 Lakhs
	Amount Liable to TCS u/s 206 C(1H)	35 Lakhs (on the amount exceeding Rs 50 Lakhs)

Amount of TCS should be Rs 35 Lakhs x 0.1% = Rs 3,500

Madhu Textiles

S. No.	Particulars	Amount (Rs)
(1)	Sales up to 30-09-2022	65 Lakhs
(2)	Amount received upto 30-09-2022	55 Lakhs
(3)	Sale made on or after 01.10.2022	30 Lakhs
(4)	Amount received from 01-10-2022	40 Lakhs
(5)	Total Amount received as sales consideration from Madhu Textiles	95 Lakhs
	Amount Liable to TCS u/s 206 C(1H)	40 Lakhs (amount exceeding Rs 50 lakhs)

Amount of TCS should be Rs 40 Lakhs x 0.1% = Rs 4,000

(b) The due dates for filing of TCS returns are mentioned below: -

Quarter	Due Date	Due date of issuance of certificate
Q1. April to June	15th of July	30 th of July
Q2. July to Sep	15th of October	30 th of October
Q3. Oct to Dec.	15th of January	30 th of January
Q4. Jan to Mar	15th of May	30 th of May

8. The managerial remuneration shall be computed in accordance with the provisions laid down in section 198 of the Companies Act 2013-

Particulars	Amount (Rs)
Net profit	19,50,000
Less: Capital profits on sale of building (Note 1)	1,50,000
Salaries & Wages (Note 2)	-
Sundry repairs to fixed Assets (Note 2)	-
Compensation from breach of contract (Note 2)	-
Depreciation (Note 2)	-
Loss on Sale of Investments (Note 3)	-
Interest on unsecured loans (Note 2)	-
Interest on debentures (Note 2)	-
Add: Repair expenses to fixed assets (Capital in Nature) (Note 4)	3,00,000
Net profits as per section 198	21,00,000

Therefore, the overall maximum managerial remuneration shall be 11% of the Net profits computed in accordance with section 198 i.e. 11% x 21,00,000 = Rs 2,31,000.

Notes:

- (1) As per section 198(3), credit shall not be given for profits from the sale of any immovable property or fixed assets of a capital nature comprised in the undertaking or any of the undertakings of the company, unless the business of the company consists, whether wholly or partly, of buying and selling any such property or assets; provided that where the amount for which any fixed asset is sold exceeds the written-down value thereof, credit shall be given for so much of the excess as is not higher than the difference between the original cost of that fixed asset and its written- down value.

Accordingly, the calculation of capital profit is computed as under: Profit = Selling Price – Written down value

7,50,000 = Selling Price – 9,00,000. Therefore, Selling Price = 16,50,000.

Capital profit = 16,50,000 – 15,00,000 (original cost) = 1,50,000

- (2) According to section 198 (4), the following sums shall be deducted:

- (a) All the usual working charges – salaries and wages are considered as usual working charges.
- (b) expenses on repairs, whether to immovable or to movable property, provided the repairs are not of a capital nature.
- (c) any compensation or damages to be paid in virtue of any legal liability including a liability arising from a breach of contract.
- (d) interest on debentures issued by the company.
- (e) interest on unsecured loans and advances.
- (f) depreciation to the extent specified in section 123.

Since all of the above charges are already deducted while arriving at net profit, no effect will be given.

- (3) According to section 198(5), loss of a capital nature including loss on sale of the undertaking or any of the undertakings of the company or any part thereof shall not be deducted. In the given question, the investments are current in nature and accordingly no effect is given as it is already deducted while arriving at net profit.
- (4) According to section 198(4), expenses on repairs, whether to immovable or to movable property is deducted only for repairs which are not capital in nature. Accordingly, we have added back to the net profit.

CASE STUDY 22

Aakash and Vani are close friends who were employed in the city of Delhi, far away from their respective home towns. Aakash is a software engineer while Vani is an MBA by profession. Both of them have spent considerable time in the industry to gain **Reasonable** experience to launch their own startup. Both of them have decided to launch the operations in the area of tourism with effect from 1st April 2022, wherein the customers would be provided the complete package of tourist services in the domestic territories and in the international territories. After the round of discussions with the consultant, it was decided to incorporate a new partnership firm with the proposed name 'AakashVani Universal' (hereinafter referred as 'Aakashvani') with Aakash and Vani being the two partners in newly formed partnership firm.

Salary to partners is to be provided as per the maximum limits allowable as per Income-tax Act, 1961. This clause with sufficient details is also added in the partnership deed.

In the internet of things, travel business must be visible to the potential customers when they type keywords to find similar agencies on the web. This is called search engine optimization of a website. If the site does not appear on the top search results, most customers will not bother to find more sites. They will simply click on the top ranking sites. To improve its search engine optimization to find out the potential customers, the company has subscribed for the services of such kind for the period of 12 months starting from 1st June, 2022 for an agreed amount of Rs 90,000.

Aakashvani's revenue model in aggregate collects the following types of charges from the customers for every journey:

- (1) There are minimum fixed charges levied by Aakashvani for the type of package chosen by customer as per location and corresponding package and further the hotel charges are varied as per customer's number of days stay in the hotel as against the corresponding package and location:

Location	Package	Fixed charges (Rs)	Per day hotel charges (Rs)
India	Platinum	1,00,000	5,000
India	Diamond	75,000	4,000
India	Golden	50,000	3,000
India	Copper	40,000	2,000
India	Silver	25,000	1,000
Asia	Platinum	2,00,000	10,000
Asia	Diamond	1,75,000	9,000
Asia	Golden	1,50,000	8,000
Asia	Copper	1,00,000	7,000
Asia	Silver	75,000	6,000
Overseas*	Platinum	3,00,000	15,000
Overseas	Diamond	2,50,000	14,000
Overseas	Golden	2,00,000	13,000
Overseas	Copper	1,75,000	12,000
Overseas	Silver	1,50,000	11,000

*Note: Overseas hereinafter implies, locations other than India and Asia.

- (2) In addition to charges which are discussed in revenue model's point no.1, Aakashvani also collects charges as per the distance travelled by the customers from the base location, as measured in units of Kilometers.

Journey distance (In KM)	Location	Rate per KM (Rs)
1-100	India	50
200-400	India	100
400-600	India	150
600-1000	India	200
Above 1000	India	250
1-100	Asia	500
200-400	Asia	400
400-600	Asia	300
600-1000	Asia	200
Above 1000	Asia	100
1-5000	Overseas	200
5001-7000	Overseas	150
7001-10000	Overseas	100
10001-12000	Overseas	75
Above 12000	Overseas	75

It is to be noted that charges which can be levied from customers as per distance covered is subject to maximum of below limits:

Location	Maximum charges as per distance, that may be levied from a customer (Rs)
India	1,00,000
Asia	1,75,000
Overseas	5,00,000

- (1) The company provides direct subsidy of Rs 10,000 for all the visits to the specific holy places. The details of those places are as under:

Holy Place	Location
Mecca	Saudi Arabia (India)
Vatican city	Europe
Jerusalem	Israel (Asia)
12 Shiv Jyotirlingam	India
4 Dham	India
Golden Temple	Amritsar (India)
Bodh Gaya	Gaya (India)

Actual packages subscribed by customers during FY 2022-23 with relevant details are as below:

Customer	Location	Journey distance (Kilometers)	Package	Number of days stay in Hotel	Agency through which customer acquired
A	India	700	Platinum	4	Wonder Agent
B	Asia	550	Diamond	8	Universal agent
C	Overseas	6,100	Golden	3	Universal agent
D	India	1,800	Copper	6	Wonder Agent
E	Asia	2,000	Silver	5	Universal agent
F	India	500	Platinum	4	Direct
G	Overseas	7,000	Golden	5	Universal agent
H	Overseas	6,500	Copper	7	Universal agent
I	Overseas	9,500	Silver	4	Wonder Agent
J	India	1,200	Golden	14	Wonder Agent
K	Overseas	8,400	Diamond	2	Universal agent
L	Asia	1,800	Platinum	21	Wonder Agent
M	Asia	950	Copper	4	Wonder Agent
N	Overseas	5,500	Golden	10	Universal agent
O	India	700	Diamond	8	Universal agent
P	Asia	1,600	Platinum	15	Direct
Q	Asia	2,500	Copper	3	Universal agent
R	India	500	Golden	7	Universal agent
S	Overseas	7,000	Diamond	5	Wonder Agent
T	India	1,000	Copper	6	Universal agent

Note: The firm does not pay any commission on direct bookings.

The customers with following details have visited holy places during the year:

Customer	Holy Place
A	12 Shiv Jyotirlingam
H	Mecca
J	Golden Temple
T	Bodh Gaya

It may be noted that at present, Aakashvani has 2 travel agents: Wonder Agents and Universal agents, through which it acquires its business.

The tie ups with travel agents is facilitated by variety of services that include arranging airline tickets, making hotel and resort reservations, creating itineraries for tour or cruise packages and providing information about specific destinations.

The company pays two types of commissions to its agents, categorized and paid as per (1) Flat rate and (2) Passengers' count. The agents are paid respective commissions as per following details:

Flat rate: A flat rate travel agent commission is the simplest type of commission wherein every travel agent gets fixed standard amount on each customer's booking.

Commission rate (India)	Commission rate (Asia)	Commission rate (Overseas)
Rs 10,000	Rs 20,000	Rs 30,000

Passengers' count: In addition to the flat rate commission, the commission level Aakashvani pays an agency is determined by the business that has been acquired under that agency. Aakashvani pays them as per the passenger's volume, as per the rate pattern depicted below, wherein that slab rate of commission would be applied to travel agent for which he has done total number of customer's bookings during the year.

Passenger booking by Agency during the year	Commission rate per passenger (Domestic)	Commission rate per passenger (Asia)	Commission rate per passenger (Overseas)
1-5 passengers	2.5% of hotel charges & distance charges	5% of hotel charges & distance charges	7.5% of hotel charges & distance charges
6-10 passengers	5% of hotel charges & distance charges	7.5% of hotel charges & distance charges	10% of hotel charges & distance charges
11-20 passengers	7.5% of hotel charges & distance charges	10% of hotel charges & distance charges	12.5% of hotel charges & distance charges
21-50 passengers	10% of hotel charges & distance charges	12.5% of hotel charges & distance charges	15% of hotel charges & distance charges
Above 50 passengers	15% of hotel charges & distance charges	17.5% of hotel charges & distance charges	20% of hotel charges & distance charges

Assets purchased by Aakashvani during the year are:

Asset	Amount (Rs)	Date of put to use
Air-conditioner	1,00,000	15/08/2021
Laptop	4,00,00	07/04/2021
Software	1,50,000	30/04/2021
Furniture	2,50,000	15/11/2021

The partnership firm has incurred following income and expenditure for the year ending 31 March 2032: (assume that all the revenue receivable from customers and expenses, which are required to be computed separately hereinabove have been correctly accounted for in the following figures, except depreciation and partners remuneration)

Particulars	Amount (Rs)
Revenue from operations (including other income)	1,00,00,000
Advertisement	4,00,000
Salary to staff	8,50,000
Rental expenses	12,00,000
Repairs and Maintenance	3,00,000
Training and Development	4,50,000
Telecommunications cost	5,00,000
Conveyance	3,00,000
Other expenses (including commission to agents)	30,00,000

I. Multiple Choice Questions

1. How would the firm recognize expenses amounting to Rs 90,000 related to search engine optimization?
 - (a) Rs 90,000 is to be treated as an expense for current financial year.
 - (b) Rs 90,000 is to be treated as prepaid expense for current financial year.
 - (c) Rs 15,000 is to be treated as expense in current year and Rs 75,000 as prepaid expense for current financial year.
 - (d) Rs 75,000 is to be treated as expense in current year and Rs 15,000 as prepaid expense for current financial year.
2. Air travel agent is a person who is engaged in providing services connected with the booking of passage for travel by air. What the provisions of GST are for air travel agents as the value of supply of service?
 - (a) 5% of the basic fare in case of the domestic booking for travel by air and 10% of the basic fare in case of an international booking for travel by air.
 - (b) 2.5% of the basic fare in case of the domestic booking for travel by air and 5% of the basic fare in case of an international booking for travel by air.
 - (c) 10% of the basic fare in case of the domestic booking for travel by air and 5% of the basic fare in case of an international booking for travel by air.
 - (d) 5% of the basic fare in case of the domestic booking for travel by air and 5% of the basic fare in case of an international booking for travel by air.
3. Calculate the depreciation as per Income-tax Act, 1961 in the Aakashvani's books for assessment year 2023-24.
 - (a) Rs 2,60,000
 - (b) Rs 3,57,500
 - (c) Rs 1,67,500
 - (d) Rs 2,47,500
4. Calculate the maximum remuneration allowed to partners as per section 40b of Income-tax Act, 1961 in Aakashvani's books for assessment year 2023-24
 - (a) Rs 18,90,000
 - (b) Rs 17,41,500
 - (c) Rs 18,00,000
 - (d) Rs 24,77,250
5. Calculate the tax payable by Aakashvani as per Income-tax Act, 1961 for assessment year 2023-24.
 - (a) Rs 9,36,000
 - (b) Rs 8,58,780
 - (c) Rs 3,43,512
 - (d) Rs 3,15,432

II. Descriptive Questions

6. Calculate the revenue receivable for FY 2022-23 of Aakashvani, from the packages subscribed by customers as per its revenue model.
7. Calculate the commission to be paid by Aakashvani to its respective travel agents for FY 2022-2023.

I. Answers to the Multiple Choice Questions

1. (d) Rs 75,000 is to be treated as expense in current year and Rs 15,000 as prepaid expense for current financial year.
Reason: On accrual basis, for the given expenditure of Rs 90,000; 10 months relate to FY 2022-23 and 2 months relate to FY 2023-24.
 Accordingly, expenditure of Rs 75,000 ($90,000 \times 10/12$) relates to FY 2022-23, it is to be charged as an expense and Rs 15,000 ($90,000 \times 2/12$) would be treated as Prepaid expense as on 31 March, 2023.
2. (a) 5% of the basic fare in case of the domestic booking for travel by air and 10% of the basic fare in case of an international booking for travel by air.
Reason: Rule 32 of the Central Goods and Service Tax Rules, 2017 deals with the value in case of certain supplies and as per rule 32 (3) of the said rules provides that the value of supply of service in case of air travel agent shall be deemed to be following:
 - 5% of the basic fare in case of the domestic booking for travel by air; and
 - 10% of the basic fare in case of an international booking for travel by air.
 'Basic fare' here is the portion of air fare on which commission is paid by the airline to air travel agent.
3. (d) Rs 2,47,500

Reason:

Calculation of Depreciation as per Income-tax Act, 1961

Block of assets	WDV at year beginning	Depreciation rate	Additions (more than 6 months)	Additions (less than 6 months)	Depre- ciation	WDV at year end
Air-conditioner	-	15%	1,00,000	-	15,000	85,000
Laptop	-	40%	4,00,000	-	1,60,000	2,40,000
Software	-	40%	1,50,000	-	60,000	90,000
Furniture	-	10%	-	2,50,000	12,500	2,37,500
Total	-		6,50,000	2,50,000	2,47,500	6,52,500

4. (b) Rs 17,41,500

Reason:

Particulars	Amount (Rs)
Revenue from operations (including other income)	1,00,00,000
Less: Sundry expenses	70,00,000
Depreciation	2,47,500
Book profit before partners remuneration	27,52,500

On first Rs 3,00,000 of the book-profit [A]

= Rs 2,70,000 (Rs 1,50,000 or at the rate of 90 per cent of the book-profit, whichever is more)

On the balance of the book-profit [B]

= Rs 14,71,500 (at the rate of 60 percent of Rs 24,52,500) Maximum allowable remuneration

[A]+[B] = Rs 17,41,500

5. (d) Rs 3,15,432

Reason:

Particulars	Amount (Rs)
Net profit before tax (27,52,500 - 17,41,500) (Taxable income)	10,11,000
Income Tax @ 30% (A)	3,03,300
Health & Education cess @ 4% (B)	12,132
Total tax liability (A) + (B)	3,15,432

II. Answers to the Descriptive Questions

1. Computation of Revenue levied from customers:

(All amounts are in Rupees, unless otherwise specified)

Customer	Location	Package	Number of days stay in Hotel (A)	Fixed charges (B)	Per day Hotel charges (C)	Hotel charges (D) = (A) x (C)	Billable distance charges (refer note- 1) (E)	Subsidy, if any (F)	Total (B) + (D) + (E) - (F)
A	India	Platinum	4	1,00,000	5,000	20,000	1,00,000	10,000	2,10,000
B	Asia	Diamond	8	1,75,000	9,000	72,000	1,65,000	-	4,12,000
C	Overseas	Golden	3	2,00,000	13,000	39,000	5,00,000	-	7,39,000
D	India	Copper	6	40,000	2,000	12,000	1,00,000	-	1,52,000
E	Asia	Silver	5	75,000	6,000	30,000	1,75,000	-	2,80,000
F	India	Platinum	4	1,00,000	5,000	20,000	75,000	-	1,95,000
G	Overseas	Golden	5	2,00,000	13,000	65,000	5,00,000	-	7,65,000
H	Overseas	Copper	7	1,75,000	12,000	84,000	5,00,000	10,000	7,49,000
I	Overseas	Silver	4	1,50,000	11,000	44,000	5,00,000	-	6,94,000
J	India	Golden	14	50,000	3,000	42,000	1,00,000	10,000	1,82,000
K	Overseas	Diamond	2	2,50,000	14,000	28,000	5,00,000	-	7,78,000
L	Asia	Platinum	21	2,00,000	10,000	2,10,000	1,75,000	-	5,85,000
M	Asia	Copper	4	1,00,000	7,000	28,000	1,75,000	-	3,03,000
N	Overseas	Golden	10	2,00,000	13,000	1,30,000	5,00,000	-	8,30,000
O	India	Diamond	8	75,000	4,000	32,000	1,00,000	-	2,07,000
P	Asia	Platinum	15	2,00,000	10,000	1,50,000	1,60,000	-	5,10,000
Q	Asia	Copper	3	1,00,000	7,000	21,000	1,75,000	-	2,96,000
R	India	Golden	7	50,000	3,000	21,000	75,000	-	1,46,000
S	Overseas	Diamond	5	2,50,000	14,000	70,000	5,00,000	-	8,20,000
T	India	Copper	6	40,000	2,000	12,000	1,00,000	10,000	1,42,000
		Total		27,30,000		11,30,000	51,75,000	40,000	89,95,000

Note: Calculation of Billable distance charges

Customer	Location	Distance taken (Kilometres) (A)	Cost per kilometre (B)	Actual Distance charges (C) = (A) x (B)	Maximum cap of distance charges (D)	Billable distance charges [Lower of (C) & (D)]
A	India	700	200	1,40,000	1,00,000	1,00,000
B	Asia	550	300	1,65,000	1,75,000	1,65,000
C	Overseas	6,100	150	9,15,000	5,00,000	5,00,000
D	India	1,800	250	4,50,000	1,00,000	1,00,000
E	Asia	2,000	100	2,00,000	1,75,000	1,75,000
F	India	500	150	75,000	1,00,000	75,000
G	Overseas	7,000	150	10,50,000	5,00,000	5,00,000
H	Overseas	6,500	150	9,75,000	5,00,000	5,00,000
I	Overseas	9,500	100	9,50,000	5,00,000	5,00,000
J	India	1,200	250	3,00,000	1,00,000	1,00,000
K	Overseas	8,400	100	8,40,000	5,00,000	5,00,000
L	Asia	1,800	100	1,80,000	1,75,000	1,75,000
M	Asia	950	200	1,90,000	1,75,000	1,75,000
N	Overseas	5,500	150	8,25,000	5,00,000	5,00,000
O	India	700	200	1,40,000	1,00,000	1,00,000
P	Asia	1,600	100	1,60,000	1,75,000	1,60,000
Q	Asia	2,500	100	2,50,000	1,75,000	1,75,000
R	India	500	150	75,000	1,00,000	75,000
S	Overseas	7,000	150	10,50,000	5,00,000	5,00,000
T	India	1,000	200	2,00,000	1,00,000	1,00,000
Total				91,30,000		51,75,000

1. Calculation of commission for Wonder Agent:

(All amounts are in Rupees, unless otherwise specified)

Customer	Location	Agency	Fixed commission (A)	Hotel charges levied from customer (B)	Distance charges (C)	Total (D) = (B) + (C)	Commission on Domestic travels (E)	Commission on Asia travels (F)	Commission on Overseas travels (G)	Total commission (A) + (E) + (F) + (G)
A	India	Wonder Agent	10,000	20,000	1,00,000	1,20,000	6,000	-	-	16,000
D	India	Wonder Agent	10,000	12,000	1,00,000	1,12,000	5,600	-	-	15,600
I	Overseas	Wonder Agent	30,000	44,000	5,00,000	5,44,000	-	-	54,400	84,400
J	India	Wonder Agent	10,000	42,000	1,00,000	1,42,000	7,100	-	-	17,100
L	Asia	Wonder Agent	20,000	2,10,000	1,75,000	3,85,000	-	28,875	-	48,875
M	Asia	Wonder Agent	20,000	28,000	1,75,000	2,03,000	-	15,225	-	35,225
S	Overseas	Wonder Agent	30,000	70,000	5,00,000	5,70,000	-	-	57,000	87,000
Total			1,30,000				18,700	44,100	1,11,400	3,04,200

Note: Total 7 bookings are done by Wonder Agent, hence following slab of commission rate would be payable:

Passenger count	Commission rate per passenger (Domestic)	Commission rate per passenger (Asia)	Commission rate per passenger (Overseas - other than Asia)
6-10 passengers	5% of hotel charges & distance charges	7.5% of hotel charges & distance charges	10% of hotel charges & distance charges

Calculation of commission for Universal Agent:

Customer	Location	Agency	Fixed commission (A)	Hotel charges levied from customer (B)	Distance charges (C)	Total (D) = (B) + (C)	Commission on Domestic travels (E)	Commission on Asia travels (F)	Commission on Overseas travels (G)	Total commission (A) + (E) + (F) + (G)
B	Asia	Universal agent	20,000	72,000	1,65,000	2,37,000	-	23,700	-	43,700
C	Overseas	Universal agent	30,000	39,000	5,00,000	5,39,000	-	-	67,375	97,375
E	Asia	Universal agent	20,000	30,000	1,75,000	2,05,000	-	20,500	-	40,500
G	Overseas	Universal agent	30,000	65,000	5,00,000	5,65,000	-	-	70,625	1,00,625
H	Overseas	Universal agent	30,000	84,000	5,00,000	5,84,000	-	-	73,000	1,03,000
K	Overseas	Universal agent	30,000	28,000	5,00,000	5,28,000	-	-	66,000	96,000
N	Overseas	Universal agent	30,000	1,30,000	5,00,000	6,30,000	-	-	78,750	1,08,750
O	India	Universal agent	10,000	32,000	1,00,000	1,32,000	9,900	-	-	19,900
Q	Asia	Universal agent	20,000	21,000	1,75,000	1,96,000	-	19,600	-	39,600
R	India	Universal agent	10,000	21,000	75,000	96,000	7,200	-	-	17,200
T	India	Universal agent	10,000	12,000	1,00,000	1,12,000	8,400	-	-	18,400
Total			2,40,000				25,500	63,800	3,55,750	6,85,050

Note: Total 11 bookings are done by Universal Agent, hence following commission rate would be payable:

Passenger count	Commission rate per passenger (Domestic)	Commission rate per passenger (Asia)	Commission rate per passenger (Overseas- other than Asia)
11-20 passengers	7.5% of hotel charges & distance charges	10% of hotel charges & distance charges	12.5% of hotel charges & distance charges

CASE STUDY 23

Akshay is currently working in one of the top multinational companies of the world in Gurugram namely Kishaniti Limited. At present he is residing in a rented flat in Gurugram itself. Akshay is the Vice-President, Finance of the said company for its Asia-Pacific operations. Akshay is paid **Reasonably** well by his company as per his designation. Akshay lives in a rented premium luxury flat in one of the premium colonies of the region. Akshay pays a monthly rent of Rs 1,00,000 for the said flat. However, there are 2 joint owners of the said property. As per the agreement, Akshay is required to make the payment of Rs 75,000 to joint owner 1 and Rs 25,000 to joint owner 2. Akshay has basic understanding that TDS needs to be deducted at the rate of 10% of other party if the aggregate amount of rent credited or paid or likely to be credited or paid during the financial year exceeds Rs 2,40,000. However, the landlord has shown a reference of website to Akshay that individuals and/or HUFs who are subject to tax audit are only under an obligation to deduct the tax at source. Akshay being a salaried Individual is not required to deduct the TDS of other party. Akshay on the influence of landlord(s) has done the same and is depositing the gross amount of Rs 1,00,000 in their respective bank accounts.

Recently a new accountant, Rohit has been hired by the company. The company has the following data shown in its books of accounts for the month of March, 2023 (1st March 2023 to 31st March 2023).

Particulars	Amount (Rs)
Central goods and service tax payable	2,70,000
Integrated goods and service tax payable	1,80,000
State goods and service tax payable	2,70,000
Central goods and service tax receivable	70,000
State goods and service tax receivable	70,000
Integrated goods and service tax receivable	80,000
TDS receivable	50,000
TDS payable (including earlier carried forward balance)	90,000
TCS payment	10,000

Note: Assume that the figures as shown above are computed correctly after incorporating all adjustments.

According to Rohit, company needs to make the net payment of Rs 40,000 for TDS i.e. net of TDS payable and TDS receivable. Accountant needs the help of Akshay for the exact final amount of each statutory liability to be paid on net basis for the month of March, 2023.

Accountant has been told by Akshay to show the treatment of entries done for given transactions so that TDS payable for the month of March, 2023 can be ascertained accurately. Before the deposit of TDS, Akshay wants to cross verify the data to check discrepancy, if any. The company has following data in its books of accounts for the period of March 2023.

Date	Supplier	Company/ Non company	Invoice amount (Rs) (A)	GST(Rs) (B)	Gross Invoice (Rs) (A) + (B)	Nature of Supply	Remarks
03.03.2023	Mohammad Shah & Brothers	Firm	2,00,000	36,000	2,36,000	Labour contractor	
01.03.2023	Madan Lal	Individual	1,20,000	-	1,20,000	Contract for AMC of electrical equipments for 1 year	PAN not available
10.03.2023	Johnsons appliances Pvt. Ltd.	Company	10,00,000	1,20,000	11,20,000	Purchase of Heavy machinery	
10.03.2023	Eagle Watch Security Private Ltd	Company	80,000	14,400	94,400	Security Services	
13.03.2023	Mariol Limited	Company	5,00,000	25,000	5,25,000	Goods in the normal course of business	
18.03.2023	Shah & Thapa HUF	HUF	50,000	-	50,000	Interest on unsecured loans	
20.03.2023	M/s PQR	Firm	1,20,000	21,600	1,41,600	Consultancy fees paid to chartered accountant	
23.03.2023	Divine Decorators Private Limited	Company	1,80,000	32,400	2,12,400	Technical fees for architectural services	Certificate u/s 197 issued by the assessing officer for lower deduction at 2.5%

26.03.2023	Good luck Home solutions	Individual	1,75,000	31,500	2,06,500	Brokerage paid for purchase of immoveable property	
30.03.2023	Chotu Lal	Individual	15,000	-	15,000	Services for white wash of building	This is his first invoice to company in the given FY
01.03.2023	Easy-lifts Limited	Company	1,44,000	25,920	1,69,920	AMC for maintenance of lifts for 1 year	
29.03.2023	Lotus Private Limited	Company	2,00,000	36,000	2,36,000	Rent paid for corporate office	Company pays rent of Rs 2 lakh per month

Assume that all the above transactions have been executed from within the state only. The company filed the TDS return for the month of March 2023 as on, 10th June 2023.

One of the companies of group promoters, Shivalik Private Limited is separately funded by the promoters of their own equity. Strategically that company's operations do not hold much significance from the director's vision. The directors want to ensure that this company comes under the ambit of composition scheme and want to pay taxes thereon under tax rates mentioned under the composition levy scheme. The company operates from 2 locations in the same state from where the supplies are executed. Since the commencement of operations in the company, only supplies within the state are made. During the preceding financial year, the company has following relevant information for the respective locations from its books.

Location 1

Particulars	Amount (Rs)
Taxable supplies	60,00,000
GST @18% on taxable supplies which could have been levied on taxable supplies	10,80,000
Exports during the year	20,00,000
Exempt supplies	25,00,000
Value of inward supplies on which tax is payable under reverse charge	5,00,000

Location 2

Particulars	Amount (Rs)
Taxable supplies	25,00,000
GST @18% on taxable supplies which could have been levied on taxable supplies	5,40,000
Exports during the year	10,00,000
Exempt supplies	5,00,000
Value of inward supplies on which tax is payable under reverse charge	2,00,000

Following particulars relate to the property which has been sold by Kishaniti Limited during the financial year 2022-2023.

Particulars	Amount (Rs)
Date of sale	01-12-2022
Sale price of the property	40,00,000
Brokerage on sale	1% of sale value
Purchase value	20,00,000
Brokerage on Purchase	1% of Purchase value
Date of Purchase	08-12-2021

Cost Inflation Index for different years:

Financial Year	Cost Inflation Index
2015-2016	254
2016-2017	264
2017-2018	272
2018-2019	280
2019-2020	289
2020-2021	301
2021-2022	317
2022-23	331

Following information as extracted from company's financials is relevant for the year ending 31st March 2023.

Particulars	Amount (Rs)
Profit before taxation	1,00,00,000
Depreciation as per Income tax	20,00,000
Depreciation as per Companies Act, 2013	15,00,000
Corporate social responsibility expenses	3,00,000
Closing Written down value of assets as per Income tax	8,00,00,000
Closing Written down value of assets as per Companies Act, 2013	10,00,00,000
Provision for doubtful debts	5,00,000
Donations	4,00,000
Interest on late payment of TDS	1,70,000
Penalty for violation of law	30,000

Assume the income tax rate to be 25%.

After analysis of the stated issues, answer the following questions based on applicable framework.

I. Multiple Choice Questions

- Calculate the amount of capital gain for sale of property executed on 01-12-2022.
 (a) Rs 19,60,000-Short term capital gain (b) Rs 19,40,000-Short term capital gain
 (c) Rs 20,00,000-Short term capital gain (d) Rs 18,78,715-Long term capital gain
- Calculate the amount of deferred tax liability to be shown in the company's balance sheet as at 31st March 2023.
 (a) Deferred tax liability- Rs 53,50,000 (b) Deferred tax liability- Rs 51,25,000
 (b) Deferred tax liability- Rs 2,50,000 (d) Deferred tax liability- Rs 52,42,500
- What is the name of document which Shivalik Private Limited will have to issue w.r.t. sales made by it _____ if it gets registered under the GST scheme directors are rooting for?
 (a) Tax Invoice (b) Invoice (c) Bill of supply (d) Bill of composition
- The Payment made to Good Luck Home Solutions requires TDS to be deducted at the rate of?
 (a) 5% (b) 10% (c) 2.5% (d) 3.75%
- Calculate the fees on late filing of TDS return if any which the company has to pay as per facts mentioned in case study.
 (a) Nil (b) Rs 2,000 (c) Rs 1,000 (d) Rs 12,800

II. Descriptive Questions

- Pass complete Journal entries at the time of initial recognition of transactions in the books which relate to TDS after the consideration of provisions or rules as the case may be whether of accounting, Income tax or GST. And calculate the total amount of TDS which is required to be paid as liability for the month of March 2023. Also compute the total amount to be paid to suppliers.
- Being Akshay, help the accountant to find the liability of statutory dues to be paid in the Government treasury for the month of March 2023

I. Answers to the Multiple Choice Questions

- (b) Rs 19,40,000-Short term capital gain

Reason: Calculation of Short term capital gain:

Particulars	Amount (Rs)
Sale price of the property	40,00,000
Less: Transfer expenses on sale-Brokerage	(40,000)
Net Sale Consideration	39,60,000
Less: Purchase Price of property	(20,00,000)
Less: Cost of transfer	(20,000)
Short Term Capital Gain	19,40,000
Less: exemptions under sections 54, etc.	Nil
Net Short Term Capital Gain	19,40,000

1. (b) Deferred tax liability- Rs 51,25,000

Reason: Calculation of deferred tax liability:

Particulars	Amount (Rs)
Closing Written down value of assets as per Income tax	8,00,00,000
Closing Written down value of assets as per Companies Act,2013	10,00,00,000
Difference in Closing WDV of assets as per Companies Act & Income-tax Act [A]	2,00,00,000
Provision for doubtful debts [B]	5,00,000
Total [A] + [B]; [C]	2,05,00,000
Tax rate [D]	25%
Closing balance of Deferred tax liability [C] x [D] [2,05,00,000 x 25%]	51,25,000

Note: There is no treatment of permanent differences in the calculation of deferred tax as per Ind AS12.

2. (c) Bill of Supply.

Reason: Suppliers opting for composition levy are not required to raise any tax invoice, but simply need to issue a Bill of Supply wherein no tax will be charged from the recipient.

3. (a) 5%

Reason: As per Section 194H, any person other than an individual or HUF, who is responsible for paying any income by way of commission (other than insurance commission) or brokerage to a resident shall deduct income tax at the rate of 5%.

4. (b) Rs 2,000

Reason: As per section 234E, where a person fails to file the TDS/TCS return on or before the due date prescribed in this regard, then he shall be liable to pay, by way of fee, a sum of Rs 200 for every day during which the failure continues. The amount of late fees shall not exceed the amount of TDS.

The due date for filing return for March 2023 is 31st May 2022; however, the company has filed the TDS return on 10th June 2023. Accordingly, there is delay of 10 days, for which the company has to pay late fees of 2000 (10 days x Rs 200/day).

II. Answers to the Descriptive Questions

1. Statement of TDS deduction of suppliers for the month of March 2023:

Date	Supplier	Company/ Non company	Applicable Section	Taxable amount (Rs) [A]	TDS Rate [B]	TDS amount (Rs) [C] = [A]x[B]	Payable to supplier (Rs) [Invoice amount – [C]]	Remarks
03.03.2023	Mohammad Shah & brothers	Firm	194C	2,00,000	2%	4,000	2,32,000	Normal Rate of TDS in case of Firm as contractor is 2%.
01.03.2023	Madan Lal Johnsons appliances Pvt. Ltd.	Individual Company	194C	1,20,000	20.00%	24,000	96,000	TDS deducted at the higher rate of 1% and 20%
10.03.2023	Eagle watch security private limited	Company	194C	80,000	2%	1,600	92,800	TDS is not to be deducted on purchase of machinery
10.03.2023	Mariol Limited	Company	194C	80,000	2%	1,600	92,800	Normal Rate of TDS in the nature of contract services is 2% for company
13.03.2023	Mariol Limited	Company	-	-	0.00%	-	5,25,000	TDS is not to be deducted on purchase of goods
18.03.2023	Shah & Thapa HUF	HUF	194A	50,000	10%	5,000	45,000	
20.03.2023	M/s PQR	Firm	194J	1,20,000	10%	12,000	1,29,600	
23.03.2023	Divine Decorators Private	Company	194J	1,80,000	2.50%	4,500	2,07,900	TDS deducted at lower rate due to certificate u/s 197 from AO

26.03.2023	Limited Good luck Home solutions	Individual	194H	1,75,000	5%	8,750	1,97,750	
30.03.2023	Chotu Lal	Individual	-	15,000	-	-	15,000	Limit for section 194C is Rs30000 for single invoice and Rs1,00,000 in aggregate
01.03.2023	Easylifts Limited	Company	194C	1,44,000	2%	2,880	1,67,040	
29.03.2023	Lotus Private Limited	Company	194I	2,00,000	10%	20,000	2,16,000	
TOTAL						82,730	30,44,090	

Journal Entries

Date	Particulars	Debit (Rs)	Credit (Rs)
03.03.2023	Labour expenses A/c	2,00,000	
	CGST Receivable	18,000	
	SGST Receivable	18,000	
	To Mohammad Shah & Brothers		2,32,000
	To TDS payable u/s 194C		4,000
(Being bill booked against corresponding deduction of TDS as per invoice no. xxx)			
Date	Particulars	Debit (Rs)	Credit (Rs)
01.03.2023	Repairs & Maintenance A/c	10,000	
	Prepaid expenses A/c	1,10,000	
	To Madan Lal		96,000
	To TDS payable u/s 194C		24,000
(Being bill booked as per invoice no. xxx)			
Date	Particulars	Debit (Rs)	Credit (Rs)
10.03.2023	Property, Plant & Equipment A/c	10,00,000	
	CGST Receivable	60,000	
	SGST Receivable	60,000	
	To Johnsons Appliances Pvt. Ltd.		11,20,000
(Being bill booked for machinery purchase as per invoice no. xxx)			
Date	Particulars	Debit (Rs)	Credit (Rs)
10.03.2023	Security expenses A/c	80,000	
	CGST Receivable	7,200	
	SGST Receivable	7,200	
	To Eagle Watch Security Pvt Ltd.		92,800
	To TDS payable u/s 194C		1,600
(Being bill booked against corresponding deduction of TDS as per invoice no. xxx)			
Date	Particulars	Debit (Rs)	Credit (Rs)
13.03.2023	Purchase of goods A/c	5,00,000	
	CGST Receivable	12,500	
	SGST Receivable	12,500	
	To Mariol Limited		5,25,000
(Being bill booked for goods purchase as per invoice no. xxx)			
Date	Particulars	Debit (Rs)	Credit (Rs)
18.03.2023	Interest on unsecured loans	50,000	
	To Shah & Thapa HUF		45,000
	To TDS payable u/s 194A		5,000
(Being bill booked as per invoice no. xxx)			
Date	Particulars	Debit (Rs)	Credit (Rs)
20.03.2023	Professional charges A/c	1,20,000	
	CGST Receivable	10,800	

	SGST Receivable To M/s PQR To TDS payable u/s 194J	10,800	1,29,600 12,000
	(Being bill booked against corresponding deduction of TDS as per invoice no. xxx)		
Date	Particulars	Debit (Rs)	Credit (Rs)
23.03.2023	Professional charges A/c CGST Receivable SGST Receivable To Divine Decorators Private Limited To TDS payable u/s 194J	1,80,000 16,200 16,200	2,07,900 4,500
	(Being bill booked against corresponding deduction of TDS as per invoice no. xxx)		
Date	Particulars	Debit (Rs)	Credit (Rs)
26.03.2023	Brokerage charges A/c CGST Receivable SGST Receivable To Good Luck Home Solutions To TDS payable u/s 194H	1,75,000 15,750 15,750	1,97,750 8,750
	(Being bill booked against corresponding deduction of TDS as per invoice no. xxx)		
Date	Particulars	Debit (Rs)	Credit (Rs)
30.03.2023	Repairs & Maintenance A/c To Chotu Lal	15,000	15,000
	(Being bill booked as per invoice no. xxx)		
Date	Particulars	Debit (Rs)	Credit (Rs)
01.03.2023	Repairs & Maintenance A/c Prepaid expenses A/c CGST Receivable SGST Receivable To Easy Lifts Limited To TDS payable u/s 194C	12,000 1,32,000 12,960 12,960	1,67,040 2,880
	(Being bill booked against corresponding deduction of TDS as per invoice no. xxx)		
Date	Particulars	Debit (Rs)	Credit (Rs)
29.03.2023	Rent A/c CGST Receivable SGST Receivable To Lotus Private Limited To TDS payable u/s 194I	2,00,000 18,000 18,000	2,16,000 20,000
	(Being bill booked against corresponding deduction of TDS as per invoice no. xxx) as per invoice no. xxx)		

1. Calculation of Net GST liability to be paid for the month of March 2023:

Particulars	CGST (Rs)	SGST (Rs)	IGST (Rs)	Total (Rs)
GST payable (A)	2,70,000	2,70,000	1,80,000	7,20,000
GST Input receivable (B)	70,000	70,000	80,000	2,20,000
Net GST payable (A) - (B)	2,00,000	2,00,000	1,00,000	5,00,000

TDS/TCS liability to be paid for the month of March 2023:

Particulars	Amount (Rs)
TDS payable (including earlier carried forward balance)	90,000
TCS payment	10,000
Total	1,00,000

Note: TDS Payable and TDS receivable cannot be set off against each other for the purpose of making monthly payment of TDS dues.

CASE STUDY 24

M/s ABCD & Co. is a firm of Chartered Accountants, with its headquarters at Kolkata and branches at many places across the country. Mr. A, Mr. B, Mrs. C and Mr. D are Chartered accountants who are the Partners of this firm and have expertise in different sectors of the economy and render their services accordingly in the firm by forming teams of Audit Staff & articled assistants under their supervision. The Firm has ventured into Tax Audits, Statutory audits, GST, Insolvency Procedures and Financial services. It has a policy of rotating the audit staff among different teams within the Firm itself so that at the end of their article ship training, they would have gained a good knowledge & experience of working as a Chartered Accountant in different sectors and subjects in the economy and their Articles could choose an expertise career accordingly on that basis. Where Mr. A handles all the matters related to accounting and auditing of their clients, Mr. B is responsible for all the GST related matters & Mrs. C takes care of all the Legal matters and their compliances. Mr. D looks after the day to day affairs of the firm, the recruitments, the supervision, the tax matters and the work allotment. Each division in the firm has got some major and important clients for whom the Partners themselves are very particular and take proper care of the quality of work they deliver. Post COVID-19 Pandemic, majority of the firm's clients are stuck with some issues and the Partners are trying their best to resolve them, some major and important issues being discussed are as follows :-

ISSUE: 1

Batliwala Pvt. Ltd. is a very old client of M/s ABCD & Co. It is associated with the firm since its inception and the client relations have grown well with time. The General Manager of Batliwala Pvt. Ltd., Mr. Shah, visits Mr. B in the office one day with two particular issues relating to GST and seeks his advice. He tells him that their Company manufactures Industrial products at its unit situated in West Bengal. Cost of production for 500 products is Rs 10,00,000. These products require further processing before sale, and for this purpose, products are transferred from its Bengal unit to its another unit in Arunachal Pradesh. The value declared on the invoice for such transfer is the cost of production of such products. The Arunachal Pradesh unit, apart from processing its own products, engages in processing of similar products of other persons who supply the products of the same kind and quality. Thereafter, the Arunachal Pradesh unit sells these processed products to wholesalers. There are no other factories in the neighboring area which are engaged in the same business as that of Arunachal Pradesh unit. 1,000 units of the products of same kind and quality are supplied to Arunachal Pradesh unit, by another manufacturer located in Arunachal Pradesh, at the time when goods are sent by Bengal unit as well. The ex-factory price of such goods is Rs 19,00,000. The Arunachal Pradesh unit of Batliwala Pvt. Ltd. is eligible for full ITC.

ISSUE: 2

Roy LLP, one of their clients have been hiring their services since the past 2 years. Mrs. C has been looking over all their Legal matters & compliances from time to time. The said LLP has committed a default. Being, a partner of the said Corporate Debtor, Mr. Y filed an application on behalf of the Corporate Debtor, as a corporate applicant, for initiation of Corporate Insolvency Resolution Process. The Corporate Insolvency Resolution Process (CIRP) was initiated which resulted into passing of liquidation order by the Adjudicating Authority.

On the basis of the following information available w.r.t. Roy LLP, Miss C, who has been appointed as the liquidator, lays down the priority order in which the proceeds shall be distributed as per the provisions of the governing Code:-

Unsecured Financial Creditors (Rs 2,00,000);

Fee payable to M/s ABCD & Co. for the services rendered by Miss C — the Resolution Professional (Rs 70,000, inclusive of Rs 20,000 being expenses incurred by Miss C in running the business of Roy (P) Ltd.); Amount realized from sale of liquidation of assets (Rs 10,00,000);

Secured Creditor who has relinquished the security (Rs 2,30,000); Equity shareholders (Rs 5,00,000);

Income tax payable within a period of 2 years preceding the liquidation commencement date (Rs 2,25,000);

Cess payable to State Govt. within a period of 1 year preceding the liquidation commencement date (Rs 75,000).

ISSUE: 3

Purva Ltd. is one of their prime clients engaged in the business of Wholesale distribution of Electronical appliances. The Company has applied to Dhanwan Bank for loan facilities. The bank on studying the financial statements of the company notices that M/s ABCD & Co. are the auditors and requests them to call at the bank for a discussion. In the course of discussion, the bank asks M/s ABCD & CO., its opinion regarding the company and also asks for the audit working papers which contain detailed information regarding a few items in the financial statements. Mr. D, who is incharge of all the Documentation maintained with the firm, responds to the Bank accordingly.

Further, the MD of the Company informs Mr. B that pursuant to an audit conducted by the tax authorities under section 65 of the CGST Act, 2017, a show cause notice was issued to the Company, alleging that they had wrongly availed the input tax credit without actual receipt of goods for the month of July. In the absence of a satisfactory reply from them, the Joint Commissioner of Central Tax passed an adjudication order dated 20th August confirming a tax demand of Rs 60,00,000 (i.e., CGST 30,00,000 and SGST 30,00,000) and imposing a penalty of equal amount under section 122. It was received by them on 22nd August. They do not agree with the order passed by the Joint Commissioner and decide to file an appeal with the Appellate Authority against the said

adjudication order. The MD of Purva Ltd. seeks advice from Mr. B with the following queries as raised by the Board of Directors of the company-

- Whether it can file an appeal to Appellate Authority against the adjudication order passed by the Joint Commissioner of Central Tax? If yes, till what date can the appeal be filed?
- Does it need to approach both the Central and State Appellate Authorities for exercising its right of appeal?
- It is of the view that there is no requirement of paying pre-deposit of any kind before filing an appeal with the Appellate Authority.

ISSUE: 4

Mr. D consults Mr. A on 2 particular queries raised by two of their vendors which provide technical services to their firm. He tells Mr. A that the firm has sought modem from a company, Netanet, which provides broadband services along with voice call service. However, they can also get the connection from them and modem from any other vendor. The installation activity requires limited effort and the cost involved is almost insignificant. Netanet has various plans where it provides either broadband services or voice call services or both.

Another vendor, Software Company Hally Ltd. has licensed its software application to their firm. Under the agreement, it will provide updates or upgrades on a when-and-if-available basis; the firm can choose whether to install them. The firm expects that Hally Ltd. will undertake no other activities that will change the functionality of the software. Mr. D is confused as to the nature of these services to be recorded in the firm's books of accounts accordingly and Mr. A helps him in the same.

Mr. D, while working on finalizing the accounts of their firm M/s ABCD & Co., for the Previous year 2022-23, has gathered all the information from various associates and partners and has found the total miscellaneous receipts of the firm to be Rs 3.50 crores (excluding the fee billed to the abovementioned Clients). His finalization is pending, subject to some points of discussion with the Partners which may affect the outcome of the Firm for the P.Y. 2022-23. He calls for a meeting for such discussion and at the meeting, he tells them that:-

- The Firm imported a Biometrics system based upon Artificial Intelligence from Singapore on 22.03.2023 for installation in the building to record attendance of all Employees and Trainees in the firm. It costed Rs 2 lakhs and was cleared by customs on payment of duty of Rs 1 lakh. Such customs duty is neither eligible for credit nor any refund. It was duly installed and put to use on 25.03.2023.
- The Book Profits calculated u/s 40(b) are Rs 30 lakhs and Payment of Salary to Working Partners was Rs 10 lakhs. The Clause for payment of salary to Working Partners though appears in the deed since the incorporation of the firm, but the same is silent as to quantum or the manner of quantifying such remuneration.
- Salary of Rs 75,000 p.m. is paid to wife of Mr. A for working as a Manager in the Firm. The normal salary of a Manager working in a CA firm in the town is Rs 50,000 p.m.
- The firm made a purchase of stationery in cash for Rs 35,000 on 18.12.2022.
- The firm paid an interest of Rs 30,000 on an O.D. of Rs 8 lakhs taken for making payment of Advance Tax of Rs 10 lakhs.

In between he further shared good news that their firm is offered company audits for 40 private companies having paid-up share capital less than Rs 100 crore which has not committed default in filing its financial statements or annual return with the Registrar 2 small companies & 1 dormant company. However, he is not sure whether all the audits can be accepted by firm.

After a healthy discussion among the Partners of the firm, Mr. D finalized the accounts of the firm for the Previous Year 2022-23.

I. Multiple Choice Questions

1. What should be Mr. D's response to Dhanwan Bank's requirement and why?

STATEMENT 1: He should deny the Bank's request if Purva Ltd. does not permit for sharing such information.

STATEMENT 2: Unless otherwise specified by law or regulation, engagement documentation is the property of the auditor. The auditor may, at its discretion, make portions of, or extracts from, engagement documentation available to clients, provided such disclosure does not undermine the validity of the work performed, or, in the case of assurance engagements, the independence of the firm or its personnel.

- (a) **STATEMENT 1** is True and **STATEMENT 2** supports **STATEMENT 1**
 - (b) **STATEMENT 1** is True and **STATEMENT 2** does not support **STATEMENT 1**
 - (c) **STATEMENT 1** is False while **STATEMENT 2** is True.
 - (d) **STATEMENT 1** is True while **STATEMENT 2** is False.
2. Whether the Performance obligations under the Contract with Netanet distinct?
 - (a) There are 2 separate Performance obligations.
 - (b) There are 3 separate Performance obligations.
 - (c) Only 1 Performance obligation is there which encompasses 3 sub contracts.
 - (d) It depends on the CA firm's choice as to how they want to treat it.

3. How many additional number of company audits can be accepted by M/s ABCD & Co.?
 - (a) 40 private company audits only.
 - (b) 2 small company and 1 dormant company audits only.
 - (c) 1 dormant company only.
 - (d) All the company audits i.e. 40 private company, 2 small company and 1 dormant company.
4. Mr. D asks Mr. A as to the nature of License as obtained from Hally Ltd. Mr. A tells him that:-
 - (a) The Software license doesn't provide a right to use the Intellectual Property as the underlying conditions are not satisfied as per the relevant IND-AS.
 - (b) The Software license doesn't provide a right to use the Intellectual Property as the upgrades will change the functionality of the software.
 - (c) There is no question of Intellectual Property rights over here in this situation.
 - (d) The Software license provides a right to use the Intellectual Property that is satisfied at a point in time.
5. Determine the value of 500 products supplied by Batliwala Pvt. Ltd. to its Arunachal Pradesh unit as per the provisions of the GST Law

(a) Rs 10,00,000	(b) Rs 9,00,000	(c) Rs 9,50,000	(d) Rs 8,55,000

II. Descriptive Questions

6. Provide the priority order which Mr. C would have laid for distributing the proceeds w.r.t. Roy LLP as per the provisions of the governing Code.
7. Purva Ltd. has approached the CA firm for seeking advice regarding the Order passed by the Joint commissioner on the 3 queries raised by its Board of Directors. Help Mr. B out by resolving all the queries.
8. Mr. D discusses some items to be debited to the Income & Expenditure account of their Firm with all the Partners while finalizing the Books of Accounts for the year F.Y. 2022-23. You are required to comment on the allowability of such items as laid forward by Mr. D.

I. Answers to the Multiple Choice Questions

1. (a) **STATEMENT 1** is True and **STATEMENT 2** supports **STATEMENT 1**

Reason: As per Clause (1) of Part I of the Second Schedule of the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he discloses information acquired in the course of his professional engagement to any person other than his client, without the consent of the client or otherwise than as required by law for the time being in force. SA 200 on "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing" also reiterates that, "the auditor should respect the confidentiality of information acquired in the course of his work and should not disclose any such information to a third party without specific authority or unless there is a legal or professional duty to disclose". In the instant case, the bank has asked the auditor for the audit working papers which contain detailed information regarding a few items in the financial statements. Having regard to the position stated earlier, the auditor cannot disclose the information in his possession without specific permission of the client. As far as working papers are concerned, working papers are the property of the auditor. The auditor may at his discretion, make portions of or extracts from his working papers available to his client". Thus, there is no requirement compelling the auditor to divulge information obtained in the course of audit and included in the working papers to any outside agency except as and when required by any law.

2. (b) There are 3 separate Performance obligations.

Reason: Netanet promises the CA firm to provide

- ❖ Broadband Service
- ❖ Voice Call services
- ❖ Modem

Its promise to provide goods and services is distinct if

- ❖ the CA firm can benefit from the good or service either on its own or together with other resources that are readily available to the firm, and
- ❖ its promise to transfer the good or service to the CA firm is separately identifiable from other promises in the contract

For broadband and voice call services -

- ❖ Broadband and voice services are separately identifiable from other promises as company has various plans to provide the two services separately. These two services are not dependant or interrelated. Also the CA firm can benefit on its own from the services received.

For sale of modem -

- ❖ The CA firm can either buy product from Netanet or third party. No significant customisation or modification is required for selling product.

Based on the evaluation we can say that there are three separate performance obligations: -

- ❖ Broadband Service
- ❖ Voice Call services
- ❖ Modem

3. (d) All the company audits i.e. 40 private company, 2 small company and 1 dormant company.

Reason: As per section 141(3)(g) of the Companies Act, 2013, a person shall not be eligible for appointment as an auditor if he is in full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor, if such person or partner is at the date of such appointment or reappointment, already holding appointment as auditor of more than twenty companies other than one person companies, dormant companies, small companies and private companies having paid-up share capital less than Rs 100 crore (private company which has not committed a default in filing its financial statements under section 137 of the said Act or annual return under section 92 of the said Act with the Registrar). Further, in the case of a firm of auditors, 'specified number of companies' shall be construed as the number of companies specified for every partner of the firm.

4. (d) The Software license provides a right to use the Intellectual Property that is satisfied at a point in time.

Reason: Based on the facts given in question it can be concluded that, although the updates and upgrades will change the functionality of the software, they are not activities considered in determining the nature of the entity's promise in granting the licence. The activities of Hally Ltd. to provide updates or upgrades are not considered because they transfer a promised good or service to the CA firm — i.e. updates or upgrades are distinct from the licence. Therefore, the software licence provides a right to use the IP that is satisfied at a point in time.

5. (a) Rs 10,00,000

Reason: As per section 25(4), a person who has obtained or is required to obtain more than one registration, whether in one State or Union territory or more than one State or Union territory shall, in respect of each such registration, be treated as distinct persons for the purposes of this Act. Therefore, units of Batliwala Pvt. Ltd. in West Bengal and Arunachal Pradesh are distinct persons under GST. As per rule 28, the value of the supply of goods between distinct persons, other than where the supply is made through an agent, shall –

- (a) be the open market value of such supply;
- (b) if open market value is not available, be the value of supply of goods of like kind and quality;
- (c) if value cannot be determined under the above methods, be cost of the supply plus 10% mark-up or be determined by other **Reasonable** means, in that sequence.

Rule 28 also provides that where the goods are intended for further supply as such by the recipient, the value shall, at the option of the supplier, be an amount equivalent to 90% of the price charged for the supply of goods of like kind and quality by the recipient to his customer not being a related person. Further, rule 28 provides that where the recipient is eligible for full input tax credit, the value declared in the invoice shall be deemed to be the open market value of the goods or services.

In the given case, the option of valuing the goods @ 90% of the price charged by the recipient to his unrelated customer is not available as the goods are not further supplied 'as such' but only after processing at Arunachal Pradesh unit. However, since the Arunachal Pradesh unit is eligible for full ITC, the value declared by the Bengal unit in the invoice for transfer of such products, i.e. Rs 10,00,000 shall be deemed to be the open market value of the products. Thus, the value of 500 products supplied by Batliwala Pvt. Ltd. to its Arunachal Pradesh unit in terms of rule 28 is the open market value of such products which is Rs 10,00,000.

II. Answers to the Descriptive Questions

1. The priority order in which the liquidator shall distribute the proceeds will be as under:

Particulars	Amount (in Rs)	
Amount realised from the sale of liquidation of assets		10,00,000
Less: (i) Fees payable to resolution professional	50,000	
(ii) Expenses incurred by the resolution professional in running the business of M/s Roy (P) Ltd. on going concern	20,000	(70,000)
Balance available		9,30,000
Less: Secured creditors who has relinquished the security	2,30,000	(2,30,000)
Balance available		7,00,000
Less: Unsecured Financial Creditor	2,00,000	(2,00,000)

Balance available		5,00,000
Less: (i) Income tax payable	2,25,000	
(ii) Cess payable to State Government	75,000	(3,00,000)
Balance available		2,00,000
Balance Available for Equity shareholders		2,00,000

6. An appeal against a decision/order passed by any adjudicating authority under the CGST Act or SGST Act/ UTGST Act is appealable before the Appellate Authority [Section 107(1)]. Thus, Purva Ltd. can file an appeal to Appellate Authority against the adjudication order passed by the Joint Commissioner of Central Tax. Further, such appeal can be filed within 3 months from the date of communication of such decision/order [Section 107(1)]. Thus, Purva Ltd. can file the appeal to Appellate Authority on or before 22nd November. Further, the Appellate Authority can also condone the delay in filing of appeal by 1 month if it is satisfied that there was sufficient cause for such delay [Section 107(4)].

- (1) GST law makes provisions for cross empowerment between CGST and SGST/UTGST officers to ensure that a proper officer under the CGST Act is also treated as the proper officer under the SGST/UTGST Act and vice versa. Thus, a proper officer can issue orders with respect to both, the CGST as well as the SGST/UTGST laws. GST law also provides that where a proper officer under one Act (say CGST) has passed an order, any appeal/review/ revision/rectification against the said order will lie only with the proper officers of that Act (CGST Act). Accordingly, if any order is passed by the proper officer under a SGST Act, any appeal/ review/ revision/ rectification against the said order will lie only with the proper officer under that SGST Act. Thus, Purva Ltd. is required to file an appeal only with the Central Tax Appellate Authority [Section 6 of CGST Act].
- (2) Purva Ltd.'s view is not correct in law. Section 107(6) provides that no appeal shall be filed before the Appellate Authority, unless the appellant has paid—
 - (a) full amount of tax, interest, fine, fee and penalty arising from the impugned order, as is admitted by him; and
 - (b) a sum equal to 10% of the remaining amount of tax in dispute arising from the impugned order subject to a maximum of Rs 25 crore*.

[**Provided** that no appeal shall be filed against an order under sub- section (3) of [section 129](#), unless a sum equal to twenty-five per cent. of the penalty has been paid by the appellant.]

*Equivalent amount is required to be deposited with respect to SGST liability.

Since in the given case, Purva Ltd. disagrees with the entire tax demanded, it has to make a pre-deposit of 10% of the amount of tax in dispute arising from the impugned order, i.e., 10% of Rs 60,00,000 which is Rs 6,00,000 (i.e. CGST Rs 3,00,000 and SGST Rs 3,00,000).

7.

Nature of Expenditure	Tax Treatment
Depreciation on imported Biometric System	Actual Cost for the purposes of depreciation = Purchase Price Rs 2,00,000 + Customs Duty Paid Rs 1,00,000 = Rs 3,00,000 - Rate of depreciation: 15%. - Depreciation Amt: Rs 22,500 (3,00,000 × 15% × 50%) (Since it is put to use for less than 180 days)
Remuneration to Partners	- Payment of Remuneration is authorised by the partnership Deed, and it is paid to the Working Partners - But, since the Partnership Deed does not provide for quantum/ manner of quantifying of such remuneration, it cannot be allowed as a deduction. (Refer CBDT's circular No 739 dated 25-03-1996)
Salary paid to Wife of a Partner - Mrs. A	- U/s 40 A (2), if a payment for goods or services provided by a relative is considered as excessive and unReasonable as compared with the market value of such goods or services such excess or unReasonable sum is not deductible. - For a Partnership Firm, Relative includes Relatives of the Partner. - Conclusion: Hence, Rs 50,000 x 12 = 6,00,000 is allowed as deduction from business income.
Purchases of Stationery in Cash	- U/s 40 A (3), where an Assessee incurs any expenditure in respect of which payment or aggregate of payments in excess of Rs 10,000 is made to a person on a single day, otherwise than by an Account Payee Cheque drawn on a Bank or an Account Payee Bank Draft, whole of such expenditure shall be disallowed. - Conclusion: Since the payment is made in cash, the entire amount of Rs 35,000 shall not be Allowed as a deduction.
Interest on Loan taken for payment of Advance Tax	Interest paid by any Assessee on any sum borrowed by it for payment of Income Tax (or Interest on overdraft taken for payment of Income Tax) is not deductible from its business Income since it is not an expenditure wholly and exclusively incurred or the business purpose in terms of section 37(1). (Mannalal Ratanlal vs CIT 58 ITR 84 (Cal.)) Therefore, Interest paid on loan taken for the purpose of making Advance Tax instalment shall not be an admissible expenditure.

