

Section - VI

ADDITIONAL PDF

(13 Case Studies)

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ADDITIONAL (Students Journal Dec 19)

Case Study 1

Subjects	Topics Covered	Marks
DT	Residential Status, Scope of Total Income	11
IDT	GST Export, ITC (Rule 42)	6
SCPM	Standard Costing	8

Mr. Tinuraj, owner of M/s TR Textiles, is born and brought up in Uttar Pradesh, India. He has an experience of more than 35 years in textiles manufacturing industry through setting up his firm in 1988. Under his leadership M/s TR Textiles (the Firm) has achieved assorted growth in its textile business throughout India. The Firm is a prominent player in the leading textile conglomerates of the country possessing modern technologies with larger capacity, constituting everything from fibre to garments. Today, M/s TR Textiles is developing as an unified textile powerhouse, manufacturing yarns, fabrics, acrylic fiber and garments.

Due to the fact that the textile industry contributes significantly towards the growth of the economy via exports, Mr. Tinuraj for the past 10 years, is exporting premium quality yarns, dyed yarns in acrylic and a variety of production garments to Asia Pacific regions. Approximately 28% of the total yarns produced is exported which has made M/s TR Textiles as one of the largest exporters of cotton yarn to some of the growing markets of Asia Pacific regions.

To enhance the export business, Mr. Tinuraj used to travel various locations of the continent. For the past two years, he stayed out of India for about 600 days. During the current Financial Year also, he spent 300 days in travelling. His travelling session in days from Financial Year 2016-17 to Financial Year 2020-21 is given below:

Financial Year	Number of days
2016-17	250
2017-18	250
2018-19	300
2019-20	490
2020-21	

During the current Financial Year 2023-24, Mr. Tinuraj made a profit of ₹ 20 crore from the business in Uttar Pradesh, India [including profit of ₹ 15 crore made by exporting under Letter of Undertaking (LUT) to Bhutan of ₹ 150 crore (the invoice for which is raised/payments received in Indian currency)] along with profit of ₹ 60 crore earned from business in Malaysia which Mr. Tinuraj controls from Uttar Pradesh. However, only ₹ 10 crore out of profit earned from business in Malaysia, received in India through a credit in Bharat Bank of India, the bank account maintained by him in Banaras Branch, Uttar Pradesh.

While his stay in China for 15 days out of total travelling of 300 days in the current financial year 2023-24, Mr. Tinuraj received a major aggregate assignment of ₹ 100 crore in Delhi, India through its marketing team (discussion was on ₹ 125 crore project, however could garb only ₹ 100 crore project in the end). However, he could only manage to make profit of ₹ 18 crore through managing the entire business from China. This assignment includes a Government order for making uniforms for a commando unit which is exempted from GST under a special notification. The fabric used as raw material is exclusively procured for the exempt supply, but thread and lining material procured for the collars are also used for taxable supply. The turnover of the taxable supply and exempted uniforms is ₹ 75 crore and ₹ 25 crore respectively, the ITC on thread and lining material procured is ₹ 1,00,000 and ₹ 3,00,000 respectively.

Mr. Tinuraj used to make huge investments to intensify the scope of his business. From such investments he made major amount of income as follows:

Investments	Income from Investments
HK Development Bonds, Hong Kong	Interest of ₹ 2 crore (out of which ₹ 0.70 crore received in Bharat Bank of India)
Shares of Taj Tashu Steel Ltd., Bhutan	Dividend of ₹ 1 crore received in Bhutan
15 % Debentures of Taki Motors Ltd., India	Interest of ₹ 3 crore (out of which ₹ 0.50 received in Junshi Bank, Bhutan)

After so much of earnings and striving to earn more, Mr. Tinuraj wanted to budget his finances following the mantra 'Budget Your Money'. He wanted to protect the money from unwanted expenses and taxes. Knowing that this system of controlling cost includes preparation of budgets; co-ordinating the departments and establishing responsibilities; comparing actual performance with the budgeted and acting upon results to achieve maximum profitability, Mr. Tinuraj wanted to involve senior managers while preparing for budget. However, the managers do not want to get involved into such major task of budgetary control. Mr. Tinuraj explains his view-point that if managers do not get involved in the process, they may find the budget too challenging and therefore reduce their effort. That in turn would distort any evaluation. The participation of managers in setting targets for themselves tends to improve motivation and performance. Moreover, the budget is framed to act as a plan for the managers. The managers may therefore pursue this plan at the cost of other critical success factors that emerge in the internal or external environment of the firm. For example, a production manager may continue to use the planned materials mix even if the sales department are indicating that customers would desire a different product design and the purchasing department have accommodated their purchases accordingly. The production manager then has to choose between the plan and inter departmental coordination.

Mr. Tinuraj further explains that many of the conflicts arise due to the human nature of a budgetary control system. Managers may not always follow organisational goals, they may not always think long term, they may be cautious of moving away from the plan etc. This provides a conflict between many of the goals of a budgetary control system which needs to be considered at a strategic level when implementing such a system. Thus, it would be appropriate if managers take the ownership of their targets if they have been involved while preparing for it. For budget preparation in future with the managers participation, Mr. Tinuraj provided a budget prepared by him w.r.t. assignment received in Delhi (which he managed from China) for reference purpose as follows:

(In crore)

Particulars	Budget	Actual	Variance
Sales/Production (units)	12	10	(2)
Sales (₹)	125	100	(25)
Less: Variable Cost (₹)	76	62	14
Less: Fixed Costs (₹)	19	20	(1)
Profit (₹)	30	18	(12)
While preparing budget, total market size assumed was 24 units, however it turned out to be 22.50 units later on.			

The above budget outlay really helped out the managers while participating in the budget preparation process.

Multiple Choice Questions

- Many of the conflicts arise due to the human nature of a budgetary control system. Managers may not

always follow organisational goals, they may not always think long term, they may be cautious of moving away from the plan etc. This provides a conflict between many of the goals of a budgetary control system which needs to be considered at a strategic level when implementing such a system. Thus, involving managers while preparing for budget may overcome these conflicts. However, there are certain disadvantages too for such involvement. State which of the following may be considered as a disadvantage for involving managers in the budget preparation process.

- (a) Managers may take the ownership of its target as their budget.
 - (b) Managers would not have an option of blaming unrealistic goals as an excuse for not achieving budget expectations.
 - (c) Managers may decide among themselves to adjust the proposed budget so that it is easier for them to attain the cost targets they have set.
 - (d) Managers may feel that they are being venerated for the value that their experience brings to the running of the business.
2. Market leadership is something that every entrepreneur strives to achieve. It is the position with largest market share for goods and/or services. Same way, Mr. Tinuraj wanted to achieve this market share in Delhi. To help him understand his market share/leadership in Delhi, calculate the Budgeted Market Share (in percentage) and Actual Market Share (in percentage), from the information given in the budget made for the purpose of Delhi assignment.
- (a) 50%, 44%
 - (b) 50%, 42%
 - (c) 53%, 44%
 - (d) 53%, 42%
3. A Planning Variance simply compares a revised standard to the original standard. From the information given in the budget made for the purpose of Delhi assignment, calculate the Sales Volume Contribution – Planning Variance (market size variance).
- (a) ₹ 3,06,00,000 F
 - (b) ₹ 3,06,00,000 A
 - (c) ₹ 4,08,00,000 F
 - (d) ₹ 4,08,00,000 A
4. The aggregate assignment of ₹ 100 crore in Delhi, India includes a government order for making uniforms for a commando unit. Calculate the eligible Input Tax Credit available under this assignment.
- (a) ₹ 5,00,000
 - (b) ₹ 4,00,000
 - (c) ₹ 3,00,000
 - (d) ₹ 2,00,000
5. An Operational Variance simply compares the actual results against the revised amount. It would be calculated after the planning variances have been established and are thus a realistic way of assessing performance. From the information given in the budget made for the purpose of Delhi assignment, calculate the Sales Volume Contribution – Operational Variance (market share variance).
- (a) ₹ 5,87,52,000 F

- (b) ₹ 5,87,52,000 A
 (c) ₹ 5,50,80,000 F
 (d) ₹ 5,50,80,000 A

Descriptive Questions

6. From the information given in the case study, determine the residential status of Mr. Tinuraj by stating the relevant provisions of the Income Tax Act, 1961 for the Assessment Year 2024-25.
7. Compute the total income in the hands of Mr. Tinuraj for the A.Y. 2024-25 if he were a Resident and ordinarily resident or Resident but not ordinarily resident or Non-resident considering the additional information as follows:
- (i) Closing bank balance of Bharat Bank of India as ₹ 60 Lakh (including savings bank account interest of ₹ 1.8 Lakh)
- (ii) Wedding Gift received from a friend in Bhutan ₹ 0.45 Lakh.
8. If a supply is exempted from tax according to relevant provisions of the CGST Act, 2017, the output suffers no tax, however, the inputs and input services have suffered tax and since availment of tax credit on input side is not permitted, it becomes a cost for the supplier. Then there comes the concept of zero rating of supplies which aims to correct this anomaly. A 'zero rated supply' means export of goods/services/both; or supply of goods/services/both to a Special Economic Zone developer or a Special Economic Zone unit.

In the above context, Mr. Tinuraj is not sure about the treatment of supply/sales to Bhutan as export under LUT or as local supply, for the purpose of claiming exemption from IGST, as the invoice has been raised/ payment received in Indian currency. Please guide.

ANSWERS TO THE CASE STUDY 1

Answers to the Multiple Choice Questions

1. (c) Managers may decide among themselves to adjust the proposed budget so that it is easier for them to attain the cost targets they have set.

Reason: Besides having advantages of involving managers in budget preparation, there are disadvantages too where managers may alter the proposed budget so that it is easier for them to attain the cost targets they have set.

2. (a) 50%, 44%

Reason:

Budgeted Market Share (in %) = $\frac{12 \text{ crore units}}{24 \text{ crore units}} = 50\%$

Actual Market Share (in %) = $\frac{10 \text{ crore units}}{22.50 \text{ crore units}} = 44\%$
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3. (b) ₹ 3,06,00,000 A

Reason: Calculation of Sales Volume Contribution – Planning Variance

Budgeted Market Share (in %) = $\frac{12 \text{ crore units}}{24 \text{ crore units}} = 50\%$

Budgeted Contribution = ₹ 125 crore – ₹ 76 crore = ₹ 49 crore
Average Budgeted Contribution (per unit) = $\frac{\text{₹ 49 crore}}{12 \text{ crore units}}$ = ₹ 4.08
Sales Volume Contribution – Planning Variance = Budgeted Market Share (in %) x [Actual Industry Sales Quantity (in units) – Budgeted Industry Sales Quantity (in units)] x Average Budgeted Contribution (per unit) = 50% x [22.50 crore units – 24 crore units] x ₹ 4.08 = ₹ 3,06,00,000 A

4. (c) ₹ 3,00,000

Reason: Thread and lining material are inputs which are used for making taxable as well as exempt supplies. Therefore, credit on such items will be apportioned and credit attributable to exempt supplies will be reversed in terms of rule 42 of the CGST Rules.