CASE STUDY 25

P.N. Maheshwari & Associates is a firm of Chartered Accountants (herein after referred to as CA firm) having an experience of more than 25 years. At present the firm is one of the Delhi's largest association of Chartered Accountants with its head office in Delhi and branch offices across the country. The firm aims at providing qualitative professional service to its clients in an efficacious, sagacious and innovative manner. The firm is actively engaged in a multidisciplinary practice under four core verticals namely, Direct Taxation, Indirect Taxation, Auditing and Assurance and Financial Reporting. These verticals are headed by the partners namely, CA Preesha, CA Naman, CA Pawan and CA Nysa respectively. All the partners have vast experience in their respective fields.

During the FY 2022-23, the following were the matters of few clients handled by the team of CA Preesha:

- Mr. Saransh, one of the clients of the CA firm, purchased gold in the year 1980 for Rs 20,000/-. In the previous year 2022-23, he gifted it to his daughter at the time of her marriage. The fair market value of the gold on the day the gift given was Rs1,50,000/-. Mr. Saransh approached the direct tax team of M/s P. N. Maheshwari & Associates for working out the capital gain tax liability in such situation.
- Another client is a proprietorship firm namely, M/s Sunstar Enterprises. It transferred one of its units on 1.4.2022 by way of slump sale for a total consideration of Rs 14 lakhs. Such unit was started in the year 2009-10. The expenses incurred for this transfer were Rs 48,000. The assets and liabilities of such unit as on 31.3.2022 is as under:

Particulars	Amount (Rs)
Own Capital	1,00,000
Revaluation Reserve (for building of unit)	7,00,000
Bank loan	2,80,000
Trade creditors	87,500
Building	15,00,000
Machinery	3,00,000
Debtors	3,50,000
Other assets	2,00,000

Other information:

- Revaluation reserve is created by revising upward the value of the building of such Unit. The stamp duty value as on 01.04.2022 is Rs 8,50,000.
- No individual value of any asset is considered in the transfer deed.
- Other assets of such unit include patents acquired on 1.7.2020 for Rs 50,000 on which no depreciation has been charged.

The proprietor of the firm approached the CA firm for the purpose of calculation of the capital gain with respect to such slump sale for the assessment year 2032-43.

CA Naman along with his team also handled various GST matters in a very effective manner. The following are some of such GST matters:

- One of the clients of the CA firm, namely Sarvagya Ltd., provided the following particulars relating to goods sold by it to Maharaja Ltd.

Particulars	Amount (Rs)
Price of the goods (exclusive of all taxes/duties and discounts)	70,000
Duty levied by local authority on sale of such goods	7,000
Packing charges	2,500
Freight (arranged by Sarvagya Ltd.)	1900
Total amount billed to Maharaja Ltd. before any discount	81,400
Discount @ 3% of the price of goods recorded in the invoice	-

The client approached the GST team of M/s P.N. Maheshwari & Associates to help them arrive at the taxable value of such supply.

- Further, CA Pawan handled the below mentioned audit matter of one of the clients which is an Insurance Company:

CA Nysa handled the following Financial Reporting matter of one of the clients during the year.

I. Multiple Choice Questions

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5. Which of the following is correct with respect to the liability of Protect Insurance Ltd. to pay the claim to the insured entity?
 - (a) Protect Insurance Ltd. is not liable to pay the claim and hence no provision for claim is required.
 - (b) Protect Insurance Ltd. is liable to pay the claim of the insured entity.
 - (c) Protect Insurance Ltd. is liable to pay only 50% of the claim.
 - (d) Protect Insurance Ltd. is liable to pay only 60% of the claim.

II. Descriptive Questions

6. Compute the capital gain for the A.Y. 2023-24 with respect to the slump sale made by M/s Sunstar Enterprises.
7. What should be the value of the taxable supply in case of goods sold by Sarvagya Ltd. to Maharaja Ltd.?
8. Should PQR Ltd. consider the reclassification of building from PPE to investment property as a change in the accounting policy?

I. Answers to the Multiple Choice Questions

1. (c) Capital gain tax liability does not arise in terms of section 47(iii) of the Income Tax Act 1961.
Reason: As per the provisions of section 47(iii), transfer of a capital asset under a gift is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.
2. (b) Chennai
Reason: Since the immovable property is located outside India, the place of supply of service is the location of recipient, i.e. Chennai and not the place where the immovable property is located (UK).
3. (a) Mumbai
Reason: Since the contract is entered with Mumbai office, and it being a registered recipient, the place of supply is the location of the registered person, i.e. Mumbai.
4. (c) Rs 30,000/-
Reason: Rule 27 of the CGST Rules lays down the following methods to value a supply when the consideration thereof is not solely in terms of money:
 - (a) The open market value of such supply;
 - (b) If open market value of the supply is not known, the consideration in money plus the money equivalent of the non-money consideration, if such amount is known at the time of supply;
 - (c) If the value cannot be determined under the previous two clauses, the value of supply of goods and/or services of like kind and quality;
 - (d) Finally, if the value is not ascertainable by using the above methods, the consideration in money plus the money equivalent of the non-money consideration, as worked out based on cost of the supply plus 10% mark-up [Rule 30-Cost based valuation] or by other **Reasonable** means [Rule 31-Best Judgement method] in that sequence.
5. (a) Protect Insurance Ltd. is not liable to pay the claim and hence no provision for claim is required.
Reason: As per section 64VB of the Insurance Act, 1938, no risk to be assumed unless premium is received in advance.
 - (1) No insurer shall assume any risk in India in respect of any insurance business on which premium is not ordinarily payable outside India unless and until the premium payable is received by him or is guaranteed to be paid by such person in such manner and within such time as may be prescribed or unless and until deposit of such amount as may be prescribed, is made in advance in the prescribed manner.
 - (2) For the purposes of this section, in the case of risks for which premium can be ascertained in advance, the risk may be assumed not earlier than the date on which the premium has been paid in cash or by cheque to the insurer.

In view of the above, the insurance company is not liable to pay the claim and hence no provision for claim is

required.

II. Answers to the Descriptive Questions

6. Computation of capital gains on slump sale of Unit

Particulars	(Rs)
Full value of consideration (FMV as on 01.04.2022)	14,00,000
Less: Expenses on sale	48,000
Net sale consideration	13,52,000
Less: Net worth (See Note 1 below)	<u>12,60,625</u>
Long-term capital gain	91,375

Notes:

(1) Computation of Full value of consideration

Particulars	(Rs)
Fair market value of the capital assets transferred by way of slump sale	
Building, being an immovable property [stamp duty value on 1.4.2022, being the date of slump sale] [A]	8,50,000
Machinery [Book value as appearing in the books of accounts] [B]	3,00,000
Debtors [Book value as appearing in the books of accounts] [C]	3,50,000
Other assets [Book value as appearing in the books of accounts] [D]	2,00,000
	17,00,000
Less: Liabilities [Rs 87,500 + Rs 2,80,000] [L]	3,67,500
Fair market value of the capital assets transferred by way of slump sale [A+B+C+D- L] [FMV1]	13,32,500
Fair market value of the consideration received or accruing as a result of transfer by way of slump sale [value of the monetary consideration received] [FMV2]	14,00,000
Full value of consideration [Higher of FMV1 or FMV2]	14,00,000

(2) Computation of net worth of the Unit

Particulars	(Rs)	(Rs)
Building (excluding Rs 7 lakhs on account of revaluation)		8,00,000
Machinery		3,00,000
Debtors		3,50,000
Patents (See Note 2 below)		28,125
Other assets (Rs 2,00,000 - Rs 50,000)		1,50,000
Total assets		16,28,125
Less: Creditors	87,500	
Bank Loan	2,80,000	3,67,500
Net worth		12,60,625

(3) Written down value of patents as on 1.4.2022

Value of patents	(Rs)
Cost as on 1.7.2020	50,000
Less: Depreciation @ 25% for Financial Year 2020-21	12,500
WDV as on 1.4.2021	37,500
Less: Depreciation for Financial Year 2021-22	9,375
WDV as on 1.4.2022	28,125

For the purposes of computation of net worth, the written down value determined as per section 43(6) has to be considered in the case of depreciable assets. The problem has been solved assuming that the Balance Sheet values of Rs 3 lakh and Rs 8 lakh (Rs 15 lakh — Rs 7 lakh) represent the written down value of machinery and building, respectively, of the Unit.

(4) Since the Unit is held for more than 36 months, capital gain arising would be long-term capital gain. However,

indexation benefit is not available in case of slump sale.

7. Computation of value of taxable supply

Particulars	(Rs)
Price of the goods (exclusive of taxes and discounts)	70,000
Add: Duty levied by local authority [Note 1]	7,000
Packing charges [Note 2]	2,500
Freight [Note 3]	1,900
Less: Discount @ 3% on Rs 70,000 [Note 4]	(2,100)
Value of taxable supply	79,300

Notes:

- (1) As per section 15(2)(a), any taxes, duties, cesses, fees and charges other than CGST, SGST, UTGST, IGST and GST Compensation Cess, if charged separately by the supplier should be included in the value of supply.
- (2) As per section 15(2)(c), incidental expenses, including commission and packing, charged by the supplier to the recipient of a supply should be included in the value. Thus, packing charges have been added in the value.
- (3) Since transport is arranged by the supplier, the contract of supply becomes a composite supply; the principal supply being the supply of goods. Therefore, freight becomes part of the value of the composite supply.
- (4) As per section 15(3)(a), the value of the supply does not include any discount which is given before or at the time of the supply if such discount has been duly recorded in the invoice issued in respect of such supply. Therefore, since in this case, discount is known at the time of supply and recorded in the supply, it is deductible from the value.

8. Paragraph 16(a) of Ind AS 8 provides that the application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring are not changes in accounting policies. As per Ind AS 16, property, plant and equipment are tangible items that:

- (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- (b) are expected to be used during more than one period.

As per Ind AS 40, investment property is property (land or a building—or part of a building—or both) held (by the owner or by the lessee as a right-of-use asset) to earn rentals or for capital appreciation or both, rather than for:

- (a) use in the production or supply of goods or services or for administrative purposes; or
- (b) sale in the ordinary course of business.

As per the above definitions, whether a building is an item of property, plant and equipment (PPE) or an investment property for an entity depends on the purpose for which it is held by the entity. It is thus possible that due to a change in the purpose for which it is held, a building that was previously classified as an item of property, plant and equipment may warrant reclassification as an investment property, or vice versa. Whether a building is in the nature of PPE or investment property is determined by applying the definitions of these terms from the perspective of that entity.

Thus, the classification of a building as an item of property, plant and equipment or as an investment property is not a matter of an accounting policy choice.

Accordingly, a change in classification of a building from property, plant and equipment to investment property due to change in the purpose for which it is held by the entity is not a change in an accounting policy.

CASE STUDY 26

- (1) RA Ltd, a listed Company is engaged in the business of manufacturing aerated soft drinks which includes various flavours like cola, orange and lemon. Chandra Suppliers Ltd is engaged in the business of manufacturing carbonated sugar which is the main ingredient for aerated soft drinks. Chandra Suppliers Ltd has been supplying carbonated sugar to RA Ltd since past few years. RA Ltd is the main customer of Chandra Suppliers Ltd and in the last financial year 89.9% of the output of Chandra Suppliers Ltd was procured by RA Ltd.

RA Ltd has invested in the share capital of Chandra Suppliers Ltd on the first day of the financial year at a cost of Rs 55,00,000 and is holding 12% of Chandra Suppliers Ltd.'s total voting power. The carrying value of the net assets of Chandra Suppliers Ltd on the date of acquisition was Rs 4,00,00,000 and the fair value was Rs 4,50,00,000. The excess of fair value over the carrying value was attributable to one of the warehouses owned by Chandra Suppliers Ltd having a remaining useful life of 10 years. At the end of the financial year, Chandra Suppliers Ltd earned a profit of Rs 6,60,000 and other comprehensive income of Rs 98,000. Dividend declared by Chandra Suppliers Ltd in the financial year was Rs 2,00,000.

- (2) RA Ltd has constituted an Audit Committee under section 177, and all appointments, including the filling of a casual vacancy of auditors are made after taking into account the recommendations of the committee. A proper manner and procedure for selection and appointment of the statutory auditors for RA Ltd. was undertaken. Finally, ABC & Associates was selected for appointment as statutory auditors of RA Ltd. Before such appointment was made, the written consent of ABC & Associates to such appointment, and a certificate from it that the appointment, if made, is in accordance with the conditions as may be prescribed, was obtained from ABC & Associates. The certificate also indicated whether the auditor satisfied the criteria provided in section 141. RA Ltd. informed ABC & Associates of its appointment, and also filed a notice of such appointment with the Registrar within 15 days of the meeting in which ABC & Associates was appointed.

CA A is the engagement partner for the audit of RA Ltd. During the year, the husband of the daughter of CA A, Mr. M, purchases 10,000 shares (face value Rs 10 per share) in RA Ltd from the National Stock Exchange after a payment of Rs 95,000. In the preceding previous year, he had bought 40 shares in RA Ltd at Rs 120 which he still has in stock. Since the value of the shares had fallen in the current year, he thought it was a good opportunity to reduce his average cost and earn good profits in the future. Since RA Ltd has invested in Chandra Suppliers Ltd, Mr M expects that the share price of RA Ltd would definitely increase in the near future due to this lucrative deal. Mr. M had a slight idea about the provisions under sub-section (3) of section 141 along with Rule 10 of the Companies (Audit and Auditors) Rules, 2014 regarding the disqualification of auditors and informs CA A that since the shares were purchased for only Rs 95,000 and that too in his name and not his wife's name, CA A will not be disqualified to continue as an auditor of RA Ltd as he is not covered under the definition of relative and his total cost of investment in shares of RA Ltd has not exceeded Rs 1 lakh.

- (3) The wife of the chairman of RA Limited is a renowned painter. She holds various exhibitions in India and around the world and has won several awards as well. Her art gallery is on the fourth floor of the office building of RA Limited. The office building of RA Limited consists of four identical floors and other three floors are used by RA Limited for its business. Total rent paid by RA Limited for the entire office building is Rs 8 lakhs per month.

A machinery was purchased for Rs 20 lakhs on July 1 of the financial year and put to use on August 1. Depreciation allowed under the Income Tax Act on the Machinery is 15%. Interest payable for the financial year for purchase of machinery amounted to Rs2,40,000.

The municipal elections were held in the current year and various representatives from different political parties visited RA Ltd for donations. RA Ltd thus decided to give a full page advertisement in the brochure published by a political party (costing Rs 50,000), which is not registered with the Election Commission of India.

RA Ltd supplies the soft drinks pan India under the name of Too Cool. The goods are supplied to the distributors in all the states of India and eventually to the retailers by the distributors. Niraj Transport Co. has been hired by RA Ltd for delivery of its products to all the Indian states. The Company had made a total payment of Rs 10 lakhs during the year to Niraj Transport for plying its goods from the factory to the distributors. During the year, a payment exceeding 10,000 in cash (i.e. Rs 25,500) was made to Niraj Transport in a day.

RA Ltd made a provision for gratuity every year of Rs 40 lakhs in its books of account. During the year, two employees retired from the Company after serving for many years. Payment made to the employees towards the payment of gratuity on their retirement amounted to Rs 2 lakhs.

RA Ltd had incurred an expenditure of a capital nature (capital asset) of Rs 7,00,000 on scientific research related to the business carried on by it, three years back, which was deductible in full in that previous year. In addition, land was also acquired to

carry out the capital research along with the capital asset. This capital asset was sold in the current year without having been used for other purposes, for Rs 1,00,000. Profit of the Company before accounting for all the above transactions is Rs 5 crores.

CA A commenced the audit of RA Ltd. with the audit team consisting of eight members. On examination of records, various observations came into the notice of the audit team. You, a qualified chartered accountant, is also one of the audit team members. You volunteer to answer all the queries of the team since Company Audit has always been your area of interest.

Based on the information given above, assist the audit team.

I. Multiple Choice Questions

1. In your opinion, does RA Ltd hold significant influence on Chandra Suppliers Ltd.?
 - (a) Yes, if an entity holds (directly or indirectly through a subsidiary) 10% or more of the voting rights of an investee, then it is presumed that the entity has significant influence, unless it can be clearly demonstrated that it is not the case.
 - (b) Yes, since 89.9% of the output of Chandra Suppliers Ltd. is procured by RA Ltd., Chandra Suppliers Ltd. would be dependent on RA Ltd. for the continuation of its business and so RA Ltd. holds significant influence on Chandra Suppliers Ltd.
 - (c) No, since the output of Chandra Suppliers Ltd. procured by RA Ltd., is not 90% or more, RA Ltd does not hold significant influence on Chandra Suppliers Ltd.
 - (d) No, if an entity holds (directly or indirectly through a subsidiary) 20% or more of the voting rights of an investee, only then it is presumed that the entity has significant influence, unless it can be clearly demonstrated that it is not the case.
2. RA Ltd.'s excess of the cost of the investment over its share of the net fair value of the Chandra Suppliers Ltd.'s identifiable assets and liabilities will be treated as _____ and will be included in the carrying amount of the _____.
 - (a) Capital Reserve, Equity.
 - (b) Goodwill, Investment.
 - (c) Capital Reserve, Other liabilities and Provisions.
 - (d) Goodwill, Fixed Assets.
3. Is the contention of Mr. M correct regarding the disqualification of ABC & Associates as statutory auditors in RA Ltd? Why?
 - (a) Yes, since the total cost of investment of Mr. M in the shares of RA Ltd has not exceeded Rs 1,00,000 and he is also not covered in the definition of relative of CA A.
 - (b) No, though his cost of investment in the shares of RA Ltd has not exceeded Rs 1,00,000, he is covered in the definition of relative of CA A and holding securities of even small value by relatives shall lead to a disqualification.
 - (c) No, since the face value of investment has exceeded Rs 1,00,000 and he is covered in the definition of relative of CA A.
 - (d) Yes, though the fair value of investment has exceeded Rs 1,00,000, he is not covered in the definition of relative of CA A.
4. Assuming a circumstance where ABC & Associates is disqualified to be appointed as a statutory auditor of RA Ltd., due to a relative defined under Section 2(77) of the Companies Act, 2013, who has bought shares of RA Limited above the threshold prescribed (if any). Within how many days can the auditor take corrective action for the same?
 - (a) 60 Days
 - (b) 45 Days
 - (c) 30 Days
 - (d) 90 Days
5. RA Ltd incurred two different types of capital expenditure on scientific research. Which of the following statements related to such expenditure under section 35 is incorrect?

Statement I: For Capital expenditure incurred prior to commencement of business, the aggregate of the expenditure so incurred within the four years immediately preceding the commencement of the business shall be deemed to have been incurred in the previous year in which the business is commenced and will rank for deduction as expenditure for scientific research incurred during the previous year.

Statement II: No deduction will be allowed in respect of capital expenditure incurred on the acquisition of any land whether the land is acquired as such or as part of any property.

Statement III: Capital expenditure incurred on scientific research which cannot be absorbed by the business profits of the relevant previous year cannot be carried forward to the immediately succeeding previous year.

Statement IV: Section 35(2)(iv) clarifies that no depreciation will be admissible on any capital asset represented by expenditure which has been allowed as a deduction under section 35 whether in the year in which deduction under section 35 was allowed or in any other previous year.

- (a) Statement I and II are incorrect. (b) Statement I and III are incorrect.
- (c) Statement III and IV are incorrect. (d) Only Statement I is incorrect.

II. Answers to the Descriptive Questions

- 6. Calculate the closing value of investment in Chandra Suppliers Ltd. of RA Ltd using the equity method of accounting as per IND AS 28 on the basis of Para (1).
- 7. What manner and procedure shall be followed in RA Ltd for selection and appointment of ABC & Associates? Refer Para (2).
- 8. Calculate the Net Profit of RA Ltd. chargeable to tax under PGBP after making the adjustments for the transactions given above in Para (3).

I. Answers to the Multiple Choice Questions

- 1. (b) Yes, since 89.9% of the output of Chandra Suppliers Ltd. is procured by RA Ltd., Chandra Suppliers Ltd. would be dependent on RA Ltd. for the continuation of its business and so RA Ltd holds significant influence on Chandra Suppliers Ltd.

Reason: The assessment of whether the investor has significant influence over the investee requires application of judgement. In making such judgement, the investor shall consider material transactions between the entity and its investee which generally demonstrate the existence of significant influence.
- 2. (b) Goodwill, Investment.

Reason: Any excess of the cost of the investment over the entity's share of the net fair value of the investee's identifiable assets and liabilities is treated as goodwill. Goodwill is included in the carrying amount of the investment. Amortisation of that goodwill is not permitted.
- 3. (c) No, since the face value of investment has exceeded Rs 1,00,000 and he is covered in the definition of relative of CA A.

Reason: Disqualifications of an Auditor- Under sub-section (3) of section 141 along with Rule 10 of the Companies (Audit and Auditors) Rules, 2014, the following persons shall not be eligible for appointment as an auditor of a company-
 - (a) a body corporate other than a limited liability partnership registered under Limited Liability Partnership Act, 2008;
 - (b) an officer or employee of the company;
According to Section 2(59) of the Companies Act, 2013, the term 'Officer' includes:
 - (i) Director
 - (ii) Manager
 - (iii) Key Managerial personnel
 - (iv) Shadow Directors.
 - (c) a person who is a partner, or who is in the employment, of an officer or employee of the company;
This sub-section disqualifies the below mentioned persons from being appointed as auditor of a company:
 - (i) partner of an officer of the company;
 - (ii) employee of an officer of the company;
 - (iii) partner of an employee of the company;
 - (iv) employee of an employee of the company.
 - (d) a person who, or his relative or partner -
 - (i) is holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company.
It may be noted that the relative may hold security or interest in the company of face value not exceeding rupees one lakh.

It may also be noted that the condition of rupees one lakh shall, wherever relevant, be also applicable in the case of a company not having share capital or other securities.

Section 2(77) of the Companies Act, 2013 defines the term "relative" to mean anyone who is related to another as:

- (i) members of a Hindu Undivided Family;
- (ii) husband and wife; or

(iii) one person is related to the other in such manner as may be prescribed.

Rule 4 of the Companies (Specification of Definitions Details) Rules, 2014 prescribes the list of relatives as per Section 2(77). As per the said rule, a person shall be deemed to be relative of another if he or she is related to another in the below mentioned manner-

Father (including step- father), Mother (including step- mother), Son (including step- son), Son's wife, Daughter, Daughter's husband, Brother (including step- brother), Sister (including step- sister).

4. (a) 60 Days.

Reason: In the event of acquiring any security or interest by a relative, above the threshold prescribed, the corrective action to maintain the limits as specified shall be taken by the auditor within 60 days of such acquisition or interest.

5. (b) Statement I and III are incorrect.

Reason: Capital Expenditure- Any expenditure of a capital nature on scientific research related to the business carried on by the assessee would be deductible in full in the previous year in which it is incurred [Section 35(1)(iv)].

(a) Capital expenditure prior to commencement of business

The Explanation 1 to section 35(2) (ia) specifically provides that where any capital expenditure has been incurred prior to the commencement of the business, the aggregate of the expenditure so incurred within the three years immediately preceding the commencement of the business shall be deemed to have been incurred in the previous year in which the business is commenced and will rank for deduction as expenditure for scientific research incurred during PY.

(b) Expenditure on land disallowed

No deduction will be allowed in respect of capital expenditure incurred on the acquisition of any land whether the land is acquired as such or as part of any property.

(c) Carry forward of deficiency

Capital expenditure incurred on scientific research which cannot be absorbed by the business profits of the relevant previous year can be carried forward to the immediately succeeding previous year and shall be treated as the allowance for that year. In effect, this means that there is no time bar on the period of carry forward. It shall be accordingly allowable for that previous year.

(d) No depreciation

Section 35(2)(iv) clarifies that no depreciation will be admissible on any capital asset represented by expenditure which has been allowed as a deduction under section 35 whether in the year in which deduction under section 35 was allowed or in any other previous year.

II. Answers to the Descriptive Questions

6. (1) Cost of acquisition of Investment Rs 55,00,000

(2) Share in profit and other comprehensive income of Chandra Suppliers Ltd.

Particulars	Amount (Rs)
Share in profit of Chandra Suppliers Ltd. (6,60,000 *12%)	79,200
Adjustment for depreciation based on fair value (50,00,000 ÷ 10) x 12%	(60,000)
Share in profit after adjustment	<u>19,200</u>
Share in other comprehensive income (98,000 x 12%)	11,760
Share in dividend (2,00,000*12%)	24,000

(3) Closing balance of Investment at the end of the year.

Particulars	Amount (Rs)
Cost of acquisition of investment	55,00,000
Share in profit after adjustments	19,200
Share in other comprehensive income	11,760
Share in dividend	24,000
Closing balance of Investment	55,54,960

Manner and Procedure of Selection and Appointment of Auditors: Rule 3 of Companies (Audit and Auditors) Rules [CAAR], 2014 prescribes the following manner and procedure of selection and appointment of auditors

- (1) In case of a company that is required to constitute an Audit Committee under section 177, the committee, and, in cases where such a committee is not required to be constituted, the Board, shall take into consideration the qualifications and experience of the individual or the firm proposed to be considered for appointment as auditor and whether such qualifications and experience are commensurate with the size and requirements of the company.

It may be noted that while considering the appointment, the Audit Committee or the Board, as the case may be, shall have regard to any order or pending proceeding relating to professional matters of conduct against the proposed auditor before the Institute of Chartered Accountants of India or any competent authority or any Court.

- (2) The Audit Committee or the Board, as the case may be, may call for such other information from the proposed auditor as it may deem fit.
- (3) Subject to the provisions of sub-rule (1), where a company is required to constitute the Audit Committee, the committee shall recommend the name of an individual or a firm as auditor to the Board for consideration and in other cases, the Board shall consider and recommend an individual or a firm as auditor to the members in the annual general meeting for appointment.
- (4) If the Board agrees with the recommendation of the Audit Committee, it shall further recommend the appointment of an individual or a firm as auditor to the members in the annual general meeting.
- (5) If the Board disagrees with the recommendation of the Audit Committee, it shall refer back the recommendation to the committee for reconsideration citing **Reasons** for such disagreement.
- (6) If the Audit Committee, after considering the **Reasons** given by the Board, decides not to reconsider its original recommendation, the Board shall record **Reasons** for its disagreement with the committee and send its own recommendation for consideration of the members in the annual general meeting; and if the Board agrees with the recommendations of the Audit Committee, it shall place the matter for consideration by members in the AGM.
- (7) The auditor appointed in the annual general meeting shall hold office from the conclusion of that meeting till the conclusion of the sixth annual general meeting, with the meeting wherein such appointment has been made being counted as the first meeting.

7.

Particulars	Amount (Rs in lakh)
Profit before any of the adjustments	500.00
Less: Rent expense $(8,00,000/4 \times 3) \times 12$	72.00
Depreciation on Machinery $(20,80,000 \times 15\%)$	3.12
Interest payable for purchase of machinery	1.60
Payment to Niraj Transport	10.00
Actual Payment of gratuity to employees	2.00
Add: Sale of asset representing expenditure of a capital nature on Scientific Research without having been used for other purposes	1.00
Profit after adjustments chargeable to tax	412.28

Notes:

- (I) Rent expense allowed to the extent it is used for the Business purposes.
Premises used partly for business and partly for other purposes: Where the premises are used partly for business and partly for other purposes, only a proportionate part of the expenses attributable to that part of the premises used for purposes of business will be allowed as a deduction [Section 38(1)].
- (II) Since machinery is put to use on August 1, full year depreciation is allowed on the purchase cost.
Asset used for less than 180 days - Where any asset is acquired by the assessee during the previous year and is put to use for the purposes of business or profession for a period of less than 180 days, depreciation shall be allowed at 50 percent of the allowable depreciation according to the percentage prescribed in respect of the block of assets comprising such asset. It is significant to note that this restriction applies only to the year of acquisition and not for subsequent years.
- (III) Interest on purchase of Machinery till the date of put to use is to be capitalized and after the date of put to use, is treated as a revenue expense. So, machinery cost is equal to Rs 20 lakh and interest capitalized for four months amounting to Rs 80,000. Total 20,80,000.
Interest on borrowed capital [Section 36(1)(iii)] - Deduction of interest is allowed in respect of capital borrowed for the purposes of Business or profession in computation of income under head Profits & gains of business or profession.

Advertisements in souvenirs of political parties: Section 37(2B) disallows any deduction on account of advertisement expenses representing contributions made by any person carrying on business or profession in computing the profits and gains of the business or profession. It has specifically been provided that this provision for disallowance would apply notwithstanding anything to the contrary contained in section 37(1).

In other words, the expenditure representing contribution for political purposes would become disallowable even in those cases where the expenditure is otherwise incurred by the assessee in his character as a trader and the amount is wholly and exclusively incurred for the purpose of the business.

Accordingly, a taxpayer would not be entitled to any deduction in respect of expenses incurred by him on advertisement in any souvenir, brochure, tract or the like published by any political party, whether it is registered with the Election Commission of India or not.

- (IV) Total amount paid to Niraj Transport is allowable since the limit of Rs 10,000 has been raised to Rs 35,000 in case of payment made to transport operators for plying, hiring or leasing goods carriages.

Increase in limit of cash payment, where payment made to transport operator: This limit of Rs 10,000 has been raised to Rs 35,000 in case of payment made to transport operators for plying, hiring or leasing goods carriages. Therefore, payment or aggregate of payments up to Rs 35,000 in a day can be made to a transport operator otherwise than by way of account payee cheque or account payee bank draft or use of electronic clearing system through a bank account or through such other prescribed electronic modes such as credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay. In all other cases, the limit would continue to be Rs 10,000.

- (V) Only actual payment of gratuity is allowed, not provision for gratuity.

Disallowance of provision for gratuity

Section 40A(7) provides that no deduction would be allowable to any taxpayer carrying on any business or profession in respect of any provision (whether called as provision or by any other names) made by him towards the payment of gratuity to his employers on their retirement or on the termination of their employment for any **Reason**.

The **Reason** for this disallowance is that, under section 36(1)(v), deduction is allowable in computing the profits and gains of the business or profession in respect of any sum paid by a taxpayer in his capacity as an employer in the form of contributions made by him to an approved gratuity fund created for the exclusive benefit of his employees under an irrevocable trust. Further, section 37(1) provides that any expenditure other than the expenditure of the nature described in sections 30 to 36 laid out or expended, wholly and exclusively for the purpose of the business or profession must be allowed as a deduction in computing the taxable income from business.

A reading of these two provisions clearly indicates that the intention of the legislature has always been that the deduction in respect of gratuity be allowable to the employer either in the year in which the gratuity is actually paid or in the year in which contributions to an approved gratuity fund are actually made by employer.

This provision, therefore, makes it clear that any amount claimed by the assessee towards provision for gratuity, by whatever name called would be disallowable in the assessment of employer even if the assessee follows the mercantile system of accounting. However, no disallowance would be made as per section 40A(7) in the case where any provision is made by the employer for the purpose of payment of sum by way of contribution to an approved gratuity fund during the previous year or for the purpose of making payment of any gratuity that has become payable during the previous year by virtue of the employee's retirement, death, termination of service etc.

- (VI) Where the asset representing expenditure of a capital nature on Scientific Research is sold without having been used for other purposes - This case would come under section 41(3) and if the proceeds of sale together with the total amount of the deductions made under section 35 exceed the amount of capital expenditure, the excess or the amount of deduction so made, whichever is less, will be charged to tax as income of the business of the previous year in which the sale took place. Where the asset representing expenditure of a capital nature on Scientific Research is sold without having been used for other purposes - This case would come under section 41(3) and if the proceeds of sale together with the total amount of the deductions made under section 35 exceed the amount of capital expenditure, the excess or the amount of deduction so made, whichever is less, will be charged to tax as income of the business of the previous year in which the sale took place.

In simple words, if (sale proceeds + deduction under section 35) > amount of capital expenditure, then amount of sale proceeds + deduction under section 35 – amount of capital expenditure OR deduction under section 35, whichever is less, will be the charged to tax as income of the business in the previous year in which the asset is sold.

CASE STUDY 28

Mr. Hari Mehta is an Indian citizen who is based in Thailand for past 20 years. His father had their Family business in India when he graduated but he chose to do something different and migrated outside India to start a different business abroad and successfully took this challenge. At present, he has his business spread all over Thailand and now he wants to take his business on a global scale. Being a true Indian he is, by heart, the first destination for overseas investment he has chosen is India. Being a hardcore & experienced businessman, he understands that to successfully venture out of a country with a new business or diversification, one needs to carry out proper research work and get acquainted with the knowledge of laws and practical working of business at such Target countries where one is willing to invest. He himself started studying various laws applicable in India relating to the nature of his business and further consults CA Vani Mehta, one of his friend's daughter in India who is an expert consultant in handling International Business matters.

Through a Video conference, they both discussed how in the present age of commercial globalisation, it is a universal phenomena that Multinational Companies (MNCs) have branches/ subsidiaries/ divisions operating in more than one country. In such a situation, it is a common event for MNCs to transfer goods produced by a branch in one tax jurisdiction to an associate branch operating in another tax jurisdiction. While doing so, the MNC concerned has in mind the goal of minimizing tax burden and maximizing profits but the two tax jurisdictions/countries have also the consideration of maximizing their revenue while making laws that govern such transactions. It is an internationally accepted practice that such 'transfer pricing' should be governed by an Arm's Length Principle (ALP) and the transfer price should be the price applicable in case of a transaction of arm's length. In other words, the transaction between associates should be priced in the same way as a transaction between independent enterprises. The principles governing the taxation of MNCs are embodied in the OECD Model Tax Convention on Income and Capital (OECD Model Convention), which serves as the basis for the bilateral income-tax treaties between OECD member countries and between OECD member and non-OECD member countries. According to these guidelines, "Transfer prices" are the prices at which an enterprise transfers physical goods and intangible property or provides services to associated enterprises. Two enterprises are "associated enterprises" if one of the enterprises participates directly or indirectly in the management, control or capital of the other or if both enterprises are under common control. Since international transfer pricing involves more than one tax jurisdiction, any adjustment to the transfer price in one jurisdiction requires a corresponding adjustment in the other jurisdiction. If a corresponding adjustment is not made, double taxation will result.

He tells CA Vani that he has the following options available with him to invest in India:

OPTION – A: By acquiring controlling shares in Golden Rivers(P) Ltd., an Indian associate Company of one of his friend's Thais company, RPP Ltd. It is a company incorporated in Thailand and 55% of its shares are held by Golden Rivers (P) Ltd., an Indian company. RPP Ltd. has its presence in India also. The details relating to RPP Ltd. for the P.Y.2022-23, are as under:

Particulars	India (Rs in crore)	Thailand (Rs in crore)
Fixed assets at depreciated values for tax purposes	288	192
Intangible assets	120	480
Other assets (value as per books of account)	96	288
Income from trading operations	60	120
The above figure includes:		
(i) Income from transactions where purchases are from associated enterprises and sales are to unrelated parties	4.80	9.60
(ii) Income from transactions where sales are to associated enterprises and purchases are from unrelated parties	7.20	12
(iii) Income from transactions where both purchases and sales are from/to associated enterprises	12	24
Interest and dividend from investments	48	36
Payroll expenses on employees	19.20	28.80
Number of employees (Residents in respective countries)	168	216

CA Vani deliberates on how the Residential Status determination of Companies has changed in India recently when he left India to times now and the importance of the concept of POEM (Place of Effective Management). Mr. Mehta tells CA Vani about his research on Foreign Companies in India and this POEM concept and tells that he has studied the business model of two of his Friends' companies:

1. His friend Amit's company — ABC Inc, a US company has its place of effective management also in the USA, has advanced a loan equivalent to Rs255crores to PQR Ltd., an Indian company on 10-4-2022. The total book value of assets of PQR Ltd. Is Rs450crores. The market value of the assets, however, is Rs480crores. PQR Ltd. repaid Rs45crores before 31-3-2023.

2. His nephew Rahul's company — Kings plc., a French company having its place of effective management also in France, has the power to appoint 4 of the directors of Golden Rivers Ltd., an Indian company, whose total number of directors in the Board is 9.
3. Zen Limited is one of his other Companies registered in Thailand, headed by his son. The Board of Directors usually meet and execute business decisions at their Board Meeting held in India.

OPTION – B: Mr. Mehta tells CA Vani that one of his Associate Companies engaged in the business of manufacturing and distribution of industrial gases, can acquire a listed Indian Company ABC Ltd. having a market share of more than 65% of the industrial gas business in India but only after a "Due Diligence" of this Indian Company is conducted. CA Vani tells him that Due Diligence is used to investigate and evaluate a business opportunity. It implies a general duty to exercise care in any transaction. Most legal definition of due diligence describe it as a measure of prudence activity, or assiduity, as is properly to be expected from, and ordinarily exercised by, a **Reasonable** and prudent person under the particular circumstance, not measure by any absolute standard but depends on the relative facts of the special case. Due diligence is a process of investigation, performed by investors, into the details of a potential investment such as an examination of operations and management and the verification of material facts. It entails conducting inquiries for the purpose of timely, sufficient and accurate disclosure of all material statements/information or documents, which may influence the outcome of the transaction. Due diligence involves a careful study of the financial as well as non-financial possibilities for successful implementation of restructuring plans. Due diligence involves an analysis carried out before acquiring a controlling interest in a company to determine that the conditions of the business conform with what has been presented about the target business. Also, due diligence can apply to recommendation for an investment or advancing a loan/credit. Due Diligence may also require to be performed in cases of corporate restructuring, venture capital financing, lending, leveraged buyouts, public offerings, disinvestment, corporatisation, etc. Sometimes, in a restructuring exercise, while the unit may remain within a group, it may pass from under the charge of one management team to that of another team. This situation also gives rise to the need for a due diligence review.

OPTION – C: Mr. Mehta will get incorporated a new Company in India itself at Kolkata as a Foreign Company which would work under the supervision of its Thais counterpart and invest Capital in the construction of infrastructure required to set up the company. He has worked on this option and tells CA Vani that he has studied the Borrowing & Financing options, his father's new company Key Ltd. has opted for. Key Ltd. began construction of a new building at an estimated cost of Rs14 lakh on 1st April, 2022. To finance construction of the building it obtained a specific loan of Rs4 lakh from a financial institution at an interest rate of 9% per annum. The construction of building was completed by 31st January, 2023. The company's other outstanding loans were:

Amount (Rs)	Rate of Interest per annum
14,00,000	12%
18,00,000	11%

The expenditure incurred on the construction was:

April, 2022	Rs3,00,000
August, 2022	Rs4,00,000
October, 2022	Rs7,00,000
January, 2023	Rs2,00,000

Mr. Mehta comes to India for the first time on June 17, 2022 to discuss these options as per their practicality with CA Vani and her team and he leaves India on September 29, 2022. His total income (other than from foreign sources) does not exceed Rs 15 lakhs.

I. Multiple Choice Questions

1. Under OPTION – C, Mr. Mehta would be required to deliver various documents to Registrar of Companies under the provisions of the Companies Act, at:
 - (a) Kolkata
 - (b) New Delhi
 - (c) Ranchi
 - (d) Mumbai
2. What would be Residential status of Mr. Mehta for the A.Y. 2023-24?
 - (a) Resident and ordinarily resident
 - (b) Resident but not ordinarily resident
 - (c) Non-resident
 - (d) Deemed resident
3. Under Income Tax Act, 1961, ABC Inc. & PQR Ltd. are?
 - (a) Associated Enterprises
 - (b) Unrelated Entities.
 - (c) Holding & Subsidiary.
 - (b) ABC Inc. is a specified foreign company of PQR Ltd.
4. Under the Income Tax Act, 1961, Kings plc & Golden Rivers Ltd. are?
 - (a) Associated Enterprises.
 - (b) Two Independent Entities.
 - (c) Holding & Subsidiary.
 - (d) Kings plc is a specified foreign company of Golden Rivers Ltd.

5. What is the status of Zen Ltd. as per the provisions of the Companies Act, 2013?
- (a) Indian company (b) Foreign Company (c) Not a Foreign Company (d) Special Purpose Company.

II. Descriptive Questions

6. Determine the residential status of RPP Ltd. for A.Y.2023-24, if during the F.Y.2022- 23, eight board meetings were held– 3 in India and 5 in Thailand.
7. CA Vani would conduct the Due Diligence work w.r.t ABC Ltd. as required by Mr. Hari Mehta. Help her list out the contents of Due Diligence Review Report that she may submit.
8. Following the provisions of Ind AS 23 'Borrowing Costs', calculate the amount of interest to be capitalized and pass necessary journal entry for capitalizing the cost and borrowing cost in respect of the building as on 31st January, 2023, by Key Ltd.

I. Answers to the Multiple Choice Questions

1. (b) New Delhi

Reason: The Companies Act, 2013 vide section 380 states that every foreign company is required to deliver to the Registrar for registration, within 30 days of the establishment of office in India, documents which have been specified therein. According to the Companies (Registration of Foreign Companies) Rules, 2014, any document which any foreign company is required to deliver to Registrar shall be delivered to the Registrar having jurisdiction over New Delhi.

2. (c) Non-resident

Reason: As per section 6(1) of the Income Tax Act, 1961, an individual is said to be resident in India in any previous year, if he satisfies any one of the following conditions:

- (i) He has been in India during the relevant previous year for a total period of 182 days or more, or
- (ii) He has been in India during the 4 years immediately preceding the relevant previous year for a total period of 365 days or more and has been in India for at least 60 days in the relevant previous year.

If the individual satisfies any one of the conditions mentioned above, he is a resident. If both the above conditions are not satisfied, the individual is a non- resident.

In the case of Mr. Mehta, his presence in India is as follows: Previous year 2022-23:

	105 [14+31+31+29]
Previous year 2021-22	Nil
Previous year 2020-21:	Nil
Previous year 2019-20:	Nil
Previous year 2018-19:	Nil

Thus, Mr. Mehta is non-resident for the assessment year 2023-24 as he does not satisfy either of the basic conditions.

3. (a) Associated Enterprises.

Reason: ABC Inc, a foreign company, has advanced loan of Rs 255 crores to PQR Ltd., an Indian company, which amounts to 56.67% of book value of assets of PQR Ltd. Since the loan advanced by ABC Inc. is 51% or more of the book value of assets of PQR Ltd., ABC Inc. and PQR Ltd. are deemed to be associated enterprises under the Indian transfer pricing regulations. The deeming provisions would be attracted even if there is a repayment of loan during the same previous year which brings down the said percentage below 51%.

4. (b) Two Independent Entities.

Reason: Kings plc, a foreign company has the power to appoint 44.44% (4 out of 9) of the directors of an Indian company, Golden Rivers Ltd. Two enterprises would be deemed to be associated enterprises if more than half of the board of directors of one enterprise are appointed by the other enterprise.

In this case, since Kings plc has the power to appoint only 44.44% (which is less than half) of the directors of an Indian company, Golden Rivers Ltd., Kings plc and Golden Rivers Ltd. are not deemed to be associated enterprises.

5. (c) Not a Foreign Company.

Reason: According to section 2(42) of the Companies Act, 2013, "Foreign company" means any company or body corporate incorporated outside India which-

- (a) has a place of business in India whether by itself or through an agent, physically or through electronic mode; and
- (b) conducts any business activity in India in any other manner.

According to the Companies (Registration of Foreign Companies) Rules, 2014, “electronic mode” means carrying out electronically based, whether main server is installed in India or not, including, but not limited to-

[Explanation.- For the purposes of this clause, electronic based offering of securities, subscription thereof or listing of securities in the International Financial Services Centres set up under section 18 of the Special Economic Zones Act, 2005 (28 of 2005) shall not be construed as ‘electronic mode’ for the purpose of clause (42) of section 2 of the Act.].

- (a) business to business and business to consumer transactions, data interchange and other digital supply transactions;
- (b) offering to accept deposits or inviting deposits or accepting deposits or subscriptions in securities, in India or from citizens of India;
- (c) financial settlements, web-based marketing, advisory and transactional services, database services and products, supply chain management;
- (d) online services such as telemarketing, telecommuting, telemedicine, education and information research; and
- (e) all related data communication services,

whether conducted by e-mail, mobile devices, social media, cloud computing, document management, voice or data transmission or otherwise.

In the given situation, Zen Limited is registered in Thailand. However, it does not have a place of business in India whether by itself or through an agent, physically or through electronic mode; and does not conduct any business activity in India in any other manner. Mere holding of board meetings and executing business decisions in India cannot be termed as conducting business activity in India. Hence, Zen Limited is not a foreign company.

II. Answers to the Descriptive Questions

6. The residential status of a foreign company is determined on the basis of place of effective management (POEM) of the company.

For determining the POEM of a foreign company, the important criteria is whether the company is engaged in active business outside India or not.

A company shall be said to be engaged in “**Active Business Outside India**” (ABOI) for POEM, if

- the passive income is not more than 50% of its total income; and
- less than 50% of its total assets are situated in India; and
- less than 50% of total number of employees are situated in India or are resident in India; and
- the payroll expenses incurred on such employees is less than 50% of its total payroll expenditure.

RPP Ltd. shall be regarded as a company engaged in active business outside India for P.Y.2022- 23 for POEM purpose only if it satisfies all the four conditions cumulatively.

Condition 1: The passive income of RPP Ltd. should not be more than 50% of its total income

Total income of RPP Ltd. during the P.Y. 2022-23 is Rs 264 crores [(Rs 60 crores+Rs 120 crores) + (Rs 48crores + Rs 36crores)] Passive income is the aggregate of, -

- (i) income from the transactions where both purchase & sale of goods is from/to its associated enterprises; and
- (ii) income by way of royalty, dividend, capital gains, interest or rental income;

Passive Income of RPP Ltd. is Rs120 crores, being sum total of:

- (i) Rs 36 crores, income from transactions where both purchases and sales are from/to associated enterprises (Rs 12 crores in India and Rs 24 crores in Thailand)
- (ii) Rs 84crores, being interest and dividend from investment (Rs 48 crores in India and Rs 36 crores in Thailand)

Percentage of passive income to total income = Rs 120 crore/ Rs 264crore x 100 = 45.45%

Since passive income of RPP Ltd. is 45.45%, which is not more than 50% of its total income, the first condition is satisfied.

Condition 2: RPP Ltd. should have less than 50% of its total assets situated in India

Value of total assets of RPP Ltd. during the P.Y. 2022-23 is Rs1,464crores [Rs504crores, in India+ Rs 960crores, in Thailand]

Value of total assets of RPP Ltd. in India during the P.Y. 2022-23 is Rs 504crores

Percentage of assets situated in India to total assets = Rs 504crores/Rs1464crores x 100 = 34.43%

Since the value of assets of RPP Ltd. **situated in India is less than 50%** of its total assets, the second condition for ABOI test is satisfied.

Condition 3: Less than 50% of the total number of employees of RPP Ltd. should be situated in India or should be resident in India

Number of employees situated in India or are resident in India is 168.Total number of employees of RPP Ltd. is 384[168 + 216]

Percentage of employees situated in India or are resident in India to total number of employees is 168/384x 100 =**43.75%**

Since employees situated in India or are residents in India of RPP Ltd. **are less than 50%** of its total employees, the third condition for ABOI test is satisfied.

Condition 4: The payroll expenses incurred on employees situated in India or resident in India should be less than 50% of its total payroll expenditure

Payroll expenses on employees employed in and resident of India = Rs19.20crores. Total payroll expenses = Rs48crores (Rs19.20crores + Rs28.80 crores)

Percentage of payroll expenses of employees situated in India or are resident in India to the total payroll expenses = 19.20x 100/48= 40%

Since the payroll expenses incurred on employees situated in India or resident in India **is less than 50% of its total payroll expenditure**, the fourth condition for ABOI test is also satisfied.

Thus, since RPP Ltd. has satisfied all the four conditions, the company would be said to be engaged in “active business outside India” during theP.Y.2022-23.

POEM of a company engaged in active business outside India shall be presumed to be outside India, if the majority of the board meetings are held outside India.

Since RPP Ltd. is engaged in active business outside India in the P.Y. 2022-23 and majority of its board meetings i.e., 5 out of 8, were held outside India, POEM of RPP Ltd. would be outside India.

Therefore, RPP Ltd. would be non-resident in India for the P.Y. 2022-23.

7. Contents of a Due Diligence Report

The contents of a due diligence report will always vary with individual circumstances. Following headings are illustrative:

Example of Headings of a Due Diligence Report	
♦	Executive Summary
♦	Introduction
♦	Background of Target company
♦	Objective of due diligence
♦	Terms of reference and scope of verification
♦	Brief history of the company
♦	Share holding pattern
♦	Observations on the review
♦	Assessment of management structure
♦	Assessment of financial liabilities
♦	Assessment of valuation of assets
♦	Comments on properties, terms of leases, lien and encumbrances.
♦	Assessment of operating results
♦	Assessment of taxation and statutory liabilities

♦	Assessment of possible liabilities on account of litigation and legal proceedings against company
♦	Assessment of net worth
♦	Interlocking investments and financial obligations with group / associates companies, amounts receivable subject to litigation, any other likely liability which is not provided for in the books of account
♦	SWOT Analysis
♦	Comments on future projections
♦	Status of charges, liens, mortgages, assets and properties of the company
♦	Suggestion on ways and means including affidavits, indemnities, to be executed to cover unforeseen and undetected contingent liabilities
♦	Suggestions on various aspects to be taken care of before and after the proposed merger/acquisition.

8. (i) **Calculation of capitalization rate on borrowings other than specific borrowings**

Amount of loan (Rs)	Rate of interest		Amount of interest (Rs)
14,00,000	12%	=	1,68,000
18,00,000	11%	=	1,98,000
<u>32,00,000</u>			<u>3,66,000</u>
Weighted average rate of interest (3,66,000/32,00,000) x100		=	11.4375%

(ii) **Computation of borrowing cost to be capitalized for specific borrowings and general borrowings based on weighted average accumulated expenses**

Date of incurrence of expenditure	Amount spent (Rs)	Financed through	Calculation	(Rs)
1 st April, 2022	3,00,000	Specific borrowing	3,00,000 x 9% x 10/12	22,500.00
1 st August, 2022	4,00,000	Specific borrowing	1,00,000 x 9% x 10/12	7,500.00
		General borrowing	3,00,000 x 11.4375% x 6/12	17,156.25
1 st October, 2022	7,00,000	General borrowing	7,00,000 x 11.4375% x 4/12	26,687.50
1 st January, 2023	2,00,000	General borrowing	2,00,000 x 11.4375% x 1/12	1,906.25
				<u>75,750.00</u>

(ii) **Note:** Since construction of building started on 1st April, 2022, it is presumed that all the later expenditures on construction of building had been incurred at the beginning of the respective month. Total expenses to be capitalized for building

Particulars	(Rs)
Cost of building Rs (3,00,000 + 4,00,000 + 7,00,000 + 2,00,000)	16,00,000
Add: Amount of interest to be capitalized	<u>75,750</u>
	<u>16,75,750</u>

(iii) **Journal Entry**

Date	Particulars		(Rs)	(Rs)
31.1.2023	Building account	Dr.	16,75,750	
	To Bank account			16,00,000
	To Interest payable (borrowing cost)			75,750
	(Being expenditure incurred on construction of building and borrowing cost thereon capitalized)			

Note: In the above journal entry, it is assumed that interest amount will be paid at the year end. Hence, entry for interest payable has been passed on 31.1.2023.

Alternatively, following journal entry may be passed if interest is paid on the date of capitalization:

Date	Particulars		(Rs)	(Rs)
31.1.2023	Building account	Dr.	16,75,750	
	To Bank account			16,75,750
	(Being expenditure incurred on construction of building and borrowing cost thereon capitalized)			

CASE STUDY 29

The decade of 90's witnessed a large shift in the way of doing business in India. The New Economic Policy of 1991 opened doors of and for the Indian economy to the outside world for interaction and business both inside and outside the country. The Service sector grew like anything. India soon proved to the world that it is not limited to Agriculture only and that there is much more scope for Industrialisation and the Tertiary sector. The nation saw an upsurge in the Global activities and thus its development was fast-paced. But every development has its cost and that cost which India started sharing with the whole world was Overexploitation of Natural resources, Global warming, Ozone layer depletion, Pollution and the list goes on. Now, it stands on the same platform as the other nations in facing these issues. With the progress, the World has been making, it also understood its responsibility to protect the planet from the ill-effects of carving out the road to development and modernisation and so did the Corporates.

Corporates also felt their Social responsibility in this regard and thus a term was coined by the name CORPORATE SOCIAL RESPONSIBILITY (CSR). Corporate Social Responsibility is corporate initiative to assess and take responsibility for the company's effects on the environment and its impact on social welfare. It can be conceptualized as the corporations' obligation to take necessary action to reduce the negative externalities and enhance the positive externalities associated with their business. In doing so, the corporations could protect and promote the interests of their stakeholders and society as a whole. The origin of CSR can be traced to philanthropic activities of corporations, viz., donations and charity. Over the years, the concept of CSR has evolved and it now includes within its scope, triple bottom line approach (achieving a balance of economic, environmental and social imperatives), corporate sustainability, improving and developing skills for sustainability, to name a few. CSR is the process by which an organization thinks about and evolves its relationships with stakeholders for the common good, and demonstrates its commitment in this regard by adoption of appropriate business processes and strategies. Thus, CSR is not charity or mere donations. CSR is a way of conducting business, by which corporate entities visibly contribute to the social good. Socially responsible companies do not limit themselves to using resources to engage in activities that increase only their profits. They use CSR to integrate economic, environmental and social objectives with the company's operations and growth.

THE INDIAN SCENARIO

Prior to the year 2014, CSR activities were voluntary for the corporates in India, however they ought to disclose their CSR spending to their shareholders. With an amendment to the Companies Act, 2013 in April 2014, India became the first country in the world to make CSR mandatory allowing the businesses to invest their profits in areas such as education, poverty, hunger to comply with CSR provisions. CSR is the procedure for assessing an organization's impact on society and evaluating their responsibilities. It begins with an assessment of the aspects of each business such as Customers, Suppliers, Environment, Communities, Employees, etc. Since the applicability of mandatory CSR provision in 2014, CSR spending by corporates in India has increased significantly. Organizations in India taking up CSR initiatives and integrating them into their business processes. Companies now have specific departments and teams that develop specific policies, strategies, and goals for their CSR programs.

One such company is "Mahima Consumer Products Limited" which manufactures consumable goods like bath soap, tooth brushes, soap cases etc. This company has made a remarkable success in the recent times starting from a low investment. It had been doing CSR projects on its own without any requirement legally along with an established charitable company by the name of "Needs & Helps" but now since it has capitalised the market share to a good extent, the Board of Directors feel the need to know about all the CSR provisions that may be applicable to their Company, the Policies they need to develop, the Accounting treatment & the Taxation impact. For this purpose, they approach Nayyar & Co., a CA firm with an experience of 6 years in CA Practice.

CA Karan Nayyar, the Senior Partner of the firm is invited for a meeting with the BOD of the Company to make them aware of all the provisions relating to CSR and what policies and procedures now would they need to set up to comply with the CSR provisions. Mr. Kapoor, one of the Directors on the Board of the Company is curious to ask about CSR applicability to the Company's Foreign subsidiary to which CA Nayyar replies that every company including its holding or subsidiary, and a foreign company defined under clause (42) of section 2 of the Act having its branch office or project office in India which fulfils the criteria specified in sub-section (1) of section 135 of the Act shall comply with the provisions of section 135 of the Act and these rules. Provided that net worth, turnover or net profit of a foreign company of the Act shall be computed in accordance with balance sheet and profit and loss account of such company prepared in accordance with the provisions of clause (a) of sub-section (1) of section 381 and section 198 of the Act. He tells them that in India, the Companies Act, 2013 has statutorily recognised the concept of CSR. Section 135 of the Companies Act, 2013 read with Schedule VII thereto and Companies (Corporate Social Responsibility Policy) Rules, 2014 are the special provisions under the new company law regime imposing mandatory CSR obligations. Schedule VII of Companies Act 2013 lists activities that may be included by companies in their Corporate Social Responsibility Policies. As per Rule 4 of the Companies (CSR) Rules, 2014, there are certain expenditures which are not considered as CSR activity for the purpose of section 135.

MANDATORY CSR OBLIGATIONS UNDER SECTION 135 OF COMPANIES ACT, 2013

- Every company, listed or unlisted, private or public, having a -
 - net worth of Rs 500 crores or more [Net worth criterion]; or
 - turnover of Rs 1,000 crores or more [Turnover criterion]; or
 - a net profit of Rs 5 crores or more [Net Profit criterion](to be calculated as per Section-198)during the immediate preceding financial year to constitute a CSR Committee of the Board;
- CSR Committee has to formulate CSR policy and the same has to be approved by the Board;
- Such company to undertake CSR activities as per the CSR Policy;
- Such company to spend in every financial year, at least 2% of its average net profits made in the immediately three preceding financial years "or where the company has not completed the period of three financial years since its incorporation, during such immediately preceding financial years, on the CSR activities specified in Schedule VII to the Companies Act, 2013.

Mr. Kapoor spontaneously interrupted and apprised the meeting with the fact that an amount of Rs 5,00,000 was spent as CSR expense towards the education of a girl child. He further explained that the Company has decided to claim it as an expense against profits while computing income for Income tax purposes.

However, CA Nayyar tells them that legal provisions will be looked into and continued explaining further provisions that-

CSR Committee shall:

- (a) formulate and recommend to the Board-
 - (i) a CSR Policy indicating the activities to be undertaken by the company as specified in Schedule VII;
 - (ii) the amount of expenditure to be incurred on the above activities and
- (b) monitor the CSR Policy of the company from time to time

The Board shall disclose:

- (a) The composition of CSR Committee in its report
- (b) Approve the recommended CSR Policy for the company
- (c) Disclose the contents of such Policy in its report and place it on the company's website
- (d) Ensure that the activities included in CSR Policy of the company are duly executed by the company
- (e) Ensure that the company spends, in every financial year, at least two per cent of the average net profits of the company made during the three immediately preceding financial years by giving preference to the local area and areas around it where it operates
- (f) In case the company fails to spend such amount, the Board shall specify the **Reasons** for not spending the amount.

With respect to the accounting for Revenue expenditure for Corporate Social Responsibility made in the current financial year, CA Nayyar said he would discuss with the Accounts Department of the company in the due course of time.

Mr. Parimal, another Director of the Company asks his queries on the following two issues to which CA Nayyar gives him a satisfactory reply:

1. Whether any Unspent Amount of CSR Expenditure is to be Provided for?
2. Whether the Excess Amount can be Carry Forward to set off against Future CSR Expenditure?

THE TAXATION ASPECT

- CSR expenditure, being an application of income, is not incurred wholly and exclusively for the purposes of carrying on business. As the application of income is not allowed as deduction for the purposes of computing taxable income of a company, amount spent on CSR cannot be allowed as deduction for computing the taxable income of the company.
- Based on the Explanatory Memorandum to the Bill, the CSR expenditure which is of the nature described in section 30 to section 36 of the Income-tax Act shall be allowed as deduction under those sections subject to fulfilment of conditions, if any, specified therein. If the nature of CSR expenditure incurred is not covered under the aforesaid sections of the Act and

is covered under section 37(1) of the Act, being a general deduction, the same is proposed to be disallowed by the Bill. The meeting concludes with the Company appointing M/s Nayyar & Co. as its Statutory Auditors for a period of 5 years w.e.f. 2023-24 and CA Nayyar fixes the remuneration to be charged by his firm for the audit as well as the consultancy purposes in agreement with the BOD of Mahima Consumer Products Limited.

Later on, as part of the company's CSR policy, it was decided that for every pack of consumable goods sold, Rs 0.80 will go towards 'Needs & Helps' which will qualify as a CSR spend as per Schedule VII. Consequently, at the year end, the company sold 25,000 such packs and a total of Rs 20,000 was recognised as CSR expenditure. However, this amount was not paid to 'Needs & Helps' at the end of the financial year. The company also transferred a small building purchased by it to a school run and maintained by a Gram Panchayat for use as a Library by the school.