Credit attributable to exempt supplies = Common credit x (Exempt turnover/Total turnover)

Common credit = ₹ 3,00,000 + ₹ 1,00,000 = ₹ 4,00,000

Exempt turnover = ₹ 25 crore

Total turnover = ₹ 100 crore [₹ 25 crore + ₹ 75 crore]

Credit attributable to exempt supplies = (₹ 25 crore/₹ 100 crore) x ₹ 4,00,000 = ₹ 1,00,000.

Ineligible credit of ₹ 1,00,000 will be reversed. Credit of ₹ 3,00,000 will be eligible credit.

5. (d) ₹ 5,50,80,000 A

Reason: Calculation of Sales Volume Contribution – Operational Variance

Actual Market Share (in %) = $\frac{10 \text{ crore units}}{22.50 \text{ crore units}} = 44\%$
Budgeted Market Share (in %) = $\frac{12 \text{ crore units}}{24 \text{ crore units}} = 50\%$
Budgeted Contribution = ₹ 125 crore – ₹ 76 crore = ₹ 49 crore
Average Budgeted Contribution (per unit) = $\frac{\text{₹ 49 crore}}{12 \text{ crore units}} = ₹ 4.08$
Sales Volume Contribution – Operational Variance = [Actual Market Share (in %) - Budgeted Market Share (in %)] x Actual Industry Sales Quantity (in units) x Average Budgeted Contribution (per unit) = (44% - 50%) x 22.50 crore units x ₹ 4.08 = ₹ 5,50,80,000 A

Answers to the Descriptive Questions

6. Determination of residential status of Mr. Tinuraj

Under section 6(1) of the Income Tax Act, 1961, an individual is said to be resident in India in any previous year, if he satisfies any one of the following conditions:

- (i) He has been in India during the previous year for a total period of 182 days or more, or
- (ii) He has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.

In the given case, period of stay of Mr. Tinuraj during the current Financial Year = 366 – 300 = 66 days. Thus, the first condition of staying in India during the previous year for a total period of 182 days or more is not met.

Calculation of period of stay during 4 preceding previous years:

Financial Year	Number of days
2022-23 & 2021-22 [(365 days x 2 years) – 600 days]	130
2020-21 & 2019-20 [(365 days + 366 days) – 490 days]	241
Total	371

Mr. Tinuraj has been in India for a period more than 60 days during previous year 2022-23 and for a period of more than 365 days during the 4 immediately preceding previous years. Therefore, since he satisfies one of the basic conditions under section 6(1), he is a resident for the assessment year 2024-25. Further, a not-ordinarily resident person is one who satisfies any one of the conditions specified under section 6(6) of the Income Tax Act, 1961, i.e.,

- (i) If such individual has been non-resident in India in any 9 out of the 10 previous years preceding the relevant previous year, or
- (ii) If such individual has during the 7 previous years preceding the relevant previous year been in India for a period of 729 days or less.

Computation of period of stay during 7 preceding previous years:

Financial Year	Number of days
2022-23	130
2021-22	
2020-21	241
2019-20	
2018-19 (365 days – 300 days)	65
2017-18 (365 days – 250 days)	115
2016-17 (365 days – 250 days)	115
Total	666

Since Mr. Tinuraj satisfies condition (ii) above of staying in India for a period of 729 days or less during the 7 previous years preceding the relevant previous year, he is a not-ordinarily resident during the assessment year 2024-25.

Therefore, Mr. Tinuraj is a resident but not ordinarily resident during previous year 2023-24.

7. Computation of total income in the hands of Mr. Tinuraj

Particulars	Resident and ordinarily resident (₹)	Resident but not ordinarily Resident (₹)	Non-resident (₹)
Profit from business in Uttar Pradesh, India	20 crore	20 crore	20 crore

Profit from business in Malaysia which is controlled from Uttar Pradesh, out of which R 10 crore received in India	60 crore	60 crore	10 crore
Profit from business in Delhi but managed entire business from China	18 crore	18 crore	18 crore
Interest on HK Development Bonds, Hong Kong	2 crore	0.70 crore	0.70 crore
Dividend on shares of Taj Tashu Steel Ltd., Bhutan	1 crore	-	-
Interest on debentures of Taki Motors Ltd., India	3 crore	3 crore	3 crore
Interest on savings bank account in Bharat Bank of India	0.018 crore	0.018 crore	0.018 crore
Gift on the occasion of wedding [not taxable]	-	-	-
Gross Total Income	104.018 crore	101.718 crore	51.718 crore
Less: Deduction under section 80TTA [Interest on savings bank account subject to a maximum of ₹ 10,000]	.001 crore	.001 crore	.001 crore
Total Income	104.017 crore	101.717 crore	51.717 crore

8. **GST on Export to Bhutan:** As per relevant RBI Master Circular, there is no restriction on invoicing of export contracts in Indian Rupees in terms of the Rules, Regulations, Notifications and Directions framed under the Foreign Exchange Management Act, 1999.

Further, it is also clarified that the **acceptance of LUT for supplies of goods to Nepal or Bhutan or SEZ unit/Developer will be permissible** irrespective of whether the payments are made in Indian currency or convertible foreign exchange as long as they are in accordance with the applicable RBI guidelines.

Consequently, export of goods to Nepal or Bhutan fulfils the condition of GST Law regarding taking goods out of India. **Hence, export of goods to Nepal and Bhutan will be treated as zero rated and consequently will also qualify for all benefits available to zero rated supplies under GST regime.**

Thus, the sales made by Mr. Tinuraj to Bhutan will be treated as zero rated being export under LUT without payment of IGST.

ADDITIONAL (Students Journal Dec 19)

Case Study 2

Subjects	Topics Covered	Marks
FR	Ind AS 41	9
DT	Agricultural Income	8
IDT	GST Exemption (Agriculture)	8

THE INDIAN AGRICULTURIST

Mr. Harnek Singh is an Indian resident who has been working in Agriculture and its allied activities for the past 30 years. As a Farmer, he has been a witness to the Green Revolution and the White Revolution in the Indian economy. Being not much educated, he gave all his life to the laborious work of Agriculture but always wanted his children to study well and contribute towards the nation in their own ways as their father has been doing by playing the role of a Farmer - a Community that feeds the whole nation and without which the Indian Economy's growth may come at loggerheads. He himself is very much established in his farming activities and majorly produces Sugarcane along with other agricultural produce. His Wife Mrs. Singh is a homemaker and runs a Dairy Farm which she is running successfully for the past many years. His elder son Gopi, a Graduate, has established himself as an industrialist and successfully runs a Sugar Mill for which he procures Sugarcane majorly from his father's farm in addition to other Sugarcane growing Farmers. In the mill, he produces majorly Refined Sugar with Baggaese and Jaggery as the By-Products. Mr. Harnek Singh's younger son, Harpreet, was studying Agricultural and Allied Sciences in UK and has just returned to India 2 months ago to help his Family in their respective Businesses with the adoption of new techniques and quality developments he has learnt about during his Foreign studies. While studying abroad, he would usually study about taxes on Agriculture and the allied activities but was clueless about applicability of various taxes on Agricultural & allied activities in India except for that he had heard that income from Agriculture is exempt from tax in India. He wants to help his family by expanding the respective businesses and giving them a Corporate set-up. He, himself had studied Liquor Sciences abroad and wants to set up a Wine Distillery here in his village where he would grow Grape vines, harvest them and then produce wine from them for sale in the national as well as Global market. Having no knowledge of the Indian Accounting and Tax structure related to Agriculture, he approaches CA Arun Khemka who has his office in the city nearest to his village to discuss about the set-up he has planned for his family as well as his Wine business. He wants to get a Preliminary knowledge of the Accounting and Taxation aspects related to these businesses so that he can employ all the required resources in the most rational and economical manner possible. His father, Mr. Harnek Singh, has had no experience ever with accounting or taxes, being an agriculturist, so it is only he and his elder brother who know about the basics.

CA Arun Khemka, after a long discussion with Harpreet on understanding the current business set up of the Family and what Harpreet plans to do and how he plans to modify the current set up of such businesses assures him of the best services possible he can render. He tells him that the major aspects involved in this would be of Accounting, Income tax and GST and he would deliberate to him on some of the basic concepts applicable to these businesses relating to these fields and what would be required to be done at his end, is possible only after Harpreet has a genuine knowledge of these subjects. He tells him that he will be able to deliver quality services to Harpreet as a Client only if the latter can provide him with all the requisite facilities, knowledge and working of the Family business.

Accounting Aspects in Agriculture

CA Arun tells Harpreet that Agricultural Accounting was never an issue in India till now and there were no special rules relating to it as it was completely voluntary but now since he plans to expand and modernise his

Father's agriculture activities, he must know about the Indian Accounting Standard 41 known as the Ind AS 41 on AGRICULTURE.

Ind AS 41, Agriculture is the first standard that specifically covers the accounting and reporting requirements for the primary sector. Prior to this standard, there were no established guidance on agriculture and allied industry. Ind AS 41 Agriculture sets out the accounting for agricultural activity, the management of the transformation of biological assets (living plants and animals) into agricultural produce (harvested product of the entity's biological assets).

Ind AS 41 addresses following key critical issues:

- (a) When should a biological asset or agricultural produce be recognised on the Balance Sheet?
- (b) At what value should a recognised biological asset or agricultural produce be measured?
- (c) How should the differences in value of a recognised biological asset or agricultural produce be accounted for between two different reporting dates?
- (d) What should be the key disclosures?

This Standard shall be applied to account for the biological assets; agricultural produce at the point of harvest; and government grants when they relate to agricultural activity, with its own exceptions listed in the Standard itself where it is not applicable. It also lays down the definitions of various important terms related to agriculture such as Agricultural Activity, Biological Asset, Biological transformation, Agricultural Produce, Harvest, Fair Value, Bearer Plant, etc.