I. Multiple Choice Questions

1. The management of the company "Needs & Helps" believes that the CSR provisions are not applicable to it. On discussion with Mr. Kapoor, they approach CA Nayyar to consult the same. What should be CA Nayyar's take on whether the provisions of CSR are applicable to "Needs & Helps" provided it fulfils the criteria of Section 135 of the Act?
 - (a) Not Applicable as all the activities of the company will be with the intent of charity.
 - (b) Not Applicable as all its activities are activities in the normal course of business.
 - (c) Applicable as it applies to every Company.
 - (d) Applicable only if the Company involves itself in any commercial activity other than the charitable ones.
2. Will the recognition of Rs 20,000 as CSR expenditure qualify to be a CSR Expenditure?
 - (a) No, it needs to be spent actually for such qualification.
 - (b) Yes, as the Company has earmarked it separately to be used for the decided purpose.
 - (c) Yes, if the Company makes a provision for its use in near future for the same.
 - (d) Only 50% qualifies and balance 50% on actual expenditure by the Company.
3. What accounting treatment should be suggested to the Company relating to transfer of building?
 - (a) Capitalised as a CSR Asset as PPE as per IndAS 16 in the books of accounts.
 - (b) Capitalised as a CSR Asset as Investment Property as per IndAS 40 in the books of accounts.
 - (c) Capitalised as a CSR Asset without any sub-head classification as per AS in the books of accounts.
 - (d) Charged to the Statement of Profit & Loss for the year of Transfer.
4. Mr. Kapoor tells CA Karan Nayyar that their Company carries out CSR activities from rented premises in Pune. The rent paid for such premises is disclosed as CSR expenditure and subsequently their company also claimed deduction of the same under the Income-tax Act. Is this permissible?
 - (a) Not allowed as a Deduction as this expense is not directly benefitting any individual or organisation.
 - (b) Allowed as a Deduction.
 - (c) Partly allowed upto 30% of the total rent.
 - (d) Rent can never be claimed as a CSR Expenditure.
5. During the year, company spent certain amount towards the education of a girl child. Is the treatment as decided by the company w.r.t. such CSR expenditure while computing income for Income tax purposes is valid?
 - (a) No, as this expenditure is an application of income, is not incurred wholly and exclusively for the purposes of carrying on business.
 - (b) Yes, as this amount involved is material as it might put a huge impact against the profits.
 - (c) Yes, this expenditure can be claimed as deduction only when it is actually paid before the due date of return filing by the company.
 - (d) No, such an allowance can be made only after applying for and receiving a certificate for the same from the Chief Commissioner of Income tax.

II. Descriptive Questions

- 6. CA Nayyar said that he would discuss the accounting of the Revenue expenditure for Corporate Social Responsibility made in the current financial year with the accounts department in the due course of time. You, being the assistant to CA Nayyar, have been asked by him to provide the Accounts Department with a brief write up on the same.
- 7. After the havoc caused by a devastating Tsunami in Andaman & Nicobar islands, a group of companies undertake during the period from October 2022 to December 2022 various commercial activities, with considerable concessions/discounts, along the related affected areas. The management of Mahima Consumer Products Limited intends to highlight the expenditure incurred on such activities as expenditure incurred on activities undertaken to discharge corporate social responsibility, while publishing its financial statements. State whether the management's intention is correct or not and why?

I. Answers to the Multiple Choice Questions

- 1. (c) Applicable as it applies to every Company.
Reason: Section 135 of the Companies Act is applicable to every company meeting the specified criteria. As per section 2(20) of the Companies Act, 'company' means a company incorporated under the Companies Act or under any other previous company law. This would imply that companies set up for the purposes of CSR/public welfare are also required to comply with the provisions of CSR.
- 2. (a) No, it needs to be spent actually for such qualification.
Reason: By earmarking the amount from such sale for CSR expenditure, the company cannot show it as CSR expenditure. To qualify the amount to be CSR expenditure, it has to be spent. Hence, Rs 20,000 will not be automatically considered as CSR expenditure until and unless it is spent on CSR activities.
- 3. (d) Charged to the Statement of Profit & Loss for the year of Transfer.
Reason: The control over the asset is not with the Company and no future economic benefits are expected to flow to the company. So, to be charged as a Revenue Expenditure and not capitalised.
- 4. (b) Allowed as a Deduction.
Reason: CSR expenditure which is of the nature described under section 30 to 36 of the Income-tax Act shall be allowed as a deduction. Rent expense can be claimed under section 30 of the Act and hence it can be claimed as a deduction.
- 5. (a) This expenditure is an application of income, is not incurred wholly and exclusively for the purposes of carrying on business.
Reason: For the purposes of section 37(1), any expenditure incurred by an assessee on the activities relating to corporate social responsibility referred to in section 135 of the Companies Act, 2013 shall not be deemed to have been incurred for the purpose of business and hence, shall not be allowed as deduction under section 37.

II. Answers to the Descriptive Questions

- 6. CSR expenditure is an item of Profit & Loss Account.

As per Item 5(A)(k) of the General Instructions for Preparation of Statement of Profit and Loss under Schedule III of the Companies Act 2013, in case of companies covered under section 135, the amount of expenditure incurred on Corporate Social Responsibility Activities shall be disclosed by way of a note to the statement of profit & Loss.

The treatment of revenue expenditure will be same under AS and Ind AS.
- 7. Corporate Social Responsibility (CSR) Reporting is an information communiqué with respect to discharge of social responsibilities of corporate entity. Through 'CSR Report' the corporate enterprises disclose the manner in which they are discharging their social responsibilities. More specifically, it is addressed to the public or society at large, although it can be squarely used by other user groups also.

Section 135 of the Companies Act, 2013 mandated the companies fulfilling the criteria mentioned in the said section to spend certain amount of their profit on activities as specified in the Schedule VII to the Act. Companies not falling within that criteria can also spend on CSR activities voluntarily. However, besides the requirements of constitution of a CSR committee and a CSR policy, the corporate entities should also take care that expenditure incurred for CSR should not be the expenditure incurred for the activities in the ordinary course of business. If expenditure incurred is for the activities in the ordinary course of business, then it will not be qualified as expenditure incurred on CSR activities.

Here, it is assumed that the commercial activities performed at concessional rates are the activities done in the ordinary course of business of the companies. Therefore, the intention of the management to highlight the expenditure incurred on such commercial activities in its financial statements as expenditure incurred on activities undertaken to discharge CSR, is not correct.

CASE STUDY 30

CA Ankit Bansal has recently qualified his CA Finals and wants to join his father, FCA Vivek Bansal in his already established CA Practice. His father has earned a good name as one of the most successful Chartered Accountants in the city and Ankit wants to follow on his father's footsteps too. Ankit intimated about his desire to join his father in his office. His father, having struggled a lot in his initial days as a fresher knows the importance of hard-work and efforts required to settle in any Profession. He doesn't want his son to directly join him as a Boss over other employees, but to earn it after working for at least 6-8 months in the office as an employee. He wants his son to know the importance of efforts required to be made in the profession and understand that 'All that Glitters is not Gold'. He asks Ankit to study a new and emerging field in the Profession – GST properly and apply it practically in the office as well, with the help of other Staff & Trainers. He also tells him that as he is a newly qualified Professional, he will also discuss with him the Professional Ethics of CA Profession, though he might have read about it during his studies, yet he wants to tell him about its practical aspects. CA Vivek also asks his son to start working with the family's accounts first and prepare Income tax Returns and GST Returns of the Family including his elder brother's recently started business. Ankit happily agrees to abide by his father's wishes and starts working on it.

Since Indirect Taxes was one subject with which Ankit had to work on a lot to pass its exam, he decides to study about its applicability on their Profession. Initially, he had read that Chartered Accountants were subject to Service Tax in the Pre-GST regime, but now, in the Post-GST era, they also fall under the ambit of GST. He learns that the same exemption limit w.r.t. aggregate turnover as applicable to the Business Community is also applicable to them. However, if any CA or CA firm provides 'Interstate Service', they have to register themselves compulsorily under the GST Law, irrespective of their aggregate turnover being less than the exemption limit. All other provisions too, like issue of Invoices, Charge of GST, payment of tax and filing of returns for Service Providers like CA's are more or less similar under the 'One Nation One Tax' regime with minor variations. Many CA's who were following the Cash System of accounting for Income-tax purposes, cannot follow Cash-system under GST, for which Mercantile System can only be followed. They are also subject to Section-9 of CGST Act w.r.t. Payment & Collection of tax under the 2 different mechanisms - FORWARD CHARGE & REVERSE CHARGE. The GST rate applicable on them is 18% on the value of services provided by them. CA Vivek assigns the work of filing their CA firm's returns for the month to CA Ankit.

As far as Income-tax is concerned, they are individual or a firm of Chartered Accountants covered under the head of 'Profits & Gains from Business or Profession'. They fall under the ambit of Notified Profession as per a CBDT Notification under the Income-tax law but finds it's difficult to make out whether he needs to maintain Books of Accounts U/s 44AA of the Income-tax Act, 1961 like his Father and their CA Firm or not, being a freshly qualified CA. As per Section-145, they can either adopt Cash or Mercantile system of accounting as they desire, calculate their Gross receipts and then Surplus after deducting expenses required to be in the Profession. The Income tax is to be paid on such Surplus or Net Receipts. Under the Normal Taxation provisions, his income would consist as follows as per the case:

S.No.	Capacity in which income is earned by an individual	Treatment of income earned in each capacity
(1)	In his personal capacity (under the 5 heads of income)	Income from salaries, Income from house property, Profits and gains of business or profession, Capital gains and Income from other sources.
(2)	As a partner of a firm	(i) Salary, bonus etc. received by a partner is taxable as his business income. (ii) Interest on capital and loans to the firm is taxable as business income of the partner. The income mentioned in (i) and (ii) above are taxable to the extent they are allowed as deduction to the firm. (iii) Share of profit in the firm is exempt in the hands of the partner.

During his tenure of 6 months, CA Ankit would discuss various matters, relating to Professional Ethics with his father on various occasions. His father tells him that a Professional needs to be integral, confidential, independent, objective, competent & knowledgeable to be successful in his/her respective Profession. A Professional Accountant's responsibility is not exclusively to satisfy the needs of an individual client or employer but also acting in the public interest. A professional accountant should observe and comply with the ethical requirements of the Code of Ethics applicable on them. This Code discusses the fundamental principles which professional accountants have to observe in order to achieve the objectives of the Accountancy Profession. Compliance with such principles may potentially be threatened by a range of threats as per circumstances categorised as Self -Interest, Self- Review, Advocacy, Familiarity and Intimidation threats. The nature & significance of these threats may differ depending on whether they arise in relation to the provision of services to a financial statement audit client, a non-financial statement audit assurance client or a non- assurance client. Ankit understands the **Reason** now why his father once refused to accept a CAR as a gift from one of his clients while auditing his Listed Company XYZ Ltd. And at other time, when he refused one of his big clients for offering him special treatment at his Service Centre. CA Ankit, asks his father whether they can also put up their Firm Name's Board at their residence and he would cater to some the clients for whom their residence is more accessible and approachable to get the

work done, but his father CA Vivek denies him the permission to do so citing Ethics & tells him that they have already put up a Firm name board at their Official Premises and it is not required at their residence.

CA Ankit works for one year as an Individual- CA Ankit Bansal and after one year, joins his father CA Vivek Bansal in his CA firm as a Partner with full zeal & enthusiasm after having got the relevant experience under his experienced father for one year.

CA Vivek Bansal is having a very big corporate client, Ranjan Pvt. Ltd. This year, after Ankit qualifying and joining his father in the Office, CA Vivek assigns him the Audit work of Ranjan Ltd. for the preparation of their audit report in a timely manner. The Profit & Loss a/c of Ranjan Pvt. Ltd., having business of agricultural produce, consumer items and other products for the year ended 31.03.2023 is as under:

Particulars	Amount (Rs)	Particulars	Amount (Rs)
Opening Stock	3,75,000	Sales	1,55,50,000
Purchases	1,25,75,000	Closing Stock	4,50,000
Freight & Cartage	1,26,000		
Gross profit	29,24,000		
	1,60,00,000		1,60,00,000
Bonus to staff	47,500	Gross profit	29,24,000
Rent of premises	53,500	Income-tax refund	20,000
Advertisement	5,000	Warehousing charges	15,00,000
Bad Debts	75,000		
Interest on loans	1,67,500		
Depreciation	71,500		
Goods and Services tax demand paid	1,08,350		
Miscellaneous expenses	5,25,650		
Net profit of the year	33,90,000		
	44,44,000		44,44,000

Other Information:-

- (i) There was a survey under section 133A on the business premises on 31.3.2023 in which it was revealed that the value of closing stocks of 31.3.2022 was Rs 8,75,000 and a sale of Rs 75,000 made on 13.3.2023 was not recorded in the books. The value of closing stocks after considering these facts and on the basis of inventory prepared by the department as on 31.3.2023 worked out at Rs 12,50,000, which was accepted to be correct and not disputed.
- (ii) Income-tax refund includes amount of Rs 4,570 of interest allowed thereon.
- (iii) Bonus to staff includes an amount of Rs 7,500 paid in the month of December 2022, which was provided in the books on 31.03.2022.
- (iv) Rent of premises includes an amount of Rs 5,500 incurred on repairs. The assessee was under no obligation to incur such expenses as per rent agreement.
- (v) Advertisement expenses include an amount of Rs 2,500 paid for advertisement published in the souvenir issued by a political party. The payment is made by way of an account payee cheque.
- (vi) Miscellaneous expenses include:
 - (a) amount of Rs 15,000 paid towards penalty for non-fulfillment of delivery conditions of a contract of sale for the **Reasons** beyond control,
 - (b) amount of Rs 1,00,000 paid to the wife of a director, who is working as junior lawyer for taking an opinion on a disputed matter. The junior advocate of High Courts normally charge only Rs 25,000 for the same opinion,
 - (c) amount of Rs 1,00,000 paid to an Electoral Trust by cheque.
- (vii) Goods and Services Tax demand paid includes an amount of Rs 5,300 charged as penalty for delayed filing of returns and Rs 12,750 towards interest for delay in deposit of tax.
- (viii) The company had made an investment of Rs 25 lacs on the construction of a warehouse in rural area for the purpose of storage of agricultural produce. This was made available for use from 15.09.2022 and the income from this activity is credited in the Profit and Loss account under the head "Warehousing charges".
- (ix) Depreciation under the Income-tax Act, 1961 works out at Rs 65,000.
- (x) Interest on loans includes an amount of Rs 80,000 on which tax was not deducted.

I. Multiple Choice Questions

- Had CA Vivek accepted the Offer of the special treatment from XYZ Ltd.'s Director, he would have been subject to -
(a) Familiarity Threats. (b) Self-Review Threats. (c) Self-Interest Threats. (d) Advocacy Threat.
- CA Ankit wants to put the name board of the Firm with his name as a Partner in the Firm, if admitted to his Father's Firm as a Partner, at the Place of his residence. He can put up a name board of -
(a) His name only with designation "Chartered Accountant".
(b) Firm's name only with designation "Chartered Accountants".
(c) 2 Different name-boards with respective details of his and the Firm's.
(d) Nothing, as a member can't put any name boards whether individual or firm name at his place of Residence.
- Ankit doesn't wish to maintain Books of Account for his Professional earnings on the ground that his income is less than the limits prescribed under the relevant section of the Income Tax Act, 1961 unlike his father CA Vivek or his CA firm. He is -
(a) Guilty of Professional Misconduct under CA Act, 1949.
(b) Not Guilty as the relevant Section doesn't apply on him.
(c) Guilty both under the CA Act, 1949 & the Income Tax Act, 1961.
(d) Guilty of Professional Negligence.
- One of Ankit's Clients has displayed his Business name along with the GST Act requirements through Glow Sign Boards outside his Premises and has claimed the expense as a Revenue Expenditure. They seek Ankit's advice as to such Accounting treatment. What is the nature of expenditure incurred on glow-sign boards displayed at the premises of Ankit's client as to be suggested by Ankit?
(a) Capital Expenditure. (b) Revenue Expenditure as accounted for by the Client.
(c) Deferred Revenue Expenditure. (d) Can be claimed as any as per the facts of the case.
- One of CA Ankit's Clients states that Interest was payable to Goods and Services Tax Department but could not be paid before the due date specified in section 139(1). What should be CA Ankit's Reporting during the Tax Audit of such client?
(a) Allowable as an expense. (b) Disallowed u/s 43B.
(c) Disallowed u/s 37. (d) Allowable but to the extent of 30% only.

II. Descriptive Questions

- Compute the income chargeable to tax for Assessment Year 2023-24 of Ranjan Pvt. Ltd, ignoring MAT and provisions of section 115BAA. Support your answer with working notes for CA Ankit.
- CA Vivek bags a contract of providing financial and management consultancy to a group of companies for an annual retainerhip fee of Rs 15 lakh. He is given a room in the head office of the group for its exclusive use. CA Vivek pays GST on the amount of Rs 15 lakh. Is the value for the service provided by him correct under GST laws? If not, please elaborate.
 - CA Ankit has provided various Consultancy and Assurance services during the year as follows. Determine the time of supply in the following cases assuming that rate of GST changes from 18% to 20% w.e.f. June 1:

S. No.	Date of supply of services	Date of issue of invoice	Date of receipt of payment
(i)	May 28	June 9	July 25
(ii)		May 28	July 25
(iii)		June 9	May 26
(iv)	June 10	May 28	June 25
(v)		May 28	May 16
(vi)		June 9	May 28

I. Answers to the Multiple Choice Questions

- (c) Self-Interest Threats.

Reason: Being offered gift or special treatment from a supplier of the employing organization, is an example of Self-Interest Threats.

2. (a) His name only with designation "Chartered Accountant".

Reason: With regard to the use of name-board, the Council of the Institute has decided a member of the Institute may put up a name board in the place of his/her residence with the designation of CA, provided it is a name-Plate or Board of an Individual member and not of the firm.

3. (a) Guilty of Professional Misconduct under CA Act, 1949.

Reason: As per the Council General Guidelines 2008, under Chapter 5 on maintenance of books of accounts, it is specified that if a chartered accountant in practice or the firm of Chartered Accountants of which he is a partner fails to maintain and keep in respect of his/its professional practice, proper books of account including the Cash Book and Ledger, he is deemed to be guilty of professional misconduct. Accordingly, it does not matter whether section 44AA of the Income Tax Act, 1961 applies or not.

4. (b) Revenue Expenditure as accounted for by the Client.

Reason: On this issue, the Delhi High Court noted the following observations of the Punjab and Haryana High Court in CIT v. Liberty Group Marketing Division [2009] 315 ITR 125, while holding that such expenditure was revenue in nature -

- (i) The expenditure incurred by the assessee on glow sign boards does not bring into existence an asset or advantage for the enduring benefit of the business, which is attributable to the capital.
- (ii) The glow sign board is not an asset of permanent nature. It has a short life.
- (iii) The materials used in the glow sign boards decay with the effect of weather. Therefore, it requires frequent replacement. Consequently, the assessee has to incur expenditure on glow sign boards regularly in almost each year.
- (iv) The assessee incurred expenditure on the glow sign boards with the object of facilitating the business operation and not with the object of acquiring asset of enduring nature.

5. (b) Disallowed u/s 43B.

Reason: Interest payable to Goods and Services Tax department is part of Goods and Services Tax. Therefore, interest payable to Goods and Services Tax department, which is not paid before the "due date" of filing of return of income, would attract disallowance under section 43B [Mewar Motors v. CIT (2003) 260 ITR 218 (Raj)]

II. Answers to the Descriptive Questions

6.

		Amount (Rs)
Net profit as per profit and loss account		33,90,000
Add:	Difference in the value of stocks detected on survey under section 133A on 31.03.2023 chargeable as income (See Note 1)	3,75,000
		37,65,000
Less :	Income-tax refund credited in the profit and loss account, out of which interest is to be considered separately under the head "Income from other sources"	20,000
Add:	Expenses either not allowable or to be considered separately but charged in the profit & loss account	37,45,000
	Repair expenses on rented premises where assessee is under no obligation to incur such expenses - are not allowable as per section 30(a)(i). However, if such expenses are required for carrying on the business efficiently, the same are allowable under section 37. In this case, assuming that such expenses are required for carrying on business efficiently, the same are allowable under section 37.	
	Advertisement in the souvenir of political party not allowable as per section 37(2B) (See Note 3)	2,500
	Payment made to the wife of a director examined as per section 40A(2) and the excess payment made to be disallowed (See Note 5)	75,000
	Payment made to electoral trust by cheque (See Note 6)	1,00,000
	Penalty levied by the Goods and Services tax department for delayed filing of returns not allowable as being paid for infraction of law (See Note 7)	5,300
	Depreciation as per books	71,500
	30% of interest paid on loan without deduction of tax at source not allowable as per section 40(a)(ia)	24,000

			40,23,300
Less :	Depreciation allowable as per Income-tax Act, 1961		65,000
Less:	Income from specified business (warehousing charges) credited to profit and loss account, to be considered separately (See Note 8)		39,58,300 15,00,000
	Income from business (other than specified business)		24,58,300
	Computation of income/ loss from specified business (See Note 8)		
	Income from specified business	Rs 15,00,000	
Less :	Deduction under section 35AD @ 100% of Rs 25 lakhs	Rs 25,00,000	
	Loss from specified business to be carried forward as per section 73A	Rs (10,00,000)	
	Income from Other Sources		
	Interest on income-tax refund		4,570
	Gross Total Income		24,62,870
Less :	Deduction under section 80GGB		
	Contribution to political party (See Note 3)	Rs 2,500	
	Contribution to an Electoral trust (See Note 3)	Rs 1,00,000	1,02,500
	Total Income		23,60,370

Notes:

- (1) The business premises were surveyed and differences in the figures of opening and closing stocks and sales were found which have not been disputed and accepted by the assessee. Therefore, the trading account for the year is to be re-cast to arrive at the correct amount of the gross profit/ net profit for the purpose of return of income to be filed for the previous year ended on 31.3.2023.

Revised Trading Account

Particular	(Rs)	Particular	(Rs)
Opening Stock	8,75,000	Sales(Rs 1,55,50,000 +Rs 75,000)	1,56,25,000
Purchases	1,25,75,000	Closing Stock	12,50,000
Freight and Cartage	1,26,000		
Gross Profit	32,99,000		
	1,68,75,000		1,68,75,000

The difference of gross profit of Rs 32,99,000 –Rs 29,24,000 = Rs 3,75,000 is to be added as income of the business for the year.

- (2) Bonus for the previous year 2021-22 paid after the due date for filing return for that year would have been disallowed under section 43B for the P.Y.2021-22. However, when the same has been paid in December 2021, it should be allowed as deduction in the P.Y.2022-23 (A.Y.2023-24). Since it is already included in the figure of bonus to staff debited to profit and loss account of this year, no further adjustment is required.
- (3) The amount of Rs 2,500 paid for advertisement in the souvenir issued by a political party attracts disallowance under section 37(2B). However, such expenditure falls within the meaning assigned to “contribute” under section 293A of the Companies Act, 1956, and is hence, eligible for deduction under section 80GGB. Any contribution to the political party or electoral trust made by way of cash is not allowed as deduction under section 80GGB. Since in the present case, the payment to the political party is made by way of an account payee cheque, it is allowed as deduction under section 80GGB.
- (4) The penalty of Rs 15,000 paid for non-fulfilment of delivery conditions of a contract for **Reasons** beyond control is not for the breach of law but was paid for breach of contractual obligations and therefore, is an allowable expense.
- (5) It has been assumed that Rs 25,000 is the **Reasonable** payment for the wife of Director, working as a junior lawyer, since junior advocates of High Courts normally charge only Rs 25,000 for the same opinion and therefore, the balance Rs 75,000 has been disallowed.
- (6) Payment to an electoral trust qualifies for deduction under section 80GGB since the payment is made by way of a cheque. However, since the amount has been debited to profit and loss account, the same has to be added back for computing business income.

- (7) The interest of Rs 12,750 paid on the delayed deposit of goods and services tax is for breach of contract and hence, is allowable as deduction. However, penalty of Rs 5,300 for delay in filing of returns is not allowable since it is for breach of law.
- (8) Deduction @ 100% of the capital expenditure is available under section 35AD in respect of specified business of setting up and operating a warehouse facility for storage of agricultural produce which commences operation on or after 1.04.2013. It is presumed that Rs 25 lacs does not include expenditure on acquisition of any land. The loss from specified business under section 35AD (warehousing) should be segregated from the income from other businesses, since, as per section 73A(1), any loss computed in respect of any specified business referred to in section 35AD shall not be set off except against profits and gains, if any, of any other specified business. In view of the provisions of section 73A(1), the loss of Rs 10 lacs from the specified business cannot be set-off against income from other businesses. Such loss has to be carried forward to be set-off against profit from specified business in the next assessment year. The return should be filed on or before the due date under section 139(1) for carry forward of such losses.
7. (a) CA Vivek gets an office room free of cost, which is an additional non-monetary consideration for his services. The market value of the rent of the room must be added to the retainer fee (Rs 15 lakh) in order to arrive at the value of the taxable service provided by him as per rule 27 of the CGST Rules relating to valuation.

(b)

S. No.	Date of supply of services	Date of issue of invoice	Date of receipt of payment	Time of supply	Applicable rate
(i)	May 28	June 9	July 25	June 9	20%
(ii)		May 28	July 25	May 28	18%
(iii)		June 9	May 26	May 26	18%
(iv)	June 10	May 28	June 25	June 25	20%
(v)		May 28	May 16	May 16	18%
(vi)		June 9	May 28	June 9	20%

CASE STUDY 31

M/s Mahaveer Medical based at Andheri in Mumbai is in the business of retail medical store. M/s Mahaveer Medical is registered under GST. As on 25th May, 2022, it returned the expired medicines to the whole-seller Radhika Drugs. M/s Mahaveer Medical issued an invoice to Radhika Drugs of Rs 25,00,000 plus GST @ 5% totalling to Rs 1,25,000. Radhika Drugs is also registered under GST. Radhika Drugs took the credit of input tax on accepting the expired goods from Mahaveer Medical.

Radhika Drugs issued the goods to Abbott & Co at a price of Rs 30,00,000 plus GST @ 5%. Abbott & Co have availed input tax credit of Rs 2,00,000 when it had manufactured the said goods. Abbott & Co have decided to destroy all the expired goods received from Radhika Drugs.

Abbott & Co's sister concern, Rabbot & Co is a resident Indian company, is engaged in the business of plantation and manufacture of coffee. Rabbot & Co submitted an application to the Advance Authority of Advance ruling seeking advance ruling in relation to the determination of tax liability of a non-resident i.e., Baron Holdings, Plc, U.K., pertaining to a transaction undertaken by Rabbot & Co with such non-resident.

Rabbot & Co purchased 15,20,000 (fifteen lakh twenty thousand) equity shares of Baron Coffee Company (India) Ltd. from Baron Holdings Plc, U.K., a non-resident company, as per the sale and purchase agreement (in short SPA) executed between Rabbot & Co and seller Baron Holdings Plc, U.K.) on April 18, 2022, wherein the purchaser agreed to purchase the said shares of Baron Tea Company held by the seller at Rs 273 per share.

Mr. Hari, employee of Rabbot & Co works in Japan for the Japanese operations of the company. Mr. Hari had left India 5 years ago. In India, he has deposits in Dyka Bank, a nationalized bank in Mathura. He earned Rs 12,00,000 from the deposits during FY 2022-23.

Mr. Hari has sold the flat at Worli, Mumbai for a price of Rs 5 crores on 19.02.2021. The buyer had not deducted TDS while paying the sale consideration. Mr. Hari did not pay any tax on the capital gains arising on the sale of flat. The Assessing Officer issued a notice to Mr. Hari asking him to pay the tax, but he did not respond. The Assessing Officer decided to recover the tax due from the fixed deposits held in Dyka Bank.

There were different cases which were seeking opinion from the Chartered Accountant of Abbot Ltd:

- ◆ Ratio International Inc was a tax transparent entity established in the Netherlands. As trustee, it was the legal owner of the assets held by a fund which, under the Dutch law, was structured as a legal entity known as FGR (i.e. fonds voor gemene

rekening, which means funds for joint account). The fund is registered with SEBI as a sub-account of a SEBI-registered FII. The fund had three investors. The fund was a tax transparent entity, fiscally domiciled in the Netherlands, and the income earned by it was taxable in the hands of its beneficiaries. All beneficiaries under the fund were taxable in respect of their shares of income in the Netherlands. Under the Dutch law, FGR is in the nature of a contractual arrangement between the investors, fund manager and its custodian. Since an FGR is not a legal entity, it does not hold any assets on its own and the assets are held by a custodian (i.e. Ratio International Inc). The clarifications issued by the Government of Netherlands also noted that the fund was a tax transparent entity.

Ratio International Inc was the trustee of the fund and also the legal owner of the assets owned by the fund. The fund had earned short term capital gains of Rs 23,38,08,365 and long term capital gain of Rs 12,60,91,050, on sale of shares in India.

- ◆ Sabyaschi Ltd was an Indian company engaged in the business of export of software and providing consultancy services. It had branches in various tax jurisdictions in which it had paid tax on profits of branches. Sabyaschi Ltd had claimed deduction of taxes paid in overseas countries. These taxes were paid in USA and in Canada.

The taxes paid in USA and Canada are with respect to income which is exempt under Income Tax Act, 1961. Sabyaschi Ltd has evidence of statements of tax paid in each jurisdiction.

- ◆ There is a Chartered Accountant firm by the name "Aashit & Co" based at Mumbai. M/s Aashit & Co is registered under GST. Mr. Raju from Bengaluru approaches the CA Firm to file its return of income in India. Mr. Raju is a salaried employee who is unregistered under GST. Aashit & Co charged a fee of Rs 15,000 to Mr. Raju. Aashit & Co has all the KYC details of Mr. Raju required to file the return of income.
- ◆ M/s Aashit & Co's client who stays in UK wanted to get designed a flat in Dubai. M/s Aashit & Co gave him the contact details of a leading architect in Chennai. The client in UK gave the work of designing the layout of the flat in Dubai. The architect charged a fee of Rs 5,00,000 for the said service.

I. Multiple Choice Questions

1. What is the place of supply in case of Aashit & Co assisting Mr. Raju to file the return of income in India?
 (a) Bengaluru. (b) Mumbai; as the services are rendered in Mumbai.
 (b) Bengaluru; as the recipient of service is in Bengaluru. (d) Mumbai.
2. One tax expert pointed out to Rabbot & Co that it cannot seek ruling from AAR on the said issue. Kindly let us know what the actual position of law is -
 (a) Resident, who is liable to withhold tax on the payment to be made to non-resident can apply for an advance ruling.
 (b) Resident, who is liable to withhold tax on the payment to be made to non-resident cannot apply for an advance ruling.
 (c) Only non-resident can apply for advance ruling.
 (d) Only Baron Coffee Company (India) Ltd. can apply for Advance Ruling.
3. What is the place of supply in case of services rendered by architect?
 (a) Chennai. (b) UK. (c) Mumbai. (d) Dubai.
4. How will the interest on fixed deposits be taxable in India in the hands of Mr. Hari?
 (a) Mr. Hari cannot claim the benefit of special provisions applicable to non-residents.
 (b) Mr. Hari can claim the benefit of special provisions applicable to non-residents and pay tax @20%.
 (c) Mr. Hari will have to pay tax as per the new income tax slabs as effected by Finance Act, 2021.
 (d) Mr. Hari will have to pay tax as per the income tax slabs applicable to a non-resident.
5. Is the Assessing Officer correct in recovering the taxes due from Mr. Hari from his fixed deposits lying in India?
 (a) Yes, it can recover the taxes due from the fixed deposits.
 (b) It cannot recover the tax dues from the fixed deposits.
 (c) It can recover the taxes due only from the consideration received on the sale of the property.
 (d) It can recover the taxes due from the agent of the non-resident.

II. Descriptive Questions

6. Kindly tell Abbott & Co, Radhika Drug and M/s Mahaveer Medical as to how to deal with the input tax credit by them in the month of May, 2022.
7. Kindly inform Sabyaschi Ltd how much credit of tax paid in USA and Canada be obtained in India.
8. One tax expert opined Ratio International Inc that the capital gain earned by it shall be assessed as an AOP. As the said AOP was not a tax resident entity of Netherlands, benefits under the India-Netherlands DTAA would not be available. Kindly give your opinion on the same.

I. Answers to the Multiple Choice Questions

1. (a) Bengaluru.

Reason: As per Section 12(2) of IGST Act, 2017, The place of supply of services, except the services specified in sub-sections (3) to (14),— (a) made to a registered person shall be the location of such person; (b) made to any person other than a registered person shall be,— (i) the location of the recipient where the address on record exists; and (ii) the location of the supplier of services in other cases.

Since Aashit & Co has the address of Mr. Raju, the place of supply shall be Bengaluru.

2. (a) Resident, who is liable to withhold tax on the payment to be made to non-resident can apply for an advance ruling.

Reason: Sub-clause (ii) of Clause (b) of Section 245N refers to a resident applicant who has entered into a transaction with a non-resident. In relation to the tax liability of such non-resident arising out of such transaction, the resident applicant can very well file the application. It stands to **Reason** that a resident applicant who is directly concerned with the issue of tax deduction at source in respect of payments made to the non-resident, is specified as one of the eligible applicants.

3. (d) Dubai.

Reason: As per Section 13(4) of IGST Act, The place of supply of services supplied directly in relation to an immovable property, including services supplied in this regard by experts and estate agents, supply of accommodation by a hotel, inn, guest house, club or campsite, by whatever name called, grant of rights to use immovable property, services for carrying out or co-ordination of construction work, including that of architects or interior decorators, shall be the place where the immovable property is located or intended to be located.

Thus, since place of immovable property on which services of architect are utilised is in Dubai, the location of supply shall be Dubai.

4. (b) Mr. Hari can claim the benefit of special provisions applicable to non-residents and pay tax @20%.

Reason: Every nationalized bank is deemed to be an Indian Company for purpose of the Income tax Act and assets deposited in such a bank would be specified assets within meaning of section 115C. Thus, Mr. Hari can claim the benefit of special provisions applicable to non-residents and pay tax @20%.

5. (a) Yes, it can recover the taxes due from the fixed deposits.

Reason: As per Section 173 of Income Tax Act, 1961,

“Without prejudice to the provisions of sub-section (1) of section 161 or of section 167, where the person entitled to the income referred to in clause (i) of sub-section

(1) of section 9 is a non-resident, the tax chargeable thereon, whether in his name or in the name of his agent who is liable as a representative assessee, may be recovered by deduction under any of the provisions of Chapter XVII-B and any arrears of tax may be recovered also in accordance with the provisions of this Act from any assets of the non-resident which are, or may at any time come, within India.”

Since sale of flat is covered u/s9(1)(i), the Assessing Officer is correct in recovering the taxes due from the Indian asset of the Mr. Hari who is a non — resident.

II. Answers to the Descriptive Questions

6. Circular No. 72/46/2018 GST dated 26.10.2018 has clarified that the retailer/ wholesaler can return the time expired goods, either by treating the same as fresh supply or by issuing credit notes.

As per Clause h of Section 17(5) of CGST Act, in case the person returning the time expired goods is a registered person (other than a composition taxpayer), he may, at his option, return the said goods by treating it as a fresh supply and thereby issuing an invoice for the same (hereinafter referred to as the, “return supply”). The value of the said goods as shown in the invoice on the basis of which the goods were supplied earlier may be taken as the value of such return supply. The wholesaler or manufacturer, as the case may be, who is the recipient of such return supply, shall be eligible to avail ITC of the tax levied on the said return supply subject to the fulfillment of the conditions specified in section 16.

Where the goods returned by the retailer/wholesaler as a fresh supply, are destroyed by the manufacturer, he/she is required to reverse the ITC availed on the return supply in terms of section 17(5)(h). It is pertinent to mention here that the ITC which is required to be reversed in such scenario is the ITC availed on the return supply and not the ITC that is attributable to the manufacture of such time expired goods.

As per above, Radhika Drugs is entitled to avail Rs 1,25,000 credit for input tax paid by them and Abbott & Co is required to reverse input tax credit of Rs 1,50,000.

7. Tax paid in USA:

As per Article 25(2)(a) of DTAA between India and USA,

"2. (a) Where a resident of India derives income which, in accordance with the provisions of this Convention, may be taxed in the United States, India shall allow as a deduction from the tax on the income of that resident an amount equal to the income-tax paid in the United States, whether directly or by deduction. Such deduction shall not, however, exceed that part of the income-tax (as computed before the deduction is given) which is attributable to the income which may be taxed in the United States"

Income tax is chargeable under the Act, but it is open to the Parliament to grant exemption under the Act from payment of tax for any specified period, normally, to incentivize the assessee to carry on manufacturing activities or providing services. After referring to the treaty provisions with USA, it is held that it is not the requirement of law that the assessee before he claims credit under the Indo-US convention or under the provision of the Act must pay tax in India on such income.

As per above DTAA, it does not require that to claim credit of tax, Sabyaschi Ltd must have paid tax in India on such income.

A careful reading of the above DTAA and provisions of Section 90 of the Act, it shows that if a DTAA provides credit for foreign tax paid even in respect of income on which the assessee has not paid tax in India, it would qualify for tax credit u/s 90.

Thus, Sabyaschi Ltd will take the credit of tax paid in USA though the said income is not subject to tax in India.

Tax paid in Canada:

As per Article 23(3) of DTAA between India and Canada, in the case of India, double taxation shall be avoided as follows:

(a)	The amount of Canadian tax paid, under the laws of Canada and in accordance with the provisions of the Agreement, whether directly or by deduction, by a resident of India, in respect of income from sources within Canada which has been subjected to tax both in India and Canada shall be allowed as a credit against the Indian tax payable in respect of such income but in an amount not exceeding that proportion of Indian tax which such income bears to the entire income chargeable to Indian tax.

After analysing the above provision of DTAA between India-Canada, it allows credit for tax paid in Canada only if income is subjected to tax in India. Thus, since income is exempt from tax u/s 10A, Sabyaschi Ltd cannot claim the credit of taxes paid in Canada in India.

8. The role of Ratio International Inc was that of custodian of investments. The fund was organised as an FGR in the Netherlands (i.e., funds for joint account). Under the Dutch law, FGR is in the nature of a contractual arrangement between the investors, fund manager and its custodian. Since an FGR is not a legal entity, it does not hold any assets on its own and the assets are held by a custodian (in this case, the assessee). The clarifications issued by the Government of Netherlands also noted that the fund was a tax transparent entity.

The question that was to be addressed was - who was the actual beneficiary of the trust, in whose representative capacity Ratio International Inc was to be taxed, and whether those beneficiaries were fiscally domiciled in the Netherlands (i.e., 'liable to taxation by **Reasons** of his domicile, residence, place of management or any other criterion of similar nature'). There are two **Reasons** for following this approach.

First, the fund was not a legal entity. Hence, it was to be seen as to which legal entities the income belonged to. The income belonged to the three investors in the fund, who were tax residents of the Netherlands. Hence, benefits under the India-Netherlands DTAA could not be denied.

Second, even if one accepts that it is a tax transparent entity simpliciter, following the principles laid down in **Linklaters LLP vs. Income Tax Officer [(2010) 9 ITR (Trib.) 217 (Mum.)]**, what is important is the fact that income should be taxable in the Netherlands and not the manner in which it is taxable. In such an asymmetrical taxation situation, as long as income is liable to tax in the Netherlands, whether in the hands of the Ratio International Inc or in the hands of its beneficiaries (since it is a tax transparent entity), benefits under DTAA should be granted in India.

After considering the facts, Article 13(5) of the treaty being the residuary provision would apply. As Article 13(5) allocates taxing rights to the Netherlands, capital gain would not be chargeable to tax in India in the hands of Ratio International Inc.

For Reference Purpose INDIA- NETHERLANDS DTAA

ARTICLE 13 - CAPITAL GAINS

1. Gains derived by a resident of one of the States from the alienation of immovable property referred to in Article 6 and situated in the other State may be taxed in that other State.

2. Gains from the alienation of movable property forming part of the business property of a permanent establishment which an enterprise of one of the States has in the other State or of movable property pertaining to a fixed base available to a resident of one of the States in the other State for the purpose of performing independent personal services, including such gains from the alienation of such permanent establishment (alone or with the whole enterprise) or of such fixed base, may be taxed in that other State.
3. Gains from the alienation of ships or aircraft operated in international traffic or movable property pertaining to the operation of such ships or aircraft, shall be taxable only in the State in which the place of effective management of the enterprise is situated. For the purposes of this paragraph, the provisions of paragraph 3 of Article 8A shall apply.
4. Gains derived by a resident of one of the States from the alienation of shares (other than shares quoted on an approved stock exchange) forming part of a substantial interest in the capital stock of a company which is a resident of the other State, the value of which shares is derived principally from immovable property situated in that other State other than property in which the business of the company was carried on, may be taxed in that other State. A substantial interest exists when the resident owns 25 per cent or more of the shares of the capital stock of a company.
5. Gains from the alienation of any property other than that referred to in paragraphs 1, 2, 3 and 4 shall be taxable only in the State of which the alienator is a resident.

However, gains from the alienation of shares issued by a company resident in the other State which shares form part of at least a 10 per cent interest in the capital stock of that company, may be taxed in that other State if the alienation takes place to a resident of that other State. However, such gains shall remain taxable only in the State of which the alienator is a resident if such gains are realised in the course of a corporate organisation, reorganization, amalgamation, division or similar transaction, and the buyer or the seller owns at least 10 per cent of the capital of the other.

6. The provisions of paragraph 3 shall not affect the right of each of the States to levy according to its own law at tax on gains from the alienation of shares or 'jouissance' rights in a company, the capital of which is wholly or partly divided into shares and which under the laws of that State is a resident of that State, derived by an individual who is a resident of the other State and has been a resident of the first-mentioned State in the course of the last five years preceding the alienation of the shares or 'jouissance' rights

INDIA –CANADA DTAA

ARTICLE 23

ELIMINATION OF DOUBLE TAXATION

1. The laws in force in either of the Contracting States will continue to govern the taxation of income in the respective Contracting States except where provisions to the contrary are made in this Agreement.
2. In the case of Canada, double taxation shall be avoided as follows:
 - (a) Subject to the existing provisions of the law of Canada regarding the deduction from tax payable in Canada of tax paid in a territory outside Canada and to any subsequent modification of those provisions - which shall not affect the general principle hereof - and unless a greater deduction or relief is provided under the laws of Canada, tax payable in India on profits, income or gains arising in India shall be deducted from any Canadian tax payable in respect of such profits, income or gains.
 - (b) Subject to the existing provisions of the law of Canada regarding the determination of the exempt surplus of a foreign affiliate and to any subsequent modification of those provisions - which shall not affect the general principle hereof - for the purpose of computing Canadian tax, a company which is a resident of Canada shall be allowed to deduct in computing its taxable income any dividend received by it out of the exempt surplus of a foreign affiliate which is a resident of India.
 - (c) Where a resident of Canada owns capital which, in accordance with the provisions of the Agreement may be taxed in India, Canada shall allow as a deduction from the tax on capital of that resident an amount equal to the capital tax paid in India. Such deduction shall not, however, exceed that part of the capital tax (as computed before the deduction is given) which is attributable to the capital which may be taxed in India.
 - (d) Where in accordance with any provision of the Agreement, income derived or capital owned by a resident of Canada is exempt from tax in Canada, Canada may nevertheless, in calculating the amount of tax on the remaining income or capital of such resident, take into account the exempted income or capital.

3. In the case of India, double taxation shall be avoided as follows:
 - (a) The amount of Canadian tax paid, under the laws of Canada and in accordance with the provisions of the Agreement, whether directly or by deduction, by a resident of India, in respect of income from sources within Canada which has been subjected to tax both in India and Canada shall be allowed as a credit against the Indian tax payable in respect of such income but in an amount not exceeding that proportion of Indian tax which such income bears to the entire income chargeable to Indian tax.
 - (b) Where a resident of India owns capital, which, in accordance with the provisions of the Agreement, may be taxed in Canada, India shall allow as a deduction from the tax on the capital of that resident an amount equal to the capital tax paid in Canada. Such deduction shall not, however, exceed that part of the capital tax (as computed before the deduction is given) which is attributable to the capital which may be taxed in Canada:

Provided that income which in accordance with the provisions of the Agreement is not to be subjected to tax may be taken into account in calculating the rate of tax imposed.
4. For the purposes of paragraph 2(a), the term 'tax payable in India' shall, with respect to a company which is a resident of Canada, be deemed to include any amount which would have been payable as Indian tax but for a deduction allowed in computing the taxable income or an exemption or reduction of tax granted for that year under:
 - (a) sections 10(15)(iv), 10A, 32A (but not the part dealing with ships and aircraft), 80HH, 80HHD and 80-IA (but not the part dealing with ships) of the Income-tax Act, 1961, as amended, so far as they were in force on and have not been modified since the date of signature of the Agreement, or have been modified only in minor respects so as not to affect their general character.
 - (b) any other provision which may subsequently be made granting an exemption or reduction from tax which is agreed by the competent authorities of the Contracting States to be of a substantially similar character, if it has not been modified thereafter or has been modified only in minor respects so as not to affect its general character:

Provided that relief from Canadian tax shall not be given by virtue of this paragraph in respect of income from any source if the income relates to a period starting more than ten fiscal years after the exemption from, or reduction of, Indian tax is first granted to the resident of Canada, in respect of that source.
5. For the purposes of this Article, profits, income or gains of a resident of a Contracting State which are taxed in the other Contracting State in accordance with the Agreement shall be deemed to arise from sources in that other State.

INDIA-USA DTAA

ARTICLE 25

RELIEF FROM DOUBLE TAXATION

1. In accordance with the provisions and subject to the limitations of the law of the United States (as it may be amended from time to time without changing the general principle hereof), the United States shall allow to a resident or citizen of the United States as a credit against the United States tax on income—
 - (a) the income-tax paid to India by or on behalf of such citizen or resident; and
 - (b) in the case of a United States company owning at least 10 per cent of the voting stock of a company which is a resident of India and from which the United States company receives dividends, the income-tax paid to India by or on behalf of the distributing company with respect to the profits out of which the dividends are paid.

For the purposes of this paragraph, the taxes referred to in paragraphs 1(b) and 2 of Article 2 (Taxes Covered) shall be considered as income taxes.
2.
 - (a) Where a resident of India derives income which, in accordance with the provisions of this Convention, may be taxed in the United States, India shall allow as a deduction from the tax on the income of that resident an amount equal to the income-tax paid in the United States, whether directly or by deduction. Such deduction shall not, however, exceed that part of the income-tax (as computed before the deduction is given) which is attributable to the income which may be taxed in the United States.
 - (b) Further, where such resident is a company by which a surtax is payable in India, the deduction in respect of income-tax paid in the United States shall be allowed in the first instance from income-tax payable by the company in India and as to the balance, if any, from surtax payable by it in India.
3. For the purposes of allowing relief from double taxation pursuant to this article, income shall be deemed to arise as

follows:

- (a) income derived by a resident of a Contracting State which may be taxed in the other Contracting State in accordance with this Convention [other than solely by **Reason** of citizenship in accordance with paragraph 3 of article 1 (General Scope)] shall be deemed to arise in that other State;
- (b) income derived by a resident of a Contracting State which may not be taxed in the other Contracting State in accordance with the Convention shall be deemed to arise in the first-mentioned State.

Notwithstanding the preceding sentence, the determination of the source of income for purposes of this article shall be subject to such source rules in the domestic laws of the Contracting States as apply for the purpose of limiting the foreign tax credit. The preceding sentence shall not apply with respect to income dealt with in article 12 (Royalties and Fees for Included Services). The rules of this paragraph shall not apply in determining credits against United States tax for foreign taxes other than the taxes referred to in paragraphs 1(b) and 2 of article 2 (Taxes Covered).

CASE STUDY 32

Rahul is the manager in a consultancy firm of chartered accountants namely, M/s ABC chartered accountants. Over the period of seven years since his qualification as a chartered accountant, he has worked on various assignments in diversified specialisations. Rahul's expertise has not been limited to a particular profile only, due to his versatile experience with number of engagements across the industry segments.

Recently, Rahul has been looking on assignments related to Ind AS. So, he has been appointed for a project by his consultancy firm to work on the project to prepare a report for one of its clients, HIM Limited relating to Ind AS Impact analysis.

HIM Limited's finance team does not have any experience in the preparation of financials as per Indian accounting standards. However, some employees of HIM Limited finance's team have recently done a refresher course on Ind AS to understand its principles in general and to have a fair idea for the transition period adjustments. Rahul is required to coordinate with them accordingly.

HIM Limited being a listed entity and having net worth above Rs 500 crores is required to adopt Ind AS from April 1, 2021 in accordance with the Companies (Indian Accounting Standard) Rules 2015.

After doing extensive research, Rahul has identified some issues which need specific attention of management so that opening Ind AS balance sheet as on the date of transition can be prepared accordingly. Those issues which require consideration, after consultation and working with management are identified as follows, whose impact is going to be carved in the opening Ind AS balance sheet.

Issue 1:

As part of Property, Plant and Equipment, company has elected to measure land at its fair value and want to use this fair value as deemed cost on the date of transition. The carrying value of land as on the date of transition is Rs 5,00,000. However, the fair value of land as on the date of transition is Rs 8,00,000.

Issue 2:

Under Ind AS, the company has designated mutual funds as investments at fair value through profit or loss. The value of mutual funds as per previous GAAP is Rs 4,00,000. However, the fair value of mutual funds as on the date of transition is Rs 5,00,000.

Issue 3:

You have already calculated the deferred tax impact on financials due to Ind AS adjustments as on the date of transition. After consideration of possible effects as per Ind AS, the deferred tax impact is amounting to Rs 25,000. This amount will further increase the portion of Deferred tax liability. There is no requirement to carry out the separate calculation of Deferred tax on account of Ind AS adjustments.

Issue 4:

Company had taken a loan from another entity. The loan carries an interest rate of 7% and it had incurred certain transaction costs while obtaining the same. It was carried at cost in its initial recognition. The principal amount is to be repaid in equal instalments over the period of loan. Interest is also payable at each year end. The fair value of loan as on the date of transition is Rs 1,80,000 as against the carrying amount of loan which at present amounts Rs 2,00,000.

Issue 5:

The company has declared the dividend of Rs 30,000 for last financial year. As on the date of transition, the declared dividend has been already deducted by accountant from the company's reserves & surplus and the dividend payable has been grouped under Provisions. The dividend had been only declared by board of directors at that time and it was not approved in the annual general meeting of shareholders. However, subsequently when the meeting was held it was ratified by the shareholders.

Issue 6:

The company has Intangible Assets as brands and trademarks amounting to Rs 2,50,000 as on the date of transition to Ind AS. The fair value of those intangible assets as on the date of transition is Rs 3,00,000. However, company wants to carry the intangible assets at Rs 2,50,000 only.

Management wants to ascertain the impact of Ind AS in the financial statements of company for its general understanding. A presentation needs to be developed in this regard so that preliminary impact analysis exercise can be carried out for the management apprise.

The presentation would have the objective to provide information on the expected impact of transition to Ind AS on the Company's reported equity and reported profit against each of the stated issues separately.

Impacts contained therein would be preliminary as full compliance with Ind AS would be implemented at later stages. The financial information represented should correspond with the current best estimates based on principles and regulations known to date.

Once the assignment related to Ind AS was over, Rahul was told to supervise the internal audit of a company Rudra Private Limited. A freshly qualified chartered accountant, Mukesh and another three articled clerks are already working on this assignment. Mukesh has presented two noted issues which require the consideration of Rahul too for reporting the same in internal audit observations and to inform the management to take right decision accordingly.

Issue 1:

Rudra Private Limited is considering expansion of its operations in other parts of the country. For this purpose, it wants to purchase few properties there by the sale of existing properties which do not hold much significance in operations or other administrative matters. The company has identified a building for sale which is situated at another area than its present office. During the financial year 2022-23, company has sold that building amounting to Rs 1,00,00,000 in the month of July, 2022 to another corporate for its office use. Company had purchased this building 5 years ago which is having WDV as on 01.04.2022 at Rs 40,00,000. Apart from the said building, Rudra Private Limited has also purchased one more building during the year in its portfolio in the same block of building for Rs 60,00,000.

The purchaser of said building has agreed to pay Rs 50,00,000 in the first installment in the month of October 2022 and amount therefore was paid on 29th October 2022. The balance payment of Rs 50,00,000 is to be done in the next financial year as per the agreement between purchaser and seller. The accountant of purchaser of building thinks that the seller being a company, its TDS is required to be deducted at the rate of 5%. Later, as per the discussion held with both finance teams in a meeting, it was decided that TDS is to be deducted at the rate mentioned in the Income tax Act and its corresponding Income tax rules in force and not necessarily at the rate recommended by the accountant of Purchaser Company. The purchaser company has deposited the TDS amount to the credit of central government on 27th November 2022, although the TDS has been deducted as per the rates defined in statute for the time being in force i.e. neither less nor more TDS has been deducted and thereafter the same has been deposited accordingly. Assume that rate on long term capital gain is 20%, as per Income tax rules for the time being in force.

During the review of transactions in company's books of accounts, a team member of internal audit has raised an objection for the sale of land by company. According to him, the company should have levied the GST at the time of sale; however, the company has not levied any GST at that time. He believes since the company has defaulted in charging the GST and depositing the same to the credit of central government, it may attract further interest and penalties in future.

Issue 2:

During the year, Rudra Private Limited has transferred 10,000 units of its finished stock from its factory located in Delhi's Kirti Nagar to its retail showroom in Delhi's Chandni chowk so that the same can be sold from there. It has taken one registration in the State of Delhi declaring Delhi's Kirti Nagar factory as its principal place of business and Chandni chowk showroom as its additional place of business.

According to Mukesh, the company should have taken two separate registrations in the state of Delhi as the scope of GST is very complex and wide and it mandates to take GST registration from each place from where the company is doing business.

Rahul has resolved both outstanding issues pertaining to Rudra Private Limited accordingly by doing appropriate consultations with his team to reach on conclusions for the aforesaid matters.

After the completion of assignment related to Rudra Private Limited, Rahul was back in office to assume other consultancy roles. Meanwhile, the partner of firm Mr. Virendra has a doubt for the appointment of M/s ABC as an auditor in one of the companies 'Big Private Limited' which has proposed M/s ABC to conduct its audit. Further, there would be requirement for mandatory rotation of auditors after the term of 5 years. Mr. Virendra is keen to seek the opinion of Rahul in this regard for settlement of outstanding issue.

Big Private Limited's share capital is Rs 10 lakhs and turnover as per its last financials is Rs 100 lakhs. M/s ABC, Chartered accountants is already doing the statutory audit of many companies which aggregate to 58 in number, so Mr. Virendra thinks that there is restriction on getting more number of taking statutory audit assignments than prescribed in the Companies Act, 2013.

However, the management of Big Private Limited believes that since the Companies Act, 1956, specifically excluded all private companies from the ceiling of number of audits to be conducted by an auditor i.e. an auditor/audit firm was allowed to conduct audit of any number of private companies under the 1956 Act. Similarly, the Companies Act, 2013 does not put any restriction for taking the statutory audit assignments of any number of companies.

The statutory audit assignments taken by M/s ABC at the current date (excluding Big Private limited) are as follows:

Nature of company	Number of already assigned audits
Public limited companies	15
Dormant companies	5
One Person companies	18
Small companies	12
Private companies having paid up capital more than 100 crore	3
Private companies having paid up capital less than 100 crore	5

Assume that you are Rahul and accordingly you are required to analyze the above scenarios and then answer the following questions on the basis of your understanding.

I. Multiple Choice Questions

- Calculate the amount of capital gains for sale of building as per Income-tax Act, 1961 which the Rudra Private Limited needs to compute for A.Y. 2023-24?
(a) Rs 16,00,000 (b) Rs 12,00,000 (c) NIL (d) Rs 2,00,000
- Calculate the amount of TDS which should have been deducted by the purchaser towards purchase of property from Rudra Private Limited for A.Y. 2023-24?
(a) Rs 1,00,000 (b) Rs 37,500 (c) Rs 50,000 (d) Rs 2,00,000
- In which form, the details regarding transaction for sale of building and its corresponding TDS is required to be furnished by purchaser of building and how much time is to be taken for its filing?
(a) Form 26QB is required to be filed within 30 days of making the payment.
(b) Form 16B is required to be filed by 31.03.2023.
(c) Form 26QB is required to be filed by 30.11.2022.
(d) Form 16B is required to be filed within 30 days of making the transfer.
- Calculate the amount of interest, Rudra Private Limited is required to pay for late payment of TDS to the credit of Central Government.
(a) Rs 75,000 (b) Rs 1,50,000 (c) NIL (d) Rs 50,000
- Calculate the GST liability which Rudra Private Limited should have levied at the time of sale of land, as per the contention of Internal audit team member.
(a) Rs 6,00,000 (b) Rs 9,00,000 (c) Rs 12,00,000 (d) No GST Liability.

II. Descriptive Questions

- Prepare Ind AS Impact analysis report of HIM Limited for presentation to the management wherein you are required to show the corresponding differences between Earlier IGAAP (AS) and New GAAP (Ind AS) against each identified issue in its first-time adoption and its appropriate treatment thereon at the transition date. Also show its corresponding impact on the company's financials by measuring its end result in monetary terms due to transition by supporting your presentation with Journal entry which is to be done at the time of transition, so as to give effect in the company's financials.
- Whether M/s ABC can accept the new statutory audit assignment of Big Private Limited as suggested by the management of Big Private Limited. Explain the answer with relevant provisions of Companies Act, 2013.
- Whether stock transfers between Kirti Nagar factory and Chandni chowk showroom would be considered as supply in the light of GST provisions.

I. Answers to the Multiple Choice Questions

1. (c) Nil
Reason: Section 50 of the Income Tax Act, 1961 provides for the computation of capital gains in case of depreciable assets. Where all assets in a block are transferred during the previous year, the block itself will cease to exist. In such a situation, the difference between the sale value of the assets and the WDV of the block of assets at the beginning of the previous year together with the actual cost of any asset falling within that block of assets acquired by the assessee during the previous year will be deemed to be the capital gains arising from the transfer of short-term capital assets. In this case, since the block of assets still continues to exist as the company has other buildings also in its portfolio, hence there would be no capital gains on the asset sold.
2. (c) Rs 50,000
Reason: TDS is applicable on sale of immovable property wherein the sale consideration of the property exceeds or is equal to Rs 50,00,000 (Rs Fifty Lakhs). Sec 194 IA of the Income Tax Act, 1961 states that for all transactions, Tax @ 1% should be deducted by the purchaser of the property at the time of making payment of sale consideration.
 As per Section 194IA, TDS is to be deducted at the time of payment. The date of transfer is not relevant as TDS is not required to be deducted at the time of transfer but is required to be deducted at the time of payment.
 Since amount paid during the financial year 2022-23 is Rs 50,00,000; hence the amount of TDS which is required to be deducted for the given period is Rs 50,000 (Rs 50,00,000 x 1%).
3. (c) Form 26QB is required to be filed by 30.11.2022
Reason: The online form available on the TIN website for furnishing information regarding TDS on property is termed as Form 26QB.
 Taxpayer is required to furnish challan-cum-statement in Form No. 26QB electronically within 30 days from the end of the month in which the tax deduction is made. Hence, taxpayer have to furnish Form No. 26QB by 30.11.2021
4. (c) Nil
Reason: Taxpayer is required to furnish challan-cum-statement in Form No. 26QB electronically within 30 days from the end of the month in which the tax deduction is made..
 Since due date to furnish 26QB along with payment of TDS is 30.11.2022 and the purchaser company has deposited the TDS amount on 27th November 2022; hence no interest for late payment on TDS is required to be paid.
5. (d) No GST Liability.
Reason: By the nature of its definition, the Goods and Services Tax (GST) is applicable only on the sale and purchase of goods and services. As per the Section 2 (52) of the GST Act, 2017, 'goods' imply every form of movable property, actionable claims, growing crops, grass and things attached to or forming a part of the land which will be severed from the land before supplying as per the contract of supply. Whereas 'services' mean anything other than goods, money and securities, for instance, activities relating to the use of money or its conversion by cash or by any other mode, from one form, currency or denomination, to another form, currency or denomination, for which a separate consideration is charged.
 "Purchase or sale of land does not attract GST. GST is not applicable to the sale of land because it is neither treated as supply of goods nor the supply of services as per Schedule III of the CGST Act, 2017. Land is identified as immovable property, and so, it does not attract GST."