Entities are required to recognise a biological asset or agricultural produce when, and only when, all of the following conditions are met:

- (a) the entity controls the asset as a result of past events; Control over biological assets or agricultural produce may be evidenced by legal ownership or rights to control, for example legal ownership of cattle and the branding or otherwise marking of the cattle on acquisition, birth, or weaning.
- (b) it is probable that future economic benefits associated with the asset will flow to the entity; and Future economic benefits are expected to flow to the enterprise from its ownership or control of the asset. The future benefits are normally assessed by measuring the significant physical attributes.
- (c) the fair value or cost of the asset can be measured reliably

Direct Taxation - Income Tax on Agriculture

As per the Indian Income tax law, agricultural income is not to be included in the total income of the assessee. The reason for totally exempting agricultural income from the scope of central income- tax is that under the Constitution, the Central Government has no power to levy a tax on agricultural income. The term "Agriculture" has not been defined in the Act.

However, it is taken into consideration if a Person has both Agricultural and Business income more than the prescribed limits while calculating tax on the Business Income and this process is known as Partial Integration of agricultural Income with non- agricultural income.

"Agriculture" means tilling of the land, sowing of the seeds and similar operations. It involves basic operations and subsequent operations. However, the term 'agriculture' cannot be extended to all activities which have some distant relation to land like dairy farming, breeding and rearing of livestock, butter and cheese making and poultry farming. Agricultural income is exempt, whether it is received by the tiller or the landlord. However, non-agricultural income does not become agricultural merely on account of its indirect connection with the land.

Agricultural income may arise in any one of the following three ways:

- (a) It may be rent or revenue derived from land situated in India and used for agricultural purposes.
- (b) It may be income derived from such land by agriculture or the performance of a process ordinarily employed by a cultivator or receiver of rent in kind to render the produce fit to be taken to the market or the sale of such agricultural produce in the market.
- (c) Lastly, agricultural income may be derived from any farm building required for agricultural operations.

Sometimes, to make the agricultural produce a saleable commodity, it becomes necessary to perform some kind of process on the produce. The income from the process employed to render the produce fit to be taken to the market would be agricultural income. The ordinary process employed to render the produce fit to be taken to market includes thrashing, winnowing, cleaning, drying, crushing etc. However, if marketing process is performed on a produce which can be sold in its raw form, income derived therefrom is partly agricultural income and partly business income like in the case of Rubber, Tea, Coffee or Sugarcane where if these are subjected to manufacturing process and the manufactured product is sold, the profit on such sale will consist of agricultural income as well as business income. That portion of the profit representing agricultural income will be exempted. Rules 7, 7A, 7B & 8 of Income-tax Rules, 1962 provides the basis of apportionment of income between agricultural income and business income.

For Example - Rule 7: Where income is partially agricultural income and partially income chargeable to income-tax as business income, the market value of any agricultural produce which has been raised by the assessee or received by him as rent in kind and which has been utilised as raw material in such business or the sale receipts of which are included in the accounts of the business shall be deducted. No further deduction shall be made in respect of any expenditure incurred by the assessee as a cultivator or receiver of rent in kind.

Determination of market value - There are two possibilities here:

- (a) The agricultural produce is capable of being sold in the market either in its raw stage or after application of any ordinary process to make it fit to be taken to the market. In such a case, the value calculated at the average price at which it has been so sold during the relevant previous year will be the market value.
- (b) It is possible that the agricultural produce is not capable of being ordinarily sold in the market in its raw form or after application of any ordinary process. In such case, the market value will be the total of the following:
 - The expenses of cultivation;
 - The land revenue or rent paid for the area in which it was grown; and
 - Such amount as the Assessing Officer finds having regard to the circumstances in each case to represent at reasonable profit.

Position as per Goods & Service Tax

The Following Agriculture related services are exempt from the payment of GST via the Entries mentioned therein:

Entry No.	Description of services
24	Services by way of loading, unloading, packing, storage or warehousing of rice.
24A	Services by way of warehousing of minor forest produce.
53A	Services by way of fumigation in a warehouse of agricultural produce.
54	Services relating to cultivation of plants and rearing of all life forms of animals, except some, for food, fibre, fuel, raw material or other similar products or agricultural produce by way of -
	(a) agricultural operations directly related to production of any agricultural produce including cultivation, harvesting, threshing, plant protection or testing;

	(b) supply of farm labour; (c) processes carried out at an agricultural farm which do not alter the essential characteristics of agricultural produce but make it only marketable for the primary market; (d) renting or leasing of agro machinery or vacant land with or without a structure incidental to its use; (e) loading, unloading, packing, storage or warehousing of agricultural produce; (f) agricultural extension services; (g) services by any Agricultural Produce Marketing Committee or Board or services provided by a commission agent for sale or purchase of agricultural produce. (h) services by way of fumigation in a warehouse of agricultural produce.
55	Carrying out an intermediate production process as job work in relation to cultivation of plants and rearing of all life forms of animals, except some, for food, fibre, fuel, raw material or other similar products or agricultural produce.

With a long and productive discussion on all these aspects of Agricultural Accounting & its Taxation, Harpreet started with the work of modernising the respective businesses of his Family and set up his own Wine distillery in the village after following all licensing and procedural compliances.

Multiple Choice Questions

- Harpreet grows grape vines, harvests the grapes & produces wine. Select the most appropriate option stating the Ind AS applicability as per the respective activities covered above.
 - Growing (Ind AS 16); Harvesting (Ind AS 41); Wine Production (Ind AS 2).
 - Growing (Ind AS 41); Harvesting (Ind AS 16); Wine Production (Ind AS 2).
 - All are covered under Ind AS 41.
 - Growing & Harvesting (Ind AS 41) & Wine Production (Ind AS 2).
- The term 'Agricultural produce' includes any produce out of rearing of all life forms of animals, except the rearing of _____ for food, fibre, fuel, raw-material or other similar products under the GST law.
 - Fish.
 - Silkworms.
 - Sheep.
 - Horses.
- Which of the following processes that make the agricultural produce marketable are not covered under GST Exemption?
 - Harvesting.
 - Packing for Primary Market.
 - Packing for Retail Market.
 - Fumigating & Curing.
- The application of Scientific research and knowledge to agricultural practice through farmer education or training is known as-
 - Kissan Jagao Muhim.
 - Agricultural Extension Services.

- (c) Notified Agricultural Scientific Research Services.
 - (d) Agricultural Development Services.
5. The GST exempts loading, Packing & warehousing of certain agricultural products. However, such exemption is not available in the case of-
- (a) Green tea leaves.
 - (b) Potatoes.
 - (c) Jaggery.
 - (d) Whole Pulse Grains.

Descriptive Questions

6. (a) "Ind AS 41 applies to agricultural produce, which is the harvested product of the entity's biological assets, only at the point of harvest". State the exceptional circumstances as mentioned in the Ind AS on which Ind AS 41 doesn't apply.
- (b) State with reasons whether the following statements are correct/incorrect:
- (i) Income arising to Mr. Harnek Singh from transfer of Agricultural land situated in urban area is agricultural income.
 - (ii) X was the managing agent of Gopi's Sugar Mill. He was entitled for a commission at the rate of 10% p.a. on the annual net profits of the company. A part of the company's income was agricultural income from the sale of sugarcane grown by the Company in its fields and sold further. X claimed that since his remuneration was calculated with reference to income of the company, part of which was agricultural income, such part of the commission as was proportionate to the agricultural income was exempt from income tax.
 - (iii) Mrs. Singh owned 100 acres of agricultural land, a part of which was used as pasture for cows. The lands were purely maintained for manuring and other purposes connected with agriculture and only the surplus milk after satisfying her family's needs was sold. The question arose whether income from such sale of milk was agricultural income in the hands of Mrs. Singh?
 - (iv) Harpreet is a shareholder in certain tea companies, 60% of whose income was exempt from tax as agricultural income. He claimed that 60% of the dividend received by him on his shares in those companies was also exempt from tax as agricultural income.
7. Mrs. Singh, as seen in the above case is into Dairy Farming. She owns a dairy herd, of 3 years old cattle as at April 1, 2023 with a fair value of ₹ 13,750 and the no. of the cattle in the herd was 250. The fair value of 3 years cattle as at March 31, 2024 was ₹ 60 per cattle. The fair value of 4 years cattle as at March 31, 2024 is ₹ 75 per cattle. Calculate the measurement of group of Cattle as the March 31, 2024 stating price & physical change separately.
8. Gopi grows sugarcane and uses the same for the purpose of manufacturing sugar in his factory. 30% of sugarcane produced is sold for ₹ 10 lacs, and the cost of cultivation of such sugarcane is ₹ 5 lacs. The cost of cultivation of the balance sugarcane (70%) is ₹ 14 lacs and the market value of the same is ₹ 22 lacs. After incurring ₹ 1.5 lacs in the manufacturing process on the balance sugarcane, the sugar was sold for ₹ 25 lacs. Compute Gopi's Business income and Agricultural income.

ANSWERS TO THE CASE STUDY 2

Answers to the Multiple Choice Questions

1. (a) Growing (Ind AS 16); Harvesting (Ind AS 41); Wine Production (Ind AS 2).
Reason: The grape vines are bearer plants that continually generate crops of grapes which are covered by Ind AS 16, Property, Plant and Equipment. When the entity harvests the grapes, their biological transformation ceases and they become agricultural produce covered by Ind AS 41, Agriculture. Wine involves a lengthy maturation period. This process is similar to the conversion of raw materials to a finished product rather than biological transformation hence treated as inventory in accordance with Ind AS 2, Inventories.
2. (d) Horses.
Reason: 'Services relating to cultivation of plants and rearing of all life forms of animals, except the rearing of horses, for food, fibre, fuel, raw material or other similar products' under Entry 54 include activities like breeding of fish (pisciculture), rearing of silk worms (sericulture), cultivation of ornamental flowers (floriculture) and horticulture, forestry, etc.
3. (c) Packing for Retail Market.
Reason: The processes of packaging in retail packs of agricultural products, which make the agricultural products marketable in retail market, would NOT be covered in this entry. Only such processes are covered in the relevant entry of exemption which makes agricultural produce marketable in the primary market.
4. (b) Agricultural Extension Services
Reason: Item (f) of the entry exempts Agricultural extension services which mean application of scientific research and knowledge to agricultural practices through farmer education or training.
5. (c) Jaggery.
Reason: Products such as tea (i.e. black tea, white tea etc.), processed coffee beans or powder, pulses (dehusked or split), jaggery, processed spices, processed dry fruits, processed cashew nuts etc. fall outside the definition of agricultural produce and therefore the exemption from GST is not available to their loading, packing, warehousing etc. [Circular No. 16/16/2017 GST dated 15.11.2017].