II. Answers to the Descriptive Questions

6. Issue 1: Fair Value as Deemed Cost for Property Plant and Equipment: (Ind AS 101)

Issue	Accounting Standard (Erstwhile IGAAP)	Ind AS (New IGAAP)	Impact on Company
1	As per Accounting Standard, Property, Plant and Equipment is recognised at cost less depreciation.	Ind AS 101 allows entity to elect to measure Property, Plant and Equipment on the transition date at its fair value or previous GAAP carrying value (book value) as deemed cost.	The company has decided to adopt fair value as deemed cost in this case. Since fair value exceeds book value, so the book value is brought up to fair value. The resulting impact of fair valuation of land is Rs 3,00,000 and is adjusted in other equity accordingly.

Journal Entry as on the date of transition:

Particulars	Debit (Rs)	Credit (Rs)
Property Plant and Equipment	3,00,000	
		3,00,000

Issue 2: Fair valuation of Financial Assets: (Ind AS 109)

Issue	Accounting Standard (Erstwhile IGAAP)	Ind AS (New IGAAP)	Impact on Company
2	As per Accounting Standard, investments are measured at lower of cost and net realizable value.	On transition, financial assets including investments are measured at fair values except for investments in subsidiaries, associates and JVs' which are recorded at cost.	All financial assets (other than Investment in subsidiaries, associates and JVs' which are recorded at cost) are initially recognized at fair value. The subsequent measurement of such assets is based on its categorization either Fair Value through Profit & Loss (FVTPL) or Fair Value through Other Comprehensive Income (FVTOCI) or at Amortised Cost based on business model assessment and contractual cash flow characteristics. Increase of Rs 1,00,000 in mutual funds is to be given effect by increase in value of investments with corresponding increase to Retained earnings, since they are designated as FVTPL.

Journal Entry as on the date of transition:

Particulars	Debit (Rs)	Credit(Rs)
Investment in mutual funds	1,00,000	
To Retained earnings		1,00,000

Issue 3: Deferred tax

Issue	Accounting Standard (Erstwhile IGAAP)	Ind AS (New IGAAP)	Impact on Company
3	As per Accounting Standard, Deferred taxes are accounted as per income statement approach.	As per Ind AS, Deferred taxes are accounted as per balance sheet approach.	Company has recognized the deferred tax impact on account of GAAP adjustments identified on transition to Ind AS. Further, as per Ind AS 12 the Company has recognized the deferred tax following the principles of 'Balance Sheet Approach'. On transition, deferred tax liability is expected to increase by Rs 25,000.

Journal Entry as on the date of transition:

Particulars	Debit (Rs)	Credit (Rs)
Retained earnings	25,000	
To Deferred tax liability		25,000

Issue 4: Borrowings - Processing fees/transaction cost:

Issue	Accounting Standard (Erstwhile IGAAP)	Ind AS (New IGAAP)	Impact on Company
4	As per Accounting Standard, such expenditure is charged to Profit & loss account or capitalised as the case may be.	As per Ind AS, such expenditure is amortised over the period of the loan. Ind AS 101 states, If it is impracticable for an entity to apply retrospectively the effective interest method in Ind AS 109, the fair value of the financial asset or the financial liability at the date of transition to Ind ASs shall be the new gross carrying amount of that financial asset or the new amortised cost of that financial liability at the date of transition to Ind ASs.	Fair value as on the date of transition is Rs1,80,000 as against its book value of Rs 2,00,000. Accordingly, the difference of Rs 20,000 is adjusted through retained earnings.

Journal Entry as on the date of transition:

Particulars	Debit (Rs)	Credit (Rs)
Borrowings	20,000	
To Retained earnings		20,000

Issue 5: Proposed dividend:

Issue	Accounting Standard (Erstwhile IGAAP)	Ind AS (New IGAAP)	Impact on Company
5	As per Accounting Standard, provision for Proposed dividend is made in the year when it has been declared and approved.	As per Ind AS, liability for proposed dividend is recognised in the year in which it has been declared and approved.	Since dividend should be deducted from retained earnings during the year when it has been declared and approved. Accordingly, the provision declared for preceding year should be reversed (to rectify the wrong entry). Retained earnings would increase proportionately due to such adjustment

Journal Entry as on the date of transition:

Particulars	Debit (Rs)	Credit (Rs)
Provisions	30,000	
To Retained earnings		30,000

Issue 6: Intangible assets:

Issue	Accounting Standard (Erstwhile IGAAP)	Ind AS (New IGAAP)	Impact on Company
6	The useful life of an intangible asset cannot be indefinite under IGAAP principles. The Company amortised brand/trademark on a straight line basis at 25% amortisation rate.	The useful of an intangible asset like brand/trademark can be indefinite. Not required to be amortised and only tested for impairment. Company can avail the exemption given in Ind AS 101 as on the date of transition to use the carrying value as per previous GAAP.	Consequently, there would be no impact as on the date of transition since company intends to use the carrying amount instead of book value at the date of transition.

7. Big Private Limited is a 'small company' per the provisions of Companies Act, 2013.

As per section 2 of Companies Act, 2013, "small company" means a company, other than a public company,-

- (a) paid-up share capital of which does not exceed two crore rupees or such higher amount as may be prescribed which shall not be more than ten crore rupees; and
- (b) turnover of which as per its last profit and loss account for the immediately preceding financial year does not exceed twenty crore rupees or such higher amount as may be prescribed which shall not be more than one hundred crore rupees:

Provided that nothing in this clause shall apply to-

- (a) a holding company or a subsidiary company;
- (b) a company registered under section 8; or
- (c) a company or body corporate governed by any special Act;

Mandatory rotation of auditors:

Section 139(2) of the 2013 Act read with Rule 5 of the Companies (Audit and Auditors) Rules, 2014 (Audit Rules) provides that the following class of companies cannot appoint or reappoint an individual as an auditor for more than one term of five years or an audit firm as an auditor for more than two consecutive terms of five years each:

- (a) Listed companies
- (b) All unlisted public companies having paid-up share capital of Rs 10 crore or more
- (c) All private limited companies having paid-up share capital of Rs 50 crore or more
- (d) All companies having paid-up share capital of below threshold limit mentioned in (b) and (c) above, but with public borrowings from financial institutions, banks or public deposits of Rs 50 crore or more.

The mandatory rotation of auditors' requirement is not applicable to small companies and one person companies.

Eligibility/qualifications/ disqualifications of auditors:

Section 141(3)(g) specifically prohibits a person who is in full time employment elsewhere or a person or a partner of a firm holding appointment as an auditor of more than 20 companies, from being appointed as an auditor of a company.

However, while calculating the limit of 20 companies, following companies should be excluded:

- One person company
- Dormant companies
- Small companies and
- Private companies having paid-up share capital less than Rs 100 crore.

In the given case, if the companies which are outside the scope of limit as defined in section 141(3)(g) of Companies Act, 2013, the total number comes to 18.

Further, Big Private limited is a small company as per the provisions of Companies Act, 2013. Hence the appointment for statutory audit of Big Private Limited would not be considered in the cap of maximum number of audits which M/s ABC can accept.

Hence, the appointment of M/s ABC as an auditor in 'Big private limited' is valid in the light of above provisions and the given assignment can be accepted accordingly.

8. Since no consideration is charged, supply of goods from factory to retail showroom in same State under single registration does not constitute supply.

Transfer between two units of a legal entity under single registration (apparently within same State) will not be considered as supply.

However, in the above example, if the Company obtains separate registrations for factory and showroom, stock transfer between the factory and showroom will constitute supply.

CASE STUDY 33

You are a chartered accountant and following clients have come to you to take the consultancy in the concerned areas and you are required to advise them as per your knowledge and experience in the backdrop of statutory framework of relevant laws and regulations.

Client 1: Ram Chander is a senior citizen and retired employee of Punjab government. He was employed in the Public works department of the state government wherein he served for 40 years. His pension income is not subject to income tax. He gets the monthly pension of Rs 25,000 per month. In the recent years, he has invested in fixed deposits of a bank wherein his interest on fixed deposits is being credited after the deduction of tax at source. He has approached the bank authorities with a request to not deduct TDS on the interest income of fixed deposits since his income after considering all sources is below the maximum amount chargeable to tax; however, bank authorities are silent on the issue and not cooperating accordingly. Since Ram Chander has never filed the return in past, he wants to know the appropriate course of action to not let the bank deduct TDS.

Client 2: Rohit is a regular employee of consultancy firm of engineers, M/s ABC and has been associated with M/s ABC for last 2 years. During the financial year 2022-23, his salary details and the expenses incurred by him are as under:

Particulars	Amount (Rs)
Gross salary (Note 1)	50,000 per month
Diwali Bonus	10,000
Conveyance expenses incurred for official purposes reimbursed by M/s ABC	50,000
Rental expenses (Note 2)	9,000 per month
Travelling expenses in connection with Home to office and vice-versa	48,000
Mess expenses	4,000 per month
Other miscellaneous expenses	3,000 per month
Interest income on savings bank account	3,000
Interest income on fixed deposits	5,000

Note 1: M/s ABC is paying the salary on consolidated basis. Hence there is no breakup or bifurcation of other allowances in it. Apart from the gross salary, Rohit is eligible for Diwali bonus only from M/s ABC.

Note 2: Rohit is currently staying in Delhi alone for the sake of job. His family is based at Jabalpur city of Madhya Pradesh. He has filed Form 10BA with details of payment of rent.

Note 3: Rohit has invested the sum of Rs 75,000 in a fixed deposit for the said financial year. Rohit sends 50 percent of money received to his parents.

Note 4: Rohit during the year has donated refrigerator (Rs 25,000 spent) to one of the organisations, which is registered under the income tax act, to issue 80G receipts against the contributions received.

Note 5: Rohit has taken a medical insurance of his parents amounting to Rs 15,000

Note 6: M/s ABC has deducted the TDS on salary amounting to Rs 50,000 during the year.

Note 7: Rohit has chosen to let his income tax be assessed with the available option against deductions.

Client 3: A person has the business of goods transportation across the nation. Apart from the said business, he does not deal in any other forms of business. He had the turnover of Rs 50 lakhs during the preceding financial year and it is expected to cross Rs 60 lakhs in the current financial year. Till the date, he has not registered the business in Goods and services act. However, the owner of business is reluctant to get his business registered on the contention that no recipient has ever expected a GST tax invoice out of his business.

Client 4: Mr. Shashank, an Indian Resident individual desires to obtain Foreign Exchange for the following purposes:

(A) US\$ 120,000 for studies abroad on the basis of estimates given by the foreign university.

(B) Gift Remittance amounting US\$ 10,000.

Client 5: Following data is presented to you for ascertaining the non-taxable income of Mr. Raj:

Particulars	(Rs)
Interest on fixed deposits with public sector bank	16,000
Gift received on occasion of marriage	99,500
Interest on savings bank account	9,500
Interest on PPF	20,000

Client 6: The Individual audit firm M/s PQR, Chartered Accountants, is the auditor of a company. M/s PQR is not expert in company law matters, hence it is seeking your help for same. The company has sent a notice to the auditor to attend its annual general meeting. However, the auditor is not present in the same town as on the date of annual general meeting as he is out of country in the vacation for said period. On receipt of such notice, the auditor instead has proposed another person of firm, Suraj Tripathi (articled assistant) as his representative in the annual general meeting.

Client 7: Reshma is getting a fixed salary of Rs 15,000 per month. She had invested in certain non-tax saver fixed deposits of Rs 1,00,000 three years ago. Recently, she had gone to the bank for opening of another fixed deposit, but she has been told by the bank authorities to deposit her PAN card. She has not applied for PAN yet so there does not arise any question of intimating the same to bank authorities. On further interrogation, it is revealed that TDS has been deducted by bank against her interest income on fixed deposits.

Client 8: Mr. Shinde wants to know the cash flow arising out of investing activities from following information:

Particulars	Amount (Rs)
Proceeds from issue of equity share capital	15,00,000
Proceeds from sale of investments held for capital appreciation	5,00,000
Realisation from debtors for sale of goods	3,50,000
Purchase of heavy machinery	5,00,000
Interest income from debtors	50,000

Client 9: Motiana Ltd. is an exporter of precious and semi-precious stones. The turnover of the company is Rs 150 crore, out of which Rs 105 crore is from export business and remaining Rs 45 crore from domestic sales. Amount received from export business is all in foreign currency. Directors of Motiana Ltd. are of the opinion that cost audit is not applicable to their company as maximum revenue has been generated from export business.

I. Multiple Choice Questions

- What Ram Chander should do to not let the bank deduct TDS for following years to avoid hardship?
 - He cannot do anything, let the bank do whatever they want.
 - Obtain a certificate under section 197 from assessing officer to allow the TDS to be deducted at Nil rate.
 - Let the tax be deducted and then file the return thereon.
 - He should file an application to the state government to intervene in the said matter.
- For client 7, at what rate, TDS would have been deducted by Bank in case of Reshma's income in fixed deposit?
 - 10%
 - 5%
 - 20%
 - Exempt from tax
- Calculate the exempt income in case of client 5- Mr. Raj.
 - Rs 1,29,000
 - Rs 1,45,000
 - Rs 20,000
 - Rs 1,19,500
- Should the person engaged in goods transportation as mentioned in the case of client 3, is required to get his business registered under GST?
 - GTA does not have to register under GST if he is exclusively transporting goods where the total tax is required to be paid by the recipient under reverse charge basis and the turnover does not exceed Rs 40 lakhs.
 - GTA needs to register under GST if he is exclusively transporting goods where the total tax is required to be paid by the recipient under reverse charge basis and the turnover exceeds Rs 40 lakhs.
 - GTA does not have to register under GST if he is exclusively transporting goods where the total tax is required to be paid by the recipient under reverse charge basis and even if the turnover exceeds Rs 40 lakhs.
 - A GTA always need to register irrespective of the turnover.
- Calculate the cash flow arising out of investing activities in case of Client 8- Mr. Shinde.
 - Rs 50,000
 - Nil
 - Rs 4,00,000
 - Rs 3,50,000

II. Descriptive Questions

- Calculate the income tax payable by client 2 - Rohit for assessment year 2023-24.
- Advise Shashank (client 4) whether he can get Foreign Exchange and if so, under what condition(s)?
- In case of client 6, the auditor has proposed another person of firm as his representative in the annual general meeting. Whether auditor can do such kind of arrangement?
- Motiana Ltd. (Client 9) asks your opinion to confirm whether or not cost audit is applicable to company.

I. Answers to the Multiple Choice Questions

1. (b) Obtain a certificate under section 197 from assessing officer to allow the TDS to be deducted at Nil rate.

Reason: The Income-tax laws permit certain taxpayers to get relief from TDS at a lower or nil rate under Section 197 of the Income Tax Act. An Assessing Officer can grant relief from TDS provisions, if the Officer is satisfied that the existing and estimated tax liability of a person will be lower than the amount of TDS deducted and provide sufficient grounds for the same. For availing this benefit, assessee whose income would be liable for a tax deduction at source (TDS) need to furnish an application before assessing officer having jurisdiction over the assessee. The AO considers the total income of assessee and the estimated tax liability thereon, and then as per the case, grant a certificate for TDS at Nil or lower rate to such applicant.

2. (c) 20%

Reason: A recipient who fails to furnish PAN to the person making a payment would suffer TDS at the higher of the rates mentioned below:

- At the rate specified in the relevant provision of the Act;
- At the rate or rates in force, i.e., the rate prescribed in the Finance Act (10%);
- At the rate of 20%

3. (a) Rs 1,29,000

Reason: Calculation of exempt income-

Particulars	(Rs)	Remarks
Interest on fixed deposits with public sector bank	16,000	Taxable
Gift received on occasion of marriage	99,500	Exempt
Interest on savings bank account	9,500	Exempt (Sec 80TTA)
Interest on PPF	20,000	Exempt

4. (c) GTA does not have to register under GST if he is exclusively transporting goods where the total tax is required to be paid by the recipient under reverse charge basis and even if the turnover exceeds Rs 40 lakhs.

Reason: As per Notification No. 5/2017- Central Tax dated 19/06/2017, a person who is engaged in making only supplies of taxable goods/services on which reverse charge applies is exempted from obtaining registration under GST.

Thus, a GTA does not have to register under GST if he is exclusively transporting goods where the total tax is required to be paid by the recipient under reverse charge basis (even if the turnover exceeds the specified limit).

5. (b) Nil

Reason: Cash flow from investing activities-

Particulars	Amount (Rs)	Activity
Proceeds from issue of equity share capital	-	Financing
Proceeds from sale of investments held for capital appreciation	5,00,000	Investing
Realisation from debtors for sale of goods	-	Operating
Purchase of heavy machinery	(5,00,000)	Investing
Interest income from debtors	-	Operating
Net cash flow from investment activities	Nil	

II. Answers to the Descriptive Questions

6. Computation of Taxable Income & Income tax for assessment year 2023-24:

Particulars	Amount (Rs)
Income from Salary (Note-1)	5,60,000
Income From Other Sources (Note-2)	8,000
Gross Total Income [A]	5,68,000
Deductions (Note-3) [B]	71,000
Net Taxable Income [C] = [A] - [B]	4,97,000
Income Tax on [C]	12,350
Less: Relief under section 87A	(12,350)
Net Income tax payable [D]	Nil
Health and Education Cess @ 4% on [D]; [E]	Nil
Total Tax Liability [D] + [E]; [F]	Nil
TDS [G]	50,000
Tax payable/(refundable) [F] - [G]	(50,000)

Note 1 - Income from Salary:

Particulars	Amount (Rs)
Gross salary	6,00,000
Diwali Bonus	10,000
Total	6,10,000
Less: Standard deduction	(50,000)
Income from Salary	5,60,000

Note 2 - Income from Other Sources:

Particulars	Amount (Rs)
Interest on savings bank account	3,000
Interest on fixed deposits	5,000
Total	8,000

Note 3 - Deductions:

Particulars	Amount (Rs)
Medical insurance premium paid under section 80D [A]	15,000
Deductions under section 80GG (Note 4) [B]	53,000
Interest from savings account in bank under section 80TTA [C]	3,000
Grand Total [A] + [B] + [C]	71,000

Note 4:

Particulars	Amount (Rs)
Quantum of deduction shall be the least of the following:	
Rs 5000 per month	60,000
25% of Adjusted Total Income (5,50,000 x 25%)	1,37,500
Actual Rent paid minus 10 percent the adjusted total income (1,08,000-55,000)	53,000

Adjusted Total Income = salary + other sources income - deductions u/s 80C to 80U but before making deduction under this section

Rs 5,60,000 + Rs 8,000 – Rs 15,000 – Rs 3,000 = Rs 5,50,000

Note 5: Donation in form of kind i.e. refrigerator is not allowed as deduction under section 80G.

7. (a) **Remittance of Foreign Exchange for studies abroad:** Foreign exchange may be released for studies abroad up to a limit of US \$ 250,000 for the studies abroad without any permission from the RBI. Above this limit, RBI's prior approval is required. Further proviso to Para I of Schedule III states that individual may be allowed remittances exceeding USD 250,000 based on the estimate received from the institution abroad. In this case since US \$ 120,000 is the drawal of foreign exchange, so permission of the RBI is not required.

(b) **Gift remittance exceeding US \$ 10,000:** Under the provisions of Section 5 of FEMA 1999, certain Rules have been made for drawal of foreign exchange for current account transactions. Gift remittance is a current account transaction. Gift remittance exceeding US \$ 250,000 can be made after obtaining prior approval of the RBI. In the present case, since the amount to be gifted by an individual, Mr. Shashank is USD 10,000, there is no need for any permission from the RBI.

8. **As per Section 146 of Companies Act, 2013,** all notices of, and other communications relating to, any general meeting shall be forwarded to the auditor of the company, and the auditor shall, unless otherwise exempted by the company, attend either by himself or through his authorised representative, who shall also be qualified to be an auditor, any general meeting and shall have right to be heard at such meeting on any part of the business which concerns him as the auditor.

Hence, an auditor either by himself or through his representative, who is qualified to be an Auditor should have attended the general meeting, unless exempted by the Company. Further, the authorised representative should also have been qualified to be an auditor.

In the given case, since the authorised representative Suraj Tripathi is not qualified to be an Auditor, he cannot attend the general meeting.

9. **Cost Audit Rules not to apply in certain cases:** The requirement for cost audit shall not be applicable to a company whose revenue from exports, in foreign exchange, exceeds seventy-five per cent of its total revenue (as per Rule 3 of the Companies (Cost Records and Audit) Rules, 2014).

In the instant case, Motiana Ltd. is an exporter of precious and semi-precious stones and the turnover of the company is Rs 150 crore out of which Rs 105 crore i.e. 70% is from export business and remaining Rs 45 crore i.e. 30% from domestic sales. Thus, opinion of director is not tenable as revenue from exports in foreign exchanges is below prescribed limit. Therefore, cost audit is applicable on Motiana Ltd. as per Rule 3 of the Companies (Cost Records and Audit) Rules, 2014. Motiana Ltd. has to appoint cost auditor to get the cost accounts of the company audited.

CASE STUDY 34

Stable and Efficient Limited is an industrial undertaking situated in the urban area of State H of India. The company is a registered person under CGST Act and is into manufacturing business of various types of carry bags and storage bags. During the financial year 2022-23, the manufacturing business of the said industrial undertaking was shifted from urban area of State H to rural area of State H. Land of the company was sold for Rs 2.25 crore on 04.07.2022 because of the shifting. The said land was purchased on 13.11.2021 for Rs 1.75 crore. The new land was purchased (not an agriculture land) for Rs 1.30 crore on 07.11.2022, for the purpose of manufacturing business of various types of carry bags and storage bags in the rural area of State H of India.

Stable and Efficient Limited is an unlisted public limited company, having a paid-up share capital of Rs 56 crore during the financial year 2022-23. An individual Chartered Accountant named Mr. H or a Partnership Firm of Chartered Accountants named WY and Associates was to be appointed as auditor of the company.

During the financial year 2022-23, the management of Stable and Efficient Limited was planning regarding acquiring the business of one of its competitors by the name of Competent and Capable Limited. Before acquiring the business of Competent and Capable Limited, the management of Stable and Efficient Limited thought of undertaking the process of Due Diligence for the purpose of evaluating whether the acquisition of business of Competent and Capable Limited would be beneficial or not. Three types of due diligence were undertaken, the information regarding which is provided as follows:

- (1) A Due Diligence was performed in order to analyze the financial information and account books of Competent and Capable Limited.
- (2) In order to understand what would be the advantage or disadvantage from the point of view of tax after the business of Competent and Capable Limited is acquired, another Due Diligence was performed.
- (3) A third type of Due Diligence was performed to understand the complete working environment of Competent and Capable Limited.

Certain transactions of Stable and Efficient Limited happened during the financial year 2022-23, the information of which is provided as below:

- (1) An amount of Rs 15,300 was received in form of cash from one of the trade receivables of the company.
- (2) The equipment named Equipment 22 was purchased for an amount of Rs 14,600 which was paid in cash.
- (3) A trade payable of Rs 13,700 was not paid in form of cash, rather the equipment named Equipment 94 was given to settle the whole amount.
- (4) An amount of Rs 2,72,000 was received for equity shares issued, during the beginning of financial year 2022-23 by the company.

Mr. T one of the directors of the company was of the opinion that the company was required to develop and maintain production records and accounts on half yearly basis.

Another director of the company, named Mr. N, was of the opinion that the company was not required to develop and maintain production records and accounts showing quantitative details of various types of carry bags and storage bags manufactured and also quantitative details of raw materials used in the manufacturing of the carry bags and storage bags.

I. Multiple Choice Questions

1. The amount of capital gain before exemption arising on transfer of Land for Stable and Efficient Limited for the A.Y. 2023-24 will be:
 - (a) Long Term Capital Gain of Rs 50 lakhs.
 - (b) Short Term Capital Gain of Rs 50 lakhs.
 - (b) Short Term Capital Gain of Rs 40 lakhs.
 - (d) Long Term Capital Gain of Rs 40 lakhs.
2. If Mr. H, an individual Chartered Accountant, is appointed as an auditor of Stable and Efficient Limited, for how many terms of five consecutive years it can be so appointed:
 - (a) 2 terms.
 - (b) 4 terms.
 - (c) 3 terms.
 - (d) 1 term.
3. If WY and Associates, a Partnership Firm of Chartered Accountants, is appointed as an auditor of Stable and Efficient Limited, for how many number of terms of five consecutive years it can be so appointed:
 - (a) 3 terms.
 - (b) 2 terms.
 - (c) 1 term.
 - (d) 4 terms.
4. What type of Due Diligence was performed regarding Competent and Capable Limited for analyzing its financial information and account books:
 - (a) Financial Due Diligence.
 - (b) Environmental Due Diligence.
 - (c) Operational Due Diligence.
 - (d) Tax Due Diligence.

5. In order to understand the complete working environment of Competent and Capable Limited a type of Due Diligence was performed. This type of due diligence is known as:

- (a) Operational Due Diligence. (b) Tax Due Diligence.
(c) Financial Due Diligence. (d) Environmental Due Diligence.

II. Descriptive Questions

6. In the financial year 2022-23, there was a shifting of industrial undertaking of Stable and Efficient Limited from urban area of State H to rural area of State H of India. In this regard answer the questions that follow:
- (a) In respect of Land sold on 04.07.2022, what is the amount of exemption available to Stable and Efficient Limited for the A.Y. 2023-24?
- (b) Consider that stamp duty paid with respect to purchase of the land was Rs 11,50,000. In this situation, what is the amount of exemption available to Stable and Efficient Limited for Land sold on 04.07.2021 for the A.Y. 2023-24?
- (c) If during the financial year 2023-24, new Land purchased on 07.11.2022 is sold then in that situation what would happen?
7. With respect to applicability of Rotation of Auditor, answer the questions that follow:
- (a) Assume that Mr. H, an individual Chartered Accountant, is appointed as an auditor of Stable and Efficient Limited. After completion of term as an auditor as mentioned in Rotation of Auditor, for how many years Mr. H cannot be re-appointed as an auditor of the said company?
- (b) Suppose WY and Associates, a Partnership Firm of Chartered Accountants is appointed as an auditor of Stable and Efficient Limited, after completion of that term as an auditor as is mentioned for Rotation of Auditor, for how many years WY and Associates cannot be re-appointed as an auditor of the company that is mentioned above?
8. Explain in words what the below mentioned transactions represent in relation to Cash Flow Statement of Stable and Efficient Limited for the financial year ended on 31.03.2023:
- (a) When amount of Rs 15,300 was received in cash from a trade receivable.
- (b) When payment of Rs 14,600 was made in cash for purchase of Equipment 22.
- (c) When Equipment 94 was given to settle the whole amount of Rs 13,700 of a trade payable.
- (d) When equity shares were issued and an amount of Rs 2,72,000 was received.
9. Identify whether the opinions formed by Mr. T and Mr. N w.r.t. maintenance of production records and accounts are correct or incorrect in the context of CGST Rules. Also give **Reason** in order to explain your answer.

I. Answers to the Multiple Choice Questions

1. (b) Short Term Capital Gain of Rs 50 lakhs.

Reason: Amount of capital gain before exemption arising on transfer of Plant and Machinery for Stable and Efficient Limited for the A.Y. 2023-24 will be calculated in the following manner-

Particulars	Amount (Rs)
Net Sale Consideration of Land Sold	2,25,00,000
Less: Cost of Acquisition of Land	(1,75,00,000)
Short Term Capital Gain	50,00,000

2. (d) 1 term.
Reason: According to Section 139(2) of the Companies Act, 2013 an individual Chartered Accountant can be appointed as an auditor of a company on which Rotation of Auditor is applicable for 1 term of five consecutive years.
3. (b) 2 terms.
Reason: According to Section 139(2) of the Companies Act, 2013 a partnership firm of Chartered Accountants can be appointed as an auditor of a company on which Rotation of Auditor is applicable for 2 terms of five consecutive years.
4. (a) Financial Due Diligence.
Reason: In Financial Due Diligence, the financial information and account books of a company are analyzed when the business of that company is acquired by another company.
5. (d) Environmental Due Diligence.

Reason: Environmental Due Diligence is performed for the purpose of understanding working environment of a company by another company

II. Answers to the Descriptive Questions

6. (a) According to Section 54G of the Income Tax Act, 1961 in respect of Land sold on 04.07.2022, the amount of exemption available to Stable and Efficient Limited for the A.Y. 2023-24 will be as follows:

Particulars	Amount (Rs)
Net Sale Consideration of Land Sold	2,25,00,000
Less: Cost of Acquisition of Land	(1,75,00,000)
Short Term Capital Gain	50,00,000

Cost of new land purchased by Stable and Efficient Limited = Rs 1,30,00,000.

As the cost of new land is more than Short Term Capital Gain, therefore whole amount of the short term capital gain of Rs 50,00,000 is exempt.

- (b) Cost of new land, which was purchased by Stable and Efficient Limited = Rs 1,30,00,000. Stamp duty paid with respect to purchase of land = Rs 11,50,000.

Total of cost of new land and stamp duty paid = $1,30,00,000 + 11,50,000 = \text{Rs } 1,41,50,000$.

As per Section 54G of the Income Tax Act, 1961 as the cost of new land and expenses incurred is equal to Rs 1,41,50,000 which is more than Short Term Capital Gain of Rs 50,00,000, therefore complete amount of Short Term Capital Gain of Rs 50,00,000 is exempt.

- (c) If the new land purchased on 07.11.2022 is sold during the financial year 2023-24 then according to Section 54G of the Income Tax Act, 1961 the Short Term Capital Gain of Rs 50,00,000 which was earlier exempted would be reduced from cost of purchase of new land of Rs 1,30,00,000 for the purpose of calculating the capital gain in respect of new land of Stable and Efficient Limited sold during the financial year 2023-24.

7. According to the Section 139(2) of the Companies Act, 2013 relating to the concept of Rotation of Auditor, the answers to the questions are provided as follows:

- (a) If Mr. H, an individual Chartered Accountant, is appointed as an auditor of Stable and Efficient Limited, then after completion of term as an auditor of the company as is mentioned in Rotation of Auditor, Mr. H cannot be re-appointed as an auditor of Stable and Efficient Limited for 5 years from the completion of term as an auditor of the company.

- (b) If WY and Associates, a Partnership Firm of Chartered Accountants, is appointed as an auditor of Stable and Efficient Limited, then after completion of term as an auditor as is mentioned in Rotation of Auditor, WY and Associates cannot be re-appointed as an auditor of Stable and Efficient Limited for 5 years from the completion of term as an auditor of the company.

8. According to the Cash Flow Statement of Stable and Efficient Limited for the financial year ended on 31.03.2023, the transactions mentioned above represent as follows:

- (a) This represents Cash Inflow of Rs 15,300 from operating activities because according to Indian Accounting Standard 7 relating to Statement of Cash Flows, an amount received from a trade receivable represents inflow of cash from operating activities.
- (b) This represents cash outflow of Rs 14,600 from investing activities because according to Indian Accounting Standard 7 relating to Statement of Cash Flows, an amount paid for purchase of an equipment represents outflow of cash from investing activities.
- (c) According to Indian Accounting Standard 7 relating to Statement of Cash Flows, this represents non-cash transaction and hence it will not be included in Cash Flow Statement of Stable and Efficient Limited for the financial year ended on 31.03.2023 because an equipment was given to settle the whole amount of Rs 13,700 of a trade payable and no cash is involved in this transaction.
- (d) This represents Cash Inflow of Rs 2,72,000 from financing activities because according to Indian Accounting Standard 7 relating to Statement of Cash Flows, an amount received for issue of equity shares represents inflow of cash from financing activities.

9. (a) The opinion of Mr. T is incorrect because according to Rule 56(12) of the Section 35 and Section 36 read with Chapter VII relating to Accounts and Records of CGST Rules, 2017, each and every registered person who is involved in manufacturing of goods is required to develop and maintain production records and accounts on monthly basis. Similarly, Stable and Efficient Limited is a registered person, which is involved in manufacturing of various types of carry bags and storage bags is required to develop and maintain production records and accounts on monthly basis.

- (b) The opinion of Mr. N is incorrect because according to Rule 56(12) of the Section 35 and Section 36 read with Chapter VII relating to Accounts and Records of CGST Rules, 2017, each and every registered person involved in manufacturing of goods is required to develop and maintain production records and accounts on monthly basis showing quantitative details of goods manufactured and quantitative details of raw materials used in manufacturing of goods. Similarly, Stable and Efficient Limited is a registered person, who is involved in manufacturing business of various types of carry bags and storage bags is required to develop and maintain production records and accounts on monthly basis showing quantitative details of various types of carry bags and storage bags manufactured and quantitative details of raw materials used in the manufacturing of those carry bags and storage bags.

CASE STUDY 35

“PQRST & Co.” is a CA Firm having partners “Mr. P”, “Mr. Q”, “Mr. R”, “Mr. S” and “Mr. T”, Chartered Accountants. This firm was established 10 years ago by these partners who were friends since college days and has made a remarkable success in Auditing & Taxation work till now. They have clients ranging from small traders to big multinational companies. They have practice of meeting and sitting together once a month to discuss and sort out various issues of their clients with each other as well as any issues related to their profession. This time when they met, 3 major issues were scheduled to be discussed as follows-

- (i) Accounting & Taxation issues w.r.t. Hamba Manufacturers Ltd., one of their old clients.
- (ii) Accounting & Taxation issues w.r.t. Talktime Telecom Pvt. Ltd., one of their prime clients.
- (iii) Their eligibility as partners to carry out various audits & ceiling limits.

Hamba Manufacturers Ltd. is in the business of manufacturing and trading in electronics and it has its own sale depots as well apart from being a part of the wholesale and distribution channel. It also enters into contracts with different customers for overhauling and renovation services and has also set up a separate unit in its factory for research related to biotechnology.

One of the issues being discussed at the meeting is that this company has its manufacturing unit in the State of Maharashtra. It stores the finished goods manufactured by it at a depot located in the State of Gujarat. The depot is owned by Punyabhumi Ltd. – a related person of Hamba Manufacturers Ltd. Punyabhumi Ltd. has not charged any consideration from it for usage of depot for storage purpose. There is a doubt raised by Mr. Q regarding such transactions as if they form supply or not under the GST law. They discussed about the term supply under the GST law and Mr. S helped to resolve this issue.

Mr. Q further tells them that he is currently having query with one of the supplies affected by Hamba Manufacturers Ltd. as to how to account for it in the books of accounts for revenue recognition purpose. He tells them that the Company has entered into an agreement on 1st January, 2023 with a customer for renovation of hospital and installation of new air-conditioners for total consideration of Rs 1,00,00,000. The promised renovation service, including the installation of new air-conditioners is a single performance obligation satisfied over time. Total expected costs are Rs 80,00,000 including Rs 20,00,000 for the air conditioners.

The Company determines that it acts as a principal because it obtains control of the air conditioners before they are transferred to the customer. The customer obtains control of the air conditioners when they are delivered to the hospital premises. Company uses an input method based on costs incurred to measure its progress towards complete satisfaction of the performance obligation. As at 31st March, 2023, other costs incurred excluding the air conditioners are Rs 12,00,000. This problem is solved by Mr. T, who is an expert in Ind AS matters.

Moving on, Mr. R, who is working on the case of Hamba Manufacturers Ltd. with Mr. Q jointly is struggling with certain issues to be handled while calculating profits from business for the Previous Year 2022-23 for the Company for taxation purpose and puts forward the relevant information for discussion among them. Mr. S who is an expert in Income tax matters offers help in this case.

He tells them that Hamba Manufacturers Ltd. has disclosed a net profit of Rs 10 lakhs for the year ended 31st March, 2023.

- ✓ Advertisement expenditure debited to profit and loss account includes the sum of Rs 60,000 paid in cash to the sister concern of a company, the market value of which is Rs 52,000.
- ✓ Repairs of plant and machinery debited to profit and loss account include Rs 1.50 lakhs towards replacement of worn out parts of machineries. Such expenditure does not increase the future benefit from the asset beyond its previously assessed standard of performance.
- ✓ A sum of Rs 8,000 on account of liability foregone by a creditor has been taken to general reserve. The original purchase was debited to the Profit & Loss Account in the A.Y. 2018-19.
- ✓ Sale proceeds of import entitlements amounting to Rs 1.1 lakh has been credited to Profit & Loss Account, which the company claims as capital receipt not chargeable to income-tax.
- ✓ Being also engaged in the biotechnology business, the company incurred the following expenditure on in-house research and development as approved by the prescribed authority:
 - (a) Research equipment purchased Rs 1,50,000.
 - (b) Remuneration paid to scientists Rs 50,000.

The total amount of Rs 2,00,000 is debited to the profit and loss account.

Now, Mr. P comes up with the case of Talktime Telecom Pvt. Ltd. He tells them :-

- (a) this company entered into an agreement with B Ltd. which is engaged in generation and supply of power. The agreement provided that Talktime Telecom Pvt. Ltd. will provide 2,00,000 minutes of talk time to employees of B Ltd. in exchange for getting power equivalent to 40,000 units. Talktime Telecom Pvt. Ltd. normally charges Rs 0.50 per minute and B Ltd. charges Rs 2.5 per unit. Mr. P is unable to account for recognize revenue from this transaction and Mr. T helps to resolve this issue.
- (b) this Company is to provide telecom services in Mumbai, obtained a licence on 1.4.2020 for a period of 10 years ending on 31.3.2030 against a fee of Rs 54 lakhs to be paid in 3 installments of Rs 18 lakhs each by April, 2020, April, 2021 and April, 2022, respectively. The company has commenced business on 1.4.2021. He is struggling with the treatment of such transaction under the Income tax law and Mr. S, comes forward to help.

- Now, at last, Mr. T has this issue to be discussed among them all as to the ceiling applicable on each one of them and their firm w.r.t different types of audits, especially company audit. They discuss that before appointment is given to any auditor, the company must obtain a certificate from him to the effect that the appointment, if made, will not result in an excess holding of company audit by the auditor concerned over the limit laid down in section 141(3)(g) of the Companies Act, 2013. Mr. P, Mr. Q, Mr. R, Mr. S and Mr. T are holding appointment as an auditor in 3, 6, 6, 10 and 15 Companies respectively.

Whether the services rendered by Punyabhumi Ltd. to Hamba Manufacturers Ltd. qualify as supply under GST?

- ## II. Descriptive Questions

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8. (i) Provide the maximum number of Audits remaining in the name of "PQRST & Co."
- (ii) Provide the maximum number of Audits remaining in the name of individual partner i.e. "Mr. P", "Mr. Q", Mr. R, Mr. S and Mr. T.
- (iii) Can PQRST & Co. accept the appointment as an auditor in 80 private companies having paid-up share capital less than Rs 100 crore which has not committed default in filing its financial statements under section 137 or annual return under section 92 of the Companies Act with the Registrar, 2 small companies and 1 dormant company?
- (iv) Would your answer be different, if out of those 80 private companies, 65 companies are having paid-up share capital of Rs 125 crore each?

I. Answers to the Multiple Choice Questions

1. (c) Yes, it qualifies as a Supply even though no consideration has been charged for the same.

Reason: As per section 7(1)(c) read with Schedule I of the CGST Act, supply of goods or services or both between related persons without consideration when made in the course or furtherance of business qualifies as supply. Thus, the storage services provided by Punyabhumi Ltd. to Hamba Manufacturers Ltd. in course or furtherance of business qualifies as supply under GST even though no consideration has been charged for the same.

2. (d) Rs 1,00,000

Reason: Paragraph 5(d) of Ind AS 115 excludes non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers. For example, this Standard would not apply to a contract between two oil companies that agree to an exchange of oil to fulfil demand from their customers in different specified locations on a timely basis.

However, the current scenario will be covered under Ind AS 115 since the same is exchange of dissimilar goods or services. As per paragraph 47 of Ind AS 115, —an entity shall consider the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both. Paragraph 66 of Ind AS 115 provides that to determine the transaction price for contracts in which a customer promises consideration in a form other than cash, an entity shall measure the non-cash consideration (or promise of noncash consideration) at fair value. On the basis of the above, revenue recognised by Talktime Telecom Pvt. Ltd. will be the consideration in the form of power units that it expects to be entitled for talktime sold, i.e. Rs 1,00,000 (40,000 units x Rs 2.5). The revenue recognised by B Ltd. will be the consideration in the form of talk time that it expects to be entitled for the power units sold, i.e., Rs 1,00,000 (2,00,000 minutes x Rs 0.50).

3. (c) Rs 6,25,000

Reason: The payment made for acquiring the licence to operate telecom services shall be subject to deduction as per the scheme in Section 35ABB. As per Section 35ABB, any amount actually paid for obtaining licence to operate telecommunication services shall be allowed as deduction in equal instalments during the number of years for which the licence is in force.

If the payment is made before the commencement of business: The deduction shall be allowed beginning with the year of commencement of business.

In any other case: It will be allowed commencing from the year of payment. Deduction shall be allowed up to the year in which the license shall cease to be in force.

The amount of deduction available for A.Y. 2023-24 is worked out below-

(1)	(2)	(3)	(4) = (3)/(2)
Previous year of payment	Unexpired period of license	Instalment paid (Rs)	Deduction in respect of each instalment (Rs)
2020-21	9 years	18,00,000	2,00,000
2021-22	9 years	18,00,000	2,00,000
2022-23	8 years	18,00,000	2,25,000
		54,00,000	6,25,000

The deduction under section 35ABB from assessment year 2023-24 shall be Rs 6,25,000.

4. (d) Both services as a brand ambassador by Chandragupta & act of tolerating the non-performance of a contract by Chandragupta by company qualify as two different supplies.

Reason: As per section 7(1)(a), supply includes all forms of supply of goods or services or both made or agreed to be made for a consideration by a person in the course or furtherance of business. In the given case, Chandragupta has agreed to provide his services as a brand ambassador of the Company at an agreed annual consideration. Thus, his services fall within the purview of the term “supply” under GST where the consideration charged for such supply is Rs 10 lakh per annum. Further, section 7(1A) provides that when certain activities or transactions constitute a supply in accordance with the provisions of section 7(1), they shall be treated either as a supply of goods or supply of services as referred to in Schedule II of the CGST Act. Tolerating non-performance of a contract is an activity or transaction which is treated as a supply of service as per Schedule II and the person is deemed to have received the consideration in the form of fines or penalty and is, accordingly, required to pay tax on such amount. In the given case, since the company is tolerating the act of Chandragupta of terminating the contract before the expiry of its contract period, 50% of contract fee for 3 years amounting to Rs 15 lakh is being received by it as a penalty for the same. The act of tolerating the non- performance of a contract by Chandragupta by the company is a supply of service where the consideration charged for such supply is Rs 15 lakh [50% of (Rs 10 Lakh × 3 years)].

5. (a) The decision of the Board of Directors is appropriate.

Reason: Section 123(3) of the Companies Act, 2013 provides that the Board of Directors of a company may declare interim dividend during any financial year out of the surplus in the Statement of Profit and Loss and out of profits of the financial year in which such interim dividend is sought to be declared. The amount of dividend including interim dividend should be deposited in a separate bank account within five days from the declaration of such dividend for the compliance of Section 123(4) of the said Act. Based on Section 2(35) of the Act, it can be said that since interim dividend is also a dividend, companies should provide for depreciation as required by Section 123 before declaration of interim dividend. However, the first proviso to Section 123(1) provides that a company may, before the declaration of any dividend in any financial year, transfer such percentage of its profit for that financial year as it may consider appropriate to the reserves of the company irrespective of the size of the declared dividend i.e. the company is not mandatorily required to transfer the profit to the reserves, it is an option available to the company to transfer such percentage. In the instant case, the Board has decided to pay interim dividend @10% of the paid-up capital. As given in the question, the company has complied with the depreciation requirement, the interim dividend can be declared without transferring such percentage of its profits to the reserves of the company.

II. Answers to the Descriptive Questions

6. Paragraph B19 of Ind AS 115 inter alia, states that, “an entity shall exclude from an input method the effects of any inputs that, in accordance with the objective of measuring progress in paragraph 39, do not depict the entity’s performance in transferring control of goods or services to the customer.”

In accordance with the above, the company assesses whether the costs incurred to procure the air conditioners are proportionate to the entity’s progress in satisfying the performance obligation. The costs incurred to procure the air conditioners (Rs 20,00,000) are significant relative to the total costs to completely satisfy the performance obligation (Rs 80,00,000). Also, the Company is not involved in manufacturing or designing the air conditioners.

Hamba Manufacturers Ltd. concludes that including the costs to procure the air conditioners in the measure of progress would overstate the extent of the entity’s performance. Consequently, in accordance with paragraph B19 of Ind AS 115, the entity adjusts its measure of progress to exclude the costs to procure the air conditioners from the measure of costs incurred and from the transaction price. The entity recognises revenue for the transfer of the air conditioners at an amount equal to the costs to procure the air conditioners (i.e., at a zero margin).

The Company assesses that as at March, 2023, the performance is 20 per cent complete (i.e., Rs 12,00,000 / Rs 60,00,000). Consequently, the Company should recognise the following-

As at 31st March, 2023

	Amount in Rs
Revenue	36,00,000
Cost of goods sold	32,00,000
Profit	4,00,000

Revenue recognised is calculated as (20 per cent × Rs 80,00,000) + Rs 20,00,000.

(Rs 80,00,000 = Rs 1,00,00,000 {transaction price} – Rs 20,00,000 {costs of air conditioners}).

Cost of goods sold is Rs 12,00,000 of costs incurred + Rs 20,00,000 costs of air conditioners.

7. Computation of taxable income from business or profession of Hamba Manufacturers Ltd. for A.Y. 2023-24

Particulars	Amount (Rs)
Net profit as per profit and loss account	10,00,000
Add: Items debited to profit and loss A/c but not deductible or income to be taxed	
1. Payment of advertisement expenditure of Rs 60,000	
(i) Rs 8,000, being the excess payment to a relative disallowed under section 40A(2)	8,000
(ii) As the payment is made in cash and since the remaining amount of Rs 52,000 exceeds Rs 10,000, 100% shall be disallowed under section 40A(3)	52,000
2. Under section 31, expenditure relatable to current repairs regarding plant, machinery or furniture is allowed as deduction. The test to determine whether replacement of parts of machinery amounts to repair or renewal is whether the replacement is one which is in substance replacement of defective parts or replacement of the entire machinery or substantial part of the entire machinery [CIT v. Darbhanga Sugar Co. Ltd. [1956] 29 ITR 21 (Pat)]. Here expenditure on repairs does not bring in any new asset into existence. Such replacement can only be considered as current repairs. Hence, no adjustment is required. Further, as per ICDS V on Tangible Fixed Assets, only an expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance has to be added to the actual cost.	
3. Liability foregone by creditor chargeable as business income but not credited to profit and loss account [taxable under section 41(1)]	8,000
4. Sale proceeds of import entitlements. The sale of the rights gives rise to profits or gains taxable under section 28(iiiia). As the amount has already been credited to profit and loss account, no further adjustment is necessary.	-
5. Expenditure on in-house research and development is entitled to a weighted deduction of 100% of the expenditure (both capital and revenue) so incurred under section 35(2AB)(1). As the amount has already been debited to profit and loss account, no further adjustment is necessary	-
Taxable Income from business or profession	10,68,000

1. **Facts of the Case:** In the instant case, Mr. P is holding appointment in 3 companies, Mr. Q is holding appointment in 6 companies, Mr. R is holding appointment in 6 companies, whereas Mr. S is having appointment in 10 Companies and Mr. T is having appointment in 15 Companies. In aggregate all five partners are having 40 audits.

Provisions and Explanations: As per section 141(3)(g) of the Companies Act, 2013, a person shall not be eligible for appointment as an auditor if he is in full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor, if such person or partner is at the date of such appointment or reappointment holding appointment as auditor of more than twenty companies other than one person companies, dormant companies, small companies and private companies having paid-up share capital less than Rs 100 crore (private company which has not committed a default in filing its financial statements under section 137 of the said Act or annual return under section 92 of the said Act with the Registrar).

As per section 141(3)(g), this limit of 20 company audits is per person. In the case of an audit firm having 5 partners, the overall ceiling will be $5 \times 20 = 100$ company audits.

Sometimes, a Chartered Accountant is a partner in a number of auditing firms. In such a case, all the firms in which he is partner or proprietor will be together entitled to 20 company audits on his account.

Conclusion:

- (i) Therefore, PQRST & Co. can hold appointment as an auditor of 60 more companies:
Total Number of Audits available to the Firm = $20 \times 5 = 100$ Number of Audits already taken by all the partners
In their individual capacity = $3+6+6+10+15 = 40$ Remaining number of Audits available to the Firm = 60
- (ii) With reference to above provisions, an auditor can hold more appointment as auditor
= ceiling limit as per section 141(3)(g)- already holding appointments as an auditor. Hence, Mr. P can hold: $20 - 3 = 17$ more audits. (2) Mr. Q can hold: $20 - 6 = 14$ more audits. (3) Mr. R can hold: $20 - 6 = 14$ more audits. (4) Mr. S can hold $20 - 10 = 10$ more audits and (5) Mr. T can hold $20 - 15 = 5$ more audits.
- (iii) In view of above discussed provisions, PQRST & Co. can hold appointment as an auditor in all the 80 private companies having paid-up share capital less than Rs 100 crore (private company which has not committed a default in filing its financial statements under section 137 of the said Act or annual return under section 92 of the said Act with the Registrar), 2 small companies and 1 dormant company as these are excluded from the ceiling limit of company audits given under section 141(3)(g) of the Companies Act, 2013.
- (iv) As per fact of the case, PQRST & Co. is already having 40 company audits and they can accept only 60 more

company audits. In addition, they can also conduct the audit of one person companies, small companies, dormant companies and private companies having paid up share capital less than Rs 100 crores (private company which has not committed a default in filing its financial statements under section 137 of the said Act or annual return under section 92 of the said Act with the Registrar). In the given case, out of the 80 private companies PQRST & Co. is being offered, 65 companies have paid-up share capital of Rs 125 crore each.

Therefore, PQRST & Co. can accept the appointment as an auditor for 2 small companies, 1 dormant company, 15 private companies having paid-up share capital less than Rs 100 crore (private company which has not committed a default in filing its financial statements under section 137 of the said Act or annual return under section 92 of the said Act with the Registrar.) and 60 private companies having paid-up share capital of Rs 125 crore each in addition to above 40 company audits already held.

CASE STUDY 36

Varsha Dutta is a Post-Graduate from IIM, Guwahati. She set up a business of her own in 2020 in the field of construction material manufacturing to substantiate & support his father's construction business, which is almost 30 years old. Until now, she was able to manage the accounting & taxation part of her business really good all by herself, but now, as the business is expanding, she hires the services of a taxation consultant, CA Amit Garg, her friend, for accounting & taxation related issues so as to make all required compliances good.

CA Amit has set up his own Proprietorship Firm and has been practicing in Audit & Taxation since the past 7 years. Amit & Varsha, both meet where Amit tells her that times have changed and so have the ways of presenting accounts of any business as per the Financial Reporting Framework (FRF). He also tells her about the Income tax and GST aspects w.r.t businesses. After a brief deliberation on accounting & taxation aspects, he asks Varsha to tell him in brief about her business.

Varsha tells him that her company, Varsha Pvt. Ltd., specializes in manufacturing & trading of construction material. She asks her accountant to show Amit how they present the various matters in their company's Balance Sheet and the accountant lays down a draft Balance sheet in front of Amit to show the presentation of financial items with relevant figures as follows:

Heading	Note No.	31 st March, 2023	31 st March, 2022
Equity & Liabilities			
Share Capital	1	XXX	XXX
Reserves & Surplus	2	0	0
Employee stock option outstanding	3	XXX	XXX
Share application money refundable	4	XXX	XXX
Non-Current Liabilities		XXX	XXX
Deferred tax liability (Arising from Indian Income Tax)	5	XXX	XXX
Current Liabilities			
Trade Payables	6	XXX	XXX
Total		<u>XXXX</u>	<u>XXXX</u>
Assets			
Non-Current Assets			
Fixed Assets-Tangible	7	XXX	XXX
CWIP (including capital advances)	8	XXX	XXX
Current Assets			
Trade Receivables	9	XXX	XXX
Deferred Tax Asset (Arising from Indian Income Tax)	10	XXX	XXX
Debit balance of Statement of Profit and Loss		XXX	XXX
Total		<u>XXXX</u>	<u>XXXX</u>

Varsha tells Amit that her father's company, Carp Pvt. Ltd., is a prime and regular purchaser of the construction material from her company. She finds it hard on how to deal with various accounting & taxation matters and discusses some of the issues as follows:

1. ISSUE 1: Presenting Inventories in the Financial Statements.

She asks Amit to provide guidance in presentation relating to inventories in the financial statements. Her Company is having inventory amounting to Rs 100,000 in total with the details as below:-

Spare parts	Rs 30,000
Finished goods	Rs 25,000
Work in progress	Rs 40,000
Tools	Rs <u>5,000</u>
TOTAL	Rs <u>1,00,000</u>

2. **ISSUE 2:** Just recently, they have entered into a contract with Customer E to build an asset. Depending on when the asset is completed, her company will receive either Rs 2,20,000 or Rs 2,60,000. Providing the following details, she asks for Amit's help in determining the transaction price of this contract.

Outcome	Consideration (Rs)	Probability
Project completes on time	2,60,000	90%
Project is delayed	2,20,000	10%

3. **ISSUE 3:** She tells Amit that her company is GST registered under regular scheme but now with the expanding business, they find it hard to deal with GST matters and need his services as a GST Consultant. She provides her with some data relating to recent transactions to understand the GST impact & compliance-

Their company supplies the following goods and services for construction of buildings and complexes -

- excavators for required period at a per hour rate
- manpower for operation of the excavators at a per day rate
- soil-testing and seismic evaluation at a per sample rate.

The excavators are invariably hired out along with operators. Similarly, excavator operators are supplied only when the excavator is hired out.

For a given month, their receipts (exclusive of GST) are as follows :

- Hire charges for excavators - Rs 36,00,000
- Service charges for supply of manpower for operation of the excavator - Rs 40,000
- Service charges for soil testing and seismic evaluation at three sites - Rs 5,00,000

4. **ISSUE 4:** Varsha's accountant tells Amit that while filing Income Tax return last year, they faced issues and doubts w.r.t. allowability of certain expenses and couldn't resolve them out. Similarly, this year as well, they face the similar issues, major two of them are as follows:

- a. A bank guarantee given by Varsha Pvt. Ltd. towards disputed tax liabilities.
- b. Their company paid dollars equivalent to Rs 25 lakhs as sales commission for the year ended 31.03.2023, without deducting tax at source, to Mr. Rodrigues, a citizen of UK and non-resident who acted as agent for booking orders, from various customers who are outside India.

After a healthy discussion with Amit regarding various issues, Varsha is facing in her business, she feels satisfied that Amit can help her out in the Accounting & Taxation aspects of her business leading to better compliances. She gets him appointed as an auditor for the company for the current financial year. Further the company offered him if he could also provide the services of actuarial, investment advisory and investment banking which would be duly approved by the Board of Directors.

I. Multiple Choice Questions

1. W.r.t the Presentation of Inventories, what should be the presentation requirement as per Schedule III?
 - (a) All the aforesaid Inventory items to be shown separately.
 - (b) Spare Parts & Work-in-Progress items be clubbed together under one head.
 - (c) Finished goods & Tools items be clubbed together under one head.
 - (d) No separate Presentation, the total of all Inventory items be shown under the Inventory head without any bifurcation.
2. What shall be the transaction price w.r.t. the contract entered into with customer E by Varsha Pvt. Ltd.?
 - (a) Rs 2,60,000
 - (b) Rs 2,20,000
 - (c) Rs 2,34,000
 - (d) Rs 2,56,000
3. What should be CA Amit's reply to his appointment for other miscellaneous services apart from appointment as the Statutory auditor as duly approved by the Board of Directors of Varsha Pvt. Ltd.?
 - (a) Accept his appointment as would be approved by the Board of Directors.
 - (b) Should not accept such appointment.
 - (c) Should not accept the appointment and resign as the Statutory auditor as well.
 - (d) Should ask for an approval in the AGM of the company as well for such appointment.
4. Examine the taxability and/ or allowability of the guarantee furnished by Varsha Pvt. Ltd. under the provisions of the Income-tax Act, 1961, for the A.Y. 2023-24.
 - (a) Allowable u/s 43B.
 - (b) Disallowed and not covered u/s 43B.
 - (c) Disallowed but to the extent of 30% only.
 - (d) Allowable u/s 37.

5. Examine the taxability and/ or allowability of the payment made to Mr. Rodrigues by Varsha Pvt. Ltd. under the provisions of the Income-tax Act, 1961, for the A.Y. 2023-24.
 - (a) Not be disallowed u/s 40 (a)(i).
 - (b) Be disallowed u/s 40 (a)(i).
 - (c) Be disallowed but to the extent of 30% only.
 - (d) Can't be determined in absence of required information w.r.t. Mr. Rodrigues.

II. Descriptive Questions

6. Comment on the presentation of the Balance Sheet as laid before CA Amit by Varsha's accountant w.r.t. Varsha Pvt. Ltd. in terms of Division II of Schedule III.
7. Compute the GST payable by Varsha Pvt. Ltd. for the given month. Assume the rates of GST to be as under:
 Hiring out of excavators – 12% Supply of manpower services and soil-testing and seismic evaluation services – 18%

I. Answers to the Multiple Choice Questions

1. (a) All the aforesaid Inventory items to be shown separately.

Reason:

As per Division II of Schedule III:- Inventories shall be classified as-

(a) Raw materials; (b) Work in-progress; (c) Finished goods; (d) Stock-in-trade (in respect of goods acquired for trading); (e) stores and spares; (f) Loose tools; and (g) Others (specify nature).

2. (a) Rs 2,60,000

Reason: Because there are only two possible outcomes under the contract, Company determines that using the most likely amount provides the best prediction of the amount of consideration to which it will be entitled. Company estimates the transaction price to be Rs 2,60,000, which is the single most likely amount.

3. (b) Should not accept such appointment.

Reason: Services not to be Rendered by the Auditor- Section 144 of the Companies Act, 2013 prescribes certain services not to be rendered by the auditor. An auditor appointed under the Act shall provide to the company only such other services as are approved by the Board of Directors or the audit committee, as the case may be, but which shall not include any of the following services (whether such services are rendered directly or indirectly to the company or its holding company or subsidiary company), namely:

- (a) accounting and book keeping services;
- (b) internal audit;
- (c) design and implementation of any financial information system;
- (d) actuarial services;
- (e) investment advisory services;
- (f) investment banking services;
- (g) rendering of outsourced financial services;
- (h) management services; and
- (i) any other kind of services as may be prescribed.

Further section 141(3)(i) of the Companies Act, 2013 also disqualifies a person for appointment as an auditor of a company who is engaged as on the date of appointment in consulting and specialized services as provided in section 144. In the given case, CA Amit Garg was appointed as an auditor of Varsha Pvt. Ltd. He was offered additional services of actuarial, investment advisory and investment banking which would also be approved by the Board of Directors. The auditor is advised not to accept the services as these services are specifically notified in the services not to be rendered by him as an auditor as per section 144 of the Act.

4. (b) Disallowed and not covered u/s 43B.