Answers to the Descriptive Questions

6. (a) Ind AS 41 does not apply to:
 - (i) **land related to agricultural activity:** for example, the land on which the biological assets grow, regenerate and/or degenerate (Ind AS 16 Property, Plant and Equipment and Ind AS 40 Investment Property);
 - (ii) **bearer plants related to agricultural activity.** Such bearer plants are covered within the scope of Ind AS 16, Property, plant and Equipment. However, this Standard applies to the produce on those bearer plants.
 - (iii) **government grants related to bearer plants** (Ind AS 20 Accounting for Government Grants and Disclosure of Government Assistance).
 - (iv) **intangible assets associated with the agricultural activity,** for example licenses and rights are covered under Ind AS 38 Intangible Assets.

(b) (i) Incorrect.

Reason: As per Explanation 1 to section 2(1A), the capital gains arising from the transfer of such urban agricultural land would not be treated as agricultural income under section 10 but will be taxable under section 45.

(ii) Incorrect.

Reason: Since, X received remuneration under a contract for personal service calculated on the amount of profits earned by the company, such remuneration does not constitute agricultural income.

(iii) Incorrect.

Reason: The regularity with which the sales of milk were effected and quantity of milk sold showed that Mrs. Singh carried on regular business of producing milk and selling it as a commercial proposition. Hence, it was not agricultural income.

(iv) Incorrect.

Reason: Dividend is derived from the investment made in the shares of the company and is hence, not an agricultural income.

7. Measurement of group of Cattle as the March 31, 2024

Particulars	Amount (₹)
Fair value as at April 1, 2023	13,750
Increase due to Price change $[250 \times \{60 - (13,750/250)\}]$	1,250
Increase due to Physical change $[250 \times \{75-60\}]$	3,750
Fair value as at March 31, 2024	18,750

8. Computation of Business income and Agricultural income

Particulars	Business Income	Agricultural Income	
	(₹)	(₹)	(₹)
<u>Sale of Sugar</u>			
<u>Business income</u>	25,00,000		
Sale Proceeds of sugar	22,00,000		
Less: Market value of sugar (70%)	1,50,000		
Less: Manufacturing exp.	1,50,000		
<u>Agricultural income</u>		22,00,000	
Market value of sugar (70%)		14,00,000	8,00,000
Less: Cost of cultivation			
<u>Sale of sugarcane</u>			
Agricultural Income		10,00,000	
Sale proceeds of sugarcane (30%)		5,00,000	5,00,000
Less: Cost of cultivation			
			13,00,000

ADDITIONAL (Students Journal Dec 19)

Case Study 3

Subjects	Topics Covered	Marks
FR	Ind AS 7, Ind AS 37	10
Audit	SA 700, SA 706, CARO 2020	11
Law	Companies Act (Section 149), LODR (Applicability)	4

Background

Vayu Sanchar Limited is a leading telecommunications company of India headquartered in Delhi. The Company ranks among the top four network service providers. It offers 2G, 3G and 4G wireless services under post-paid and pre-paid connectivity, fixed line telephone services and mobile commerce. It operates more than 2,260 telecom towers across 12 telecom circles.

The Company's dream is to boost the lives of customers. Its passion is to win customers for life through an exceptional experience. During the current year, the company also launched Unified Payments Interface (UPI) enabled digital payments allowing payments to any bank account of different merchants through smartphones, to beat the rivalries. This bitter relationship between Vayu Sanchar Limited and Hawa Sanch Limited, Lucy Limited & Magadh Limited (the rivalries) in network service providers, has spilled over to the high-speed broadband to corporates segment, as all the four companies battle for monopoly in market share.

Vayu Sanchar Limited launched its hyper speed VS Fibre broadband service, matching the price of other network service providers. This plan comes with unlimited landline calls along with premium online membership to the latest movies released through VS Fibre Application (the App).

Employees' Wellbeing

In addition to boosting the lives of its customers, the company also believe in looking after the wellbeing of its employees. For this, it has established a Code of Conduct, Human Rights Policies demonstrating its commitment towards protection of Human Rights. In addition to this, the company has set up Internal Complaint Committee, to prevent sexual harassment at workplace, comprising a Presiding Officer who is a senior level woman employee, two employees who are committed to the cause of women having experience in social work along with legal knowledge, one independent member from outside the organization who expertise in dealing with such matters. All the members need to hold office for a period not exceeding three years from the date of nomination as member. The Committee is responsible for dealing with all matters related to the subject.

Besides having an Internal Complaint Committee, company went through an intermittent vacancy of the woman director on 19th June, 2023, the vacancy of which was filled on 18th September, 2023 by the Board, though, the immediate Board meeting held on 18th August, 2023.