Reason: For claiming deduction of any expense enumerated under section 43B, the requirement is, the actual payment and not deemed payment. Furnishing of bank guarantee cannot be equated with actual payment. Actual payment requires that money must flow from the assessee to the public exchequer as specified in section 43B. Therefore, deduction of an expense covered under section 43B cannot be claimed by merely furnishing a bank guarantee [CIT v. McDowell & Co Ltd (2009) 314 ITR 167 (SC)]

5. (a) Not be disallowed u/s 40 (a)(i).
Reason: A foreign agent of an Indian exporter operates in his own country and no part of his income accrues or arises in India. His commission is usually remitted directly to him and is, therefore, not received by him or on his behalf in India. The commission paid to the non-resident agent for services rendered outside India is, thus, not chargeable to tax in India. Since commission income for booking orders by non-resident who remains outside India is not subject to tax in India, disallowance under section 40 (a)(i) is not attracted in respect of payment of commission to such non-resident outside India even though tax has not been deducted at source. Thus, the amount of Rs 25 lakhs remitted to Mr. Rodrigues outside India in foreign currency towards commission would not attract disallowance under section 40(a)(i) for non-deduction of tax at source.

II. Answers to the Descriptive Questions

6. Following errors have been noticed in presentation, as per Division II of Schedule III:
- Balance sheet should begin with Assets on top and then, Equity and Liabilities should be presented.
 - Under the main heading of Non-Current Assets, following sub-headings are provided in the format as per Division Property, plant and equipment
 - Capital work-in-progress

In view of the above, the Fixed asset- Tangible should be presented as "Property, Plant and Equipment". CWIP should be presented as "Capital Work in Progress". Under Ind AS Schedule III, 'Capital Advances' are not to be classified under 'Capital Work in Progress', since they are specifically to be disclosed under 'Other non-current assets'.
 - Deferred Tax Asset should be presented under "Non-Current Asset". It should be the net balance of Deferred Tax Asset, after adjusting the balance of deferred tax liability, if the enterprise has a legally enforceable right to set off assets against liabilities representing current tax; and it relates to the same governing tax laws.
 - Trade receivables shall be presented under sub-heading "Financial assets" under heading "Current Assets".
 - Share capital and Reserves & Surplus need to be presented under the heading "Equity". The heading Equity is missing in the balance sheet given in the question. Reserves & Surplus would form part of sub-heading "Other Equity" in the notes to accounts and such balance of "Other Equity" would be presented on face of balance sheet under the heading "Equity".
 - Debit balance of statement of profit and loss would be presented as negative balance under "Retained Earnings" in sub-heading "Other Equity" in the notes to accounts. Such balance of "Other Equity" even if negative, would be presented on face of balance sheet under the heading "Equity".
 - Division II of Schedule III requires that Employee Stock Option outstanding should be disclosed under the sub-heading "Other Equity" in the notes to accounts which should be presented on face of balance sheet under the heading "Equity".
 - Share application money refundable should be presented under the sub-sub- heading "Other Financial Liabilities" under the sub-heading "Financial Liability". As this is refundable and not pending for allotment, hence, it should not form part of equity.
 - Deferred Tax Liability has been correctly presented under "Non-Current Liabilities". But Deferred tax assets and deferred tax liabilities, both, cannot be presented in balance sheet since only the net balance of Deferred Tax Liability or Asset is to be disclosed if the enterprise has a legally enforceable right to set off assets against liabilities representing current tax; and it relates to the same governing tax laws.
 - Trade payables should be presented under sub-heading "Financial liabilities" under the heading "Current liabilities" and should be disclosed as follows:
 - total outstanding dues of micro enterprises and small enterprises; and
 - total outstanding dues of creditors other than micro enterprises and small enterprises.

7. Computation of GST liability

Particulars	Value of Supply (Rs)	Rate of GST	GST (Rs)
Hiring charges for excavators	36,00,000	12%	4,32,000
Service charges for supply of manpower for operation of excavators [Refer Note 1]	40,000	12%	4,800
Service charges for soil testing and seismic evaluation [Refer Note 2]	5,00,000	18%	90,000
GST liability			5,26,800

Notes:

1. Since the excavators are invariably hired out along with operators and excavator operators are supplied only when the excavator is hired out, it is a case of composite supply under section 2(30) wherein the principal supply is the hiring out of the excavator.

As per section 8(a), the composite supply is treated as the supply of the principal supply. Therefore, the supply of manpower for operation of the excavators will also be taxed at the rate applicable for hiring out of the excavator (principal supply), which is 12%.
2. Soil testing and seismic evaluation services being independent of the hiring out of excavator will be taxed at the rate applicable to them, which is 18%.

CASE STUDY 37

A person namely Deepak is a marketing person who is working in mid-sized corporate company, Iktara limited in Noida. Deepak is married and he is exploring the options to do his own business. One day his brother-in-law, Aakash, was in Delhi/NCR at Deepak's residence as his flight to his hometown Jaipur, Rajasthan was scheduled. Aakash is currently working in Universal bank, a reputed bank in South Africa. After being known to the condition of Deepak, Aakash decided to help Deepak by suggesting him an idea of business which could be done after due research and appropriate consultation. Deepak responded in affirmative to proceed further. Aakash is a person who is friend of Dujon Sobers, the purchase manager of Universal bank. Dujon generally acquires his purchase orders from India as import of bank electronic accessories such as biometric machines, cash counting machines etc. Aakash immediately called Dujon to know the prospects of acquiring material from other suppliers in India as Aakash was desperate to include Deepak in the list of those prospective sellers and even Dujon provided assurance to Aakash that he would do his level best to procure material from the reference of Aakash provided the material meets the quality standards and other terms which are framed as per the bank's policies. Dujon apprised Aakash of all the formalities which are needed to be done like bid price, quality, time of shipment etc. Deepak has the apprehensions that if 100% exports are done, there may not be the need for GST registration if separate sales in domestic market are lower than Rs 40 lakhs.

Aakash on the perusal of Dujon first suggested Deepak to send free samples of Biometric fingerprint machines. Deepak enquired and researched for the same in domestic market and after due scrutiny and research, he decided to choose the manufacturer, Biotechno private limited from Mumbai to be the one from whom he would supply the material. At first, he procured 3 machines from company at market price and sent the same as sample to South Africa. As per estimates of Deepak and Aakash, there would come fixed operational expenses of around Rs 3,60,000 and variable expenses of 1,000 per unit. Further selling and administrative expenses are expected at Rs 2,00,000, irrespective of quantum of units sold.

After having received the biometric machines, the purchase department of Universal bank was satisfied with the quality of machines and since it was being offered at lower price than other bidders, Dujon called upon Deepak to send the first formal consignment of 1,000 biometric machines at Rs 1,600 per machine. One of the conditions of Universal bank was that the supplier should be registered as a company as per the law of land and thereafter imports would be from India through designated official channels.

Meanwhile, Deepak made up mind to resign from the company. First, he decided to meet the directors in this regard and then send a formal resignation letter. He approached directors and described his intention to resign so that he could start his new business and concentrate fully thereon. Since Deepak was very hardworking, loyal and trustworthy, the directors were reluctant to leave such kind of person from company; the directors instead offered him a proposal to form the new company under 55:45 shareholding. The investment of 55% is to be done by Iktara limited and rest by Deepak. Voting powers are to be given as per the proportionate share of capital contribution. In this manner, new company which would be formed will be the subsidiary of Iktara limited. The directors saw it as an opportunity to diversify their operations and make their operations global, although very small in the initial stage. Since Deepak was always short of funds in the past and he had the obvious **Reasons** for the future too, so he came under the influence of directors to go along. For this purpose, it was decided to form a company with two directors and Deepak eventually becomes one of the directors of company. A consultant was hired, and he decided to charge Rs 30,000 for the incorporation of company and to do other necessary statutory registrations. Rs 30,000 is to be charged as an expense in the books after incorporation of company.

The company namely, Softbharti private limited was incorporated on 1st April, 2022 and thereafter its first board meeting was done on 10th May, 2022 wherein resolution for appointment of auditor was passed. The auditor who is appointed is the same as of Iktara limited. Deepak attended the board meeting through video conferencing as he was in his hometown, Rajasthan at that time, although another director was physically present at the board meeting. Further, the Company secretary is of doubt that whether quorum for

the purpose of board meeting would be held as void ab initio.

For the year ending 31st March, 2023, Softbharti private limited on the insistence of Deepak has made donations amounting Rs 25,000 in cash to Seva Jagriti Sansthan.

It is worthwhile to note that the financials of Iktara limited are prepared as per Ind AS since the same are applicable on it.

During the year, Iktara Ltd. has further acquired 60% of the ordinary shares of another company, Maya private limited for Rs 80 lacs. The fair value of its identifiable net assets is Rs 135 lacs. The fair value of the 40% of the ordinary shares owned by non-controlling shareholders is Rs 55 lacs. Carrying amount of Maya private ltd.'s net assets is Rs 105 lacs.

Following are the draft results of Softbharti private limited for the year ending 31st March, 2023
Profit and Loss account

Particulars	Amount (Rs)
Revenue from operations	10,00,000
Other Income	1,00,000
Total Revenue	11,00,000
Expenses:	
Purchase of stock in trade	5,00,000
(Increase)/Decrease in stock in trade	(50,000)
Employee benefits expense	1,75,000
Depreciation	30,000
Other expenses	90,000
Total	7,45,000
Profit before tax	3,55,000
Current tax	1,06,500
Deferred tax	6,000
Total tax expense	1,12,500
Profit for the year	2,42,500

Balance Sheet

Particulars	Amount (Rs)
EQUITY AND LIABILITIES	
(1) Shareholders' Funds	
(a) Share Capital	1,00,000
(b) Reserves & Surplus	2,27,500
(2) Non-Current Liabilities	
(a) Long Term Provisions	25,000
(b) Deferred tax liabilities	6,000
(3) Current Liabilities	
(a) Trade Payables	11,000
(b) Other Current Liabilities	45,000
(c) Short Term Provisions	1,06,500
TOTAL	5,21,000
ASSETS	
(1) Non Current Assets	
(a) Fixed Assets (net)	1,00,000
(b) Long Term Loans and Advances	40,000
(c) Other Non Current Assets	50,000
(2) Current Assets	
(a) Current Investments	30,000
(b) Inventories	80,000
(c) Trade Receivables	55,000
(d) Cash and Bank Balances	1,15,000
(e) Other Current Assets	51,000
TOTAL	5,21,000

Additional Information of Softbharti private limited:

Deferred tax of Rs 6,000 is created due to following temporary difference:

Difference in depreciation amount as per Income tax and Accounting profit = Rs 6,000 (DTL)

There is only one fixed asset in the company, whose closing balance as at 31st March, 2023 is as follows:

Asset description	As per Books	As per Income tax
Fixed asset	Rs 1,00,000	Rs 80,000

Current tax is calculated at 30% on PBT- Rs 3,55,000 without doing any adjustments related to Income tax.

The directors have recommended dividend of Rs 15,000 for year ending March, 2023 which has been deducted from reserves and surplus. Dividend payable of Rs 15,000 has been grouped under 'other current liabilities'.

The company has **defaulted** in certain payment, the details of which is as follows: Government statutory dues – Rs 15,000 (which is grouped under 'other current liabilities') This amount has not been paid till the date.

The capital advances amounting Rs 50,000 are grouped under 'Other non-current assets'.

Other current assets of Rs 51,000 comprise Interest receivable on debtors.

Current investments of Rs 30,000 are in shares of a company which was done with the purpose of trading, current investments have been carried at cost in the financial statements. The fair value of current investments in this case is Rs 50,000 as at March 31, 2023. Assume that increase in fair value through profit and loss is also taxable.

Following transaction has been **omitted** in the financials of Softbharti private limited for the year ending 31st March, 2023:

Actuarial gain on employee benefit measurements = 1,000

Please note that financial statements for FY 2022-23 have not been yet approved and you are required to ignore the MAT calculations.

I. Multiple Choice Questions

- At which minimum price, Deepak should accept the offer of selling one machine to Universal bank?
(a) Rs 1,600 (b) Rs 1,560 (c) Rs 1,000 (d) None of the above.
- By which time the company, Softbharti private limited, should have held its first board of directors meeting?
(a) By 31 May, 2022 (b) Private limited company is exempted of first meeting of board of directors.
(c) By 30 April, 2022 (d) Within 30 days of the appointment of auditor.
- Which Ind AS/AS does the Iktara limited is required to apply for consolidation of Softbharti private limited's financials?
(a) Ind AS 110 (b) Ind AS 28 (c) Ind AS 27 (d) AS 21
- Whether the quorum required for conduct of board meeting of Softbharti private limited has been met on 10th May, 2022?
(a) Quorum has been met.
(b) Quorum has not been met.
(c) Quorum is not met but it can be ratified by the shareholders.
(d) Quorum is not met but it can be ratified by the registrar of companies.
- As Deepak thinks that export sales are not included in the definition of aggregate turnover under the GST law since export sales are exempt from tax. Whether export sales should also be added along with the domestic sales while checking the aggregate turnover in such a situation?
(a) Export sales should be added along with domestic sales barring SAARC nations.
(b) Export sales should not be added along with domestic sales.
(c) Export sales should not be added if central government's permission in the form of certificate has been taken to exclude export sales from criteria of 'aggregate turnover'.
(d) Export sales should be added along with domestic sales.

II. Descriptive Questions

6. Whether the financial statements of Softbharti private limited are correctly presented as per the applicable financial reporting framework. If not, prepare the revised financial statements of Softbharti private limited after the careful analysis of facts and information mentioned in the case study.
7. Calculate the non-controlling interest in the books of Iktara limited for the investment made in Maya private limited by both the methods mentioned in Ind AS 103.

I. Answers to the Multiple Choice Questions

1. (b) Rs 1,560
Reason: Since Deepak has received the order for selling 1000 biometric machines
Variable expenses = Rs 1,000 x 1,000 units = Rs 10,00,000 Fixed expenses = Rs 3,60,000
+ Rs 2,00,000 = Rs 5,60,000 Total cost = Rs 15,60,000
Cost per unit = Rs 15,60,000/1,000 = Rs 1,560
Selling price per unit = Rs 1,600
Since selling price per unit is greater than cost per unit, Deepak may accept offer.
2. (c) By 30 April, 2022.
Reason: As per section 173(1) of Companies Act, 2013, every company shall hold the first meeting of the Board of Directors within thirty days of the date of its incorporation.
3. (a) Ind AS 110
Reason:
 - Ind AS 110 'Consolidated Financial Statements' is applied in establishing principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.
 - Ind AS 28 'Investments in Associates and Joint Ventures' is applied in the accounting for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.
 - Ind AS 27 'Separate financial statements' is applied in accounting for investments in subsidiaries, joint ventures and associates when an entity elects, or is required by law, to present separate financial statements.
 - Since Iktara limited prepares its financials as per Ind AS, so AS are not applicable on it, even in the case of consolidation.
4. (a) Quorum has been met.
Reason: As per section 174(1) of Companies Act, 2013, quorum for a meeting of the Board of Directors of a company shall be one third of its total strength or two directors, whichever is higher, and the participation of the directors by video conferencing or by other audio visual means shall also be counted for the purposes of quorum under this sub-section. Further, as per section 173(2) of Companies Act, 2013, the participation of directors in a meeting of the Board may be either in person or through video conferencing or other audio visual means, [as may be prescribed](#), which are capable of recording and recognising the participation of the directors and of recording and storing the proceedings of such meetings along with date and time.
However, following matters shall not be dealt with in any meeting held through video conferencing or other audio visual means-
 - (i) the approval of the annual financial statements;
 - (ii) the approval of the Board's report;
 - (iii) the approval of the prospectus;
 - (iv) the Audit Committee Meetings for consideration of financial statement including consolidated financial statement if any, to be approved by the board under sub-section (1) of [section 134](#) of the Act and
 - (v) the approval of the matter relating to amalgamation, merger, demerger, acquisition and takeover.
5. (d) Export sales should be added along with domestic sales.
Reason: As per section 2(6) of the CGST Act, 2017, "aggregate turnover" means the aggregate value of all taxable supplies (excluding the value of inward supplies on which tax is payable by a person on reverse charge basis), exempt supplies, exports of goods or services or both and inter-state supplies of persons having the same Permanent Account Number, to be computed on all India basis but excludes Central tax, State tax, Union territory tax, integrated tax and compensation cess.
Hence, exports sales would also be considered along with domestic sales to check whether aggregate turnover is below 40 lakhs or not.

II. Answers to the Descriptive Questions

6. If IND AS becomes applicable to any company, then IND AS shall automatically be made applicable to all the subsidiaries, holding companies, associated companies, and joint ventures of that company, irrespective of individual qualification of such companies.

In the given case it has been mentioned that the financials of Iktara limited are prepared as per Ind AS. Accordingly the results of its subsidiary, Softbharti private limited, should also have been prepared as per Ind AS. However, the financials of Softbharti private limited have been presented as per earlier accounting standards along with erstwhile Division to schedule III applicable to it.

Hence it is necessary to revise the financial statements of Softbharti private limited as per Ind AS after the incorporation of necessary adjustments mentioned in the question Accordingly, the revised financial statements of Softbharti private limited as per Ind AS and Division II to Schedule III of Companies Act, 2013 are presented as follows:

IND-AS STATEMENT OF PROFIT AND LOSS for the year ended 31st March, 2023

Particulars	Amount (Rs)
Revenue from operations	10,00,000
Other Income (1,00,000 + 20,000) (refer note -5)	1,20,000
Total Revenue	11,20,000
Expenses: Purchase of stock in trade	5,00,000
(Increase)/Decrease in stock in trade	(50,000)
Employee benefits expense	1,75,000
Depreciation	30,000
Other expenses	90,000
Total Expenses	7,45,000
Profit before tax	3,75,000
Current tax (W.N.1)	1,25,700
Deferred tax (W.N.2)	(1,200)
Total tax expense	1,24,500
Profit for the year (A)	2,50,500
Other Comprehensive Income	
Items that will not be reclassified to Profit or Loss	
Remeasurements of net defined benefit plans	1,000
Income tax relating to items that will not be reclassified to Profit or Loss	
Remeasurements of net defined benefit plans (tax) [1000 x 30%]	(300)
Other Comprehensive Income for the period (B)	700
Total Comprehensive Income for the period (A+B)	2,51,200

IND-AS BALANCE SHEET as at 31st March, 2023

Particulars	Amount (Rs)
ASSETS	
Non-current assets	
Property, plant and equipment	1,00,000
Financial assets	
Other financial assets (Long term Loans & Advances)	40,000
Deferred tax assets (1200-300)	900
Other non-current assets (capital advances) (refer note-1)	50,000
Current assets	
Inventories	80,000
Financial assets	
Investments (30,000 + 20,000) (refer note -5)	50,000
Trade receivables	55,000
Cash and cash equivalents/Bank	1,15,000
Other financial assets (Interest receivable on debtors)	51,000
TOTAL ASSETS	5,41,900

EQUITY AND LIABILITIES	
Equity	
Equity share capital	1,00,000
Other equity	2,51,200
Non-current liabilities	
Provisions (25,000 - 1,000)	24,000
Current liabilities	
Financial liabilities	
Trade payables	11,000
Other financial liabilities (Refer note 3)	15,000
Other current liabilities (Govt. statutory dues) (Refer note 2)	15,000
Current tax liabilities	1,25,700
TOTAL EQUITY AND LIABILITIES	5,41,900

STATEMENT OF CHANGES IN EQUITY for the year ended 31st March, 2023

A. EQUITY SHARE CAPITAL

	Balance (Rs)
As at 31 st March, 2022	-
Changes in equity share capital during the year	1,00,000
As at 31 st March, 2023	1,00,000

B. OTHER EQUITY

	Reserves & Surplus
	Retained Earnings (Rs)
As at 31 st March, 2022	-
Profit for the year	2,50,500
Other comprehensive income for the year	700
Total comprehensive income for the year	2,51,200
Less: Dividend on equity shares (refer note - 4)	-
As at 31 st March, 2023	2,51,200

Disclosure forming part of financial statements:

Proposed dividend on equity shares is subject to the approval of the shareholders of the company at the annual general meeting and not recognised as liability as at the Balance Sheet date.

(refer note-4)

Notes:

- Assets for which the future economic benefit is the receipt of goods or services, rather than the right to receive cash or another financial asset, are not financial assets.
- Liabilities for which there is no contractual obligation to deliver cash or other financial asset to another entity, are not financial liabilities.
- Other current financial liabilities

Particulars	Amount (Rs)
Balance of other current liabilities as per financial statements	45,000
Dividend declared for FY 2022-23 (Note - 4)	(15,000)
Reclassification of government statutory dues payable to 'other current liabilities'	(15,000)
Closing balance	15,000

- As per Ind AS 10, 'Events after the Reporting Period', If dividends are declared after the reporting period but before the financial statements are approved for issue, the dividends are not recognised as a liability at the end of the reporting period because no obligation exists at that time. Such dividends are disclosed in the notes in accordance with Ind AS 1, Presentation of Financial Statements.

2. Rs 20,000 has been added due to increase in fair value of investments which are classified as FVTPL since they are held for the purpose of trading.

Working note no 1: Calculation of Current tax (Provision for tax) for FY 2022-23

Particulars	Amount (Rs)	Remarks
Profit before tax	3,75,000	
Adjustments:		
Add: Pre incorporation expenses	24,000	(30,000/5) x 4; As per section 35D of Income Tax Act, 1961
Add: Cash donations to Seva Jagriti Sansathan	25,000	As per section (Section 40(A)3) of Income Tax Act, 1961
Add: Depreciation as per Companies Act	30,000	Disallowed as per Income Tax Act, 1961
Less: Depreciation as per Income Tax Act (W.N.3)	(50,000)	Allowed as per Income Tax Act, 1961
Add: Government statutory dues	15,000	As per section 43B of Income Tax Act, 1961
Taxable Profit	4,19,000	
Tax on taxable profit (Rs 4,19,000) at the rate of 30% = Rs 1,25,700		

Working note no 2: Calculation of Deferred tax on Temporary differences as per Ind AS-12 for FY 2022-23

Item	Carrying amount base (Rs)	Tax base (Rs)	Difference (Rs)	DTA/DTL @ 30% (Rs)
Property, Plant and Equipment	1,00,000	80,000	20,000	6,000-DTL
Pre-incorporation expenses	Nil	24,000	24,000	7,200-DTA
Net DTA/DTL				1,200-DTA

Working note no 3: Calculation of Depreciation as per Income Tax Act, 1961

Closing balance of fixed assets as at 31st March, 2023 as per company's books is Rs 1,00,000. During the year, Rs 30,000 has been charged as depreciation as per Companies Act, 2013. Hence, in the beginning of asset acquisition during the year, fixed asset opening balance would have been Rs 1,30,000 (Rs 1,00,000 + Rs 30,000).

In the additional information provided for Softbharti private limited, it is given that closing balance of fixed asset at the year-end as per Income Tax is Rs 80,000.

It implies that during the year, Rs 50,000 [Rs 1,30,000 (opening balance as per Income Tax) - Rs 80,000 (closing balance as per Income Tax)] was charged as depreciation as per Income Tax Act, 1961.

7. Paragraph 19 of **Ind AS 103** states that for each business combination, the acquirer shall measure at the acquisition date components of non-controlling interest in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either:
- fair value; or
 - the present ownership instruments' proportionate share in the recognized amounts of the acquiree's identifiable net assets.

Accordingly, non-controlling interests will be measured in either of the following manner in the books of Iktara limited:

- (a) If non-controlling interests are measured at fair value: (Rs in lacs)

Identifiable net assets at fair value	Dr	135	
To Non-controlling interest			55
To Investment in Maya private ltd.			80

NCI = Rs 55 lacs

CASE STUDY 38

Sudarshan Limited is a listed company engaged in the business of manufacture of LED products. It is one of the most renowned and trusted LED manufacturers of India. The company has been manufacturing high end, eco- friendly LED bulbs and lights that are cost effective and energy efficient. The company has remained consistent in manufacturing long lasting LED products. It is having its corporate office in Delhi. The company has recently doubled its revenue under the supervision of the owner founder of the company, Mr. Raj Sudarshan, who is also the CEO of the company. Mr. Raj graduated from Riverdale Country College in New York City. He started this company with a very less capital and today the company's net worth has increased manifold. At present the company enjoys good market share and reputation. The company has a vast range of LED products for -

- Indoor
- Outdoor
- Solar
- Architectural and Linear Lighting

The company continues to cherish its ultimate passion for LED lighting innovations. It has a team consisting of skilled members who have decades of experience in the lighting industry. The company values innovation, research, learning and adapting to change. The company has a policy of giving priority to innovation and younger talent and during the year the company hired fresh talent at managerial as well as administrative positions.

During the month of April 2022, the company appointed Mr. Rahul & Ms. Shweta as executive director and non-executive director of the company, respectively. Mr. Rahul is an MBA from IIM, Ahmedabad and has 10 years industry experience. He is an exceptional Financial professional and his experience spans around various finance domains as Regional CFO, Finance Controller. He has been part of various teams starting Biz from scratch in the new markets.

Furthermore Ms. Shweta, a Chartered Financial Analyst, holds an experience of 8 years in the similar industry. Apart from her vast experience in the finance field, Ms. Shweta is a philanthropist who also believes that focusing on creating a culture where workers are encouraged to stay with the company is the need of the hour.

Mr. Rahul joined the company with the vision to expand the business of the company so as to include manufacture of LED lights for cars and motorbikes also. For this purpose, the company opens a new branch office in Faridabad (Haryana). It purchases a building for the branch office from RPS Builders (Faridabad). RPS builders has diversified asset classes of townships, residential, commercial- shopping malls and office spaces. It is one of the leading and trusted real estate companies. RPS builders is one of the fastest growing conglomerate in the field of real estate and infrastructure. It is committed to mark its excellence in the field of real estate since its inception. Sudarshan Limited enters into a separate contract with RPS builders for purchase of pre-installed office furniture and fixtures in the building.

During the year, the company also entered into a contract with RTS Ltd. (Delhi) to supply a machine which is required to be assembled in one of its factories in Chennai.

Om Krishan and Associates are the statutory auditors of Sudarshan Limited for the FY 2022-23. The said Chartered Accountant firm was established in 1987 with offices in New Delhi, Chennai & Mumbai. With its head office in Delhi, the firm currently has a diversified team lead by talented partners and directors having vast professional experience. CA Om, one of the senior partners in the firm, is the engagement partner for this audit engagement. While interacting with CA Om, Mr. Rahul informed him that the company is in discussion with a supplier in Korea for the purchase of raw material required for manufacturing LED lights for car. He further told CA Om that such import of raw material from Korea will help the company to procure the raw materials at very less cost compared to the cost at which the company is currently procuring. Mr. Rahul told CA Om that such raw material can be procured from China, Japan and Korea and the cost of importing the raw material from Korea works out to be the least. Mr. Rahul also told CA Om that the company is planning to export its products as the demand for the products of their company is high in foreign market. He asked CA Om to brief him about the GST implications with respect to the place of supply for import and export and also with respect to the purchase of machine from RTS Ltd. as mentioned above. Further, Mr. Rahul also discussed the following prospective export transaction of the company with CA Om:

Sudarshan Limited will be entering into an agreement, for sale of its products, with Brit Ltd., a company based in Australia. Brit Ltd. requires the goods to be delivered by Sudarshan Limited to Casper Ltd., a company based in Kerala.

Mr. Rahul asked CA Om to clarify as to whether the transaction will qualify as exports of goods under GST.

In order to promote its overseas sales/ exports, Sudarshan Limited has launched an advertisement campaign of its products. For the purpose of the online advertisement, the company has utilised the services of Techno Inc., a Germany based company. During the financial year 2022-23, Sudarshan Limited paid Rs 2,35,000 to Techno Inc. for such services.

Further, Mr. Rahul is also sceptical regarding the provisions of the Companies 2013, applicable with respect to the constitution of the audit committee. He accordingly discussed his understanding with CA Om and asked him to rectify in case he is not correct. He told CA Om that he has the following understanding with respect to the provisions applicable for Audit Committee.

- (a) Any senior member of the company having expertise of accounting and financial management can be appointed as the chairperson of the Audit Committee.
- (b) The Audit Committee of the company shall meet at least twice in a year.

CA Om briefed Mr. Rahul, the following provisions of Audit Committee as per the Companies Act, 2013:

“Every listed entity shall constitute a qualified and independent audit committee in accordance with the terms of reference, subject to the following:

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

Further, the term “financially literate” means the ability to read and understand basic financial statements i.e. balance sheet, profit and loss account, and statement of cash flows. A member will be considered to have accounting or related financial management expertise if he or she possesses experience in finance or accounting, or requisite professional certification in accounting, or any other comparable experience or background which results in the individual’s financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.”

CA Om continued discussing various other provisions of Audit Committee in detail with Mr. Rahul and cleared all the confusions of the latter with respect to such provisions applicable to the company.

Further, the annual remuneration of Ms. Shweta is Rs 3.5 crores and the annual remuneration payable to all the non- executive directors is Rs 15 crores. This amount of Rs 15 crores include the annual remuneration payable to Ms. Shweta also. The annual remuneration of Ms. Shweta has been recommended by the Board of Directors and approved by the shareholders in the general meeting. However, no special resolution was passed for the same.

Mr. Rahul discussed with CA Om about the various disclosures made in the Management Discussion and Analysis Report. He asked CA Om to verify the various non- financial information mentioned in the report viz a viz the information related to Industry structure and development, opportunities and threats etc.

I. Multiple Choice Questions

1. With respect to the purchase of building and pre- installed office furniture and fixture, which of the following is correct regarding the GST liability?
 - (a) There will be no GST liability on purchase of building while office furniture and fixtures will be liable to GST.
 - (b) GST liability will be there on purchase of building as well as office furniture and fixtures.
 - (c) GST liability will be there on purchase of building while office furniture & fixtures will be not be liable to GST.
 - (d) There will be no GST liability on purchase of building and on purchase office furniture and fixtures.
2. What is the place of supply of pre- installed office furniture and fixtures?
 - (a) Delhi
 - (b) Faridabad
 - (c) Question of place of supply does not arise as purchase of pre- installed office furniture & fixture is not chargeable to GST.
 - (d) Delhi or Faridabad as per the discretion of the company. However, option once exercised cannot be changed in later years.
3. Whether the understanding of Mr. Rahul is correct with respect to the appointment of chairperson of the Audit Committee?
 - (a) No, as only the company secretary of the company can be appointed as the chairperson of the Audit Committee.
 - (b) No, as the Chairperson of the Audit Committee shall be an independent director.
 - (c) Yes
 - (d) Partly correct as the chairperson should have expertise of accounting and financial management, however he should be a Chartered Accountant also.

4. How should CA Om correct Mr. Rahul with respect to the latter's understanding about the meetings of Audit Committee of the company?
 - (a) There is no need to correct Mr. Rahul as his understanding is correct with respect to the meetings of Audit Committee of the company.
 - (b) CA Om should inform Mr. Rahul that the Audit Committee of the company shall meet at least four times in a year and not more than 180 days should lapse between two meetings.
 - (c) CA Om should inform Mr. Rahul that the Audit Committee of the company shall meet at least six times in a year and not more than 60 days should lapse between two meetings.
 - (d) CA Om should inform Mr. Rahul that the Audit Committee of the company shall meet at least four times in a year and not more than 120 days should lapse between two meetings.
5. Which of the following statements is correct with respect to the approval of the annual remuneration of Ms. Shweta?
 - (a) The approval of the annual remuneration of Ms. Shweta is in conformity with the relevant provisions of the Companies Act, 2013.
 - (b) The approval of the annual remuneration of Ms. Shweta is not as per the provisions of the Companies Act, 2013, as the approval of the shareholders by special resolution is required.
 - (c) The approval of the annual remuneration of Ms. Shweta is not as per the provisions of the Companies Act, 2013, as the recommendation by the Board of Directors of the company is not required.
 - (d) The approval of the annual remuneration of Ms. Shweta is not as per the provisions of the Companies Act, 2013, as the approval of the Registrar of Companies is required.

II. Descriptive Questions

6. What all matters are discussed in the Management Discussion and Analysis Report? What is the responsibility of CA Om with respect to the request of Mr. Rahul asking CA Om to verify the non- financial information mentioned in such report of the company?
7. What should CA Om tell Mr. Rahul about the latter's query about the GST implication with respect to place of supply? Also, what clarifications should CA Om give with respect to the prospective export transaction to be entered by the company with Brit Ltd.?
8. Discuss the tax implications/ TDS implications of the payment made to Techno Inc. by Sudarshan Ltd. if:
 - (i) Techno Inc. has no permanent establishment in India.
 - (ii) Techno Ltd. has a permanent establishment in India, and the service is effectively connected to the permanent establishment in India.

I. Answers to the Multiple Choice Questions

1. (a) There will be no GST liability on purchase of building while office furniture and fixtures will be liable to GST.
Reason: There will be no GST liability on purchase of building as sale of building is covered under Schedule III to CGST Act. However, office furniture and fixtures will be liable to GST.
2. (b) Faridabad
Reason: Since there is no movement of office furniture and fixtures, the place of supply of such goods is their location at the time of delivery to the recipient i.e. Faridabad.
3. (b) No, as the Chairperson of the Audit Committee shall be an independent director.
Reason: As per Regulation 18(1) of LODR Regulations, the chairperson of the Audit Committee shall be an independent director and he shall be present at Annual General Meeting to answer shareholder queries.
4. (d) CA Om should inform Mr. Rahul that the Audit Committee of the company shall meet at least four times in a year and not more than 120 days should lapse between two meetings.
Reason: As per Regulation 18(2) of LODR Regulations, the Audit Committee shall meet at least four times in a year and not more than one hundred and twenty days shall lapse between two meetings.

5. (a) The approval of the annual remuneration of Ms. Shweta is in conformity with the relevant provisions of the Companies Act, 2013.

Reason: As per Regulation 17(6) of LODR Regulations, all fees/ compensation, if any paid to non- executive directors, including independent directors, shall be recommended by the Board of Directors and shall require approval of shareholders in general meeting. The shareholders' resolution shall specify the limits for the maximum number of stock options that can be granted to non- executive directors, in any financial year and in aggregate. However, approval of shareholders by special resolution shall be obtained every year, in case the annual remuneration payable to a single non- executive director exceeds fifty percent of the total annual remuneration payable to all non- executive directors, giving details of the remuneration thereof.

II. Answers to the Descriptive Questions

6. **As part of the directors' report or as an addition thereto, a Management Discussion and Analysis report should form part of the Annual Report to the shareholders.** This Management Discussion & Analysis should include discussion on the following matters within the limits set by the company's competitive position:

- (a) Industry structure and developments.
- (b) Opportunities and Threats.
- (c) Segment-wise or product-wise performance.
- (d) Outlook
- (e) Risks and concerns.
- (f) Internal control systems and their adequacy.
- (g) Discussion on financial performance with respect to operational performance.
- (h) Material developments in Human Resources / Industrial Relations front, including number of people employed.
- (i) Details of significant changes (i.e. change of 25% or more as compared to the immediately previous financial year) in key financial ratios, along with detailed explanations therefor, including:
 - (i) Debtors Turnover
 - (ii) Inventory Turnover
 - (iii) Interest Coverage Ratio
 - (iv) Current Ratio
 - (v) Debt Equity Ratio
 - (vi) Operating Profit Margin (%)
 - (vii) Net Profit Margin (%) or sector specific equivalent ratios, as applicable.
- (j) Details of any change in Return on net worth as compared to the immediately previous financial year along with a detailed explanation thereof.

The above information presented by the management is likely to include non-financial information, which may be outside the auditor's area of expertise. In such situations, the auditor may keep in mind SA 315 relating to "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment" and the fact that he is only required to review the compliance with disclosure requirements and not verify the particular facts as disclosed by the management.

So, in the present case CA Om may review the compliance with disclosure requirements. He is not required to verify such facts related to non- financial information like Industry structure, threats and opportunities in detail.

7. CA Om should explain to Mr. Rahul the following about the **GST implications with respect to the place of supply** as asked by Mr. Rahul:

(i) Import of goods [Section 11(a)]:

The import of goods has been defined in section 2(10) of the IGST Act as bringing goods into India from a place outside India. All imports are deemed as inter-State supplies and accordingly IGST is levied in addition to the applicable custom duties. If the goods have been imported in India, the place of supply of goods is the place where the importer is located.

Accordingly, the place of supply in present case would be Chennai.

(ii) Export of goods [Section 11(b)]

Section 2(5) defines export of goods to mean taking goods out of India to a place outside India. Under the GST Law, export of goods has been treated as:

- inter-State supply
- zero rated supply (i.e. the goods exported are relieved of GST levied upon them either at the input stage or at the final product stage.)

The place of supply in case of export of goods is the place where they have been exported, i.e. the destination outside India.

(iii) Machine to be installed in factory at Chennai:

As per Section 10(1)(d), if the supply involves goods which are to be installed or assembled at site, the place of supply is the place of such installation or assembly. Therefore, the place of supply in case of purchase of machine from RTS Ltd. is Chennai, i.e. the place of installation of such machine.

(iv) Prospective export transaction with Brit Ltd.:

As per the definition of export of goods provided by section 2(5) of IGST Act, export of goods means taking goods out of India to a place outside India.

Since in the prospective export transaction, the goods remain in India, i.e. with Casper Ltd. located in Kerela, the transaction between Sudarshan Limited and Brit Ltd. will not be treated as export of goods under GST.

8. Chapter VIII of the Finance Act, 2016, "**Equalisation Levy**", provides for an equalisation levy of 6% of the amount of consideration for specified services received or receivable by a non-resident not having permanent establishment in India, from a resident in India who carries out business or profession, or from a non-resident having permanent establishment in India.

"Specified Service" means

- (1) online advertisement;
- (2) any provision for digital advertising space or any other facility or service for the purpose of online advertisement and
- (3) any other service as may be notified by the Central Government. However, equalisation levy shall not be levied-

- where the non-resident providing the specified services has a permanent establishment in India and the specified service is effectively connected with such permanent establishment;
- the aggregate amount of consideration for specified service received or receivable during the previous year does not exceed Rs 1 lakh; or
- where the payment for specified service is not for the purposes of carrying out business or profession.

(i) Where Techno Inc. has no permanent establishment in India:

In the present case, equalisation levy @ 6% is chargeable on the amount of Rs 2,35,000 received by Techno Inc., a non-resident not having a PE in India, from Sudarshan Limited, an Indian company. Accordingly, Sudarshan Limited is required to deduct equalisation levy of Rs 14,100 i.e., @ 6% of Rs 2.35 lakhs, being the amount paid towards online advertisement services provided by Techno Inc., a non-resident having no permanent establishment in India. Non-deduction of equalisation levy would attract disallowance under section 40(a)(ib) of 100% of the amount paid while computing business income.

Since equalisation levy is attracted on the amount of Rs 2.35 lakhs, the said amount is exempt from income-tax by virtue of section 10(50) of the Income-tax Act, 1961.

(ii) Where Techno Inc. has permanent establishment in India and the service is effectively connected to the permanent establishment in India:

Equalisation levy would not be attracted where the non-resident service provider (Techno Inc., in this case) has a permanent establishment in India and the service is effectively connected to the permanent establishment in India. Therefore, Sudarshan Limited is not required to deduct equalisation levy on Rs 2.35 lakhs, being the amount paid towards online advertisement services to Techno Inc, in this case.

Since equalisation levy is not attracted in this case, exemption under section 10(50) of the Income-tax Act, 1961 would not be available. Therefore, tax has to be deducted by Sudarshan Limited at the rates in force under section 195 in respect of such payment to Techno Inc. Non deduction of tax at source under section 195 would attract disallowance under section 40(a)(i) of 100% of the amount paid while computing business income.

CASE STUDY 39

Mr. B K Gupta is the Managing Director of Beta Ltd., a company set up just 3 years ago and is growing rapidly in the field of Heavy Electronics and equipment. Mr. Gupta has a vast experience in this field as he had been doing the same business as a Sole Proprietor since the last 15 years. With an increase in his business activities, he decided to float a Company to carry on the same success at a bigger level and rest what they say is History as the Company has been doing very well in its field of Electronics within just 3 years. Now, the Company is also planning to expand globally.

He approached CA Kumar Mishra, who got qualified 7 years back as a CA and is practicing successfully in the field of auditing, taxation & providing consultancy regarding legal compliances to be made by companies with respect to various laws and standards. Mr. Gupta calls for a meeting with the Accounts, Internal Audit and the Taxation department in the presence of CA Kumar so as the latter could provide the requisite knowledge about all such statutory requirements which are applicable to the Company.

In the meeting with CA Kumar Mishra-

Mr. Anand, the Head accountant is having query as to the treatment of a certain expense in the books of account. He tells CA Kumar that their company has incurred an amount of Rs 1,00,000 on a land surfacing and at the later part of the year, it was found that the title of land was not transferred in the name of the Company due to some legal restrictions. Hence, the deal to purchase that land will have to be cancelled. Now, his dilemma is as to how should he recognise this expense of land surfacing. Also, he wants to know from Mr. Kumar if there are any circumstances which demand for a deviation from the IND AS by their company Beta Ltd., whether they can do so and what should be the presentation & disclosure requirements in that case.

Mr. Sharma, from the Legal Department, tells him that a legal case has been filed against the entity and there was an order which was yet to be received. There was a reliable estimation made to arrive at an amount which is expected to flow to the company at the end of year but there was no recognition of asset during that period of financial statements because the accounts department was of the view that in subsequent periods, once the amount of such claim can be received reliably, then the recognition of asset can be established.

Mr. Dutta, one of the Directors, requests CA Kumar to not strictly adhere to such standards while carrying out the audit of their company as he is scared of some serious qualifications that CA Kumar would have to give in his Audit Report, if he follows such standards to which CA Kumar replies, "Mr. Dutta! There are many Professional responsibilities envisaged upon me as a member of the Institute of Chartered Accountants of India under the Chartered Accountants Act, 1949 and certain Disciplinary Proceedings may be initiated against me under this Act if I don't perform my duties as per such Standards and other accepted statements owing to a linkage between the SA's and Disciplinary Proceedings".

Mrs. Bhalla, assistant to the Tax Compliance Officer of the Company contends on one of the issues where the application of ICDS is in contradiction to the Income tax Act and that ICDS cannot prevail over Income tax Act and such contention is suitably resolved by CA Kumar. Also, her colleague in the same department, Mrs. Dave wants to know about the application and disclosure requirements of ICDS 1 w.r.t an error made in the percentage of provision from 10% to 12% during the year on Doubtful Debts as they have accounted for it in computing the Income on a Prospective basis and not given any retrospective effect.

Mr. Praveen Dhakal, the Tax Compliance Officer had been very curious to seek CA Kumar's suggestion on the following tax related issues and their treatment-

- a. Their Company Beta Ltd. paid IDBI (a public financial institution) a lump sum pre- payment premium of Rs 1.4 lakhs on 7.4.2022 for restructuring its debts and reducing its rate of interest. It claimed the entire sum as business expenditure for the P.Y. 2022-23. The Assessing Officer, however, held that the pre-payment premium should be amortised over a period of 10 years (being the tenure of the restructured loan), and thus, allowed only 10% of the pre-payment premium in the P.Y. 22-23.
- b. The Company acquired some emergency spares (of plant and machinery) during the year which, even though kept ready for use, have not actually been used during the relevant previous year.

CA Kumar is also duly appointed as the Statutory Auditor of the Company and he conducts the audit of Beta Ltd. for the Financial Year 2022-23. He duly issues his Audit report with two very important qualifications, the extracts of which are reproduced below:

"The statement of profit and loss and balance sheet comply with the accounting standards referred to in Section 133 of the Companies Act, 2013, except the following:

- Other significant accounting policies, relating to treatment of research and development costs have not been disclosed nor have all the policies been disclosed at one place.
- The company has not disclosed in its accounts the fact of change, from this year, in the method of providing depreciation on plant and machinery from straight-line method to written-down value method, as also the effect of this change. As a result of this change, the net profit for the year, the net block as well as the reserves and surplus are lower by Rs each as compared to the position which would have prevailed had this change not been made.

Subject to the above, we report that.....".

I. Multiple Choice Questions

1. Mr. Sharma's contention w.r.t the recognition of assets is:
 - (a) Wrong, as it is just a deferment of period till the cost/value of the asset can be reliably received.
 - (b) Wrong, as it can be recognised only on the basis of receipt.
 - (c) Right, as the amount of probable economic benefit had been estimated reliably to recognise the asset in the books of account.
 - (d) Right, as it should be recognised irrespective of any reliable estimation or receipt but when the fact has come into the knowledge of the Company.
2. The contention of Mrs. Bhalla as to the conflict she faces while computing the income of the Company is:
 - (a) Correct as it has been stated in the Preamble at the beginning of each ICDS.
 - (b) Incorrect as ICDS are mandatory and should be applied in priority while computing Income.
 - (c) Incorrect as ICDS do not apply to their Company being in existence for just less than 5 years.
 - (d) Doesn't matter as it has been left to the discretion of the Companies as which option to choose.
3. What should be CA Kumar's professional advice to resolve the dilemma of Mr. Anand regarding expense incurred on Land?
 - (a) Immediate recognition of Rs 1,00,000 in Statement of Profit & Loss as an expense.
 - (b) He should treat it as a Deferred Revenue Expenditure and recognise only Rs 25,000 for the current financial year.
 - (c) He should make a provision for Rs 1,00,000 to be recognised at a future date.
 - (d) He should treat Rs 1,00,000 as a Contingent liability.
4. CA Kumar resolves Mrs. Dave's query by guiding her that -
 - (a) She is right in her approach and should make adjustments prospectively.
 - (b) She is wrong in her approach and she should make adjustments retrospectively
 - (c) Such revision cannot be made during the year as per ICDS 1 and should be made on 1st April, next year.
 - (d) She should not worry about this issue as ICDS 1 doesn't apply here.
5. CA Kumar's 2 qualifications in the Audit report relate to -
 - (a) IND AS 1, IND AS 38 & IND AS 8
 - (b) IND AS 1 & IND AS 5
 - (c) IND AS 1 & IND AS 38 only.
 - (d) IND AS 8 only.

II. Descriptive Questions

6. Comment on the reply given by CA Kumar to Mr. Dutta in response to his request of not following Standards on Auditing while carrying out the audit of their Company in terms of provisions of the Chartered Accountants Act, 1949.
7. Discuss, with **Reasons**, whether the contention of the Assessing Officer in the case explained to CA Kumar by Mr. Praveen Dhakal is correct or not. Also, explain the tax treatment of the emergency spares issue as narrated by Mr. Dhakal.
8. What advice should CA Kumar give to Mr. Anand on the question posed by him regarding deviation from the IND AS?

I. Answers to the Multiple Choice Questions

1. **(c)** Right, as the amount of probable economic benefit had been estimated reliably to recognise the asset in the books of account.
Reason: An item will be recognized as an asset in the Balance sheet when it is probable that the future economic benefit will flow to the entity and the asset has a cost or value that can be measured reliably
2. **(a)** Correct as it has been stated in the Preamble at the beginning of each ICDS.
Reason: In the case of conflict between the provisions of the Income-tax Act, 1961 and the notified ICDSs, the provisions of the Act shall prevail to that extent. This is also stated in the Preamble at the beginning of each ICDS.
3. **(a)** Immediate recognition of Rs 1,00,000 in Statement of Profit & Loss as an expense.
Reason: The amount that has been incurred relating to surfacing the land will have no future economic value and hence there is no allocation of expenses for any future benefits. Hence this cost of Rs 1,00,000 will be expensed out immediately in full.

4. (d) She should not worry about this issue as ICDS 1 doesn't apply here.

Reason: This is a change due to Accounting Error and not policy. Errors are not covered by ICDS.

5. (a) IND AS 1, IND AS 38 & IND AS 8.

Reason: The qualification relates to IND AS 1, IND AS 38 and IND AS 8.

II. Answers to the Descriptive Questions

6. The SAs (as well as other statements on auditing) represent the generally accepted procedure(s) of audit. As such, a member who does not perform his audit in accordance with these statements and fails to disclose the material departures there from, becomes liable to the disciplinary proceedings of the Institute as follow:

- (a) **Under Clause 5 of Part I of the Second Schedule** to the Chartered Accountants Act, 1949, according to which a chartered accountant in practice shall be deemed to be guilty of professional misconduct, if he fails to disclose a material fact known to him which is not disclosed in a financial statement, but disclosure of which is necessary in making such financial statement where he is concerned with that financial statement in a professional capacity
- (b) **Under Clause 7 of Part I of the Second Schedule** to the Chartered Accountants Act, 1949 according to which a chartered accountant in practice shall be deemed to be guilty of professional misconduct, if he does not exercise due diligence, or is grossly negligent in the conduct of his professional duties;
- (c) **Under Clause (9) of Part I of the Second Schedule** to the Chartered Accountants Act, 1949 (as amended by the Chartered Accountants (Amendment) Act, 2006), according to which a member of the Institute engaged into practice shall be guilty of professional misconduct if he "fails to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances".

7. This issue came up before the Delhi High Court in CIT v. Gujarat Guardian Ltd (2009) 177 Taxman 434. The Court observed that the assessee company's claim for deduction has to be allowed in one lump sum keeping in view the provisions of section 43B(d), which provide that any sum payable by the assessee as interest on any loan or borrowing from any financial institution shall be allowed to the assessee in the year in which the same is paid, irrespective of the periods, in which the liability to pay such sum is incurred by the assessee according to the method of accounting regularly followed by the assessee. The High Court concurred with the Tribunal's view supporting the assessee that in terms of section 36(1)(iii) read with section 2(28A), the deduction for pre-payment premium was allowable. Since there was no dispute that the pre-payment premium was nothing but interest and that it was paid to a public financial institution i.e. IDBI, the Court held that, in terms of section 43B(d), the assessee's claim for deduction has to be allowed in the year in which the payment has actually been made.

Therefore, applying the ratio of the above case, the contention of Mr. Dhakal is correct and not that of the Assessing Officer.

Note – Section 36(1)(iii) provides for deduction of interest paid in respect of capital borrowed for the purposes of business or profession. Section 2(28A) defines interest to include, inter alia, any other charge in respect of the moneys borrowed or debt incurred. Section 43B provides for certain deductions to be allowed only on actual payment. From a combined reading of these three sections, it can be inferred that –

- pre-payment premium represents interest as per section 2(28A);
- such interest is deductible as business expenditure as per section 36(1)(iii);
- such interest is deductible in one lump-sum on actual payment as per section 43B(d).

- (b) As per ICDS V on Tangible Fixed Assets, machinery spares shall be charged to the revenue as and when consumed. When such spares can be used only in connection with an item of tangible fixed asset and their use is expected to be irregular, they shall be capitalised. Where the spares are capitalised as per the above requirement, the issue as to provision of depreciation arises – whether depreciation can be provided where such spares are kept ready for use or is it necessary that they are actually put to use. This issue was dealt with by the Delhi High Court in CIT v. Insilco Ltd (2010) 320 ITR 322. The Court observed that the expression "used for the purposes of business" appearing in section 32 also takes into account emergency spares, which, even though ready for use, yet are not consumed or used during the relevant period. This is because these spares are specific to a fixed asset, namely plant and machinery, and form an integral part of the fixed asset. These spares will, in all probability, be useless once the asset is discarded and will also have to be disposed of. In this sense, the concept of passive use which applies to standby machinery will also apply to emergency spares. Therefore,

once the spares are considered as emergency spares required for plant and machinery, the assessee would be entitled to capitalize the entire cost of such spares and claim depreciation thereon.

Note – One of the conditions for claim of depreciation is that the asset must be “used for the purpose of business or profession”. In the past, courts have held that, in certain circumstances, an asset can be said to be in use even when it is “kept ready for use”. For example, depreciation can be claimed by a transport company on spare engines kept in store in case of need, though they have not actually been used by the company. Hence, in such cases, the term “use” embraces both active use and passive use for business purposes.

8. In the extremely rare circumstances in which management concludes that compliance with a requirement in an Ind AS would be so misleading that it would conflict with the objective of financial statements set out in the Framework, the entity shall depart from that requirement if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure.

When an entity departs from a requirement of an Ind AS, it shall disclose:

- (a) that management has concluded that the financial statements present a true and fair view of the entity's financial position, financial performance and cash flows;
- (b) that it has complied with applicable Ind AS, except that it has departed from a particular requirement to present a true and fair view;
- (c) the title of the Ind AS from which the entity has departed, the nature of the departure, including the treatment that the Ind AS would require, the **Reason** why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in the Framework, and the treatment adopted; and
- (d) for each period presented, the financial effect of the departure on each item in the financial statements that would have been reported in complying with the requirement.

When an entity has departed from a requirement of an Ind AS in a prior period, and that departure affects the amounts recognised in the financial statements for the current period, it shall make the disclosures given above. For example, when an entity departed in a prior period from a requirement in an Ind AS for the measurement of assets or liabilities and that departure affects the measurement of changes in assets and liabilities recognised in the current period's financial statements.

In the extremely rare circumstances in which management concludes that compliance with a requirement in an Ind AS would be so misleading that it would conflict with the objective of financial statements set out in the Framework, but the relevant regulatory framework prohibits departure from the requirement, the entity shall to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing:

- (a) the title of the Ind AS in question, the nature of the requirement, and the **Reason** why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in the Framework; and

for each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to present a true and fair view.

CASE STUDY 40

MSNV Pvt. Ltd. is an Indian Company which is into manufacturing of Kitchen products, mainly utensils. Mr. Kapoor the CEO of the Company had started this company 21 years ago with the help of his wife. Today, the company enjoys a good market share and reputation. It has involved itself not only into its objects but also in philanthropic activities. It is Mrs. Kapoor, who believes that what businesses take from the society should give back in the form of their social responsibility, howsoever they may.

To support Mrs. Kapoor's thoughts, Mr. Kapoor has got incorporated and registered two charitable organizations — The first one is an NGO by the name “Serving the Poor” and the other one is a Section 8 company formed with charitable objects by the name “ABC Foundation Ltd.” Although Mr. Kapoor is a man with a vast business experience but when it comes to the case of charitable organizations, he finds it hard to understand many matters and has therefore approached CA Lalita to help Mrs. Kapoor in working out the various issues involved in the structure, organization & working of these two organizations. CA Lalita has entered into a contract with MSNV Pvt. Ltd. to provide consultancy w.r.t. these two organizations which have been set up under the “Corporate Social Responsibility” initiatives of the Company MSNV Pvt. Ltd.

ABC Foundation Ltd. is formed with charitable objects under Section 8 of the Companies Act, 2013 and as a result Mrs. Kapoor believes that as all the activities of the company will be with the intent of charity, the CSR provisions are not applicable to it as these activities are activities in normal course of business. Mrs. Kapoor takes consultancy of CA Lalita in this matter and also further tells her that ABC Foundation Ltd. was to receive some donations from MSNV Pvt. Ltd. during the year.

MSNV Pvt. Ltd. manufactures consumable goods like bath soap, toothbrushes, soap cases etc. As part of its CSR policy, it has decided that for every pack of these goods sold, Rs 0.80 will go towards 'ABC Foundation Ltd.' which will qualify as a CSR spend as per Schedule VII to the Companies Act, 2013. Consequently, at the year end, the company sold 2,50,000 such packs and a total of Rs 2,00,000 was recognised as CSR expenditure. However, this amount was not paid to ABC Foundation Ltd. at the end of the financial year.

MSNV Pvt. Ltd. carries out some other CSR activities from rented premises in Pune. The rent paid for such premises is disclosed as CSR expenditure and subsequently MSNV Pvt. Ltd. also claimed deduction of the same under the Income-tax Act, however the accountant of the company opposes this move of the Company. Mr. Kapoor consults CA Lalita on this treatment of rent expense by the company & whether the contention of the accountant is correct or not.

CA Lalita is also consulted upon the tax treatment of following transactions that have been effected into by ABC Foundation Ltd. during the P.Y. 2022-23:

- (a) The organization acquires a building to use for charitable purposes and office activities. Mr. Kapoor wants to claim the cost of the building while the accountant suggests that they can claim only depreciation thereon in the current year & subsequent year.
- (b) The accountant of ABC Foundation Ltd. is having queries in computing the capital gains in the case of a capital asset transferred by ABC Foundation Ltd. during the year and in computing the amount that would be deemed as application out of such capital gains, for which he seeks CA Lalita's help.

The relevant details are as follows:-

Original cost of capital asset transferred	Rs 10,00,000
Consideration for which it is transferred	Rs 15,00,000
Cost of new capital asset acquired	Rs 15,00,000

- (c) The Board of Directors of MSNV Pvt. Ltd. want to get the Books of Account of ABC Foundation Ltd. audited under the Income tax law and seek CA Lalita's services for the same at a desired professional fee to which CA Lalita agrees.

Mr. & Mrs. Kapoor tell CA Lalita that the other Charitable organization "Serving the Poor" which was registered u/s 12AA of the Income tax Act, 1961, was not doing well since 3 years and they planned to merge it with their Company MSNV Pvt. Ltd. on 01.04.2022. They also seek her help w.r.t the treatment of this merger under the Income tax law and furnished the following information:-

All the assets and liabilities of the erstwhile trust became the assets and liabilities of M/s. MSNV Pvt. Ltd which is not entitled for registration under section 12AB of the Act. The trust appointed a registered valuer for the valuation of its assets & liabilities.

- Stamp duty value of land held Rs 15 lakhs. However, if this land is sold in the open market, it would ordinarily fetch Rs 18 lakhs. The book value of the land is Rs 20 lakhs.
- 70,000 equity shares in Ink Ltd. traded in Delhi Stock Exchange. The lowest price per share on 1.4.2022 was Rs 75 and the highest price on that day was Rs 85. The book value was Rs 67 lakhs.
- 50,000 preference shares held in N Ltd. The shares will fetch Rs 44 lakhs, if they are sold in the open market on 1.4.2022. Book value was Rs 25 Lakhs.
- Corpus fund as on 1.4.2022 – Rs 19 Lakhs.
- Outside liabilities – Rs 87 lakhs
- Provision for taxation – Rs 7 lakhs.
- Liabilities in respect of payment of various utility bills – Rs 6 lakhs.

I. Multiple Choice Questions

1. Comment on the contention of Mrs. Kapoor as to the applicability of CSR Provisions to ABC Foundation Ltd., provided it fulfils the criteria of Section 135 of the Companies Act, 2013.
 - (a) It is exempted from applicability of CSR provisions if prior approval of shareholders is taken in this regard.
 - (b) It is itself a Section 8 Company formed with charitable objects & need not do separate CSR activities.

- (c) It is applicable to every company & therefore ABC Foundation Ltd. as well.
- (d) It is not an independent organization and is governed by MSNV Pvt. Ltd. so CSR Provisions are applicable.
2. Will the amount that was to be paid by MSNV Pvt. Ltd. towards ABC Foundation Ltd. qualify to be a CSR Expenditure?
- (a) Yes, as it has been earmarked separately.
- (b) No, as it has not been actually spent.
- (c) No, as this amount has not been specifically provided for but contributed out of sale receipts only.
- (d) Yes, it can be claimed as it is a material amount being contributed as a proportion of the Sales made by the Company.
3. The accountant's contention w.r.t. rent expense is:
- (a) Incorrect, as the Rent expense can be claimed as deduction u/s 30 of the Income tax Act, 1961.
- (b) Incorrect, as the Rent expense can be claimed as deduction u/s 37 of the Income tax Act, 1961.
- (c) Correct, as CSR expenses cannot be claimed as deduction under the Income tax law.
- (d) Correct, as it is not related to any business purpose of the company.
4. What should be CA Lalita's advice w.r.t the correct treatment of the cost of new building purchased by ABC Foundation Ltd. in its books of account under the Income tax law?
- (a) She should second Mr. Kapoor's opinion.
- (b) She should second the Accountant's opinion.
- (c) Both Mr. Kapoor & the accountant are wrong in their opinions as no deduction can be claimed in respect of such cost.
- (d) She should suggest going either way – The Accountant's way or Mr. Kapoor's, way, but not both.
5. What would be the amount of capital gains arising as a result of transfer of capital asset by ABC Foundation Ltd. and what proportion would be deemed as application of Income towards charitable objects during the previous year out of such capital Gains?
- (a) Nil and Rs 15,00,000 would be deemed as application of income towards charitable purposes.
- (b) Nil and Rs 10,00,000 would be deemed as application of income towards charitable purposes.
- (c) Rs 5,00,000 and no amount would be deemed as application of income towards charitable purposes.
- (d) Nil and Rs 5,00,000 would be deemed as application of income towards charitable purposes.

II. Descriptive Questions

6. Explain about the Income tax audit provisions applicable to a charitable trust & help CA Lalita in chalking out an Audit Programme to carry out the audit of "Serving the Poor" as requested to her by the Board of Directors of MSNV Pvt. Ltd.
7. You are required to calculate the tax liability in the hands of "Serving the Poor" trust arising as a result of merger with MSNV Pvt. Ltd. with the help of the information given in the Case scenario as discussed.

I. Answers to the Multiple Choice Questions

1. (c) It is applicable to every company & therefore ABC Foundation Ltd. as well.
- Reason:** Section 135 of the Companies Act is applicable to every company meeting the specified criteria. As per section 2(20) of the Companies Act, 'company' means a company incorporated under the Companies Act or under any other previous company law. This would imply that companies set up for the purposes of CSR/public welfare are also required to comply with the provisions of CSR.
2. (b) No, as it has not been actually spent.
- Reason:** By earmarking the amount from such sale for CSR expenditure, the company cannot show it as CSR expenditure. To qualify the amount to be CSR expenditure, it has to be spent. Hence, Rs 2,00,000 will not be automatically considered as CSR expenditure until and unless it is spent on CSR activities.
3. (a) Incorrect, as the rent expense can be claimed as deduction u/s 30 of the Income tax Act, 1961.
- Reason:** CSR expenditure which is of the nature described under the section 30 to 36 of the Income-tax Act shall be allowed as a deduction. Rent expenses can be claimed under section 30 of the Act and hence it can be claimed as a deduction.

4. (d) She should suggest going either way – The Accountant's way or Mr. Kapoor's, way, but not both.

Reason:

- 15% of income from property held for charitable purposes is exempt from tax under section 11. The remaining 85% of such "income" would be exempt if it is "applied" for charitable purposes in India.
- Application of the amount can be for revenue or capital purposes. As long as the expenditure is incurred out of income earned by the trust and for the purposes of carrying on the objects of the trust, it would be treated as application of income even if such expenditure is for capital purposes. Therefore, since the building is acquired by the organization for holding classes and office activities, which is for the purposes of carrying on the objects of the charitable institution i.e., for providing education in hotel management, the cost of the building would be treated as application of income.

However, section 11 provides that where the cost of building is claimed as application, no other deduction for depreciation or otherwise would be allowed as an application of income in respect of such asset for the same or any other previous year.

5. (d) Nil and Rs 5,00,000 would be deemed as application of income towards charitable purposes.

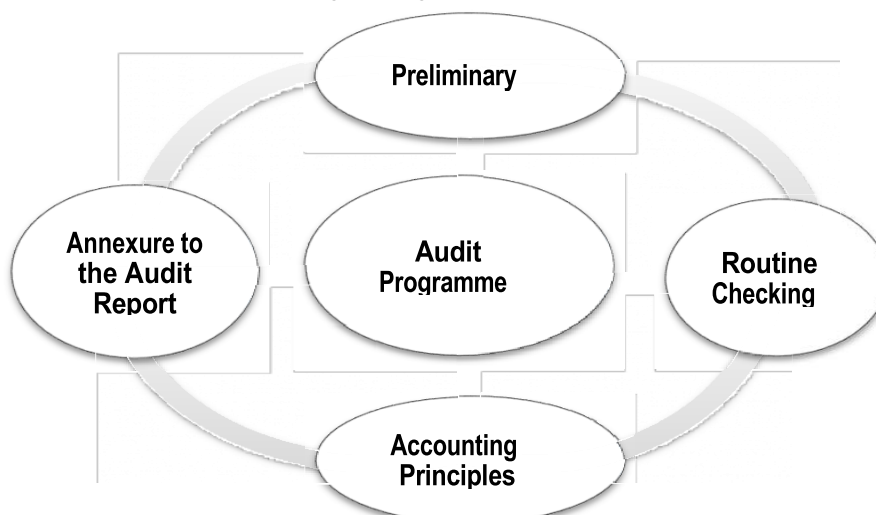
Reason: Transfer of a capital asset held under trust wholly for charitable or religious purposes [Section 11(1A)(a)]- Where the whole of the net consideration from the transfer of the capital asset is utilised for acquiring a new capital asset which is held under trust wholly for charitable or religious purposes, the entire amount of capital gains arising from the transfer would be deemed to have been applied for charitable or religious purposes. If, however, only a part of the net consideration is utilised in acquiring the new capital asset, the amount of capital gains deemed to have been utilised for charitable or religious purposes shall be equal to the excess of the proceeds utilised over the cost of the asset transferred.

II. Answers to the Descriptive Questions

6. **AUDIT PROGRAMME** - Section 12A of the Act deals with the conditions as to registration of trust etc. According to this section, exemption from Income tax would be available under sections 11 and 12 of the Income tax Act in relation to the income of any trust or institution provided the following conditions are satisfied:

- (A) Clause (ac) of section 12A requires a charitable or religious trust or institution to make an application for registration within at least one month prior to the commencement of the previous year relevant to the assessment year from which the said registration is sought of the trust or the institution.
- (B) Where the total income of the trust or institution as computed under this Act, without giving effect to the provisions of Sections 11 and 12 exceeds the maximum amount which is not chargeable to income tax in any previous year i.e. Rs 2,50,000 for the A.Y. 2023-24, the accounts of the trust or institution for that year have been audited by an accountant as defined in the explanation below sub-section (2) of Section 288 before the specified date referred to in section 44AB and the person in receipt of the income furnishes by that date, the report of such audit in the prescribed form duly signed and verified by such accountant and setting forth such particulars as may be prescribed. Rule 17B of the Income tax Rules, 1962 provides that the report of audit of accounts of a trust or institution which is required to be furnished under Clause (b) of Section 12A should be in Form No. 10B.

The audit programme is outlined in the following paragraphs:



(a) Preliminary:

- (i) Obtain a resolution from the trust specifying the appointment as also indicating the scope of audit. In particular, the resolution should specify the duties of the auditor in relation to the items specified in the annexure to the prescribed Form No. 10B.
- (ii) Obtain a letter of appointment from the trust, before accepting the audit, communicate with such previous auditor.
- (iii) Obtain a certificate as to the opening balances of assets and liabilities and the fund.
- (iv) Obtain a list of books of accounts which are maintained by the trust.
- (v) Obtain a certificate from the trust as to the system of accounting and internal control.
- (vi) Obtain from the trust a list of the institutions/ activities run/carried out by the trust.
- (vii) Obtain from the trust a certified true copy of the Deed of Trust or any other scheme containing the objects and conditions of the trust as operative from time to time.

(b) Routine Checking:

- (i) Check the books of account and other records having regard to the system of accounting and internal control.
- (ii) Vouch the transactions of the trust to satisfy that:
 - (a) the transaction falls within the ambit of the trust;
 - (b) the transaction is properly authorised by the trustees or other delegated authority as may be permissible in law;
 - (c) all incomes due to the trust have been properly accounted for on the basis of the system of accounting followed by the trust;
 - (d) all expenses appertaining to the trust have been recorded on the basis of the system of accounting followed by the trust; and
 - (e) amounts shown as applied towards the object of the trust are covered by the objects of the trust as specified in the document governing the trust.
- (iii) Obtain a trial balance on the closing date certified by the trustees.
- (iv) Obtain the Balance Sheet and Profit & Loss Account of the trust authenticated by the trustees and check the same with the trial balance with which they should agree.

(c) Accounting Principles: The auditor should follow, i.e., generally accepted accounting principles and ascertain the accuracy, truth and fairness of the financial statements.

In particular, the auditor will scrutinize that:

- (i) all assets of the trust are verified;
- (ii) the assets of the trust have been properly valued and depreciation duly provided for;
- (iii) all liabilities of the trust are properly accounted for;
- (iv) the investments of the trust are properly classified and indicated and market values shown; and
- (v) outstanding due to the trust are properly accounted for and their recoverability examined and provision made for irrecoverable.

(d) Annexure to the Audit Report:

- (i) Obtain from the trustees, a certified list of persons covered by Section 13(3).
- (ii) Obtain from the trustees, a statement enlisting the various items specified in the Annexure to Form No. 10B and giving the information against each item together with explanatory or supporting schedules.
- (iii) Verify the information supplied by the trustees in the statements specified above in the light of available material. Where a list of persons specified in Section 13(3) is not available, indicate against Sections II and III of the items specified in the annexure the appropriate qualifying remarks.

The audit report is required to be furnished for the relevant year. Failure to furnish the report will disentitle the trust or institution to the benefit of Sections 11 and 12. The Auditor can accept as correct, the list of persons covered by Section 13(3) as given by the managing trustees.

7. **As per section 115TD of the Income-tax Act, 1961**, the accreted income of “Serving the poor”, a charitable trust, registered under section 12AA which is merged with M/s AP Ltd., an entity not entitled for registration under section 12AB, would be chargeable to tax at maximum marginal rate @ 34.944% [30% plus surcharge @ 12% plus cess @ 4%].

Computation of accreted income and tax liability in the hands of the trust arising as a result of merger with MSNV Pvt. Ltd. for A.Y. 2023-24

Particulars	Amount (Rs)
Aggregate FMV of total assets as on 1.4.2021, being the specified date (date of merger) [See Working Note 1]	1,18,00,000
Less: Total liability computed in accordance with the prescribed method of valuation [See Working Note 2]	93,00,000
Accreted Income	25,00,000
Tax Liability @ 34.944% of Rs 25,00,000	8,73,600
Working Notes:	
(1) Aggregate fair market value of total assets on the date of merger	
- Land, being an immovable property [The fair market value of land would be higher of Rs 17 lakhs i.e., price that the land would ordinarily fetch if sold in the open market and Rs 15 lakhs, being stamp duty value as on the specified date]	18,00,000
- Quoted equity shares in Ink Ltd. [70,000 x Rs 80 per share] [Rs 80 per share, being the average of the lowest (Rs 75) and highest price (Rs 85) of such shares on the date of merger]	56,00,000
- 50,000 preference shares of N Ltd. [The fair market value which it would fetch if sold in the open market on the date of merger i.e. FMV on 1.4.2022]	44,00,000
	1,18,00,000
(2) Total liability	
- Outside liabilities	87,00,000
- Corpus Fund of Rs 19 lakhs [not includible]	-
- Provision for taxation Rs 7 lakhs [not includible]	-
- Liabilities in respect of payment of various utility bills [since this liability is an ascertained liability]	6,00,000
	93,00,000

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Para 1

Samyen B. Ltd. (SBL) is an unlisted public company located in Nagpur and is involved in the business of lubricant products. It has a factory in the outskirts of Nagpur city for producing such products.

Krutsne (P) Ltd. (KPL) based in Bangalore had asked SBL for a special job that was required to be completed within a week and it had requested SBL to deliver the completed work order to its customer, TKF (P) Ltd. based in Bhopal city of Madhya Pradesh. The distance from SBL's factory to location of TKF (P) Ltd. was 350 kms and SBL made the delivery accordingly through its transport vehicle by generating an E-way bill, for the same, as required.

Para 2

For the purpose of performing such special job of KPL, SBL had purchased a machinery of Rs 10 lakhs on 1st April, 2022, which had a useful life of 5 years and nil residual value. SBL adopted straight line method of depreciation for depreciating the machinery. Following information had been provided with respect to such machinery:

Financial year	Estimated future cash flows (Rs in lakhs)
2023-24	1.5
2024-25	3
2025-26	4
2026-27	1

Discount rate applicable was 10% and the fair value less costs to sell of such machinery as on 31st March, 2023 was Rs 7 lakhs.

Para 3

There was a corporate insolvency resolution process initiated against KPL by one of its operational creditor, Halson (P) Ltd. Mr. Kailash Dave, was appointed as the interim resolution professional who is a partner of Dave & Co. a consulting firm which had transactions of following amounts with KPL during the last 5 financial years:-

Financial Year	Turnover of Dave & Co. (Rs)	Total amount of Transactions with KPL during each F.Y. (Rs)
2017-18	180 lakhs	10 lakhs
2018-19	180 lakhs	9 lakhs
2019-20	190 lakhs	9 lakhs
2020-21	200 lakhs	10 lakhs
2021-22	210 lakhs	9 lakhs

All the financial creditors of KPL were related parties and it had 14 operational creditors. The resolution plan of KPL contained a provision of combination as per Section 5 of the Competition Act, 2002 and it was approved by the prescribed authorities.

Para 4

There arose an obligation on SBL during F.Y. 2022-23 to restore environmental damage in the area surrounding its factory. Expert advice indicated that the restoration had to be carried out in two distinct phases; the first phase required expenditure of Rs 10 lakhs to remove the contaminated soil from the area and the second phase, commencing from the end of first phase, to replant the area with suitable trees and vegetation. The estimated cost of replanting was Rs 25 lakhs. SBL used a cost of capital (before taxation) of 10% and the expenditure, when incurred, will attract tax relief at the company's marginal tax rate of 30%. SBL had not recognized any provision for such costs in the past. The first phase of the cleanup will commence in a few months time and will be completed on 31st March, 2024, when the first payment of Rs 10 lakhs made will be made. Phase 2 costs will be paid three years later from the end of first phase.

Para 5

Jaiswal & Co., a firm of Chartered Accountants, with three CA partners, was given an offer letter by SBL for appointment as its statutory auditor as well as tax auditor for F.Y. 2022-23 which was accepted by the firm after complying with the required formalities.

Jaiswal & Co. has 180 tax audits to be conducted for F.Y. 2022-23, including the tax audit of SBL, out of which 3 audits are to be conducted under section 44ADA of the Income Tax Act, 1961 and 2 audits are to be conducted under section 44AE of the Income Tax Act, 1961, respectively.

Mr. Amrit Jaiswal, was appointed as the engagement partner for conducting the statutory audit of SBL. Mr. Amrit has been holding statutory audit of 25 companies, including SBL, out of which there are 4 OPCs, 2 dormant companies and 3 private companies with paid up capital of more than Rs 100 crore and also there is one private company with paid up capital of Rs 70 crore which has not defaulted in filing of resolutions with MCA regarding approval of Board Report and Annual Accounts.

There was a change in the accountant of SBL and the new accountant had prepared its financial statements as per Division II of Schedule III to the Companies Act, 2013, for F.Y. 2022-23, for which Mr. Amrit observed errors in presentation of following items:-

- (1) Capital advances were classified under 'Capital Work in Progress'.
- (2) Share application money – both refundable and non-refundable has been shown under the head Equity.
- (3) Deferred tax assets and deferred tax liabilities, both, were presented in the balance sheet.
- (4) A bank deposit with a maturity period of 14 months was shown under 'Cash and Cash Equivalents'.

I. Multiple Choice Questions

1. With reference to the information given under Para 1, who could have generated the E- way bill in case of the work order to be delivered by SBL to TKL (P) Ltd. and for how many days such E-way bill would have been valid?
 - (a) The E-way could have been generated by only SBL and it would have been valid for 4 days.
 - (b) The E-way could have been generated by either SBL or KPL and it would have been valid for 2 days.
 - (c) The E-way could have been generated by either SBL or KPL or TKF (P) Ltd. and it would have been valid for 2 days.
 - (d) The E-way could have been generated by either SBL or KPL and it would have been valid for 4 days.

2. Mr. Kailash Dave would have been ineligible to be appointed as the Interim Resolution Professional of KPL if-
 - (a) Dave & Co. would have entered into transaction(s) of further amount of Rs 1 lakh or more with KPL during any of the last 5 financial years.
 - (b) Dave & Co. would have entered into transaction(s) of further amount of Rs 2 lakhs or more with KPL during any of the last 3 financial years.
 - (c) Dave & Co. would have entered into transaction(s) of further amount of Rs 50,000 or more during F.Y. 2019-20 and transaction(s) of further amount of Rs 1,50,000 or more during F.Y. 2021-22 with KPL, respectively.
 - (d) Dave & Co. would have entered into transaction(s) of further amount of more than Rs 3 lakhs with KPL during any of the last 3 financial years.
3. Which authorities would have approved the resolution plan of KPL and in what sequence?
 - (a) Committee of Creditors and then Adjudicating Authority, respectively.
 - (b) Committee of Creditors, Adjudicating Authority and then Competition Commission of India, respectively.
 - (c) Committee of Creditors, Competition Commission of India and then Adjudicating Authority, respectively.
 - (d) Competition Commission of India, Committee of Creditors and then Adjudicating Authority, respectively.
4. How many further tax audits can be accepted by Jaiswal & Co. for F.Y. 2022-23?
 - (a) Nil
 - (b) 5
 - (c) 3
 - (d) 2
5. How many further audits of unlisted public companies can be held by Mr. Amrit?
 - (a) 2
 - (b) 4
 - (c) It depends upon the ceiling limit of audits of the firm
 - (d) 1

II. Descriptive Questions

6. (i) With reference to the information given under Para 2, calculate the impairment loss, if any, to be provided in the books of SBL with respect to the machinery bought for performing the special job of KPL?
 (ii) With reference to the information given under Para 4, whether SBL needs to recognize provision for the costs to be made with respect to the contaminated soil area and if so, what shall be amount of provision to be provided at 31st March, 2023?
7. With reference to the information given under Para 5, what shall be the correct presentation of the items for which Mr. Amrit had observed errors?
8. (i) With reference to the information given under Para 1, determine the place of supply in respect of transactions involved in the work order delivered by SBL and also comment on the tax levy to be made for the same?
 (ii) With reference to the information given under Para 3, what would have been the constitution of committee of creditors of KPL?

I. Answers to the Multiple Choice Questions

1. (b) The E-way could have been generated by either SBL or KPL and it would have been valid for 2 days.

Reason: E-way Bill in case of 'Bill To Ship To' Model

In a "Bill To Ship To" model of supply, there are three persons involved in a transaction, namely:

'A' is the person who has ordered 'B' to send goods directly to 'C'. 'B' is the person who is sending goods directly to 'C' on behalf of 'A'. 'C' is the recipient of goods.

It is clarified that as per the CGST Rules, 2017, either A i.e. SBL, in our case or B, i.e. KPL, in our case can generate the e-Way Bill but it may be noted that **only one e-Way Bill** is required to be generated [Press Release dated 23.04.2018]

Sub-rule 10 to Rule 138 of the CGST Rules relating to E-way Bill has been amended **w.e.f. 01.01.2021**, to provide as follows:

Sl. No.	Distance	Validity period
1.	Upto 200 km	One day in cases other than Over Dimensional Cargo or multimodal shipment in which at least one leg involves transport by ship
2.	For every 200 km or part thereof thereafter	One additional day in cases other than Over Dimensional Cargo or multimodal shipment in which at least one leg involves transport by ship

Analysis:

Here, distance to travel is 350 kms, so E-way generated would be valid for 2 days.

2. (b) Dave & Co. would have entered into transaction(s) of further amount of Rs 2 lakhs or more with KPL during any of the last 3 financial years.

Reason: As per Regulation 3 of Insolvency and Bankruptcy (Insolvency Resolution process for corporate persons) Regulation, 2016, an insolvency professional shall be eligible for appointment as a resolution professional for a corporate insolvency process if he is not an employee or proprietor or a partner of a legal or consulting firm that has or had any transaction with the corporate debtor amounting to five per cent or more of the gross turnover of such firm in the last three financial years.

Financial Year	Turnover of Dave & Co. Rs)	Total amount of Transactions with KPL during each F.Y. (Rs)
2019-20	190 lakhs	9 lakhs
2020-21	200 lakhs	10 lakhs
2021-22	210 lakhs	9 lakhs
Total	600 lakhs	28 lakhs

Here, 5% of Rs 600 lakhs comes to Rs 30 lakhs and Dave & Co. has already rendered transaction(s) amounting to Rs 28 lakhs to KPL. So, Mr. Dev Sharma would have been ineligible to be appointed as the Interim Resolution Professional of KPL if Dave & Co. would have entered into transaction(s) of further amount of Rs 2 lakhs or more with KPL during any of the last 3 financial years.

Note: Resolution Professional includes an Interim Resolution Professional as per Section 5(27) of the IBC, 2016.

3. (d) Competition Commission of India, Committee of Creditors and then Adjudicating Authority, respectively.

Reason: As per Section 31 of the Insolvency and Bankruptcy Code, 2016, if the Adjudicating Authority is satisfied that the resolution plan as approved by the committee of creditors meets the requirements as per section 30(2), it shall by order approve the resolution plan

Where the resolution plan contains a provision for combination, as per section 5 of the Competition Act, 2002, the resolution applicant shall obtain the approval of the Competition Commission of India under that Act prior to the approval of such resolution plan by the committee of creditors.

On reading of the aforesaid provisions, the authorities and the sequence of approval that can be derived is: Competition Commission of India, Committee of Creditors and then Adjudicating Authority, respectively.

4. (b) 5

Reason: Tax Audit assignments under Section 44 AB of the Income-tax Act, 1961

In the case of firm of Chartered Accountants in practice, **60 tax audit assignments per partner in the firm, in a financial year, whether in respect of corporate or non-corporate assesses.

Provided also that the audits conducted under Section 44AD, 44ADA and 44AE of the Income Tax Act, 1961 shall not be taken into account for the purpose of reckoning the "specified number of tax audit assignments".

Here, Jaiswal & Co. has 180 tax audits to be conducted for F.Y. 2022-23, including the tax audit of SBL, out of which 3 audits are to be conducted under section 44ADA of the Income Tax Act, 1961 and 2 audits are to be conducted under section 44AE of the Income Tax Act, 1961, respectively.

However, as aforesaid, the audits to be conducted under Section 44ADA and 44AE of the Income Tax Act, 1961 shall not be taken into account for the purpose of reckoning the "specified number of tax audit assignments".

Thus, further audits that can be accepted by Jaiswal & Co. will be $180 (60 \times 3) - 175 = 5$

5. (a) 2

As per section 141(3)(g) of the Companies Act, 2013, the limit of 20 company audits is per person. In the case of an audit firm having 3 partners, the overall ceiling will be $3 \times 20 = 60$ company audits other than one person companies, dormant companies, small companies and private companies having paid-up share capital less than Rs 100 crore (private company which has not committed a default in filing its financial statements under section 137 of the said Act or annual return under section 92 of the said Act with the Registrar).

Mr. Amrit has been holding statutory audit of 25 companies, including SBL, out of which there are 4 OPCs', 2 dormant companies and 3 private companies with paid up capital of more than Rs 100 crore and also there is one private company with paid up capital of Rs 70 crore which has not defaulted in filing of resolutions with MCA regarding approval of Board Report and Annual Accounts.

Accordingly, further audits of unlisted public companies that can be held by Mr. Amrit = $20 - (25 - 4 - 2 - 1) = 2$

II. Answers to the Descriptive Questions

(i) Value in use of the machinery as on 31st March, 2023 can be calculated as follows:

Financial year	Estimated future cash flows (Rs in lakhs)	Present value factor @ 10%	Present value
2023-24	1.5	0.9091	1.364
2024-25	3	0.8264	2.479
2025-26	4	0.7513	3.005
2026-27	1	0.6830	0.683
			7.531

The recoverable amount of the machinery is Rs 7.531 lakhs (higher of value in use of Rs 7.531 lakhs and fair value less costs to sell of Rs 7 lakhs). Carrying amount of the machinery is Rs 8 lakhs (after providing for one year depreciation @ Rs 2 lakhs). Therefore, the impairment loss of Rs 46,900 should be provided in the books.

(ii) Paragraph 14 of Ind AS 37 states “A provision shall be recognised when:

- an entity has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision shall be recognised.”

Given Case:

Present obligation as a result of a past obligating event - The obligating event is the contamination of the area, which gives rise to a constructive obligation because the conduct of the entity has created a valid expectation on the part of those affected by it that the entity will clean up and restore the area affected by such contamination.

An outflow of resources embodying economic benefits in settlement- Probable.

Conclusion- A provision needs to be recognized for the best estimate of the costs of removal and restoration.

Financial year	Cash flows (Rs)	10% Discount factor	Present Value
2023-24	10,00,000	0.909	9,09,000
2026-27	25,00,000	0.683	17,07,500
Provision required at 31 March 2023			26,16,500

The provision is calculated using the pre-tax costs and a pre-tax cost of capital. The fact that the eventual payment will attract tax relief will be reflected in the recognition of a deferred tax asset for the deductible temporary difference (assuming that the recognition criteria for deferred tax assets are met.)

7. The correct presentation of the items for which Mr. Amrit had observed errors as per Division II of Schedule III shall be as follows:

- ✓ ‘Capital Advances’ are not to be classified under ‘Capital Work in Progress’, since they are specifically to be disclosed under ‘Other non-current assets’.
- ✓ Share application money to the extent not refundable shall be shown under the head Equity and share application money to the extent refundable shall be separately shown under ‘Other financial liabilities’.
- ✓ Deferred tax assets and deferred tax liabilities, both, cannot be presented in balance sheet since only the net balance of Deferred Tax Liability or Asset is to be disclosed if the enterprise has a legally enforceable right to set off assets against liabilities representing current tax; and it relates to the same governing tax laws.
- ✓ Bank deposits with more than 12 months maturity shall be disclosed under ‘Other financial assets’. Therefore, disclosure of deposits rupees 1.25 crores in a nationalised bank for 18 months as Cash and Cash Equivalents is not in order as per Division II of Schedule III.

8. (i) In case of transaction between KPL & SBL

As per section 10(1)(b) of the IGST Act, 2017, If the goods are delivered to a recipient or any other person by the supplier on the instructions of a third person (original buyer), who may be acting as an agent or on his own account

before or during movement of goods (but not after the movement terminates) whether or not there is a transfer of documents of title to the goods it is deemed that the third person has received the goods and the **place of supply is the principal place of business of such third person.**

In the given instance, SBL, the supplier made the delivery of a special job order to TKF (P) Ltd. as per the instructions of KPL. Accordingly, KPL is deemed as the third person and therefore, the place of supply will be the principal place of business of KPL i.e. Bangalore. Since location of supplier, SBL, is in Nagpur Maharashtra and place of supply is in Bangalore, Karnataka, the supply is interstate supply and IGST will be levied on such transaction.

In case of transaction between KPL & TKF (P) Ltd.

This situation involves another supply between KPL and TKF (P) Ltd. The place of supply in this case will be determined in terms of section 10(1)(a) of the IGST Act, 2017.

Section 10(1)(a) stipulates that where the supply involves movement of goods, whether by the supplier or the recipient or by any other person, the place of supply of such goods shall be the location of the goods at the time at which the movement of goods terminates for delivery to the recipient.

Thus, the place of supply in second case is the location of the goods at the time when the movement of goods terminates for delivery to the recipient, TKF (P) Ltd. i.e. Bhopal city, Madhya Pradesh.

Since location of supplier, KPL, is in Bangalore, Karnataka and place of supply is in Bhopal, Madhya Pradesh, the supply is an interstate supply and IGST will be levied on such transaction.

(ii) Legal Position:

As per Regulation 16 of the IBBI (Insolvency Resolution Process for Corporate Persons) Regulations, 2016, where the corporate debtor has no financial debt or **where all financial creditors are related parties of the corporate debtor**, the committee shall be set up in accordance with this Regulation.

The committee formed under this Regulation shall consist of members as under–

(a) 18 largest operational creditors by value:

Provided that if the number of operational creditors is less than 18, the committee shall include all such operational creditors;

(b) 1 representative elected by all workmen; and

(c) 1 representative elected by all employees.

Given Case & Analysis:

Here, all the financial creditors of KPL were related parties and it had 14 operational creditors, so the committee of creditors constituted would have been as follows:

(a) All the 14 operational creditors (as it has less than 18 operational creditors);

(b) 1 representative elected by all workmen; and

(c) 1 representative elected by all employees.

CASE STUDY 42

Ease of doing business – this statement does seem to be lucrative and influencing but as they say, nothing comes to your kitty so easily. India is striving towards the ease of doing business with its new policies, less restrictions and business friendly environment which is supporting business facilitation efforts but one should always keep in mind that setting up a business and running it successfully is not a cakewalk as it seems to be. It requires a lot of efforts alongwith innovation, workforce, management, compliances and all above that, a dedication to survive in the market. These facts could be well supported by the success story of Annapurna Trading Pvt. Ltd. which is having business of agricultural produce, consumer items & other related products. Having been set up a decade ago by its Board of Directors' Chairman, Mr. Hasmukh Rawal, this company has carved a niche for itself. Mr. Rawal had started a small business in his rural village of Baddowal, near Ludhiana which he has grown into a big company in the past 10 years.

One fine evening, Mr. Rawal was sitting with his friends - Mr. Piyush Mutneja & Mr. Gorav Bhandari who are also Managing Directors in their respective companies set up by them and they discussed about Accounts, Audit & Tax over tea. CA Hariharan,

who is a common Statutory Auditor and Consultant to their companies had also joined them in this discussion. During the discussion, when all of them were narrating their experiences and difficulties they were facing at present relating to Accounts & Audit, CA Hariharan suggested them on appointing an Internal Auditor in their respective companies. He makes them aware of the benefits of such an Internal Audit function as how would it help them weed out the deficiencies and weaknesses in the Internal Controls on a timely basis but would also be very helpful to him, being the Statutory Auditor in auditing the Books of Account of all their companies at year end. Out of curiosity, all the 3 of them – Mr. Rawal, Mt. Mutneja & Mr. Bhandari ask CA Hariharan to tell them in detail about this Internal Audit function and whether they are legally required to comply with the requirements of Internal Audit. CA Hariharan tells them that many modern enterprises have become huge and sophisticated. This has resulted in decentralisation of their activities and consequently the top management is remotely concerned with the day-to-day activities of the concern.

THE INTERNAL AUDIT

Internal Audit means “an independent management function, which involves a continuous and critical appraisal of the functioning of an entity with a view to suggest improvements thereto and add value to and strengthen the overall governance mechanism of the entity, including the entity’s strategic risk management and internal control system”. The internal auditing need not to be confined to financial transactions and its scope may be extended to the task of reviewing whether the resource utilisation of the enterprise is efficient and economical. This would necessitate a review of all operations of the enterprise as also an evaluation of the effectiveness of management. One should not however lose sight of the fact that internal auditing is basically a service activity.

Applicability of Provisions of Internal Audit: As per section 138 of the Companies Act, 2013, following class of companies (prescribed in rule 13 of Companies (Accounts) Rules, 2014) shall be required to appoint **an internal auditor which may be either an individual or a partnership firm or a body corporate**, namely-

(a) every listed company;	
(b) every unlisted public company having- (i) paid up share capital of fifty crore rupees or more during the preceding financial year; or (ii) turnover of two hundred crore rupees or more during the preceding financial year; or	(iii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year; or (iv) outstanding deposits of twenty five crore rupees or more at any point of time during the preceding financial year; and
(c) every private company having- (i) turnover of two hundred crore rupees or more during the preceding financial year; or	(ii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year.

Further to this, they ask him as who could be appointed as Internal Auditor for their respective companies to which CA Hariharan replies that as per section 138, the internal auditor shall either be a chartered accountant or a cost accountant (whether engaged in practice or not), or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the companies. The internal auditor may or may not be an employee of the company.

Further, he tells them about the scope of work of an Internal auditor and also his qualifications as follows:

QUALIFICATIONS:

- I. The internal auditor should have the special expertise necessary for evaluating management control systems, especially financial and accounting controls.
- II. Accounting and finance functions provide basic data for management control of an enterprise. Therefore, the internal auditor must have accounting and financial expertise to be able to discharge his duties.
- III. The internal auditor is also expected to evaluate operational performance and non-monetary, operational controls. This requires a basic knowledge of the technology and commercial practices of the enterprise.
- IV. He should also have a basic knowledge of commerce, laws, taxation, cost accounting, economics, quantitative methods and EDP systems.
- V. An understanding of management principles and techniques is another essential qualification of an internal auditor as also the ability to deal with people.
- VI. By his conduct the internal auditor should provide an assurance to the management that confidentiality of such information would be maintained.

On hearing all this from CA Hariharan, Mr. Rawal gets really impressed and appoints CA Ravi Mehta as the Internal Auditor for his Company Annapurna Trading Pvt. Ltd., by following the applicable procedure as per the Companies Act, 2013 and the relevant rules. On a discussion related to the scope of CA Ravi’s work, Mr. Rawal requests him that he pay special attention to the following 2 aspects related to the business of his company:

1. **Accounting Policies** being followed by the Company, especially related to Inventories and the Fixed assets. CA Ravi meets the Employees in the Accounts Department as well as in the Costing Department to get a knowledge about the Valuation, Presentation & Disclosure policies followed by the company w.r.t the inventories and fixed assets:
 - (a) In the factory, the Cost accountant tells him that in the case of packing Fruit beverages, they use tin cans of material DELTA and further, put them into boxes made of material GAMMA for transportation to Distributors.
 - (b) The Marketing Manager tells him that they purchase certain goods from out of India to sell them in the domestic market & incur following expenses in relation to such transaction which have been put into following accounting codes –
 - (1) Trade discounts on purchase
 - (2) Handling costs relating to imports
 - (3) Salaries of accounting department
 - (4) Sales commission paid to sales agents
 - (5) After sales warranty costs
 - (6) Import duties
 - (7) Costs of purchases (based on supplier's invoices)
 - (8) Freight expense
 - (9) Insurance of purchases
 - (10) Brokerage commission paid to indenting agents
 - (c) The Sales Head tells about the following products and seeks CA Ravi's advice as to their accounting treatment w.r.t. the relevant IND-AS:
 - I. One of Company's product lines — "MAGNI" is beauty products, particularly cosmetics such as lipsticks, moisturizers and compact make- up kits. The company sells hundreds of different brands of these products. Each product is quite similar, is purchased at similar prices and has a short lifecycle before a new similar product is introduced. The point of sale and inventory system is not yet fully functioning in this department. The sales manager of the cosmetic department is unsure of the cost of each product but is confident of the selling price and reliably informs him that the Company, on average, make a gross margin of 65% on each line.
 - II. The Company also sells handbags. The Company manufactures their own handbags as they wish to be assured of the quality and craftsmanship which goes into each handbag. The handbags are manufactured in India in the head office factory which has made handbags for the last fifty years. Normally, it manufactures 100,000 handbags a year in their handbag division which uses 15% of the space and overheads of the head office factory. The division employs ten people and is seen as being an efficient division within the overall company .
 - (d) On a scrutiny of the Fixed Assets Register, CA Ravi finds that the Company had acquired a building for its administrative purposes and presented the same as property, plant and equipment (PPE) in the financial year 2021-22. During the financial year 2022-23, it relocated the office to a new building and leased the said building to a third party. Following the change in the usage of the building, the company reclassified it from PPE to investment property in the financial year 2022-23.
 - (e) On checking the previous records of the Company, he also comes to know that the Company has an investment property with an original cost of Rs 1,00,000 which it inadvertently omitted to depreciate in previous financial statements. The property was acquired on 1st April, 2020. The property has a useful life of 10 years and is depreciated using straight line method. Estimated residual value at the end of 10 year is Nil.
2. Mr. Rawal also wants CA Ravi to help them in calculation of the Profits of the company as per the Income Tax Act and related rules because had they been worked out & calculated properly in the past years, their company would not have been subject to a survey as had been conducted on them in the past. CA Ravi meets the Head accountant who furnishes him the following Financial statements and tells him that:
 - (a) There was a survey under section 133A on the business premises on 31.3.2023 in which it was revealed that the value of closing stocks of 31.3.2022 was Rs 8,75,000 and a sale of Rs 75,000 made on 13.3.2023 was not recorded in the books. The value of closing stocks after considering these facts and on the basis of inventory prepared by the department as on 31.3.2023 worked out at Rs 12,50,000, which was accepted to be correct and not disputed.
 - (b) The company had made an investment of Rs50 lacs on the construction of a warehouse in rural area for the purpose of storage of agricultural produce. This was made available for use from 15.09.2022 and the income from this activity is credited in the Profit and Loss account under the head "Warehousing charges".
 - (c) The Head accountant also tells him that the Financial statements as furnished below are subject to following considerations also apart from as what is furnished above:
 - i. Income-tax refund includes amount of Rs 5,000 of interest allowed thereon.
 - ii. Bonus to staff includes an amount of Rs 7,500 paid in the month of December 2022, which was provided in the books on 31.03.2022.

- iii. Rent of premises includes an amount of Rs5,500 incurred on repairs. The assessee company was under no obligation to incur such expenses as per rent agreement.
- iv. Advertisement expenses include an amount of Rs2,500 paid for advertisement published in the souvenir issued by a political party. The payment is made by way of an account payee cheque.
- v. Goods and Services Tax demand paid includes an amount of Rs5,300 charged as penalty for delayed filing of returns and Rs12,750 towards interest for delay in deposit of tax.
- vi. Depreciation under the Income-tax Act, 1961 works out at Rs65,000.
- vii. Interest on loans includes an amount of Rs80,000 paid to Mr. X, a resident, on which tax was not deducted.
- viii. Miscellaneous expenses include:
 - amount of Rs15,000 paid towards penalty for non-fulfillment of delivery conditions of a contract of sale for the **Reasons** beyond control,
 - amount of Rs1,00,000 paid to the wife of a Mr. Hasmukh rawal, who is working as junior lawyer for taking an opinion on a disputed matter. The junior advocate of High Courts normally charge only Rs25,000 for the same opinion,
 - amount of Rs1,00,000 paid to an Electoral Trust by cheque.

Particulars	Amount (Rs)	Particulars	Amount (Rs)
Opening Stock	3,75,000	Sales	1,55,50,000
Purchases	1,25,75,000	Closing Stock	4,50,000
Freight & Cartage	1,20,000		
Gross profit	29,30,000		
	1,60,00,000		1,60,00,000

Particulars	Amount (Rs)	Particulars	Amount (Rs)
Bonus to staff	47,500	Gross profit	29,30,000
Rent of premises	53,500	Income-tax refund	20,000
Advertisement	5,000	Warehousing charges	40,00,000
Bad Debts	81,000		
Interest on loans	1,67,500		
Depreciation	71,500		
Goods and Services tax demand paid	1,08,350		
Miscellaneous expenses	5,25,650		
Net profit of the year	58,90,000		
	69,50,000		69,50,000

I. Multiple Choice Questions

1. Packing material "GAMMA" as per the above case should be classified as per INDAS-2 as?
 - (a) Raw material.
 - (b) Finished Goods.
 - (c) Materials & Supplies awaiting for use in the Production Process.
 - (d) Selling Costs to be excluded as per INDAS-2.
2. The Marketing Manager tells CA Ravi about the Costs which they incur to sell imported goods in domestic market alongwith their accounting codes. From the following alternatives, choose the combination of codes from the above case which are allowed by INDAS-2 for inclusion in the cost of such goods?
 - (a) 01, 02, 06, 07, 08, 09, 10.
 - (b) 01, 02, 03, 05, 07, 09, 10.
 - (c) 01, 02, 03, 06, 08, 09, 10.
 - (d) 02, 04, 06, 07, 08, 09, 10.
3. How should "MAGNI" be measured in accordance with INDAS 2?
 - (a) Standard Cost.
 - (b) Retail Method.
 - (c) Net Realisable Value.
 - (d) Market Price.
4. How should the Handbags as made and traded by the Company be measured in accordance with INDAS 2?
 - (a) Standard Cost.
 - (b) Retail Method.
 - (c) Net Realisable Value.
 - (d) Market Price
5. How should the error be corrected in the case of Investment Property as found during checking of previous records, in the financial statements for the year ended 31st March, 2023, assuming the impact of the same is considered material? For simplicity, ignore tax effects.
 - (a) Prospectively restating the Comparatives.
 - (b) Retrospectively restating the Comparatives.

- (c) It is not an error and therefore correction should be avoided.
- (d) Eliminating the record of such asset from the books of account and dealt with separately.

II. Descriptive Questions

6. Differentiate between the two types of Audit functions as performed by CA Ravi Mehta and CA Hariharan as discussed in the above case of Annapurna Trading Pvt. Ltd.
7. From the information given in Para 2, compute the income chargeable to tax for Assessment year 2023-24 of Annapurna Trading Pvt. Ltd, ignoring MAT and provisions of section 115BAA. Support your answer with working notes.

I. Answers to the Multiple Choice Questions

1. (d) **Selling Costs to be excluded as per INDAS-2.**
Reason: While the primary packing material may be included within the scope of the term 'materials and supplies awaiting use in the production process' but the secondary packing material and publicity material cannot be so included, as these are selling costs which are required to be excluded as per Ind AS 2. For this purpose, the primary packing material is one which is essential to bring an item of inventory to its saleable condition, for example, bottles, cans etc., in case of food and beverages industry. Other packing material required for transporting and forwarding the material will normally be in the nature of secondary packing material.
2. (a) **01, 02, 06, 07, 08, 09, 10**
Reason: Items number 01, 02, 06, 07, 08, 09, 10 are allowed by Ind AS 2 for the calculation of cost of inventories. Salaries of accounts department, sales commission, and after sale warranty costs are not considered to be the cost of inventory. Therefore, they are not allowed by Ind AS 2 for inclusion in cost of inventory and are expensed off in the profit and loss account.
3. (b) **Retail Method.**
Reason: The retail method can be used for measuring inventories of the beauty products. The cost of the inventory is determined by taking the selling price of the cosmetics & reducing it by gross margin of 65% to arrive at the cost.
4. (a) **Standard Cost.**
Reason: The handbags can be measured using standard cost especially if the results approximate cost. Given that the company has the information reliably on hand in relation to direct materials, direct labour, direct expenses and overheads, it would be the best method to use to arrive at the cost of inventories.
5. (b) **Retrospectively restating the Comparatives.**
Reason: The error shall be corrected by retrospectively restating the comparatives. A third balance sheet as at the beginning of the earliest period shall also be presented.

II. Answers to the Descriptive Questions

6.

BASIS	INTERNAL AUDIT	EXTERNAL AUDIT
1. Meaning	It refers to an ongoing audit function performed within an organization by a separate internal auditing department.	It is an audit function performed by the independent body which is not a part of the organization.
2. Examination	The Internal auditor examines the Operational efficiency of the organisation.	The External auditor examines the Accuracy and Validity of Financial Statements.
3. Appointment	The Internal auditor is appointed by the Management.	The External auditor is appointed by the Members.
4. Users of Report	The user of internal audit report is Management.	The user of external audit report is Stakeholders.
5. Period	Internal audit is a Continuous Process throughout the year.	An External audit is done once in a year.
6. Opinion	The opinion is provided on the effectiveness of the operational activities of the organization.	The opinion is provided on the truthfulness and fairness of the financial statement of the company.
7. Status of Auditor	The Internal auditor could be an employee of the company.	The External auditor is mandatorily not an employee of the company.

7. Computation of Income of Annapurna Trading Pvt. Ltd. chargeable to tax for the A.Y.2023-24:

Particulars	Rs
Net profit as per profit and loss account	58,90,000
Add: Difference in the value of stocks detected on survey under section 133A on 31.03.2023 chargeable as income (See Note 1)	3,75,000
	62,65,000
Less: Income-tax refund credited in the profit and loss account, out of which interest is to be considered separately under the head "Income from other sources"	20,000
	62,45,000
Add: Expenses either not allowable or to be considered separately but charged in the profit & loss account	
Repair expenses on rented premises where assessee is under no obligation to incur such expenses are not allowable as per section 30(a)(i). However, if such expenses are required for carrying on the business efficiently, the same are allowable under section 37. In this case, assuming that such expenses are required for carrying on business efficiently, the same are allowable under section 37.	-
Advertisement in the souvenir of political party not allowable as per section 37(2B) (See Note 3)	2,500
Payment made to the wife of a director examined as per section 40A(2) and the excess payment made to be disallowed (See Note 5)	75,000
Payment made to electoral trust by cheque (See Note 6)	1,00,000
Penalty levied by the Goods and Services tax department for delayed filing of returns not allowable as being paid for infraction of law (See Note 7)	5,300
Depreciation as per books	71,500
30% of interest paid on loan paid to Mr. X, a resident, without deduction of tax at source not allowable as per section 40(a)(ia)	24,000
	65,23,300
	65,000
Less: Depreciation allowable as per Income-tax Act, 1961	64,58,300
Less: Income from specified business (warehousing charges) credited to profit and loss account, to be considered separately (See Note 8)	40,00,000
Income from business (other than specified business)	24,58,300
Computation of income/ loss from specified business (See Note 8)	
Income from specified business	Rs 40,00,000
Less: Deduction under section 35AD @ 100% of Rs 50 lakhs	Rs 50,00,000
Loss from specified business to be carried forward as per section 73A	
	Rs (10,00,000)
Income from Other Sources	
Interest on income-tax refund	5,000
Gross Total Income	24,63,300
Less: Deduction under section 80GGB	
Contribution to political party (See Note 3)	Rs 2,500
Contribution to an Electoral trust (See Note 6)	Rs 1,00,000
	1,02,500
Total Income	23,60,800

Notes:

- (1) The business premises were surveyed and differences in the figures of opening and closing stocks and sales were

found which have not been disputed and accepted by the assessee. Therefore, the trading account for the year is to be re-cast to arrive at the correct amount of the gross profit/ net profit for the purpose of return of income to be filed for the previous year ended on 31.3.2023.

Revised Trading Account

Particular	Amount (Rs)	Particular	Amount (Rs)
Opening Stock	8,75,000	Sales	1,56,25,000
Purchases	1,25,75,000	(Rs 1,55,50,000+Rs 75,000)	
Freight and Cartage	1,20,000	Closing Stock	12,50,000
Gross Profit	33,05,000		
	1,68,75,000		1,68,75,000

The difference of gross profit of Rs 33,05,000 – Rs 29,30,000 = Rs 3,75,000 is to be added as income of the business for the year.

- (2) Bonus for the previous year 2021-22 paid after the due date for filing return for that year would have been disallowed under section 43B for the P.Y.2021-22. However, when the same has been paid in December 2022, it should be allowed as deduction in the P.Y.2023-23 (A.Y.2023-24). Since it is already included in the figure of bonus to staff debited to profit and loss account of this year, no further adjustment is required.
- (3) The amount of Rs 2,500 paid for advertisement in the souvenir issued by a political party attracts disallowance under section 37(2B). However, such expenditure falls within the meaning assigned to “contribute” under section 293A of the Companies Act, 1956, and is hence, eligible for deduction under section 80GGB. Any contribution to the political party or electoral trust made by way of cash is not allowed as deduction under section 80GGB. Since in the present case, the payment to the political party is made by way of an account payee cheque, it is allowed as deduction under section 80GGB.
- (4) The penalty of Rs 15,000 paid for non-fulfilment of delivery conditions of a contract for **Reasons** beyond control is not for the breach of law but was paid for breach of contractual obligations and therefore, is an allowable expense.
- (5) It has been assumed that Rs 25,000 is the **Reasonable** payment for the wife of Director, working as a junior lawyer, since junior advocates of High Courts normally charge only Rs25,000 for the same opinion and therefore, the balance Rs 75,000 has been disallowed.
- (6) Payment to an electoral trust qualifies for deduction under section 80GGB since the payment is made by way of a cheque. However, since the amount has been debited to profit and loss account, the same has to be added back for computing business income.
- (7) The interest of Rs12,750 paid on the delayed deposit of goods and services tax is for breach of contract and hence, is allowable as deduction. However, penalty of Rs5,300 for delay in filing of returns is not allowable since it is for breach of law.
- (8) Deduction @ 100% of the capital expenditure is available under section 35AD in respect of specified business of setting up and operating a warehouse facility for storage of agricultural produce which commences operation on or after 1.04.2013. It is presumed that Rs 50 lacs does not include expenditure on acquisition of any land.

The loss from specified business under section 35AD (warehousing) should be segregated from the income from other businesses, since, as per section 73A(1), any loss computed in respect of any specified business referred to in section 35AD shall not be set off except against profits and gains, if any, of any other specified business.

In view of the provisions of section 73A(1), the loss of Rs 10 lacs from the specified business cannot be set-off against income from other businesses. Such loss has to be carried forward to be set-off against profit from specified business in the next assessment year. The return should be filed on or before the due date under section 139(1) for carry forward of such losses.

CASE STUDY 43

Mahajan Food Products Ltd. is an established Company in the Food Processing Industry dealing in Groceries and Processed Food Products. The Company's Board of Directors consists of 8 Directors. It has subsidiaries both in India as well as outside India. The Company has established a name for itself in the Food Processing Industry globally. Since the company has gone global, it has been facing many difficulties in Accounting & Taxation issues related to the concerns in its network, associates, joint ventures and related persons. It has also been facing some legal difficulties regarding the same due to a sudden upsurge in the business of the Company and its expansion globally with less time to manage its Internal operations. So, the Board has now approached M/s Sharma Pahwa & Co., a CA firm in their city to consult regarding such issue and scope for improvements. The Directors of the Company request CA Grace Pahwa, the Senior Partner of the Firm to conduct a Workshop for their Accounts & Taxation Department staff and deliberate on various issues and matters they have been addressing to off late so that they can get the right training on such issues to minimise any problems that may spur up during Finalisation of Accounts and further audit by CA Grace. CA Grace agrees to their Proposal and asks them that she would be happy to conduct two workshops at a 6 month Interval for their employees in the first year of their audit and later on, one workshop every year in future to keep them updated about the latest developments to be taken care of in future while compiling the Financial statements and addressing the Tax issues.

THE DAY OF THE WORKSHOP

On the day of the workshop, CA Grace, as decided deliberates the Accounts & Taxation department of the Company on Accounting & Taxation aspects of Related Party Transactions. Following is an Extract of her Speech:

Good Morning Dear Friends! I am CA Grace Pahwa and today I will be sharing with you the aspects to be kept in mind by you all while handling the Accounting and Taxation work of the Company so that we could carry out the Audit Process during the year as well as the Statutory Audit with the least difficulties and complexities. Mahajan Food Products is basically facing issues owing to the growing span of network and more and more concerns becoming a part of this group. For such a situation, we need to understand who are our Related Parties, their nature, transactions with them, their accounting and disclosure requirements, their audit considerations and taxation scenario.

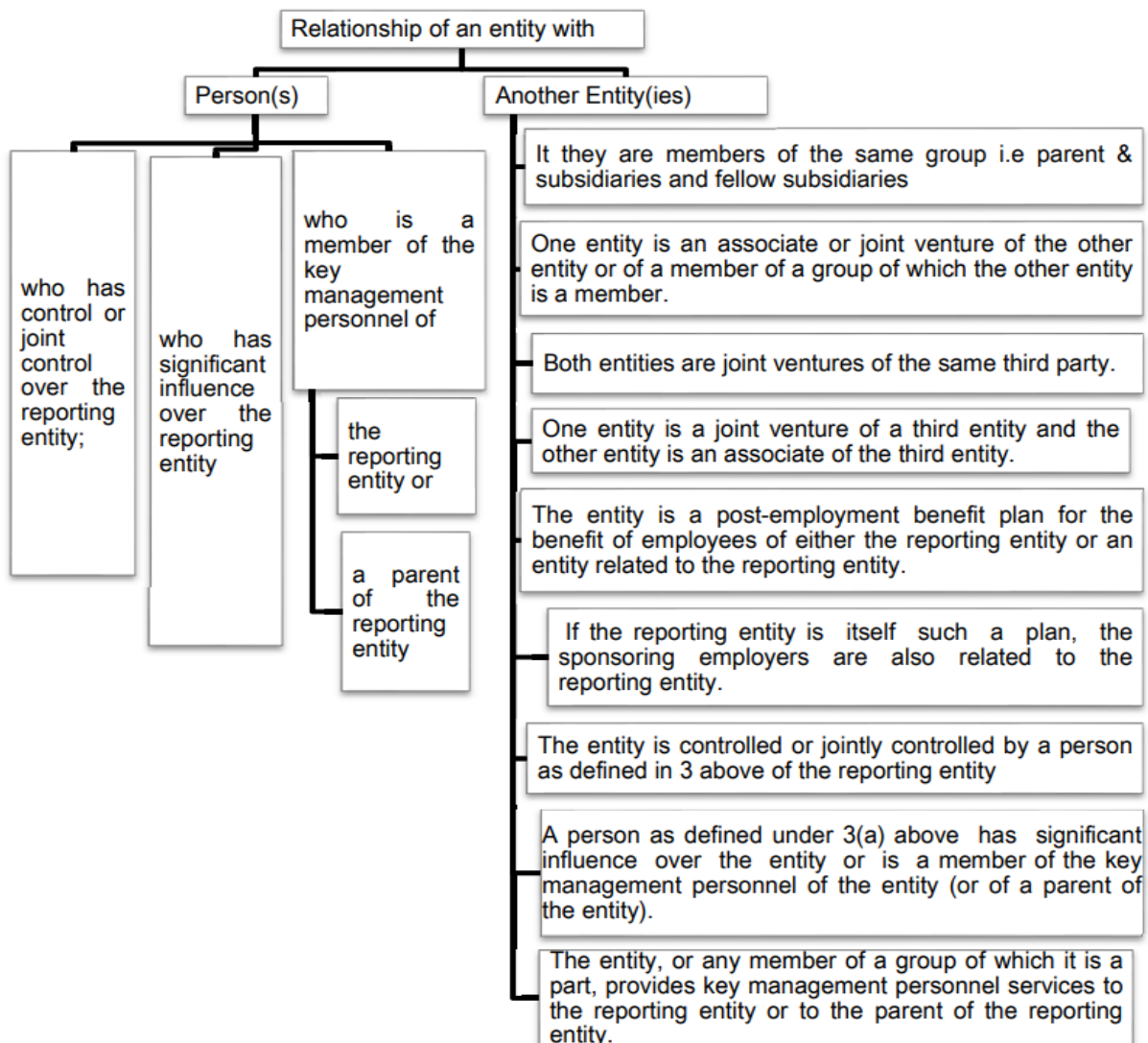
Friends! An entity in the course of its commerce and business enters into numerous transactions and gets impacted by various related party relationships. It is a normal feature of business and commerce to have related party relationships. Entities frequently carry on their business activities through subsidiaries, joint ventures or associates. The entity has the ability to affect the financial and operating policy of a subsidiary as it has control over it. In the case of joint venture, it has joint control whereas in the case of an associate it has significant influence. It is quite probable that related party relationship may have an effect on the profit or loss and financial position of an entity. Therefore, the users of the financial statements of any entity should have:

- (a) the knowledge of:
 - related party relationships of an entity;
 - entity's transactions, outstanding balances, commitments etc. with such related parties;
- (b) as it may affect the user's assessments:
 - of operations of the entity and
 - the risks and opportunities facing the entity.

For Accounting purposes, you have to follow Ind AS 24 on RELATED PARTY DISCLOSURES.

You are all being provided with the chart as being shown on the screen in front of you and I would like you all to please write down your queries, if any to be taken up after I finish my deliberation. The following chart depicts the types of Relationships which an Entity can have with other individuals/entities in the Commercial scenario whose impact we need to study & analyse accordingly.

(CA Grace discusses the following chart in detail with thorough Practical Examples with her Audience)



However, the following are not treated as related parties:

1. Two entities are not related parties simply because they have a director or other member of key management personnel in common or because a member of key management personnel of one entity has significant influence over the other entity.
2. Two venturers are not related parties simply because they share joint control over a joint venture.
3. (i) providers of finance, (ii) trade unions, (iii) public utilities, and (iv) departments and agencies of a government that does **not** control, jointly control or significantly influence the reporting entity, are not related parties simply by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an entity or participate in its decision- making process).
4. a customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, simply by virtue of the resulting economic dependence.

Now, we all need to understand what actually is a Related Party Transaction is : A Related Party Transaction is a transfer of resources, services or obligations between a report ing entity and a related party, regardless of whether a price is charged. It is not necessary for any consideration to be passed for such transactions.

RELATED PARTY TRANSACTIONS UNDER GST

Supply of goods or services or both between 'Related persons' or between 'Distinct persons' as specified in section 25, will qualify as supply provided it is made in the course or furtherance of business.

Let us understand the terms 'related persons' and 'distinct persons':-

Related persons: A person who is under influence of another Person is called a related person like members of the same family or subsidiaries of a group company etc. Under GST law various categories of related persons have been specified. The term 'related person' has been defined in explanation to section 15. Persons including legal p

Distinct persons: The establishments of a person with separate registrations whether within the same State/UT or in different States/UTs are considered as distinct persons. Where a person having one registered establishment in a State/UT has another establishment in a different State/UT [not necessarily registered], these establishments are considered as establishments of distinct persons. Statutory provisions relating to 'distinct persons' are contained in sub- sections (4) and (5) of section 25.

RELATED PARTY TRANSACTIONS UNDER INCOME TAX

Sub-section (2) of Section 40A of the Income Tax Act, 1961, effectively, disallows certain expenses or payments made to relatives or their close associates, as the case may be if found un~~Reasonable~~ and not at par with the Market. The term 'Relative' in relating to an individual has been defined under sub-section (41) of Section 2, as the husband, wife, brother or sister or any lineal ascendant or descendant of that individual.

Further, the Section 40A (2) defined "Related Parties and its close associates." In a condensed form, they are as follows:

Assessee	Relatives or Associates
In case of Individual	- Any relative of the assessee - Any person in whose business or profession the assessee himself or his relative has a substantial interest.
In case of Company, Firm, Association of Person & Hindu Undivided Family	Any – - Director - Partner - Member of the association - Member of the Family & Relatives of them Any person in whose business or profession, as said above or relative of him or her has "substantial Interest." Any Individual who has "substantial interest" in the business or profession of the "Assessee." A Company or Firm or AOP or HUF having a substantial interest" in the business or profession of the "Assessee." Any other company carrying on business or profession in which the first mentioned has "Substantial interest"

The various individuals and Associate Concerns who are associated with your Company as submitted to me are as under:-

- Hemlata, sister of Mr. Kurla, the Non-Executive Director of the Company.
- Naresh Kumar, the brother of Mr. Birla, the Executive Director of the Company.
- The Company has one Air-Conditioned Restaurant in its Trade name in Mumbai and it has recently opened a Liquor shop, its first, in Uttarakhand for human consumption. It also has a Departmental Store in Delhi whose Stock is supplied from its Factory at Lucknow, UP.
- A Limited is an ancillary of Mahajan Food Products Ltd. It supplies all its production to the company. Mahajan Food Products Ltd. has no other interest in A Limited.
- ABC Ltd. is a long-standing customer of Mahajan Food Products Ltd. Mrs. Birla purchased a controlling interest in ABC Ltd. on 1st June, 2022.

So, these were some prominent individuals and concerns. There are more as per the List with me and given to you also. I hope you would be able to bifurcate easily now between Related and Unrelated Parties for Accounting & Taxation purposes so that the mistakes which have been being committed till now be not repeated in future. I would like to bring to your knowledge that I will be conducting your Company's Statutory Audit. To brief you, while carrying out the Statutory Audit, my Engagement team's main thrust would be on such related Party Transactions and we will be applying SA 550 on Related Parties as issued by ICAI to carry out the Audit efficiently and effectively. CA Kashish Jain, a Partner from my CA Firm Office in Delhi itself would be carrying out the Tax Audit of the Company and will issue the relevant Tax Audit Report in Form 3CA-3CD. The GST Audit of the Company would be carried out by CA Mohan Sharma from our Kolkata Branch Office over here at your headquarters in Delhi only and he will issue GST Audit Report in Form 9C after GSTR-9 is filed by the Company.

So Friends, I would like to end here and hope that major of your doubts and queries would have been resolved by now. In case you still have any issues, I am here for another half an hour to take the Open doubts session and my Engagement team would be available during Office hours every working day to resolve any of your concerns in near future too.

Thanks for being such a Patient Audience."

I. Multiple Choice Questions

- The management of the company wants to know whether the Food Products supplied from its Factory to its Departmental Store for sale at the store would constitute Supply under GST Law or not?
 - Not a Supply as it is a Stock Transfer.
 - Not a Supply as no Consideration is involved.
 - It is a Deemed Supply under the GST Law.
 - Not a Supply as the Factory and the Store are registered in the same State.

2. The Restaurant Manager of the company asks CA Grace that their Restaurant usually sends some packed food products to the Company's Liquor Shop on a routine basis. Whether it constitutes a Supply or not under GST?
 - (a) No, as both the Restaurant & the Liquor shop are in different states.
 - (b) No, as the Restaurant is a Registered business under GST while the Liquor shop doesn't require registration under GST, being a Non-GST Item.
 - (c) Yes, because although they belong to the same entity, but they are distinct persons under GST law.
 - (d) Yes, because now the Company will have to take GST registration for its only Liquor Shop also.
3. The Company has paid Rent to Naresh Kumar of Rs 2,50,000 and paid interest to Hemlata Rs 4,00,000. State the reporting requirements in the Tax Audit Report by CA Kashish Jain:
 - (a) To be reported as Relative Payments under the relevant Clause u/s 40(A)(2)(b) of the Income Tax Act, 1961.
 - (b) To be reported as a Disallowed Expenditure being Relative Payments under the relevant Clause u/s 37 of the Income Tax Act, 1961.
 - (c) Need not be reported as these two individuals are not the relatives of the Company.
 - (d) Only the payment made to Naresh Kumar to be reported.
4. The Head Accountant is of the view that A Ltd. is the Related Party of Mahajan Food Products Ltd.:
 - (a) Yes, as A Ltd. is the ancillary of the Company.
 - (b) Yes, as Mahajan Food Products Limited is the sole purchaser of A Ltd.'s products.
 - (c) No, as A Ltd. has no other Interest in Mahajan Food Products Ltd.
 - (d) Yes, as both are Distinct Entities.
5. GST Audit Services rendered by CA Mohan on behalf of his CA firm to the Company would be construed as a Supply under GST Law for M/s Sharma Pahwa & Co. from its Branch Office:
 - (a) True, as the Firm shall be treated as Distinct Persons with separate registrations in Delhi and West Bengal.
 - (b) No, as the rule of Branch Transfer doesn't apply to Services under GST.
 - (c) True, only if, bill is raised by the Kolkata Branch of the CA Firm to the Client Company.
 - (d) No, as there is no Consideration involved and therefore it is not a supply under GST Law.

II. Descriptive Questions

6. Sales of products from Mahajan Food Products Ltd. to ABC Ltd. in the two-month period from 1st April 2022 to 31st May 2022 totaled Rs 16,00,000. Following the share purchase by Mrs. Birla, Mahajan Food Products Ltd. began to supply the products at a discount of 20% to their normal selling price and allowed ABC Ltd. three months' credit (previously ABC Ltd. was only allowed one month's credit, Mahajan Food Products Ltd.'s normal credit policy). Sales of products from Mahajan Food Products Ltd. to ABC Ltd. in the ten-month period from 1st June 2022 to 31st March 2023 totaled Rs 80,00,000. On 31st March 2023, the trade receivables of Mahajan Food Products Ltd. included Rs 36,00,000 in respect of amounts owing by ABC Ltd. Analyse and show (where possible by quantifying amounts) how the above event would be reported in the financial statements of Mahajan Food Products Ltd. for the year ended 31st March 2023 as per Ind AS. You are required to mention the disclosure requirements as well.
7. CA Grace Pahwa, at the start of the Statutory Audit of Mahajan Food Products Ltd. deliberates to her Audit team on how to conduct the audit as per the relevant requirements of the Companies Act and SA 550. You are required to outline the major points to be a part of her lecture to the Audit staff on SA 550 as per the audit requirements of the Company Mahajan Food Products Ltd. on following issues:-
 - (a) Nature of Related Party Relationships and Transactions.
 - (b) In the context of this Mahajan Food Products Ltd.'s Related parties, the potential effects of inherent limitations on CA Grace's ability to detect material misstatements are greater than usual. Give 2 **Reasons** why?
 - (c) What shall the audit team inspect for indications of the existence of related party relationships or transactions that management has not previously identified or disclosed to them?
 - (d) Audit Procedures to be followed by the Audit team for identifying significant Related Party Transactions outside the Company's Normal Course of Business.
 - (e) Matters that may be addressed in the discussion among the engagement team from time to time for understanding the entity's Related Party Relationships and Transactions.

I. Answers to the Multiple Choice Questions

1. (c) It is a Deemed Supply under the GST Law.
Reason: Transactions between different locations (with separate GST registrations) of same legal entity (eg., stock transfers or branch transfers) will qualify as 'supply' under GST as these are transactions between distinct persons. Although no consideration is charged, supply of goods from factory to retail store constitutes supply.
2. (c) Yes, because although they belong to the same entity but they are distinct persons under GST law.
Reason: Since supply of alcoholic liquor for human consumption in Uttarakhand is a non-taxable supply, the company is not required to obtain registration with respect to the same in Uttarakhand. In this case, air-conditioned restaurant in Mumbai and liquor shop in Uttarakhand [though unregistered] shall be treated as establishments of distinct persons. Supply by Mumbai office to Uttarakhand office, in course or furtherance of business even without consideration will qualify as supply.
3. (a) To be reported as Relative Payments under the relevant Clause u/s 40(A)(2)(b) of the Income Tax Act, 1961.
Reason: A tax auditor has to report under Clause 23 of Form 3CD which deals with the particulars of payments made to persons specified under Section 40A(2)(b) of the Income Tax Act, 1961. Where the assessee is an individual, the specified persons include any relative of the assessee (i.e. Husband, Wife, Brother, Sister or any other Lineal Ascendant or Descendant). In the present case, an assessee has paid rent to his brother Rs 2,50,000 and interest to his sister of Rs 4,00,000 which may be disallowed if, in the opinion of the Assessing Officer, such expenditure is excessive or unReasonable having regard to:
 - (1) the fair market value of the goods, services or facilities for which the payment is made; or
 - (2) for the legitimate needs of business or profession of the assessee; or
 - (3) the benefit derived by or accruing to the assessee from such expenditure.
4. (c) No as A Ltd. has no other Interest in Mahajan Food Products Ltd.
Reason: A customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, simply by virtue of the resulting economic dependence is not a related party as per Ind AS 24.
5. (a) True, as the Firm shall be treated as Distinct Persons with separate registrations in Delhi and West Bengal.
Reason: A person who has obtained/is required to obtain more than one registration, whether in one State/Union territory or more than one State/Union territory shall, in respect of each such registration, be treated as distinct persons [Section 25(4) of the CGST Act].

II. Answers to the Descriptive Questions

6. Mahajan Food Products Ltd. would include the total revenue of Rs 96,00,000 (Rs 80,00,000 + Rs 16,00,000) from ABC Ltd. received / receivable in the year ended 31st March 2023 within its revenue and show Rs 36,00,000 within trade receivables at 31st March 2023. Mrs. Birla would be regarded as a related party of Mahajan Food Products Ltd. because she is a close family member of one of the key management personnel of the Company.
From 1st June 2022, ABC Ltd. would also be regarded as a related party of Mahajan Food Products Ltd. because from that date ABC Ltd. is an entity controlled by another related party.
Because ABC Ltd. is a related party with whom Mahajan Food Products Ltd. has transactions, then Mahajan Food Products Ltd. should disclose:
 - The nature of the related party relationship.
 - The revenue of Rs 80,00,000 from ABC Ltd. since 1st June, 2022.
 - The outstanding balance of Rs 36,00,000 at 31st March, 2023.In the current circumstances it may well be necessary for Mahajan Food Products Ltd. to also disclose the favourable terms under which the transactions are carried out.
7. (a) Many related party transactions are in the normal course of business. In such circumstances, they may carry no higher risk of material misstatement of the financial statements than similar transactions with unrelated parties. However, the nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated parties. For example:
 - ◆ Related parties may operate through an extensive and complex range of relationships and structures, with a corresponding increase in the complexity of related party transactions.

- ◆ Information systems may be ineffective at identifying or summarising transactions and outstanding balances between an entity and its related parties.
 - ◆ Related party transactions may not be conducted under normal market terms and conditions; for example, some related party transactions may be conducted with no exchange of consideration.
- (b) In the context of related parties, the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for such **Reasons** as the following:
- ◆ Management may be unaware of the existence of all related party relationships and transactions, particularly if the applicable financial reporting framework does not establish related party requirements.
 - ◆ Related party relationships may present a greater opportunity for collusion, concealment or manipulation by management.
- (c) In particular, the auditor shall inspect the following for indications of the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor:
- ◆ Bank, legal and third party confirmations obtained as part of the auditor's procedures;
 - ◆ Minutes of meetings of shareholders and of those charged with governance; and
 - ◆ Such other records or documents as the auditor considers necessary in the circumstances of the entity.
- (d) For identified significant related party transactions outside the entity's normal course of business, the auditor shall:
- ◆ Inspect the underlying contracts or agreements, if any, and evaluate whether:
 - The business rationale (or lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets;
 - The terms of the transactions are consistent with management's explanations; and
 - The transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework; and
 - ◆ Obtain audit evidence that the transactions have been appropriately authorised and approved.
- (e) Matters that may be addressed in the discussion among the engagement team include:
- ◆ The nature and extent of the entity's relationships and transactions with related parties (using, for example, the auditor's record of identified related parties updated after each audit).
 - ◆ An emphasis on the importance of maintaining professional skepticism throughout the audit regarding the potential for material misstatement associated with related party relationships and transactions.
 - ◆ The circumstances or conditions of the entity that may indicate the existence of related party relationships or transactions that management has not identified or disclosed to the auditor (e.g., a complex organisational structure, use of special-purpose entities for off- balance sheet transactions, or an inadequate information system).
- (f) The records or documents that may indicate the existence of related party relationships or transactions.
- (g) The importance that management and those charged with governance attach to the identification, appropriate accounting for, and disclosure of related party relationships and transactions (if the applicable financial reporting framework establishes related party requirements), and the related risk of management override of relevant controls.

CASE STUDY 44

Akash, Bhawanmeet & Rupali have been friends since their College days and they had decided to pursue Chartered Accountancy after Graduation. Although they didn't find success so easily but all eventually became Chartered Accountants within a period of 5 years from their graduation. The trio ventured into practice and set up their own offices at Ambala in Haryana as sole proprietors. Their plan was to obtain expertise in different fields working individually and then form a partnership firm, at an appropriate time in future with 3 of them as the partners to reap and share the fruit of each other's expertise and experience through a common platform. Where Akash ventured into Taxation matters, Bhawanmeet took upon Forensics and Rupali gained expertise in Corporate matters and Statutory Audits.

Saman Pvt. Ltd. is a company set up 7 years ago, deals in the manufacturing & trading of Electronic Appliances and is registered in the state of Haryana. The Company's Board of Directors has always made it sure that their company is fully compliant with all the laws, applicable to it and duly fulfils each and every responsibility as per the law. Due to sudden demise of their statutory auditor, the Board is on the look out to engage a new professional to look after compliance matters of the Company. CA Akash who has been associated with the Company since 2017 to look after the Income tax & GST compliance, suggested appointment of CA Rupali as the Statutory Auditor of the Company to fill the casual vacancy created by sudden demise of the previous Statutory Auditor. The Board of Directors approached CA Rupali for the same and appointed her as the Statutory Auditor of the Company till the conclusion of the next Annual General Meeting of the Company.

Aman Saini, the son of the Managing Director of the Company, Mr. Vineet Saini, has joined the Board of Directors as a new director just recently. Aman is a Post Graduate from Harvard University and is very keen to know about the Indian way of doing business and various compliances Indian businesses have to make during a financial year. He requests CA Akash and CA Rupali for a meeting to get requisite knowledge about their work and how could they work together in future for establishing the Company's reputation as a known brand in the domestic as well as global market.

On the Scheduled day and time, all 3 of them met and discussed about the working of the Company.

Aman is keen to know about GST reconciliation statement applicability on one of his separate ventures - Aman & Co. as he has heard that there were a lot of challenges faced by the Professionals since implementation of GST in India in 2017 and the due dates to get GST Return to be filed by the assesseees was being extended time and again. Aman & Co. is a footwear manufacturing firm and is registered with GST in Delhi and its branches registered in Punjab & Haryana. Its aggregate turnover for the F.Y. ended 31st March, 2023 is:

Delhi: Rs 1.8 crore, Punjab: Rs 1.2 crore and Haryana: Rs 2.7 crore.

However, the branch registered in Punjab is making only exempt supplies.

Aman calls upon the Head accountant of the company and asks him to discuss the issue of treatment of post supply discounts under GST Law and Income tax deductions as narrated by him to Aman. The Head accountant tells CA Akash that:-

- (a) Their Company gives a discount of 30% on the list price to its distributors. Thus, for a carton of Product X, in the invoice the list price is mentioned as Rs 2,000, on which a discount of 30% is given to arrive at the final price of Rs 1,400. The Head accountant is confused as to what should be the value of supply under GST law for calculation of GST liability.
- (b) The Company has appointed distributors across the country who sells the televisions manufactured by it. The maximum retail price (MRP) printed on the package of a television is Rs 24,000. The applicable rate of GST on televisions is 18%. The Company dispatches the stock of televisions to its distributors ordered by them on a quarterly basis.

In order to promote its sales, the Sales Head of the company has formulated a sales promotion scheme. Under this scheme, it offers a discount of 10% (per television) on televisions supplied to the distributors if the distributors sell 500 televisions in a quarter. The discount is offered on the price at which the televisions are sold to the distributors (excluding all charges and taxes). It has appointed Shah Electronics (an unrelated party as per GST Law) as its distributor in Haryana on 1st April and dispatches 750 televisions on 8th April as stock for the quarter April-June. It has sold the televisions to distributor - Shah Electronics at Rs 16,800 per television (exclusive of applicable taxes). Shah Electronics has requested the company for a special packing of the televisions delivered to it for which it has charged Rs 2,400 per television.

Shah Electronics places a purchase order of 1,000 televisions with their company for the quarter July-September. The distributor reports sales of 700 televisions for the quarter April-June and 850 televisions for the quarter July-September. The discount policy offered by the company as explained above is also available to Shah Electronics as per the distributorship agreement.

While Shah Electronics reverses the input tax credit availed for the quarter July - September, it has failed to reverse the input tax credit availed for the quarter April- June.

- (c) He further wants to gain knowledge of the deduction available to their company to which section 44AB is applicable in respect of new employees recruited during the F.Y. 2022-23 on 20th April, 2022, due to which there was increase in the total number of employees. The additional employee cost borne by the company during the year 2022-23 was Rs 20 lakhs. The company was already incurring employee cost of Rs 40 lakhs till now in respect of employees recruited before two immediately previous years. The new employees recruited as well as the previous employees of the company are regular employees having monthly emoluments of Rs 24,000 each, paid by NEFT, who do not participate in any provident fund as well as the Government do not contribute for such employees in any Employees Pension scheme, as notified.

CA Akash resolves these queries of the Head Accountant suitably.

Aman, then starts discussing with CA Rupali on Corporate matters. He puts forward the following information and extracts relating to the Company and wants to know certain facts and legal provisions regarding the Borrowings from Financial Institutions and Charitable contributions that can be made by the Company-

	As at 31.03.2021 (Rs)	As at 31.03.2022 (Rs)	As at 31.03.2023 (Rs)
Paid up capital	50,00,000	50,00,000	74,00,000
General Reserve	40,00,000	42,50,000	49,00,000
Credit Balance in Profit & Loss Account	5,00,000	7,50,000	12,00,000
Debenture Redemption Reserve	15,00,000	20,00,000	22,00,000
Securities Premium	2,00,000	2,00,000	5,00,000
Secured Loans	10,00,000	15,00,000	33,00,000

On going through other records of the Company, the following is also determined:

Net Profit for the year (as calculated in accordance with the provisions of the Companies Act, 2013)	14,50,000	18,00,000	33,50,000

In the ensuing Board Meeting scheduled to be held on 18th July, 2023, among other items of agenda, following items are also appearing:

- To decide about borrowing from financial institutions on long-term basis.
- To decide about contributions to be made to charitable funds.

Further, Mr. Ashok Chauhan, an employee from the Legal department brings into notice a legal query and the Head accountant seeks its solution to account for in the Books of Account. Mr. Chauhan tells them that on 1st January, 2023, Saman Pvt. Ltd. Was notified that a customer was taking legal action against the company in respect of financial losses incurred by the customer. Customer alleged that the financial losses were caused due to supply of faulty products on 30th September, 2022 by the Company. Saman Pvt. Ltd. defended the case but considered, based on the progress of the case up to 31st March, 2023, that there was a 75% probability they would have to pay damages of Rs 20 lakhs to the customer. However, the Head accountant has not recorded this transaction in the financial statements as the case was not yet finally settled. The case was ultimately settled against the company resulting in to payment of damages of Rs 24 lakhs to the customer on 15th May, 2023. The financial statements have been authorized by the Board of Directors in its meeting held on 18th May, 2023. CA Rupali helps them in accounting for this issue in the books of account appropriately.

Also, the accountant puts forward an accounting query to be resolved by CA Rupali. He states that the Company has sold goods to Mars Ltd. at a consideration of Rs 100 lakhs, the receipt of which receivable in three equal installments of Rs 33,33,333 over a two year period (receipts on 1st April, 2022, 31st March, 2023 and 31st March, 2024).

The company is offering a discount of 5 % (i.e. Rs 5,00,000) if payment is made in full at the time of sale. The sale agreement reflects an implicit interest rate of 5.36% p.a.

The total consideration to be received from such sale is at Rs 100 Lakhs and hence, he has recognised the revenue from sale of goods for Rs 100 lakhs. Further, the management is of the view that there is no difference in this aspect between Indian GAAP and Ind AS. CA Rupali takes it under consideration and gives an appointment to the Head accountant to meet her in the office, the following day with all the required documents and information to sort this issue out.

Further, Aman tells them that he is suspicious of some financial irregularities he has noticed in the Company's accounts and believes that if not controlled and acted upon at the right time, it may lead to the situation of a Fraud taking place in the company and to avoid such situation to occur in future, he seeks CA Rupali's help to which she suggests Aman to hire the professional services of CA Bhawanmeet and get a Forensic Audit carried out into the Company's affairs and Books of account to which Aman agrees and does the same.

I. Multiple Choice Questions

1. Comment on the applicability of furnishing self-certified reconciliation statement under GST on Aman & Co. for the Financial Year 2022-23.
 - (a) Not applicable as the Turnover is below threshold limit in each state.
 - (b) Applicable as, the total aggregate turnover of all such branches is considered while calculating the threshold limit.
 - (c) Not applicable, as the supplies being affected in Punjab are not to be counted in aggregate turnover for the purpose of applicability of furnishing self-certified reconciliation statement under GST.
 - (d) Applicable as entities having multi-state/UT units have to furnish self-certified reconciliation statement under GST mandatorily irrespective of the Aggregate Turnover condition.
2. What should be the Value of supply of Product X for calculation of GST liability as asked by the Head accountant?
 - (a) Rs 2,000
 - (b) Rs 2,600
 - (c) Rs 1,400
 - (d) Rs 2,850
3. In which form reconciliation statement under GST would be required to be furnished by Aman & Co. and by what date?
 - (a) GSTR-9C by 31.12.2023
 - (b) GSTR-9 by 31.12.2023
 - (c) GSTR-9C by 31.12.2022
 - (d) GSTR-9C by 31.12.2022
4. What amount of total deduction would be available to Saman Pvt. Ltd. w.r.t. employee cost under the Income tax Act, 1961 for the Previous Year 2022-23?
 - (a) Rs 20 lakhs
 - (b) Rs 60 lakhs
 - (c) Rs 18 lakhs
 - (d) Nil
5. Analyse whether the accounting treatment made by the head accountant w.r.t. the case filed by a customer as narrated by Mr. Chauhan is in compliance of the Ind AS?
 - (a) No, a Provision of Rs 15 lakhs is required to be made in the Books of account.
 - (b) No, a Provision of Rs 24 lakhs is required to be made in the Books of account.
 - (c) Yes, No Provision is required to be made as the amount estimation is just a probability.
 - (d) Provision should be made in the Financial Year 2023-24 of Rs 24 lakhs.

II. Descriptive Questions

6. Compute the taxable value of televisions supplied by Saman Pvt. Ltd. to Shah Electronics during the quarters April-June and July-September assuming the rate of tax applicable on the televisions as 18%.
7. Discuss the differences between the types of audit as carried out by CA Rupali & CA Bhawanmeet.
8. Analyse whether the accounting treatment made by the accountant w.r.t. revenue recognition in the case of sale made to Mars Ltd. by Saman Pvt. Ltd., is in compliance of the Ind AS. If not, advise the correct treatment along with working for the same as might have been suggested by CA Rupali.

Answers

1. (b) Applicable as the total aggregate turnover of all such branches is considered while calculating the threshold limit.
Reason: Every registered person, other than those referred to in the second proviso to section 44, an Input Service Distributor, a person paying tax under section 51 or section 52, a casual taxable person and a non-resident taxable person, whose aggregate turnover during a financial year exceeds five crore rupees, shall also furnish a self-certified reconciliation statement as specified under section 44 in FORM GSTR-9C along with the annual return referred in subrule (1), on or before the thirty-first day of December following the end of such financial year, electronically through the common portal either directly or through a Facilitation Centre notified by the Commissioner.
2. (c) Rs 1,400
Reason: The value is Rs 1,400, as the discount is allowed at the time of supply and shown in the invoice.
Post supply discounts, i.e. the discounts that are given after supply is made are allowed as a deduction from the value of supply if the following two conditions are satisfied:
 - Discount is in terms of an agreement that existed at the time of supply and can be worked out invoice-wise; and
 - Proportionate input tax credit is reversed by the recipient - The buyer would have availed input tax credit of GST payable on the gross value specified in the invoice. Thus, when a credit note is issued to him by the supplier for the discount, the buyer will reverse the proportionate credit; consequent to which, the supplier's output tax liability will be reduced by the same amount.

3. (a) GSTR-9C by 31.12.2023

Reason: Every registered person, other than those referred to in the second proviso to section 44, an Input Service Distributor, a person paying tax under section 51 or section 52, a casual taxable person and a non-resident taxable person, whose aggregate turnover during a financial year exceeds five crore rupees, shall also furnish a self-certified reconciliation statement as specified under section 44 in FORM GSTR-9C along with the annual return referred in subrule (1), on or before the thirty-first day of December following the end of such financial year, electronically through the common portal either directly or through a Facilitation Centre notified by the Commissioner.

4. (c) Rs 18 lakhs

Reason: U/s 80 JJAA of the Income tax Act, 1961, Where the gross total income of an assessee to whom section 44AB applies, includes any profits and gains derived from business, a deduction of an amount equal to 30% of additional employee cost incurred in the course of such business in the previous year, would be allowed for three assessment years including the assessment year relevant to the previous year in which such employment is provided. Hence, total deduction under the Income tax law comes out to be Rs 40 lakhs + Rs 20 lakhs
= Rs 60 lakhs * 30% = Rs 18 lakhs.

5. (b) No, a Provision of Rs 24 lakhs is required to be made in the Books of account.

Reason: The Accountant of Saman Pvt. Ltd. has not recognised the provision and accordingly not adjusted the amounts recognised in its financial statements to reflect adjusting events after the reporting period is not correct and nor in accordance with provision of Ind AS 37 and Ind AS 10.

As per given facts, the potential payment of damages to the customer is an obligation arising out of a past event which can be reliably estimated. Therefore, following the provision of Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets' – a provision is required.

The provision should be for the best estimate of the expenditure required to settle the obligation at 31st March, 2023 which comes to Rs 15 lakhs (Rs 20 lakhs x 75%). Further, following the principles of Ind AS 10 'Events After the Reporting Period' evidence of the settlement amount is an adjusting event. Therefore, the amount of provision created shall be increased to Rs 24 lakhs and accordingly be recognised as a current liability.

II. Answers to the Descriptive Questions

6. Section 15(3)(a) as per CGST Act allows discounts to be deducted from the value of taxable supply if the same is given before or at the time of the supply and if such discount has been duly recorded in the invoice issued in respect of such supply. In other words, pre-supply discounts recorded in invoices are allowed as deduction.

Further, post supply discounts are also allowed as deduction from the value of supply under section 15(3)(b) if-

- (i) such discount is established in terms of an agreement entered into at or before the time of such supply and specifically linked to relevant invoices; and
- (ii) input tax credit as is attributable to the discount on the basis of document issued by the supplier has been reversed by the recipient of the supply.

In the given case, Shah Electronics is entitled for 10% discount on televisions supplied by the company Saman Pvt. Ltd. for the quarters April-June as well as July-September as it has sold more than 500 televisions in each of these quarters. However, since the sales targets are achieved after the entire stock for the respective quarters of April- June and July-September has been dispatched, the discounts on the televisions supplied to Shah Electronics for the quarters of April-June and July-September is a post-supply discount.

Such post-supply discount will be allowed as a deduction from the value of supply since the discount policy was known before the time of such supply and the discount can be specifically linked to relevant invoices (invoices pertaining to televisions supplied to Shah Electronics for the quarters of April- June and July-September) provided Shah Electronics reverses the input tax credit attributable to the discount on the basis of document issued by Saman Pvt. Ltd.

The value of supply for the quarters of April-June and July-September will thus, be computed as under:

Computation of value of supply for the quarter - April-June

Particulars	Amount (Rs)
Price at which the televisions are supplied to Shah Electronics [Note 1]	16,800
Add: Packing expenses [Note 2]	2,400
Less: Discount [Note 3]	Nil
Value of taxable supply of one unit of television	19,200
Value of taxable supply of televisions for the quarter April-June [Rs 19,200 x 750]	1,44,00,000

Notes:

- (1) The value of a supply is the transaction value, which is the price actually paid or payable for the said supply, in terms of section 15(1) presuming that the supplier and the recipient of supply are not related and price is the sole consideration for the supply as the supplier and recipient are not related parties.
- (2) The value of supply includes incidental expenses like packing charges in terms of section 15(2)(c).
- (3) Since Shah Electronics has not reversed the input tax credit attributable to such discount on the basis of document issued by Saman Pvt. Ltd., the conditions specified in section 15(3)(b) have not been fulfilled. Thus, the post-supply discount will not be allowed as deduction from the value of supply.

Computation of value of supply for quarter - July-September

Particulars	Amount (Rs)
Price at which the televisions are supplied to Shah Electronics [Note 1]	16,800
Add: Packing expenses [Note 2]	2,400
Less: Discount [Note 3]	(1680)
Value of taxable supply of one unit of television	17,520
Value of taxable supply of televisions for the quarter July-September [Rs 17,520 x 1,000]	1,75,20,000

Notes:

- (1) The value of a supply is the transaction value, which is the price actually paid or payable for the said supply, in terms of section 15(1) presuming that the supplier and the recipient of supply are not related and price is the sole consideration for the supply as the supplier and recipient are not related parties.
- (2) The value of supply includes incidental expenses like packing charges in terms of section 15(2)(c).
- (3) Since all the conditions specified in section 15(3)(b) have been fulfilled, the post-supply discount will be allowed as deduction from the value of supply. The input tax credit to be reversed will work out to be Rs 3,02,400 $[1,000 \times (16,800 \times 10\%) \times 18\%]$.

While it is true that many of the financial statements and frauds could have, perhaps should have, been detected by financial auditors, the vast majority of frauds could not be detected with the use of financial audits. **Reasons** include the dependence of financial auditors on a sample and the auditors' reliance on examining the audit trail versus examining the events' and activities behind the documents. The latter is simply resource prohibitive in terms of costs and time.

There are some basic differences today between the procedures of forensic auditors and those of financial auditors. In comparison, forensic accounting and audit differ in specific ways, as shown below.

A forensic accountant will often look for indications of fraud that are not subject to the scope of a financial statement audit. Forensic Accounting has **Investigative mentality** however auditing is done with **"professional scepticism"**. A forensic accountant will often require more extensive corroboration. A forensic accountant may focus more on seemingly immaterial transactions.

Sr. No.	Particulars	Other Audits – CA Rupali	Forensic Audit – CA Bhawanmeet
1.	Objectives	Express an opinion as to 'True & Fair' presentation.	Whether fraud has actually taken place in books.
2.	Techniques	Substantive & Compliance Sample based	Investigative, substantive or in-depth checking.

3.	Period	Normally for a particulars accounting period.	No such limitations.
4.	Verification of stock, Estimation realisable value of assets, provisions, liability etc.	Relies on the management certificate/Management Representation.	Independent/verification of suspected/selected items where misappropriation in suspected.
5.	Off balance sheet items (like contracts etc.)	Used to vouch the arithmetic accuracy & compliance with procedures.	Regulatory & propriety of these transactions/contracts are examined.
6.	Adverse findings if any	Negative opinion or qualified opinion expressed with/without quantification.	Legal determination of fraud impact and identification of perpetrators depending on scope.

The revenue from sale of goods shall be recognised at the fair value of the consideration received or receivable. The fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest where the receipt is deferred beyond normal credit terms. The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue.

The fair value of consideration (cash price equivalent) of the sale of goods is calculated as follows:- **(Rs)**

Year	Consideration (Installment)	Present value factor	Present value of consideration
Time of sale	33,33,333	1.000	33,33,333
End of 1 st year	33,33,333	0.949	31,63,333
End of 2 nd year	33,33,334	0.901	30,03,334
	1,00,00,000		95,00,000

The Company that agrees for deferring the cash inflow from sale of goods will recognise the revenue from sale of goods and finance income as follows:

Initial recognition of sale of goods		(Rs)	(Rs)
Cash	Dr.	33,33,333	
Trade Receivable	Dr.	61,66,667	
To Sale			95,00,000
Recognition of interest expense and receipt of second installment			
Cash	Dr.	33,33,333	
To Interest Income			3,30,533
To Trade Receivable			30,02,800
Recognition of interest expense and payment of final installment			
Cash	Dr.	33,33,334	
To Interest Income (Balancing figure)			1,69,467
To Trade Receivable			31,63,867

Statement of Profit and Loss (extracts)
for the year ended 31st March, 2023 and 31st March, 2024

	As at 31 st March, 2023	As at 31 st March, 2024
Income		
Sale of Goods	95,00,000	-
Other Income (Finance income)	3,30,533	1,69,467

Balance Sheet (extracts) as at 31st March, 2023 and 31st March, 2024

	As at 31 st March, 2023	As at 31 st March, 2024
Assets		
Current Assets		
<u>Financial Assets</u>		
Trade Receivables	31,63,867	XXX

CA FINAL - PAPER-6: INTEGRATED BUSINESS SOLUTIONS

“Good business leaders create a vision, articulate the vision, passionately own the vision, and relentlessly drive it to completion.”

– Jack Welch, Former CEO of General Electric



Integrated Business Solutions

Business decisions, both short-term and long-term, are based on *strategic objectives*. Effective decisions are those that have a positive impact on productivity & profitability and enhance the *growth prospects* of a business. Effective decision making requires the decision maker to consider a complete, *holistic view* of the business rather than having a siloed approach. Business does not work in silos, it is integrated and interconnected where decisions taken in one area can have a significant impact on other areas. Considering these principles, students are encouraged to integrate their professional values, practical work experience, and knowledge gained from specific academic studies. The goal is to cultivate a skillset capable of crafting well-organized, integrated business solutions.

Integral to the Integrated Business Solutions (IBS) is the ‘Case Study’, a vital aspect of the CA Final Level. Here, students must apply their knowledge gathered from the five core subjects – Financial Reporting, Advanced Financial Management, Advanced Auditing, Assurance and Professional Ethics, Direct Tax Laws & International Taxation, Indirect Tax Laws; and Self-paced Modules Set A & B. In this journal, we are focussing on those case studies which involve making of ‘strategic decisions’. Each ‘Case Study’ unfolds a unique business situation, presenting a scenario complete with mission, vision, objectives, challenges, key stakeholders, and relevant data. The strategic aspects have been discussed in detail in the answers solely for enhancing your understanding of the concepts. Concept insights have been incorporated at the relevant places. **These case studies are in addition to the case studies webhosted at the BoS Knowledge Portal at URL: https://boslive.icai.org/sm_chapter_details.php?p_id=18&m_id=74.** The aim is to provide a variety of case studies covering different subjects at Final Level and Set A & Set B. Students are advised to work out the case studies webhosted at the portal at the above link and case studies given in the journal to understand the *manner of integration* of different subjects in solving a ‘Case Study’.

Strategic decision-making involves a meticulous analysis of the business model and subsequent strategic adaptations. Decisions may range from new product development and market exploration to considering diversification, whether in related or unrelated areas. The choice between related and unrelated areas presents challenges, as stakeholders may resist the later due to perceived risks, potentially impacting market capitalization. In the case of a strategic shift towards a related area, exploration of options such as horizontal integration or vertical integration (whether forward or backward integration) in the supply chain is crucial.

These strategic moves require a lot of financial decisions. In addition to that there is need of robust financial risk management system. Moreover, proper adherence to accounting standard, tax laws and other statutory compliances under the various corporate legislations are fundamental to the strategic decision. Adhering to these standards ensures legal compliance, shielding the company from legal repercussions and fines. It also aids management in allocating resources efficiently and evaluating the performance of various business units or projects based on reliable financial data.

On top of that, good corporate governance, fostering ethical business practices, influences an organization’s strategy and performance. This emphasis on ethics is essential not only for business organisations but also for CAs, as stakeholders place enormous confidence in their role. The increasing instances of corporate frauds and subsequent failures, with ripple effects on economies, have increased the responsibilities of CAs to ensure that organizations discharge their reporting responsibilities diligently.

Hence, the integrated approach advocated in Core Paper-6 at the CA Final Level emphasizes the importance of considering interrelated issues spanning finance, accounting standards, assurance, direct tax laws, indirect tax laws, company law, and SEBI compliances alongside strategic decision making.

Solving multidisciplinary ‘Case Study’ will enhance analytical skills and decision-making skills of students. This holistic and integrated approach ensures that students emerge well-equipped to tackle the challenges presented in the constantly changing business environment.



Indian Tea Sector An Industry Analysis in Strategic Context

Global Outlook¹



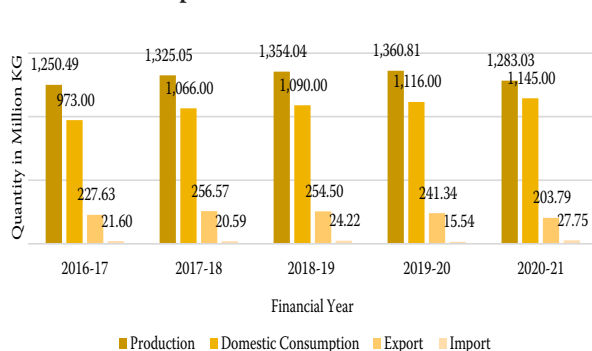
Tea is a much-loved popular beverage all around the world. It is grown in 36 countries, the major tea producing and exporting countries being India, China, Kenya, and Sri Lanka. Together they account for 81% of the world's tea production and 72% of the

world's exports. Per capita consumption of tea varies widely among countries. As per statistics, the per capita consumption in 2018-20 was highest in Turkey (3.20 kg) followed by Libya (2.64 kg), Ireland (2.10 kg), Morocco (2.09 kg), Hong Kong (1.65 kg), United Kingdom (1.61 kg) and India (0.83 kg). The per capita consumption in India is lower due to its huge population size. India accounts for 19.50% of global tea consumption and almost 82% of the total production of tea in India is consumed within the country. This shows that domestic demand for tea is very strong.

Domestic Trends

Tea contributes significantly to the National Agricultural Income and overall Gross Domestic Product of India. It employs around 1.2 million people and contributes to sizeable foreign exchange earnings. Tea is cultivated in 15 Indian States with major producers being Assam, West Bengal, Tamil Nadu, and Kerala. India produces around 1,300 million kgs of tea annually². Major bulk of tea production is from the Northeast India particularly Assam and West Bengal.

Production, Domestic Consumption, Export and Import of Tea 2016 to 2020-21



Tea Processing

Tea plants (botanical name *Camellia Sinensis*) are grown on well drained fertile-acidic soil on high lands. Tea plants are propagated from seed and cuttings. Within three years the plants ready for harvest. If left undisturbed these plants can grow up to 16 meters. However, they are trimmed and pruned to waist height for ease of plucking³. Tea is derived from tea leaves. Black, Green, Oolong, White and Pu-erh are the different types of tea

produced. Categories of tea are distinguished by the processing they undergo.

Harvesting of tea in different seasons is known as flush that give different variety of tea each season. First / spring flush, second/ monsoon flush and autumn flush are the different harvesting seasons. Green tea leaves are plucked from the tea plants and transformed into "made tea" which is used by the end user to make the beverage. Antioxidants, anti-inflammatory and detoxification properties have given renown to tea as a beverage with health benefits. Global Hot Tea industry is estimated to be around USD 45-50 billion⁴. Black tea remains the largest segment, while non-black varieties are also gaining popularity due to their health benefits.

Producers include plantation companies and small green leaf growers⁵. Many of them operate processing centres where tea is dried, fermented, and cut. In cases where the producer does not have processing centres of their own, the tea leaves are sold to bought leaf factories⁶. Processed tea is then sold to tea companies, which consist of blenders / packers. The tea companies then blend, flavour, and pack the processed tea into tea packets. These tea packets are sold in the market through wholesalers and retailers.

Some tea companies integrate plantation activities with other processes that are involved in the blending, packing, and marketing of tea such that they can exercise control over the different activities in supply chain of the tea industry. The cost structure of these integrated plantation companies includes plantation related costs (labour, agro-chemicals, estate development and maintenance of plantations where tea is grown), various manufacturing-related expenses and marketing costs.

Scheme of Supply Chain⁷

A common scheme of supply chain may be as follows:



Producers: Tea plantation owners who grow tea leaves (plantation companies and small green leaf growers)



Processing centres: Drying, fermenting, and cutting of tea leaves is done here. Most producers own processing centres, typically located within the tea plantation estate. (processing activities can also be done by the 'bought leaf factories' who convert tea leaves procured from producers into processed tea)



Trade between producers and tea companies (buyers): Tea leaves (processed tea) are sold to tea companies (blenders / packers) primarily through auctions, facilitated through brokers. (brokers communicate information about demand and supply and thereby can indirectly determine the price of tea)



Tea companies (packers/ blenders): Tea leaves (processed tea) bought from various auctions are then blended together, packed and marketed by tea companies. Hence, they are also called packers or blenders.



Wholesale and Retail dealers: Brings the tea packages to the market to be sold to the final customer.



Consumers: Tea is a global beverage, widely consumed both domestically in tea producing countries as well as international markets.

Do You Know?

Tea industry in India is regulated by the Tea Act, 1953. The Tea Board of India (TBI) constituted by the Government of India (GOI) to performs various regulatory, research and development and marketing functions. Few of the functions include:

- Regulate the production and cultivation of tea in India. Tea growers are registered with the Board and are issued licenses to carry out activities like cultivation, manufacturing, sale, and export of tea.
- Monitoring of the tea auction system where bulk tea is sold.
- Improve the quality of tea, promote and assist in research in the field.
- Regulate the sale and export of tea.
- Look after the working conditions and pay of workers.

Cost Structure⁸

The tea industry has been facing difficult times in the recent years. On one hand, tea prices have stagnated. On the other hand, tea industry is a fixed cost intensive industry. India has the highest cost of production among major tea producing countries in the world. Productivity of tea plantation determines the cost of production. Unproductive old tea bushes are a major reason for lower productivity, resulting in higher cost of production. The cost of production of tea can be segregated into:

- Cost of green leaf: Includes materials, wages and other costs related to the cultivation of tea.
- Cost of conversion of green leaf to made tea:
 - Processing cost (power and fuel, repair and maintenance of machinery, depreciation of machinery, factory wages etc.).
 - Welfare cost (housing, medical, sanitation, ration, firewood etc. provided to workers).



- Other cost (lease rent, rates, travelling expenses, tea cess, green leaf cess, electricity, water tax, license and selling and distribution expenses and head office expenses).

Cost of production is linked to the productivity factors of different resources like land, plant, labour, machinery, and materials used for the cultivation and production process. For proper planning to reduce the cost of production, it is essential to collect data/information regarding various cost components of production and analysis of the same.

For long term sustainability of the industry, higher tea prices that can sufficiently cover the cost of production along with a reasonable profit margin would be required. Tea is a labour-intensive industry. There is a shortage of plantation workers due to many of them migrating to other jobs. To combat shortage of labour and to reduce cost of production, mechanization is being gradually adopted by the industry⁹.

Ways to improve profitability¹⁰

As per a report by ASSOCHAM on the tea industry, suggestions for improving profitability in the long term include:

- Increase exports (value and volume): Tea consumption has traditionally been restricted few markets. Exports need to work on expanding their export base by entering new markets and promoting tea consumption there. Improving the quality of tea supplied to traditional markets can help to provide a basis for increasing the average export price. Exports in value added forms like tea bags / packets can also help to support average prices.
- Increase domestic consumption: Increased marketing efforts will be needed to spread awareness about tea, different variety and quality etc. Per capital consumption should be increased from the current level of 0.8 kg.
- Control of supply and quality of tea: Avoid oversupply of tea which can suppress prices. Better tea garden (plantation) practices can improve the quality of tea produced.
- Meeting changing consumer preferences: Health and wellness aspects of tea need to be promoted since current consumption practices are focussed on these aspects. Green tea, herbal tea and other healthy beverages can be promoted in order to meet customer preferences. There is also a preference tea to be available in value added forms like packets and tea bags.

With this strategic perspective in mind, the following are few case studies drafted about the tea industry:

Refresh Tea: This Case Study looks into the integration of a plantation company with other processes within the supply chain to enhance business control. It includes strategies such as exploring new markets through the acquisition of controlling stake in foreign company, implementing customer-centric initiatives like selling tea in the form of tea bags for improved end-user connection. The case study also explores the application of the theory of constraints (TOC) to address bottleneck resources, particularly the available hours at the blending machine. Additionally, it delves into the comprehension of transfer price methodologies.

Prime Tea 1: This Case Study explores the influence of the Just-In-Time production system on the availability of tea packages in the market. It also explores into the application of target costing to enhance profitability, customer profitability analysis, pricing strategy, and the implications of notification no. 12/2017 CT(R) dated 28.06.2017 related to GST.

Prime Tea 2: This Case Study investigates into strategies for enlarging its customer base in the domestic market by restructuring distribution channels, facilitating direct sales to small grocers or local shops. It involves customer profitability analysis, compliance with the Foreign Exchange Management (Overseas Investment) Rules, 2022 concerning the acquisition of a plantation company in a neighbouring country, the use of forward contracts and interest rate swaps.

Note- The Case Studies presented herein include more than the required number of questions, offering students the opportunity to practice a diverse range of concepts.

¹Source: Report of the CAG on 'Role of Tea Board India in Development of Tea in India' (2023), p.6

²Source: Report of the CAG on 'Role of Tea Board India in Development of Tea in India' (2023), p.7-8

³Source: Report of the CAG on Role of Tea Board India in Development of Tea in India (2023), p.3

⁴Source: Tata Consumer Products Limited, Integrated Annual Report (2022-23), p.192

⁵Tea growers having land holding of their plantation up to 10.12 hectare (25 acres) are considered small tea growers

⁶Bought-leaf factories are units that buy these tea leaves and convert them into the processed tea

⁷This basic supply chain is designed to assist students to understand the industry in Indian scenario only

⁸Source: Report of the CAG on Role of Tea Board India in Development of Tea in India (2023), p.80

⁹Source: Report of the CAG on Role of Tea Board India in Development of Tea in India (2023), p.82

¹⁰Source: Tea industry at the crossroads (ASSOCHAM), p.17

Case Study-1

About Case Study

	Industry	Tea- Plantation, Drying, Fermenting, and Cutting
	Subjects	Strategic Cost Management, Financial Reporting, Auditing, Direct Tax
	Topics	Porter's Five Forces, Control of the Supply Chain via Horizontal or Vertical Integration, Ind (AS) 41, SA540, Mendelow's Matrix, Value Proposition, Theory of Constraints, Transfer Pricing, Agriculture Income



Refresh Tea Ltd.

Refresh Tea Ltd. (RTL) was established in 1935 and headquartered in Kolkata. The company owns several plantations in North-East India (Assam and West Bengal) and South India (Kerala, Tamil Nadu, and Karnataka). It started out as a producer of tea leaves. They have their own processing centre within their plantation estates (or tea gardens) to dry, ferment, and cut the tea leaves. The company would then auction the leaves to traders, who in turn would sell them to tea companies (downstream supply chain) in order to be blended, packed, and resold to the customer. RTL continued to be a producer of tea leaves until the mid-1980s, until which time it only auctioned the tea leaves to the traders.

Over the decades, the popularity of tea as a beverage increased manifold due to clever and attractive marketing campaigns. Marketed as a health drink that could provide relief for ailments like cold, flu or body ache, tea as a beverage slowly became popular across the country. Tea has both an organized branded (pre-packaged) market as well as unorganized unbranded market (loose lot sale). Different versions of brewing and making tea were practiced, and this concocted a success story of exponential proportion.

Increasing popularity of the beverage prompted RTL to expand the scope of its business. It wanted to continue its plantation

business, but now it also wanted to expand its business to include the blending, packaging, and marketing of tea. RTL would increase the production of tea leaves in its plantations using both its existing estates as well by acquiring newer tea estates to increase production capability. All tea leaves will be processed further (dried, fermented, and cut) at the processing centres within its plantations. The management of RTL decided that it would from this point, also start blending, packaging, and marketing its own tea. For this, it built and gained ownership of the necessary factory resources and infrastructure for blending, packaging, and marketing its tea. Production resources and infrastructure were owned and controlled by RTL. This packaged tea will be sold directly to wholesalers and retailer dealers who would in turn sell it to the final customer.

When RTL decided to become a full-fledged tea company by the mid-1980s, the market was saturated with many sellers. Most of them bought tea leaves from traders at various auctions, blended, packaged, and marketed the tea. For these other suppliers, it took approximately 80 days from the time the tea leaf was plucked to the time the consumer purchased it. They catered to consumers from all strata of society. Premium tea dominated the branded market, while people who could not afford it were satisfied with the unbranded loose tea that could be bought as per their individual requirements. RTL decided to establish itself in the branded market. Unbranded loose tea was perceived to be of lesser quality as compared to branded pre-packaged tea and therefore could not command much price in the market.

RTL conducted detailed market research and found that consumers from different regions had different taste preferences. For example, consumers in Bihar and Jharkhand preferred tea leaf while consumers in Maharashtra and Gujarat preferred tea dust. RTL therefore created different brands that catered to different markets (in terms of taste preference - leaf or dust tea) as well as different price bands (economy or premium). The quality of RTL's pre-packaged branded tea was kept higher than the unbranded tea sold in loose lots, and at the same time, the price of its packaged tea was kept slightly lower than the other premium varieties available in the market. Thus, RTL decided to place itself in the middle of this market spectrum in terms of quality and cost. So, it sold premium brand leaf tea as well as economy brand leaf tea in Bihar and Jharkhand, while it sold

premium dust tea and economy dust tea in Maharashtra and Gujarat. As part of its marketing strategy, it created a separate brand for each target customer audience so that the quality and price could be easily recognized by the end user. RTL further aimed to deliver the tea to the final customer within 20 days from the time the tea leaf was plucked from its gardens.

The new vision statement of RTL was then reframed as *“to be the most admired tea company across the globe.”*

The new mission statement of RTL was then reframed as *“to enhance customer experience by making tea a global beverage of choice. Understand and influence tastes and preferences by bringing unique, quality, affordable tea to the discerning palate of customers.”*

Today, in 2023, the total Indian tea market is estimated to be ₹34,400 crore, with branded businesses constituting approximately 74% of the total market value. The global tea market is estimated to be \$45-50 billion, with the main demand coming from the black tea segment. RTL has emerged as the market leader, commanding 60% of the domestic Indian tea market. It is now a listed company at BSE and NSE stock exchanges. Demand in other segments like green tea, fruit & herbal, decaf, and speciality tea among others is also picking up. Taking note of this new trend, RTL conducted market research and a survey done of the entire beverage industry to gather market intelligence and emerging customer choices. The findings reveal that consumers are becoming more health conscious in their choices. In the past 2 years, demand for fruit juices, coconut water, almond milk, and milk shakes has increased. According to the study, the shift towards healthier beverage choices like fruit juices, coconut water, almond milk, and milkshakes is projected to grow and encompass at least 8% of the beverage market within the next three years.

Tea King Plc. (TKP) is a UK based company that produces tea bags. Small sachets of tea (tea bags) are dipped into hot water in order to brew conveniently within a cup. The sachets can be conveniently disposed of after use. Tea bags are hugely popular across the globe, primarily due to the convenience of use and disposal. “Anywhere-Anytime” is a highly recognized tagline for TKP’s tea bags. The company has a net worth almost three times that of RTL. TKP has a deep market presence in the United Kingdom and the United States of America, as well as a few other European countries where tea is relished as a beverage. Despite its huge global presence and scale, the ownership of TKP has changed hands frequently every few years. This is because the profitability of the business is constantly under pressure due to the high input costs of tea, driven by inflationary conditions. TKP imports tea leaves (its raw material) from various countries, and the cost of imports has become more expensive over the years.

RTL has recently gained the opportunity to own a controlling stake in TKP. This is a prestigious development for RTL, as it has been trying to increase its global footprint, particularly in the UK and USA. The advantage the company has that most of the previous owners of TKP did not have, is that RTL has better control over the supply of raw materials. India is one of the major tea producing countries. RTL has been in the plantation business since its inception. Hence, RTL is much better positioned to scale up tea leaf production to meet TKP’s raw material requirements

in a cost-effective way, thereby countering any inflationary pressure. However, since the size of the deal is much bigger than even RTL’s net worth, it has to resort to taking significant amount of debt to finance the deal. The deal has the approval of the majority shareholders, and other regulatory approvals are in place.

In the dynamic field of tea production, external factors such as unpredictable weather conditions can severely affect operations. Recognizing the importance of proactive risk management, RTL has implemented a comprehensive strategy to mitigate potential disruptions and protect its plantations specifically in northeastern region. This includes ensuring adequate insurance coverage, positioning RTL to effectively navigate the uncertainties associated with cyclones and adverse weather events. RTL’s financial statements are prepared in accordance with Indian Accounting Standards (Ind AS) notified under the Companies Act, 2013.



Scenario-1

The induction program for new hires is underway. They are being introduced to the history of tea in India as well as how RTL grew to be a leading player in this market. One of the new inductees asks:

“What is the rationale behind RTL’s decision in the mid-1980s to expand its operations into a saturated market? It could have maintained the status quo as a plantation company producing tea leaves. Why did it have to get into the blending, packaging, and marketing business as well? Also, how did RTL manage to become a market leader despite the competition?”

Required

You are being the Deputy Manager (Finance & Strategy) at RTL, have been requested to provide your explanation behind the rationale behind this business decision taken in the mid-1980s. Also, based on the information in the case study, ASSESS the company’s success in a competitive market.

Answer

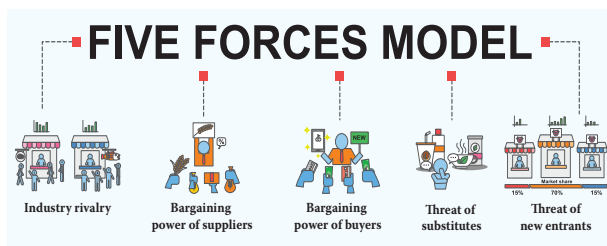
In a competitive environment, a business must craft its strategies not just to survive but also to sustain itself. RTL started out as a tea leaf producer, owning plantation tea estates to grow tea. While it had control over the production, it did not have as much control over the price at the auction. If you refer to scheme of Supply Chain for Tea, it is the brokers who had more influence over the auction price as they had more complete information about both the supply and demand for tea. Hence, the revenue generation flexibility for RTL was being limited by the influence of brokers, who acted as the middlemen for the plantation owners (tea growers) and the tea companies (tea blenders and marketers). Over the decades, the popularity of tea as a beverage increased the competition. Recognizing this change, the management of RTL had **to study the external environment** and understand how it could determine its strategy in order to survive and thrive within this competitive business. RTL became agile and responsive to change. This resilience made it competitive and became the primary reason for its success in the competitive market.



Concept Insight

The study of the external environment requires the study of the remote environment and operating environment of the industry including the competitive environment. To analyse the operating environment of an industry, it is important to consider all the factors that affect profitability as well as the competitive position of business organisations within it. These factors can be grouped into elements such as customers, competitors (existing as well as potential entrants), suppliers, advocacy groups, regulations, regulatory groups, and many other elements such as industry life cycle, supplier's suppliers, and buyer's buyers, etc. Basically, it considers the wider picture through factors that are capable to decide the growth trajectory in addition to future profitability. Intensity of industry competition can be understood using Michael Porter's five forces model.

Porter's five forces helped RTL to identify where power lied in business situation. This was useful both in understanding the strength of RTL's current competitive position and the strength of a position that RTL might consider entering.



The five forces that were enumerated by this model are given below:

Threat of new entrants: Tea as a beverage was gaining popularity, so demand growth was increasing at an exponential pace. In turn, this made the *industry attractive* for new players to enter. This meant that *competition in the market was likely to increase* across the value segments (including the production of tea leaves) within the tea industry. RTL was an incumbent in this sector, as it already owned many plantations for producing tea leaves.

To Counter Competition, the management expanded its scale of operations. It increased the production of tea leaves (the raw material source) and branched out into allied processes within the industry value chain like blending, packaging, and marketing. It also owned and controlled its resources. This increase in *scale of operations* gave it a competitive advantage that not many new entrants may have had.

Bargaining power of suppliers: As mentioned in the case, many of the sellers in the saturated tea market bought tea leaves from traders at various auctions, blended, packaged, and marketed the tea. These brokers at auctions could influence the price of tea since they had information on both the demand and supply sides of the business. RTL was already a supplier of tea leaves (the raw material) and had wanted to branch out further in the industry value chain by expanding its operations. Moreover, it wanted to reduce the operating cycle by delivering good quality tea to the customers within 20 days. As part of its brand strategy, RTL also wanted to bring variety to its product offerings in terms

of both quality (premium vs. economy) and type (leaf vs. dust). *Uninterrupted supply of appropriate quality tea leaves is a critical requirement to ensure both a quick operating cycle and ability to produce a variety of tea catering to different brand requirements.*

Therefore, it increased the scale of its production of tea leaves (raw materials) by increasing production in existing plantations as well as acquiring newer plantations. Ownership of these plantations gave the company better control over the supply of tea leaves. Unlike other sellers in the market, it did not depend on auctions to procure tea leaves. All this helped it to gain control over the supply of its tea leaf requirements. Reduced dependency on auctions or other suppliers also contributed to its success.

Bargaining power of buyers: RTL entered a market that was both saturated and highly competitive. When RTL entered the market, there was a premium segment and an economy segment. *The presence of many suppliers indicates that buyers had a choice to switch between different tea offerings; therefore, there was no preference for a specific brand. In order to build a loyal customer base, RTL had to differentiate itself from other tea offerings.*

RTL redefined itself with as a customer centric business model. *The quality of tea was kept higher than in the unbranded category by reducing the operating cycle and ensuring that the tea reaches the customer in its freshest form. At the same time, the price of its tea was kept lower as compared to other premium tea in the market.* Its multi brand strategy, based on different quality and price expectations, helped it to connect with the different sets of customers, each with unique tastes and preferences. Each brand had a unique identity that the customer could easily understand and know what to expect from the product. This multi brand strategy established an important connection with the end user, helping it build a loyal customer base.

Threat of substitutes: Until the recent year, *there was no immediate threat of substitute.*

Note- The recent market research and study of the beverage industry reveal that RTL needs to consider healthier options like fruit juice, coconut water, almond milk and milk shakes as possible substitutes for tea. These healthy drinks may constitute approximately 8% of the total beverage market in 3 years. *RTL has to consider this as a rising threat of substitutes and strategize accordingly.*

Rivalry among existing firms: Rivalry was addressed by RTL by changing its scope and scale of business operations so that it could exercise better control over different processes in the value chain. Having better control over supply side of business while having the resources to remain agile to the requirements of the demand side of business helped RTL become a leader in the market despite the competition.

Overall, RTL used its multi brand strategy, based on different quality and price expectations, to help build a product differentiation strategy. By expanding its operations into other processes in the value chain like blending, packing, and marketing, *the company could study about the variety and change in taste and preferences of customers.* This gave the company *more credible information about the demand side of the business.* The company could segment the market based on certain criteria so that customer demand could be catered to by addressing their unique needs. This customer centric business model for RTL helped it identify differentiating factors that can help it beat competition.

Scenario-2

At RTL's Darjeeling plantation site, manufacturing process commences with the plucking of tea leaves from the plantation. Once the tea leaves are harvested, they are transported to the internal processing centres to continue the manufacturing process.

The local accountant at the site is currently preparing site's financials in accordance with Indian Accounting Standards (Ind AS) under your supervision.

Required

She has raised the following questions –

- Whether these plucked tea leaves are agriculture produce as per Ind AS 41 or not?
- How should such plucked tea leaves be initially measured?
- What will be subsequent measurement of such tea leaves in line with Ind AS 41 and Ind AS 2? [VERB- APPLY]

Answer

- (i) Paragraph 3 of Ind AS 41, Agriculture states that:

Ind AS 41 is applied to agricultural produce, which is the harvested produce of the entity's biological assets, at the point of harvest. Thereafter, Ind AS 2, 'Inventories' or another applicable Standard is applied. Accordingly, Ind AS 41 does not deal with the processing of agricultural produce after harvest; for example, the processing of grapes into wine by a vintner who has grown the grapes. While such processing may be a logical and natural extension of agricultural activity, and the events taking place may bear some similarity to biological transformation, such processing is not included within the definition of agricultural activity in Ind AS 41.

In the given case, RTL produces tea by processing tea leaves after they are plucked from tea plants, i.e., after they are harvested. Accordingly, any processing of harvested agricultural produce (processing of tea leaves into tea) will not be within the scope of Ind AS 41 as per aforementioned paragraph 3 of Ind AS 41.

Paragraph 5 of Ind AS 41, 'Agriculture' defines agricultural produce:

As per the standard as the harvested product of the entity's biological assets.

A biological asset is a living animal or plant.

Based on above definitions, at the point of harvest, the plucked leaves are the harvested product of tea plants which are the biological assets of RTL, hence such plucked tea leaves are agricultural produce as per Ind AS 41.

- (ii) Paragraph 13 of Ind AS 41 states that:

Agricultural produce harvested from an entity's biological assets shall be measured at its fair value less costs to sell at the point of harvest. Such measurement is the cost at that date when applying Ind AS 2 'Inventories' or another applicable Standard.

Therefore, in line with paragraph 13 of Ind AS 41, the fair value less costs to sell of the plucked leaves at the point of harvest would be the cost of such plucked leaves at the date of applying Ind AS 2.

- (iii) Subsequently, such plucked tea leaves will be measured as inventory as per the accounting principles of Ind AS 2, 'Inventories'.

Scenario-3

In the process of preparing the financial statements for the financial year ending on 31.03.2023, the management of RTL has made several accounting estimates and affirmed to the auditor that all necessary accounting estimates have been recognised, measured, and disclosed in the financial statements are in accordance with the applicable financial reporting framework. However, in the course of the audit, auditor has observed some changed circumstances giving rise to the need for an accounting estimate.

Required

ENUMERATE some circumstances, change of which would prompt inquiries from the management of RTL.

Answer

As per SA 540, "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures", inquiries of management about changes in circumstances may include, for example, inquiries about whether:

- The entity has engaged in new types of transactions that may give rise to accounting estimates.
- Terms of transactions that gave rise to accounting estimates have changed.
- Accounting policies relating to accounting estimates have changed, as a result of changes to the requirements of the applicable financial reporting framework or otherwise.
- Regulatory or other changes outside the control of management have occurred that may require management to revise, or make new, accounting estimates.
- New conditions or events have occurred that may give rise to the need for new or revised accounting estimates.

During the audit, the auditor may identify transactions, events and conditions that give rise to the need for accounting estimates that management failed to identify. SA 315 deals with circumstances where the auditor identifies risks of material misstatement that management failed to identify, including determining whether there is a significant deficiency in internal control with regard to the entity's risk assessment processes.

MCQ-1

Which of the following statement is true regarding the current expansion plan of RTL (acquisition of TKP) and the expansion of RTL in the mid-1980s?

- Current expansion plan of RTL (acquisition of TKP) is horizontal integration, while expansion in the mid-1980s is vertical integration
- Current expansion plan of RTL (acquisition of TKP) is vertical integration, while expansion in the mid-1980s is horizontal integration
- Current expansion plan of RTL (acquisition of TKP) and the expansion in the mid-1980s are both vertical integration
- Current expansion plan of RTL (acquisition of TKP) and the expansion in the mid-1980s are both horizontal integration

Answer

The correct answer is - (a) Current expansion plan of RTL (acquisition of TKP) is horizontal integration, while expansion in the mid-1980s is vertical integration.

Reason

TKP is in the same business as RTL. There is a difference, TKP produces tea bags while RTL produces tea packages. However, both belong to the same industry, catering to different requirements within the tea market. The acquisition of TKP will help RTL grow in size and revenue by diversifying into new markets with newer products of tea. Therefore, this is a horizontal integration.

The expansion of RTL in the mid-1980s to include other processes in the value chain like blending, packing, and marketing is a vertical integration. RTL, at that point in time, was only in the plantation business. As expanded into other activities in order to get better control of the supply chain, RTL gained control over additional processes in the production of tea as well as the cycle time to deliver to customers. This helped to penetrate the existing tea market in India. This is vertical integration.

MCQ-2

The regulatory authorities in India have to assess whether there is any breach of the anti-competition laws. Which type of stakeholder will the regulatory authorities be classified as using Mendelow's Matrix?

- (a) The regulatory authority is a marginal player with low interest and low power
- (b) The regulatory authority is a key player with high interest and high power
- (c) The regulatory authority is an influencer with low interest and high power
- (d) The regulatory authority is an affected player with high interest and low power

Answer

The correct answer is- (c) the regulatory authority is an influencer with low interest and high power.

Reason

The authorities have a low interest in whether the acquisition is successful or not. However, they have a high power since if there is any indication that this acquisition can give RTL unfair advantage to stifle competition, they can refuse to approve the acquisition deal or may take action against the business. Hence, enough information should be provided to keep them satisfied in order to not face any adverse action.

MCQ-3

TKP has used the tag line "Anywhere-Anytime" to market its tea bags. With reference to the value proposition map, please match the following –

Particulars	Element of the value proposition map
a. Brewing tea	i. Customer Profile: Gain
b. Customer health	ii. Value Map: Gain Creator
c. Green tea	iii. Value Map: Pain Reliever
d. Tea bag	iv. Customer Profile: Pain

Options

- (a) a- i, b- ii, c- iii, and d- iv
- (b) a- i, b- iv, c- iii, and d- ii
- (c) a- iv, b- i, c- iii, and d- ii
- (d) a- iv, b- i, c- ii, and d- iii

Answer: The correct answer is- (d) a- iv, b- i, c- ii, and d- iii.

Reason:

Brewing tea is a pain that the customer faces; Customer Profile: Pain.

Customer Health is a gain or aspiration for the customer; Customer Profile: Gain.

Green tea addresses the customer's aspiration for good health; Value Map: Gain Creator.

Tea Bag brings the convenience of brewing tea anywhere at anytime; Value Map: Pain Reliever.

MCQ-4

The blending machine at Nagaon (Assam) Factory blends tea leaf varieties produced in the plantations of RTL. Due to increased seasonal demand during the monsoon, the production of tea increases in this factory for the months of May, June, and July. Due to this, the availability of time on the blending machine is limited during these months. There is no immediate plan to increase the blending machine capacity since this is a seasonal variation in demand, and hence the constraint is short term in nature. At the same time, the production manager at Nagaon Factory wants to determine the order and quantity of tea blend to produce in order to maximize profits. The selling price and cost per kg., as well as bottleneck production details are as below:

Particulars	Blend 1	Blend 2	Blend 3
Selling price (in ₹)	500	600	800
Material and other variable cost (in ₹)	300	400	500
Time required at the blending machine (minutes); Bottleneck resource time	20	30	40

The factory cost is ₹5 per minute. The manager wants to rank the blends based on the throughput accounting ratio. This will be used to plan the production schedule for the months when blending time is a bottleneck constraint.

Which of the following statements is true?

- (a) Ranking based on throughput accounting: Rank 1 – Blend 1, Rank 2 – Blend 2, and Rank 3 – Blend 3
- (b) Ranking based on throughput accounting: Rank 1 – Blend 1, Rank 2 – Blend 3, and Rank 3 – Blend 2
- (c) Ranking based on throughput accounting: Rank 1 – Blend 2, Rank 2 – Blend 1, and Rank 3 – Blend 2
- (d) Ranking based on throughput accounting: Rank 1 – Blend 3, Rank 2 – Blend 2, and Rank 3 – Blend 1

Answer

The correct answer is (b) Ranking based on throughput accounting: Rank 1 – Blend 1, Rank 2 – Blend 3, and Rank 3 – Blend 2.

Reason

The calculation is as below:

Particulars	Blend 1	Blend 2	Blend 3
Selling Price (in ₹)	500	600	800
Less: Material and Other Variable Cost (in ₹)	300	400	500
Throughput Contribution (in ₹)	200	200	300
Time Required at the blending machine (minutes)	20	30	40
Contribution per minute (in ₹)	10.00	6.66..	7.50
Factory Cost <i>per minute</i> (in ₹)	5	5	5
Throughput Accounting Ratio (TA Ratio = Contribution <i>per minute</i> / Factory Cost <i>per minute</i>)	2.00	1.33..	1.50
Ranking as per TA ratio	I	III	II

MCQ-5

RTL has divisions like plantation, processing, blending, packaging, etc. The popularity of tea has increased the demand for tea leaves in the market. Many tea companies do not own any plantations of their own. They purchase the tea leaf directly from the tea auctions. RTL uses only the tea leaf produced within its own plantations in order to have control over the quality and price of different tea blends. The tea leaves, once plucked, are transferred to the processing units within the plantations. The company has a transfer pricing policy for any internal transfer within the divisions. Plantations are producing at their full capacity. Brokers from the external market are offering the plantation division a price of ₹200 per kg. of plucked tea leaves, while the marginal cost of production has been determined at ₹170 per kg. The net marginal price (selling price – marginal cost) at the processing division is ₹210 per kg., while the price at which the processing centre can purchase tea leaves (procurement price of similar quality) from other plantation suppliers is ₹205 per kg. Note, selling price for the processing division is actually the transfer price it charges the blending division for each kg. of processed tea.

The managers of each unit have their performance assessed based on the surplus each division generates. Which of the following transfer pricing range will bring goal congruence between the plantation division and the processing division?

- Minimum ₹170 per kg. – maximum ₹210 per kg. of tea leaves
- Minimum ₹200 per kg. – maximum ₹210 per kg. of tea leaves
- Minimum ₹200 per kg. – maximum ₹205 per kg. of tea leaves
- Minimum ₹170 per kg. – maximum ₹205 per kg. of tea leaves

Answer

The correct answer is- (c). Transfer price range for tea leaves should be minimum ₹200 per kg. – maximum ₹205 per kg. of tea leaves.

Reason

The plantation division is operating at full capacity, with an external demand for its tea leaves at ₹200 per kg. Hence,

although its marginal cost is only ₹170 per kg., it should charge the opportunity cost of ₹30 per kg. that it would have earned had it otherwise sold in the external market. For the processing division, tea leaves can be bought externally at ₹205 per kg. Hence, although its net marginal revenue is ₹210 per kg., that it can afford to pay upto ₹210 per kg. and still remain profitable, the division will be unwilling to pay beyond ₹205 per kg. (external procurement price). Hence, the transfer price range that can promote goal congruence will be minimum ₹200 per kg. – maximum ₹205 per kg. of tea leaves.

The ideal transfer price should be ₹200 per kg. which will give the plantation division the normal profit it would have otherwise earned from external sales, while the processing unit can procure it at a much lower cost than the external buy-in price. The transfer price will be negotiated by the managers of the respective division; hence, the final price within the above range will depend on the bargaining skills of each manager.

MCQ-6

In August'2023, RTL's tea estate in Jellalnagar, Karimganj district, received ₹10,00,000/- as compensation from an insurance company for severe damage to green leaves caused by a hailstorm. A trainee accountant (tax) at the Head Office believes that the entire receipt under the insurance policy, pertaining to damage caused by the hailstorm to tea leaves, will be assessable as income from other sources. Evaluate this view.

- The accountant's view is correct; the entire compensation is assessable as income from other sources.
- The accountant's view is incorrect; no part of the compensation consists of manufacturing income, and it cannot be apportioned under rule 8 between manufacturing income and agricultural income. Therefore, income will be agricultural income.
- The accountant's view is incorrect; only a portion of the compensation is assessable as business income.
- The accountant's view is incorrect; the entire income would be treated as business income.

Answer

Option B is correct.

Reason

Compensation received from an insurance company for damage caused by hailstorm to the green leaf is fully agricultural income and no part of such compensation consists of manufacturing income. Therefore, cannot be apportioned under rule 8 between manufacturing income and agricultural income.

Concept Insight

Vertical integration is a competitive strategy wherein an organisation takes complete control over one or more stages in the production or distribution of a product. It can involve integrating with units that supply raw materials (backward integration) or with the distribution channels that carry its products to the end-consumers (forward integration). On the other hand, *horizontal integration* is another competitive strategy employed by organisations. Horizontal integration takes place when an organisation acquires a competing business.

Case Study-2

About Case Study

	Industry	Tea- Blending and Packaging
	Subjects	Strategic Cost Management, Indirect Tax Laws, Corporate and Economic Laws, Auditing
	Topics	Just in Time, Customer Profitability Analysis, Startup, Target Costing, Pricing Strategy, Notification No. 12/2017 CT(R) dated 28.06.2017, Schedule 1 Transactions - FEMA 1999, Internal Control Questionnaire



Prime Tea Private Limited-1

Prime Tea Private Limited (PTPL) was established in 1938, headquartered in Kolkata. The company is privately owned by the Triboovandas family members, who have been in the tea business for the past 3 generations. Mr. Bhushan Triboovandas started out as a broker in the Siliguri Auction Centre. In due course, he started a tea blending and packaging company, PTPL in Kolkata. Tea leaves are blended and packed at its production facilities and sold further to tea distributors. Tea distributors in turn sell the packages to other smaller wholesalers or large retail outlets. Retail chains across India stock tea packages blended by PTPL.

In smaller cities and towns, where there is no presence of proper distributors, PTPL has local sales agents that it hires on contract to sell tea to small grocery stores and other local shops. Goods are sent to these local agents on consignment. Tea packages have a long shelf life and can be stored up to a year if stored in appropriate conditions. PTPL commands a moderate 8% market share in terms of sales in the Indian Market.

PTPL has been a profitable business for most of the years of its existence. The past many years have seen significant inflationary trends in the economy. Like many other companies, PTPL too has been enduring the increase in tea leaf price, which is the primary raw material. To combat reducing profit margins due to inflation, it has concocted a uniform blend that it sells under the brand name "A1 Tea". The blend is prepared by mixing few popular tea flavours into one. This concoction was done with the help of an expert tea sommelier a decade back. PTPL has used same composition over the last many years. The tea that PTPL prepares under the "A1 Tea" is of the black tea variety, which is the most popular tea variety consumed in India.

The Indian marketplace is crowded with many tea companies like PTPL. In retail outlets and grocery stores shelves stocking tea beverage have many brands stocked together. There is nothing much to differentiate PTPL's "A1 Tea" brand from the rest. Brands have to fight to gain visibility among customers and this is done using attractive packaging, increasing advertisement

spend, etc. Hence, customers are more price sensitive rather than conscious about quality of tea.

Today, in 2023 the total Indian Tea market is estimated to be ₹34,400 crore with branded business constituting approximately 74% of the total market value. The global tea market is estimated to be \$45-50 billion with the main demand coming from the Black Tea segment. Demand in other segments like Green Tea, Fruit & Herbal, Decaf, Speciality among others is also picking up. Despite optimistic prospects, the management at PTPL observes stagnation in tea sales rather than growth.

Currently, PTPL supplies tea to 300 distributors across India. An investigation into this revealed that many of the distributors are also distributors for competitors of PTPL. The investigation further revealed that in the past 3 years, many times PTPL has delayed the delivery of orders to these distributors. When distributors run out of "A1 Tea" packages, they place an order with the company for stocking up their inventory. Meanwhile, orders from retail outlets and smaller distributors keep coming in, which need to be met by the distributors on time. Hence, if the packages of "A1 Tea" are not replenished in time, distributors instead sell packages of another rival company to meet the order demand on time. The retail outlets and smaller distributors (who are customers of the distributors) are largely indifferent to which brand of tea. As mentioned in the paragraph above, this is because there is not much to differentiate "A1 Tea" from the rest of the brands of similar variety.

A further investigation for the reason for delays in meeting restocking requests of distributors was undertaken. The delayed sales delivery is costing the company in the form of lost opportunity sales. The study of this problem reveals that PTPL has been following Just in Time (JIT) production in its production facilities. This was implemented around 3 years back by the production manager who had wanted a lean production system. Accordingly, the tea blending process happens only when a distributor places an order for tea packages with PTPL. A typical order size would be 50,000 packages a month from each distributor. In a month at least 200 distributors place orders with PTPL.

The raw material in the form of tea leaves is stocked in advance by buying tea from various auctions. Since "A1 Tea" is a blend of popular tea flavours, it requires a mix of tea leaves providing those different flavours. It was found that these different types of tea leaves had different growing, cultivation cycle and were grown in different plantations spread across India. Hence, while stocking up for raw materials, it does happen many times that a particular type of tea leaf is unavailable at that auction centre. In such cases, the tea leaf has to be sourced from some other auction centre or sometimes directly from the plantation. These delays increase the lead time for procurement for tea leaves. The purchase manager at PTPL has not taken any initiative to resolve the problem and reduce the lead time for procurement. Hence, because the entire raw material of the required varieties of tea leaves are always not readily available, it has many times happened that there have been delays in the production of the blended tea. Since the production is JIT system based, PTPL

does not have buffer stock of blended tea (finished product) from which it could try to meet the order requirements at least partially. This is the primary reason for delays in sales delivery, which has resulted in the distributors preferring to sell rival tea brands.

Mr. Kumar, son of Bhushan Triboovandas is the CEO of PTPL. Last month, he called the senior management of the company to understand the reason for stagnating sales. This month, there was a follow up meeting where the findings of the investigations detailed above, were presented to him. On presentation of the findings, an argument ensued between the sales, production and procurement managers defending their department and function.

Sally, the sales manager: *"I am facing the brunt of this problem. It is already very difficult to sell 'A1 Tea' as it does not enjoy very high visibility due to which the end user customer is indifferent to the brand and its quality. Distributors also do not get any additional incentive to sell 'A1 Tea' since the profit margin they derive is just the same from any other brand. While I am trying my best to promote and sell our tea, I am not given sufficient support by Pam from our production department. Others too need to do their job well in order to sustain sales. Is that not the least I can expect?"*

Pam, the production manager: *"My hands are tied, we have best in class blending machines that can blend tea in huge quantities on very short notice. The short turnaround time for sales delivery was considered while implementing the JIT production system 3 years back. This is the reason why we had these high-performance machines installed in the first place. I just need a phone call from Sally and my machines are ready to do the job. My department cannot be blamed for delays if the requisite raw materials are not available. Procurement is Sam's responsibility; she should be made accountable for this."*

Sam, the procurement manager: *"It is unfair to lay the entire blame on me. I have no information about what the production is going to be during the month. I need at least 1-month advance notice if not more, to ensure that raw material supply is uninterrupted. Perhaps my colleagues here have forgotten that tea leaves are agricultural produce that cannot be grown on the drop of a hat. I need time to get the varieties of leaves from different auction locations across India to our storage facility here in our plant. Certain varieties are available only for few seasons, hence procuring them during off seasonal months is very difficult. While JIT production may work fine for blending, JIT procurement is impossible for tea leaves. I need advance notice of raw material requirements. Without this information, I cannot ensure their supply."*

Mr. Kumar says *"Right from my father's days, all departments had complete understanding of each other's requirements. We have never felt the need to have information systems in place. All that was required was a phone call between the managers for the business to be done. Of-course, over the years we have grown in scale. However, this has led to gaps in passing on information. How can we resolve this?"*



Scenario-1

Anticipating heated arguments, Mr. Kumar on behalf of PTPL, has hired you as a management consultant to guide the company on ways to improve its sales and increase its market share. Your priority is to resolve the issue of delayed sales delivery to the tea distributors. Reduction in instances of lost sales opportunities will dramatically improve the sales for PTPL and grow its market share.

Required

Write a brief note addressed to the senior management, ADVISE critical points that need to be attended to in order to resolve this issue.

Answer

Let me begin with Mr. Kumar's observation that there are no information systems in place despite the company growing in scale over the years. As correctly pointed out, there are gaps in passing on information which has resulted in delays and thereby lost sales opportunities.

JIT production system works will work well only when PTPL can anticipate the demand patterns of distributors for "A1 Tea". It is of paramount importance therefore, that the sales forecast be as accurate as possible. This role will primarily be driven by Sally, the sales manager. She has to study the demand patterns, interact with distributors to understand the market and customer needs. Once, the sales order trend is understood, Sally has to prepare a monthly plan for expected sales. This can be drawn in anticipation for the entire year. This plan will then give the company an idea about the output required to be produced to meet the distributor's demand in its entirety and on time.

The production manager, Pam has implemented the JIT production system 3 years back. The problem of delays in meeting sales orders also began around that same period. This provides a reasonable ground to conclude that the lost sales opportunities could be linked to the type of production system followed at the production centre. If production has to happen seamlessly, the raw material should be available on demand. Hence, there is a requirement for information to flow from sales to production and to procurement departments. Sally has to share the sales plan with both Pam and Sam, the production and procurement managers respectively. When the expected annual output needed is known, production and purchasing can align their functions accordingly.

Pam, the production manager has to then co-ordinate with Sam the procurement manager and discuss the production schedule. Any specific requirements have to be discussed, for example the requisite grade of tea leaves, any other technical aspect that needs attention. If a JIT production system is to be followed, there may not be much time for quality check of the raw material input or to look into certain technical specifications at the last moment. Any misunderstanding or lack of information will lead to delays in production and the system will not be Just in Time at all.

Coming to raw material procurement, the raw material tea leaves have to be adequately stocked up. Being an agricultural produce, a JIT procurement system may not always be feasible. Moreover, different varieties of tea have to be procured from different

auctions in different geographical locations. All this *increases the lead time for procurement of tea leaves* (the raw material for blended tea). However, the sales, production and purchase manager have to co-ordinate to ensure that there are no delays in availability of raw material for immediate production. Tea leaves are procured at auctions from across India. Sam has to ensure that there is always adequate stock of the required varieties of tea leaves based on the likely production schedule shared by Pam. Sam *can even consider the possibility of having buffer stock* in order to meet any rush requirements. These off-course would be *subject to the available storage space, cost of storage and any resultant loss or waste on storage*.

Further the production manager can consider the possibility of “**making to stock**” instead of using “JIT which is making to order”. It is mentioned that packaged tea has a *long shelf life*, if stored in appropriate conditions. Also, procurement of tea leaves requires lead time and co-ordination between the company and brokers at auctions or sometimes even with tea plantations when the variety is unavailable. Company can explore the possibility of having *long term contracts with brokers or plantations* for its tea leaf requirements. Due to long lead times required for procurement, it *makes sense to stock up the raw material*. At the same time, since the finished product has a long shelf life, it may make sense to stock up the finished product as well. This can give company a buffer to provide for any rush orders from distributors or even provide for errors in its sales forecasting. This can be the support that Sally is looking from both Pam and Sam.

As a final remark, there must have been a rationale for implementing the JIT production system 3 years back. It is definitely useful as cost savings can be achieved from lower storage space requirements, improving labour efficiency, reduction of wastage etc. Hence, before management take a decision on whether to continue JIT production or revert back to “make to stock” production system, it is necessary to understand why the production system was changed to the current JIT system in the first place. Depending on the nature of business, the cost effectiveness, management may choose the system that will have least disruptions in order to meet demand within the tea industry.



Scenario-2

PTPL extends a “net 30” day credit to its distributors (customers). The 30-day credit period begins from the time of dispatch of goods from PTPL’s warehouse. Invoices are generated and posted to the distributors. On an average it takes 3 days after dispatch to generate the invoice and a further 3 days for the post to reach the distributors. So, totally the distributor gets the invoice 6 days after dispatch. There have also been instances of the invoice being misplaced or not being received at all. In such cases, PTPL resends the invoice, which again requires few more days to reach the distributor.

Only 30% of the accounts receivable is collected within 30 days. On an average, the accounts receivable collection period is 50 days. PTPL does not charge any interest for this delay since it wanted to maintain good relations with the distributors. Bad debts account for almost 10% of the accounts receivable.

Required

You have been requested to ADVISE ways to reduce the collection period from the current average of 50 days to 30 days without creating any acrimony with distributors.

Answer

PTPL is using a manual method for dispatching invoices to its distributors (customers). The distributor is made aware of the amount payable 6 days after dispatch of goods. This is almost 20% of the credit period (6 days out of 30 days). So, the distributor gets 24 days to arrange for the payment on the due date. The following steps can help to improve the collection of accounts receivable on due date and help to reduce bad debts:

- (i) Revisit the credit period extended: If only 30% of the accounts receivable is collected within 30 days, it implies that the balance 70% delay the payment / settlement. PTPL has to assess whether the credit period of 30 days is reasonable and *in line with industry standards*. If the credit period is longer than 30 days, then PTPL may need to at least temporarily adjust to the industry norm for settlement with distributors. If the credit period is 30 days or lesser, then PTPL should develop an understanding with the distributors that emphasises that the payment has to be made within due date of 30 days.
- (ii) Better distributor relations: For PTPL to be able to dictate terms to distributors, it must *first ensure that the distributor’s requirements are met on time*. Hence, PTPL has to ensure that it delivers the goods on time, it has the capability of restocking whenever requested by the distributor. The other improvement can be by *automating the invoicing*, it can be generated and sent electronically as soon as the goods are dispatched to the distributor. This way there is sufficient information about the amount to be settled, giving distributor ample time to arrange for funds.
- (iii) Credit analysis of distributors: PTPL has to analyze which distributors cause delay in payments or default in payments. Credit should be extended only to *credit worthy distributors*.
- (iv) Ensure multiple channels of settlement: PTPL should *provide various channels through which settlements can be conducted*, including electronic transfers, and other banking channels such as cheques or drafts. Electronic mode of settlement ensures that the funds are received instantaneously. At times when the distributor is constrained by one method, PTPL should be in a position to offer alternate settlement methods.
- (v) Offer discounts on early settlements: To encourage early receipt of funds, PTPL can offer a small discount if the funds are remitted before due date. For example, PTPL can offer 1/10 net 30 deal. If a distributor settles the entire amount due within 10 days, a discount of 1% can be availed. Beyond 10 days until 30 days, no discount can be availed but there will be no penalty or interest either. Beyond 30 days, there can be an interest or penalty charged.

Scenario-3

'If we recoup the entire accounts receivable, that is there are no bad debts, it also means that we are profitable. It also means that each and every customer contributes towards this profit.'

– Mr. Kumar

Required

Critically ANALYZE this statement and ILLUSTRATE whether it is always true.

Answer

Recouping entire accounts receivable, with zero bad debts is indeed an ideal situation. Simply put, the company has managed to recover the entire sales that it has made to its distributors. However, it does not imply that the company is profitable. A quick example would be a case where 1 kg. tea package costs ₹300 to manufacture while due to intense competition, the company is forced to sell it at ₹250. The net loss incurred in this sale is ₹50, this would be so despite the entire amount outstanding of ₹250 is received. This refutes the first statement that *'If we recoup the entire accounts receivable, that is there are no bad debts, it also means that we are profitable.'* The above example shows that this need not always be true.

Coming to the second assertion that *'if the bad debts are nil, it also means that each and every customer contributes towards profitability.'* Again, this need not always be true.

Note: Let us take the example below for the purpose of better understanding.

Let us say PTPL has only 2 customers (here distributors). Details of sales and cost of generating these sales are given below –

Particulars	Distributor A (₹)	Distributor B (₹)	Total (₹)
Sales	10,000	30,000	40,000
Less: Cost of Goods Sold	5,000	15,000	20,000
Cost of sales visits (specifically traced to customer based on actual sales visits) A: 1 visit × ₹500 per visit B: 10 visits × ₹500 per visit	500	5,000	5,500
Sales order processing cost (allocated based on number of orders) A: 1 order × ₹500 per order B: 10 orders × ₹500 per order	500	5,000	5,500
General administrative cost (based on number of hours of support lent to each customer)	1,000	2,000	3,000
Profitability	3,000	3,000	6,000

From the above example, it can be seen that each distributor contributes the same profit of ₹3,000 each to PTPL. However, Distributor A is lot more profitable (profit margin is 30% of sales) as compared to Distributor B (profit margin is 10% of sales). Hence, the profitability of each customer is not the same. It could very well be that there may be loss making customers, the loss is absorbed by the profits generated from other customers. Hence, even if the entire outstanding amount is recouped, it does not mean that each and every customer contributes towards profitability.

The type of detailed customer wise profit analysis done above is called Customer Account Profitability. By attributing revenue and costs to each of the customers, their individual contribution towards the profit margin of the company can be calculated. Costs will vary since the amount of support each customer needs from the company may be different. In the above example, Distributor B needed more sales visits as compared to Distributor A. The number of sales visits were 10 times more, but that yielded revenue only 3 times more than Distributor A. Reasons for this have to be understood. There may be underlying problems with the sales arrangement with the customer or PTPL can perhaps improve some business process that can reduce the number of sale visits.

PTPL should analyze its customer base and identify the profitable customers and the unprofitable ones. Expand business with profitable ones. Either turn around the unprofitable ones by reducing costs or increasing sales else cease to do business with them.

MCQ- 1

Giving the case study scenario, which pricing strategy do you think that PTPL is following for its "A1 Tea" brand?

- (a) Cost plus markup pricing
- (b) Target rate of return
- (c) Perceived value pricing
- (d) Going rate pricing

Answer

The correct answer is (d) going rate pricing.

Reason

Going rate pricing is a competition-based pricing where the company sets the price based on the market price for the product. The market is highly competitive. Hence, it is given that customers are more price sensitive and indifferent between different brands. So, going rate price would be the best pricing for PTPL to follow.

MCQ- 2

Below is the cost structure for producing of 1 kg of "A1 Tea":

Direct material cost	₹200
Direct labour cost (20 minutes, costing ₹300 per hour)	₹100
Overhead cost	₹50
Total cost	₹350

In addition, 1 kg of "A1 Tea" also requires 0.6 kg of other material which costs ₹80 per kg, with 4% substandard quality which cannot be used in production of tea.

PTPL sells 1 kg of "A1 Tea" for ₹400. PTPL wishes to earn 10% profit margin on the same. Is the target cost being met?

- No, the total estimated cost is ₹400 per kg while target cost is ₹360 per kg.
- Yes, the total estimated cost is ₹350 per kg while target cost is ₹400 per kg.
- Yes, the total estimated cost is ₹350 per kg while target cost is ₹360 per kg.
- Yes, the total estimated cost is ₹400 per kg while target cost is also ₹400 per kg.

Answer

The correct answer is (a) No, the total estimated cost is ₹400 per kg while target cost is ₹360 per kg.

Reason

The total estimated cost is:

Direct material cost	₹200
Direct labour cost (20 minutes, costing ₹300 per hour)	₹100
Overhead cost	₹50
Other material (0.6 kg. / 96% × ₹80 per kg.)	₹50
Total estimated cost (per kg.)	₹400

The target cost if the company wishes to earn 10% of revenue as profit is ₹360 per kg. Selling price ₹400 per kg less profit margin ₹40 per kg = ₹360 per kg.

MCQ- 3

Rani is a tea sommelier who has recently graduated from university and holds a professional certified tea sommelier degree. Few months back, she started 2 outlets by the name "Queen Tea" in Kolkata which serves gourmet tea specially crafted by her. Business has been profitable and has gained traction in terms of revenue and customers. Rani envisions that she can revolutionize the tea industry by influencing the taste preference of tea consumers.

Her specially crafted tea is authentic, unique in flavour that can be appreciated by real tea enthusiasts. India's economy has space even for niche tea enthusiast who are willing to pay a premium for a good cup of tea beverage. However, Rani is facing many issues running the business-like access to extra finance, networking, how to market her product etc. Whom should she approach to find proper guidance, finance, and support?

- An incubator
- An accelerator
- A start up
- An intrapreneur

Answer

The correct answer is (b) an accelerator.

Reason

Accelerators can accelerate growth by removing some of the risk and uncertainty involved; through a short-term program usually for start-ups that already have a Market Viable Product (MVP), which in Rani's case is her specially crafted gourmet tea. She can get guidance on how to scale up business, have access to business mentorship and guidance that can improve profitability, get industry connections etc. An accelerator generally gets an equity stake in the startup that joins its program. This gives proper motivation to provide proper guidance to the startup founder.

MCQ- 4

In order to drive up sales, PTPL started offering a teacup free for every 1 kg of "A1 Tea" bought per order. This would be an example of:

- Awareness
- Promotion
- Subscription
- Cross subsidization

Answer

The correct answer is (b) Promotion.

Reason

A low-cost product, teacup in this case, is offered for free in for the purchase of 1 kg of "A1 Tea".

MCQ-5

An employee of PTPL visited Guwahati to purchase tea leaves from an auction at Guwahati Tea Auction Centre and had stayed in the hotel located in Guwahati, Assam. At the time of checkout from hotel, the invoice was issued for an amount equivalent to ₹1,00,000. The hotel issued invoice in the name of PTPL and GST was charged at the rate of 14% CGST and 14% SGST on total invoice amount of ₹1,00,000. Out of such amount, the amount recoverable from the employee towards non-official stay by PTPL was ₹50,000.

Whether input tax credit is available on the GST paid by PTPL on the invoice amounting to ₹1,00,000 to the hotel located in Guwahati, Assam, for stay of the employee? If yes, please specify the amount of input tax credit available.

- Yes, ₹14,000 as CGST and ₹14,000 as SGST
- Yes, ₹28,000 as IGST
- No input tax credit is available
- Yes, ₹7,000 as CGST and ₹7,000 as SGST

Answer

The correct answer is (c), no input tax credit is available.

Reason

ITC of GST paid on hotel accommodation is not available as CGST/SGST of one State cannot be utilized for discharging of CGST/SGST liability of another State.

MCQ-6

PTPL entered into a contract with Nayan Distributors, Siliguri for supply of 1 tonne of "A1 Tea". It sent the said consignment to the distributor and paid loading and unloading charges of ₹20,000.

Which of the following statements is correct under the GST law?

- (a) "A1 Tea" is an agricultural produce. Loading and unloading of "A1 Tea" is exempt from GST.
- (b) "A1 Tea" is an agricultural produce. Loading and unloading of "A1 Tea" is liable to GST.
- (c) "A1 Tea" is not an agricultural produce. Loading and unloading of "A1 Tea" is liable to GST.
- (d) "A1 Tea" is not an agricultural produce. Loading and unloading of "A1 Tea" is exempt from GST.

Answer

The correct answer is (c) – "A1 Tea" is not an agricultural produce. Loading and unloading of "A1 Tea" is liable to GST.

Reason

Item (e) of Entry 54 of *Notification No. 12/2017 CT(R) dated 28.06.2017* exempts loading, unloading, packing, storage or warehousing of agricultural produce. In this regard, it may be noted that "A1 Tea" is a blended tea prepared by mixing popular tea flavours into one. Different tea flavours are processed products - dried, fermented, and cut tea leaves. Thus, "A1 Tea" is not an "agricultural produce" and thus, loading of the same is not eligible for exemption under entry 54.

MCQ-7

PTPL recently came across a new export opportunity, involving the export of tea to Country 'N' via the Rupee State Credit Route. However, the person who will execute the trade is based out of Country 'N' and would charge a commission of 20%. The CFO informed the CEO that we cannot enter into this trade as the remittance of commission on the Rupee State Credit Route is not allowed.

Considering the given legal position of the execution of the trade through the payment of commission on export under Rupee State Credit Route, comment on correctness of advice of CFO on such remittance of commission in the light of the Foreign Exchange Management Act, 1999.

- (a) Yes, the CFO is correct. No commission can be paid on exports through the Rupee State Credit Route. Hence, we cannot export the tea.
- (b) No, the CFO is incorrect. Commission up to 20% can be paid on exports through the Rupee State Credit Route. Hence, we can export the tea and remit the commission to the agent.
- (c) No, the CFO is incorrect. Although commission cannot be paid on exports through the Rupee State Credit Route, however commission up to 10% of invoice value of export can be paid on tea and tobacco. Here, still cannot export the tea because commission only up to 10% is allowed.
- (d) No, the CFO is incorrect. Although commission cannot be paid on exports through the Rupee State Credit Route, up to 20% commission can be paid on tea and tobacco. Hence, we can export the tea and remit the commission to the agent.

Answer

Correct Answer is (c).

Reason

In accordance with Foreign Exchange Management Act, 1999, Schedule 1, transactions for which drawal of foreign exchange is prohibited includes payment of commission on exports under Rupee State Credit Route, except commission up to 10% of invoice value of exports of tea and tobacco.

MCQ-8

The management of PTPL has developed a strong internal control in its accounting system in such a way that the work of one person is reviewed by another. Since no individual employee is allowed to handle a task alone from the beginning to the end, the chances of early detection of frauds and errors are high. To facilitate the accumulation of the information necessary for the proper review and evaluation of internal controls, PTPL's auditor framed an internal control questionnaire to obtain an understanding of internal financial control relevant to the audit in order to design audit procedures that are appropriate. Which of the following questions relates to the procurement of tea leaves.

- i. Is there a procedure in place to match received tea leaves with corresponding invoices?
- ii. Is there a procedure of monitoring broad customer preferences worldwide?
- iii. Are provisions for bad debts made based on a systematic assessment of the collectability of outstanding receivables?
- iv. Is there a designated authority responsible for approving tea leaf procurements?
- v. Is there a confirmation process, such as signed delivery receipts, to validate successful deliveries?

Options

- (a) Only (i)
- (b) (i) and (iv)
- (c) (i), (ii) and (iv)
- (d) (ii), (iii) and (v)

Answer

Correct Answer is (b)- (i) and (iv).

Reason

In the internal control questionnaire developed by PTPL's auditor, it is noted that question (ii) is primarily focused on study of consumer behaviour or demand pattern rather than directly addressing internal control measures. Meanwhile, question (iii) pertains to internal controls associated with receivables, and question (v) specifically addresses internal control aspects related to the dispatch of tea.

Note: The Prime Tea 2 Case Study will be hosted on the website separately.

Case Study-3

About Case Study

	Industry	Tea- Blending and Packaging
	Subjects	Strategic Cost Management, Advanced Financial Management, Corporate and Economic Laws
	Topics	Business Model: Change in Distribution Channel, Customer Profitability Analysis, Forward Contract, Foreign Exchange Management (Overseas Investment) Rules 2022, Interest Rate Swap, Porter's Five Forces



Prime Tea Private Limited-2

Prime Tea Private Limited (PTPL) was established in 1938, headquartered in Kolkata. The company is privately owned by the Triboovandas family members, who have been in the tea business for the past 3 generations. Shri Bhushan Triboovandas started out as a broker in the Siliguri Auction centre. In due course, he started a tea blending and packaging company, PTPL in Kolkata. Tea leaves are blended and packed at its production facilities and sold further to tea distributors. Tea distributors in turn sell the packages to other smaller wholesalers or large retail outlets. Retail chains across India stock tea packages blended by PTPL.

In smaller cities and towns, where there is no presence of proper distributors, PTPL has local sales agents that it hires on contract to sell tea to small grocery stores and other local shops (SGSs). Goods are sent to these local agents on consignment. Tea packages have a long shelf life and can be stored up to a year if stored in appropriate conditions. PTPL commands a moderate 8% market share in terms of sales in the Indian Market.

PTPL has been a profitable business for most of the years of its existence. The past many years have seen significant inflationary trends in the economy. Like many other companies, PTPL too has been enduring the increase in tea leaf price, which is the primary raw material. To combat reducing profit margins due to inflation, it has concocted a uniform blend that it sells under the brand name "A1 Tea". The blend is prepared by mixing few popular tea flavours into one. This concoction was done with the help of an expert tea sommelier a decade back. PTPL has used this same composition over the last many years. The tea that PTPL prepares under the "A1 Tea" is of the black tea variety, which is the most popular tea variety consumed in India.

The Indian marketplace is crowded with many tea companies like PTPL. In retail outlets and grocery stores shelves stocking tea beverage have many brands stocked together. There is nothing much to differentiate PTPL's "A1 Tea" brand from the rest. Brands have to fight to gain visibility among customers and this is done using attractive packaging, increasing advertisement spend etc. Hence, customers are more price sensitive rather than conscious about quality of tea.

Today, in 2023 the total Indian Tea market is estimated to be ₹34,400 crore with branded business constituting approximately 74% of the total market value. The global tea market is estimated to range between \$45-50 billion, with primary demand stemming from the Black Tea segment. There is a growing interest in other segments such as Green Tea, Fruit & Herbal, Decaf, Speciality, among others. Despite optimistic prospects, the management at PTPL observes stagnation in tea sales rather than growth.

Mr. Kumar, son of Bhushan Triboovandas is the CEO of PTPL. Last month, he called the senior management of the company to understand the reason for stagnating sales. This month, there was a follow up meeting where the findings of the investigations detailed above, were presented to him. Anticipating heated arguments, Mr. Kumar on behalf of PTPL, has hired you as a consultant to guide the company on ways to improve its sales and increase its market share. He wants to focus on the smaller market segment, which is the sales in smaller towns and cities that are handled by contract based local sales agents. Local agents need to travel on an average 60 kms a day meeting SGSs who are willing to stock tea. It was found that local sales agents were doing business with only 25% of the SGSs within their area of operation.

When you along with Sally, the sales manager, met the local sales agents here is what they had to say: *"A1 Tea" has a good taste and has reasonable preference among customers. There are not too many companies selling tea in our areas, hence choice is lesser, therefore competition is also lesser. PTPL can establish a good market presence here. However, we need to travel on an average 60 kms just to make a sales call. PTPL pays us 2% commission for each package of "A1 Tea" sold to the local grocer. This hardly covers the expenses we incur on travel. Instead, we call up once a month to check if the store needs fresh supplies. This will at least save the travel cost. Only then it is viable to sell "A1 Tea" here. Otherwise, the company has to increase the commission rate to at least 8% to make it worth the travel we need to undertake."*



Scenario-1

It has now been two weeks since you have started working on the assignment. Various discussions have been made with different levels of management and operational staff. Various business models have been discussed with Mr. Kumar. Eventually, after many iterations, the senior management agrees that distribution channel will be changed. The current system of consignment sales will be discontinued. The proposal is explained below:

PTPL wishes to adopt a new distribution channel, that will be to deliver "A1 Tea" directly to the SGSs in smaller towns. Each SGS can login to the specially designed portal and place an order for "A1 Tea" directly with PTPL. Depending on the average demand by the end user PTPL has decided to offer its tea packages in 1/2 kg. pack, 1 kg. pack and 2 kgs. pack. Against each type of package, the local store (SGS) can choose the quantity required. Once received, PTPL will then process the order, bundle the entire order into one package that will be delivered to the local store within 3 days of order. The local store has to settle the entire amount due electronically through bank transfer or digital payment systems like UPI, digital wallet etc. while placing the order. In order to increase the popularity of "A1 Tea" among the end use consumers, it is suggested to offer teacups along with the tea packages. Advertising and promotional activities like free tea tasting stalls in popular spots where people get together (like parks, shopping centres, railways stations, bus stops) will be undertaken.

By increasing its market reach, sales from this expansion plan are expected to contribute up to 15% of PTPL's total revenue. This is substantially more than the current contribution of 1% of total revenue.

PTPL has a policy agreement with the grocers (SGSs), that "A1 Tea" packages cannot be opened and sold in loose. This is so in order to maintain the quality of tea. Quality of loose tea will not be the same as that sold in airtight packages. Lower quality will affect customer perception of "A1 Tea". This can negatively impact PTPL's brand value.

SGSs can provide feedback and register complaints with PTPL either through the portal or by calling up the service department that is going to be set up for this purpose.

A meeting has been set up to discuss this proposed plan. As the management consultant, you are the lead presenter of the plan. The question answer session is now open. Below is a sample of few of the questions that you had to answer during the meeting. You are requested to provide your detailed comments and answers to these.

Required

What is the rationale behind adopting the new distribution channel of doing business directly with SGSs? ANALYSE.

Answer

Doing business directly with SGSs through the new distribution channel brings PTPL much closer to SGSs. These stores are potential point of sale of tea to the end user. PTPL has so far relied on local sales agents to connect with these SGSs. However, the agents are not motivated enough to drive sales. It was found that local sales agents were doing business with only 25% of the SGSs within their area of operation. The margins of the company are already squeezed due to inflationary pressures. In this background, agents are already demanding a fourfold increase in commission from 2% to 8%. However, given their current performance, it might not be in PTPL's interest to use their services since it's not at all effective. There is no assurance of better service by paying this extra cost. By directly interacting with the stores/ shops, PTPL will have a direct channel of communication and can get complete and proper feedback directly from them. It is far more effective to use the specially designed portal as a channel (way) to reach out to them since the target segment is geographically spread out over a larger area. The dedicated customer service department can gather information that will help the company improve its operations and resolve customer complaints in a much quicker and more effective manner. Hence, given the geographical spread of the target customer segment, lack of effective support from consignment agents, inflationary cost trends that hike up costs, better connect with the market etc., it makes good business sense to follow the newer distribution channel of directly selling to SGSs.

Required

One of the suggestions given was that packaging tea into smaller packets increases the cost. Packaging is not really adding value to the company. Instead of having smaller packages, why not have one large 5kg "A1 Tea" package? EVALUATE.

Answer

A business should eliminate non-value-added activities in order to improve margins. This is especially true in times of inflation. However, while eliminating these activities, the company has to make sure that it is not disrupting any other area or impacting value. As per the suggestion, with the view to reduce packaging material cost, if it decides to sell "A1 Tea" in 5 kg packets instead of packets of smaller quantities, this will have repercussions on the value that PTPL wishes to offer. ***Its value proposition is to "Increase the availability of "A1 Tea" in small cities and towns where the choice of tea is limited".*** The eventual market segment that is going to benefit from this value is the retail customers, primarily households in smaller towns. Their requirements will be for smaller quantities of tea rather than bulk requirements of 5kg at one go.

In this case, increasing package size to save on packaging cost will adversely impact sales since SGSs can sell tea only in small quantities to their end-user retail customers. Big packets selling bulky 5 kg tea will rather hurt sales and harm the value that PTPL wants to deliver. So, care should be taken while eliminating non-value-added services.

This suggestion can be considered only if the grocers agree that there will be equal, if not more, demand for 5kg bulk packages by the end user. SGSs are a link that helps PTPL to understand the pulse of the market. An end user will be attracted to bulk purchases only if ***substantial discounts*** are provided. Hence, while saving on packaging

costs, the net sales revenue per kg of tea reduces. If this is at all a plausible proposition, these points must be kept in mind as they impact profitability.

Note- PTPL has an agreement with the grocers that tea packages cannot be opened, and that tea cannot be sold in open loose lots. Hence, end users can buy "A1 Tea" only in packages.



Scenario-2

PTPL has successfully adopted and executed the plan in a phased manner. The company can now directly sell its tea to the SGSs based on their online orders. A significant increase in the volume of sales through this revenue channel is anticipated. The company now wants to develop an MIS report that gives detailed information about the sales order volume and profitability. The MIS aims to have the information captured at state level, regional level right down to customer level. The company policies under this plan include:

- (1) Discount of 5% is given on selling price if each order size is cumulatively more than 50 kgs. The order can comprise of any combination of ½ kg. pack, 1 kg. pack and 2 kgs. pack.
- (2) PTPL delivers the order to the SGS. At the same time, it offers flexibility to the SGSs to arrange for their own transport. In case the SGS arranges for its transport, further discount of 8% is given on the selling price of each tea pack.
- (3) Selling price of tea is ₹300 per kg. Therefore, 1 kg. package sells at ₹300 each, 2 kgs. package sells at ₹600 each and ½ kg. package sells at ₹150 each.
- (4) Variable cost per kg. is ₹200 per kg.
- (5) Order processing costs are ₹2,000 per order.
- (6) Delivery costs, where PTPL is arranging for delivery ₹3,000 per delivery.
- (7) Delivery will be within 3 days of placing the order. If there is a rush order, typically delivery within a single day, the cost of delivery would be ₹5,000 per delivery.

Below is an extract of the MIS for the town of Palani, Tamil Nadu. It has 3 SGSs: Customer A, Customer B and Customer C.

Particulars	Customer A	Customer B	Customer C
Total sales in a month (kgs.)	250	400	1,020
Number of orders	2	2	15
Number of deliveries – normal	2	-	10
Number of deliveries – rush	-	-	5

Order quantity is the same for each order placed by each customer.

Required

Provide a critical ANALYSIS of the difference in profitability of each customer.

Answer

Each of the customers places an order above 50 kgs. per order. Customer A's order size is 125 kgs. per order (250 kgs. / 2 orders), Customer B's order size is 200 kgs. (400 kgs. / 2 orders) and Customer C's order size is approximately 68 kgs. (1,020 kgs. / 15 orders). Therefore, all of them can avail the 5% quantity discount. This amounts to ₹15 per kg. (5% of ₹300 per kg.). Delivery discount of 8% further reduction can be given only to Customer B, since this is the only customer that arranges for its own delivery. This amounts to further reduction of ₹24 per kg. (8% of ₹300 per kg.). The individual customer profitability can be calculated as below:

Particulars	Customer A	Customer B	Customer C
Selling Price per kg.	300	300	300
Less: Quantity Discount - 5% of selling price	15	15	15
Less: Delivery Discount - 8% of selling price	---	24	---
Net Selling Price (₹)	285	261	285
Less: Variable Cost per kg. (₹)	200	200	200
Contribution per kg. (₹)	85	61	85
Total Sales in a month (kgs.)	250	400	1,020
Total Contribution (₹)	21,250	24,400	86,700
Less: Overheads (₹)			
Delivery Cost	6,000	---	30,000
Ordering Cost	4,000	4,000	30,000
Extra Cost - rush delivery	---	---	25,000
Profit per Customer (₹)	11,250	20,400	1,700

Analysis

It can be seen that Customer B is the most profitable, followed by Customer A. Customer C is the least profitable. In terms of quantum, Customer A buys the least, however the number of orders are just 2. Hence, the fixed order cost of ₹2,000 per order is absorbed over a larger order size. This is true with regards to Customer B also since a larger order size absorbs the fixed order cost of ₹2,000 per order. It can be noticed that out of the 15 orders relating to Customer C, 5 orders are rush orders requiring delivery within a single day. The cost of these rush order delivery is much higher at ₹5,000 per delivery. Therefore, despite being the largest customer among the three, Customer C is the least profitable. PTPL can seek to pass on the rush delivery cost to the customer instead of bearing it entirely. Since rush order deliveries are 1/3 of the total orders placed by Customer C, PTPL can seek to have an understanding with the customer and try to find a way to reduce this. Charging for rush deliveries will deter the customers from placing unnecessary and unreasonable requests. This will help to improve profitability derived from the customer.

Customer B is extended an additional discount of ₹24 per kg. (8% of selling price) since the customer arranges for their own delivery. The normal delivery cost to Palani is ₹3,000 per delivery. Customer B orders 400 kgs. in a month by placing 2 orders. Hence, if PTPL had shipped the goods, it could have done it at ₹15 per kg. ($₹3,000 \times 2 \text{ orders} = ₹6,000$ spread over 400 kgs.). Instead, due its pricing policy it is incurring an extra cost of ₹9 per kg. for the orders by Customer B. Here, PTPL can either reduce the discount to 5% of selling price (₹15 / ₹300) or discontinue this policy and arrange for delivery of goods to Customer B.

It can hence be concluded that volume of sales alone does not guarantee higher profits as in the case of Customer C. Similarly, faulty pricing policies can also hurt profitability, as in the case of Customer B.

Scenario 3

Work is underway to adopt the new distribution channel of doing business directly with SGSs. It might take upto 2 years to completely implement this plan. The Board of Directors of PTPL have been working on expanding the plant capacity to meet the requirements of the current expansion plan. A set of 10 machines need to be bought for this project. The gestation period would be 2 years, whereas the machines have to be ordered and imported from USA. After this period, the cash flow will start increasing gradually over 15 years. Overall, the expansion project is expected to generate positive cash flows. For this, PTPL will have to settle an import bill for \$1,30,000. There are two options:

- Pay immediately by availing overdraft facility. Currently it has clean overdraft limit and bank charges 14 percent per annum for availing the same facility.
- Pay after three months with interest @ 7 percent per annum and cover position in forward market.

The exchange rates in the market are as follows:

Spot rate (₹/\$): 82.19/ 82.21

3-Months forward rate (₹/\$): 82.98/ 83.01

Required

PTPL seeks your ADVISE on the option to be chosen to hedge the foreign exchange risk.

Answer

If PTPL pays now, it will have to buy US\$ in Spot Market by availing overdraft facility. Accordingly, the outflow under this option will be:

	₹
Amount required to purchase \$1,30,000 [$\$1,30,000 \times ₹82.21$]	1,06,87,300
Add: Overdraft Interest for 3 months @14% p.a.	3,74,056
	1,10,61,356

If PTPL makes payment after 3 months, then, it will have to pay interest for 3 months @7% p.a. and then to buy \$ in forward market. The outflow under this option will be as follows:

	\$
Amount of Bill	1,30,000
Add: Interest for 3 months @7% p.a.	2,275
	1,32,275

Amount to be paid in Indian Rupee after 3 months under the forward purchase contract - ₹1,09,80,148 ($\text{US\$}1,32,275 \times ₹83.01$).

Advise: Since outflow of cash is least in (ii) option, hence, it should be opted for.

MCQ-1

PTPL has given another consulting assignment to you to have an in-depth industry analysis to understand PTPL's current position within the industry, understanding the value chain, identifying prospects for growth, future scenario etc. This would give the company a correct and fair view about the feasibility of its future acquisition plans. This study is being undertaken independently of the expansion plans mentioned in above in the case study, which also includes capital assets acquisition project of ~₹1 crore mentioned in previous section.

The study lasted a minimum of four months, and its findings were presented to the senior management. To summarize the findings of the study, it concluded that *"muted prices plus rising cost spells a stale brew for tea companies. The domestic market has saturated with penetration as high as 80% of the tea drinking population. There are few fragments like small town markets where there is potential for some growth. However, apart from this, there is limited growth potential for almost all companies within the industry including PTPL. The wages of workers have been revised in every three years. This is pertinent because tea industry is very cost intensive, with labour cost accounting for at least 60% of the cost of production. Industry margins are under pressure. PTPL's overall performance to remain a sustainable business will depend on its ability to sell at remunerative prices and manage costs efficiently."*

Given this bleak outlook, PTPL has reached a conclusion that it has reached a stage of maturity in this business, which of the following actions by the management will not be in the overall interests of the company?

- (a) Open company owned stores in major metros in order to sell "A1 Tea" to customers directly (Forward integration)
- (b) Introduce product lines selling economy, popular and premium grade tea by promoting tea in as an aspirational beverage for health or lifestyle choice
- (c) Acquire tea plantation estates if available at attractive rates (Backward Integration)
- (d) After appropriate due diligence in terms of business feasibility, acquire promising start ups which have the potential to disrupt the tea ecosystem

Answer

The correct answer will be (a) Open company owned stores in major metros in order to sell A1 Tea to customers directly (Forward integration).

Reason

PTPL has reached a stage of maturity in the business. The industry study mentions that the market is already saturated with penetration levels as high as 80%. Only limited scope for market growth exists like that in small towns and cities. Hence, opening company owned stores in major metros in order to sell "A1 Tea" directly to customers will not be in the overall interests of the company.

MCQ-2

PTPL chooses to pursue vertical integration by acquiring the tea plantation of a neighbouring country, 'SL'. Due to the recent economic crisis in 'SL', it is straddled with high unemployment rates. The famed tea industry in 'SL' is also reeling under the crisis. Many plantation companies are going bankrupt. PTPL decides to explore acquisitions in this market, where acquisitions of tea estates producing high quality tea leaves may be available at reasonable rates. It opts to invest in SL's 200-acre plantation. CFO has identified an investment opportunity and feels confident that it will be approved by the board. The board generally favours acquiring distressed assets if any in neighbouring countries, as this provides supply chain benefits. Approximately a year ago, PTPL acquired a Testing & Research Laboratory in a neighbouring country 'NP' exclusively for tea-related research.

The Chief Legal Officer cautions against moving forward with the fresh investment, emphasizing its non-Indian company nature. Nevertheless, the CFO argues that the investment is viable, citing laboratory acquisition in country 'NP' where no approval was required. The Chief Legal Officer, however, presents the following information:

Particulars	Amount ₹ Crore
PTPL's Equity Investment - >51% in Testing & Research Laboratory	1,100
Bank Guarantee provided to NP's Banks on behalf of Testing & Research Laboratory	1,600
SL's Based Company Proposed Investment Value	750
Net Worth of PTPL	1,100
Bonus Shares capitalised through Retained Earnings	250

Assess the CFO's assertion regarding PTPL's ability to proceed with the investment in SL's 200-acre plantation.

- (a) The CFO is correct, that PTPL can make this investment as there are no restrictions imposed by the Indian Government.

- (b) The CFO is incorrect. However, if the investment value is reduced by ₹50 Crore, then PTPL can proceed with the proposed investment.
- (c) CFO is correct as Chief Law Officer is not aware of recent amendments of FEMA which advocates ease of foreign investments by the Indian Companies.
- (d) The CFO is correct, and PTPL can proceed with the proposed investment. Even after this investment, PTPL still have a remaining foreign investment limit of ₹1,550 Crore.

Answer

The correct answer is B. The CFO is incorrect. However, if the investment value is reduced by ₹50 Crore, then PTPL can proceed with the proposed investment.

Reason

As per Schedule I, Part 3 of the Foreign Exchange Management (Overseas Investment) Rules 2022, (1) the total financial commitment made by an Indian entity in all the foreign entities taken together at the time of undertaking such commitment shall not exceed 400 percent of its net worth as on the date of the last audited balance sheet or as directed by the Reserve Bank, (2) The total financial commitment referred to in sub-paragraph (1) shall not include capitalisation of retained earnings for reckoning such limit but shall include –

- (i) utilisation of the amount raised by the issue of American Depositary Receipts or Global Depositary Receipts and stock-swap of such receipts; and
- (ii) utilisation of the proceeds from External Commercial Borrowings to the extent the corresponding pledge or creation of charge on assets to raise such borrowings has not already been reckoned towards the above limit.

Financial Commitment includes amount of Investment made by a Person Resident in India by way of Overseas Direct Investment, Debts other than Overseas Portfolio Investments and Non-Fund Based Liabilities. Bank Guarantee is one of the Non-Fund Based Liabilities.

Overseas Direct Investments includes investment by way of –

- (i) Acquisition of unlisted equity capital of a foreign entity or
- (ii) Subscription as a part of Memorandum of Association of foreign entity,
- (iii) Investment in $\geq 10\%$ of the paid-up equity share capital or
- (iv) Investment with control where investment is $<10\%$ of the paid-up equity share capital of listed foreign entity

The computations are as follows:

Particulars	Amount ₹ Crore
A. PTPL's Equity Investment - >51% in Testing & Research Laboratory	1,100
B. Bank Guarantee provided to NP's Banks on behalf of Testing & Research Laboratory	1,600
(i) Total Current Foreign Direct Investment (A+B)	2,700
C. Net Worth of PTPL	1,100
D. Bonus Component in the Net Worth of Company	250
(ii) Total Financial Commitment Allowed (C-D) $\times 400\%$	3,400
E. Possible Further Investment (ii) - (i)	700
F. SL's Based Company Proposed Investment Value	750
Reduction required in Investment Value (F-E)	50

MCQ-3

To fund the investment of ~\$85 million in SL's 200-acre plantation, PTPL plans to raise \$30 million through debt. With the intention of maintaining certainty in future interest payments, PTPL aims to secure a fixed interest rate. PTPL can borrow for one year at a fixed rate of 6% or at a floating rate of 2% above SOFR. Management of PTPL decides to enter into a swap arrangement with Company Tima. Company Tima also wishes to raise \$30 Million. To take advantage of any fall in interest rates Tima is interested in borrowing funds at Floating Rate. However, it can only borrow funds at fixed rate of 7% p.a. or at SOFR +4%, because of lower credit rating in comparison of PTPL.

What effective rate will each end up paying if both have agreed to enter into a Swap agreement and split the resultant gain equally.

- (a) PTPL: 7% and Tima: SOFR +2%
- (b) PTPL: 5.5% and Tima: SOFR +3.5%
- (c) PTPL: SOFR +2% and Tima: 7%
- (d) PTPL: SOFR +3.5% and Tima: 5.5%

Answer

The correct answer is (b)- PTPL: 5.5% and Tima: SOFR +3.5%.

Reason

There is bigger difference in the variable rate so to take advantage of this, Tima will borrow fixed and PTPL then has to borrow at a variable rate. Accordingly, Swap arrangement shall be carried out as follows:

Working

	Tima	PTPL	Difference
Fixed	7%	6%	1%
Floating	S + 4%	S + 2%	2%
Absolute Difference			1%
Split of gain equally	+0.5%	+0.5%	-1%
Net Interest	S + 3.5%	5.5%	

MCQ-4

As understood from the case study, that industry margins are under pressure due to prolonged high inflation. Survival of companies and future prospects of the tea industry's overall performance to remain a sustainable business will depend on its ability to sell at remunerative prices and manage costs efficiently.

Supply chain highlights the interdependency of each part of the chain. When managing a supply chain, a business may wish to ensure that the entire industry ecosystem (other entities) also remain sustainable. Entities should have sufficient cash and/or profits. Which of the following reasons explains the reason for this?

- (a) Sustainable business ensure that the business has sufficient information on all parts of its supply chain
- (b) Sustainable business ensures quality throughout the supply chain
- (c) Sustainable business ensures ongoing demand for the business's products for which continuous supply is also needed
- (d) Sustainable business ensures maximum collaboration throughout the supply chain

Answer

The correct answer is (c), sustainable business ensures ongoing demand for the business's products for which continuous supply is also needed.

Reason

Unless there is a demand for the product, the need for suppliers won't be required. Therefore, in order to survive, companies like PTPL need to earn money by charging remunerative prices. This means that need to recoup their costs and earn regular profits. At the same time, if the prices charged are very high, demand for the product will reduce. This will not sustain PTPL or companies like it.

The other way of improving margins is to cut costs. This is done by procuring material at low prices, paying low wages, using cheaper resources etc. However, unless the supplier finds it remunerative to sell, PTPL cannot procure its raw material. So, the supplier should also benefit from sale to PTPL. Similarly, very low wages will lead to attrition among workers, very cheap resources will lead to quality issues. Everyone does business to make profits and customers derive value at reasonable prices. Each link in the supply chain should ensure that the ecosystem benefits allowing for normal profits, sufficient cash resources to be earned. Otherwise, the industry will not sustain.

MCQ-5

PTPL is using Porter's Five Model to examine key aspects of tea industry and the impact that some of its strategic decisions can have on various forces. One of the points being considered is the decision to adopt the new distribution channel of directly reaching out to SGSs. This is a novel distribution system in the industry. Which of the following statements are true?

- (a) Risk of competitive rivalry has been lowered
- (b) Threat of substitute has been lowered
- (c) Threat of new entrants has been lowered
- (d) Bargaining power of suppliers has been lowered

Answer

The correct answer is (a) risk of competitive rivalry has been lowered.

Reason

Since this is a novel distribution system in the industry, PTPL has a first mover advantage over its rivals. This lowers the risk of competitive rivalry. Sustaining this advantage however depends on whether the rivals are able to replicate and better this new distribution channel.

 Concept Insight

It is important to note that, it is possible for a firm to be mature while the industry it operates in remains dynamic or less mature. *The maturity of a firm and the maturity of an industry are distinct concepts.* While it is common for mature firms to operate in mature industries, it is entirely possible for a mature firm to exist in an industry that is still evolving or undergoing significant changes. This situation can arise for various reasons like where the firm may have found a niche within the industry where it dominates or specializes, allowing it to remain mature even as the broader industry evolves. Therefore, it's important for firms to continually assess their strategies and adapt to changes in the business environment, regardless of whether their industry is mature or experiencing growth. Flexibility, innovation, and strategic decision making are key factors in sustaining a mature firm's success over the long term.