Accounting and Auditing Perception

The Balance Sheet of Vayu Sanchar Limited as at 31st March is given below:

ASSETS	2024 Amount (₹)	2023 Amount (₹)
Non-Current Assets		
Property, Plant and Equipment	8,44,00,000	7,17,40,000
Other Non-Current Assets	3,92,00,000	2,79,40,000
Current Assets		

Financial Assets:		
Investments	1,95,00,000	2,12,00,000
Cash and Cash Equivalents	74,00,000	1,44,60,000
Trade Receivables	1,35,00,000	1,26,60,000
Total	16,40,00,000	14,80,00,000
EQUITY AND LIABILITIES		
Equity		
Equity Share Capital	4,30,00,000	4,30,00,000
Other Equity:		
Reserve and Surplus	3,56,00,000	2,25,00,000
Liabilities		
Non-Current Liabilities:		
Long Term Borrowings	2,25,00,000	3,90,00,000
Current Liabilities:		
Financial Liabilities		
Trade Payables	2,55,00,000	1,70,00,000
Payables for Expenses	2,24,00,000	1,49,00,000
Other Current Liabilities	1,50,00,000	1,16,00,000
Total	16,40,00,000	14,80,00,000

Other information: The company made a net profit after tax of ₹ 1,40,00,000 during the current year and paid interim dividend of ₹ 9,00,000. The value of Property, Plant and Equipment have been arrived after deducting ₹ 15,00,000 on account of depreciation. However, the company also sold one of its Property, Plant and Equipment for ₹ 9,00,000, the carrying amount of which was ₹ 8,00,000 at the end of the year 2024.

The company has the practice of releasing quarterly reports containing financial and operating highlights, key developments, results of operations, stock market highlights, ratio analysis, summarised financial statements, etc. These reports are submitted to the Delhi Stock Exchange, where it has listed security receipts, and are also hosted on the Company's website.

The 23rd Annual General Meeting of the company held on 8th August, 2024 at Sky Force Auditorium, Delhi where statutory auditor's report were adopted.

The extracts of Independent Auditor's Report to the members of Vayu Sanchar Limited for the Financial Year 2023-24 along with Notes to the Individual Financial Statements and Annexures are given below:

Report on the Individual Financial Statements

We have audited the Individual Financial Statements of Vayu Sanchar Limited ("the Company"), which comprise balance sheet as at March 31, 2024, and Statement of Profit & Loss (including Other Comprehensive Income), Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, and Notes to financial statements, including a summary of significant accounting policies & other explanatory information

Responsibilities of Management for the Individual Financial Statements

The Company's Board of Directors are responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these Individual Financial Statements that give a true and fair view of the financial position, financial performance including other comprehensive income, cash flows and changes in equity of the Company in accordance with the Indian Accounting Standards (Ind AS)

prescribed under section 133 of the Companies Act, 2013 read with the Companies (Indian Accounting Standards) Rules, 2015, as amended, and other accounting principles generally accepted in India.

This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Individual Financial Statements

Our responsibility is to express an opinion on these Individual Financial Statements based on our audit. In conducting our audit, we have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder and the Order issued under section 143(11) of the Act.

We conducted our audit of the Individual Financial Statements in accordance with the Standards on Auditing specified under section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Individual Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the Individual Financial Statements. The procedures selected depend on the auditor's judgment, including identifying and assessing the risks of material misstatement of the Individual Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates and related disclosures made by management. It further describes the auditor's responsibilities to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

We believe that the audit evidence obtained by us is sufficient and appropriate to provide a basis for our audit opinion on the Individual Financial Statements.

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid Individual Financial Statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the Ind AS and other accounting principles generally accepted in India, of the state of affairs of the Company as at March 31, 2024, its profit, total comprehensive income, changes in equity and its cash flows for the year ended on that date.

Emphasis of Matter

We draw attention to **Note 18** to the Individual Financial Statements which describes the uncertainties related to legal outcome of Department of Telecommunications demand with respect to one-time spectrum charges.

Our opinion is not modified in respect of this matter.

Report on Other Legal and Regulatory Requirements

As required by the Companies (Auditor's Report) Order, 2020 ("the Order") issued by the Central Government in terms of Section 143(11) of the Act, we give in "Annexure C" a statement on the matters specified in paragraphs 3 and 4 of the Order, to the extent applicable.

Notes to Individual Financial Statements stated as follows:

18. On February 9, 2019, Department of Telecom issued a demand for ₹ 24,00,000 towards levy of one-time spectrum charge. The demand includes a prospective charge of ₹ 20,00,000 for GSM spectrum held beyond 3.5 MHz for the period from February 1, 2019, till the expiry of the initial terms of the respective licenses along with retrospective charge of ₹ 4,00,000 for GSM spectrum held beyond 5.1 MHz for the period from February 1, 2015 to December 31, 2018.

In view of the Company, said demand amounts to modification of financial terms of the licenses issued in the past. A petition being filed by the Company, the Hon'ble High Court of Delhi, vide its order dated February 28, 2019, has directed the Department of Telecom to respond and not to take any coercive action until the next date of hearing. The DoT has filed its reply and the matter is currently pending with the Hon'ble High Court of Delhi.

25. Contingent Liabilities - Claims against the Company not acknowledged as debt

Customs Duty

During the current Financial Year, the custom authorities issued a demand notice for custom duty with regard to import of certain software on the basis of the fact that the software was preloaded in the hardware at the time of import. In response to that, the company filed an application to the Hon'ble Central Excise and Service Tax Appellate Tribunal ('CESTAT') opposing the demand of custom authorities, contending that such imports shall not be subject to custom duty as it is an operating software which is exempted from any custom duty. However, the CESTAT has passed an order in favour of the custom authorities. Consequently, the Company has filed an appeal with the Hon'ble Supreme Court against the CESTAT order, which is still unheard.

Annexure C to the Independent Auditor's Report

(ii) As elucidated to us, the inventories, except for those lying with the third parties, were physically verified during the year by the Management at reasonable intervals and no material discrepancies were noticed.

Multiple Choice Questions

- While reporting on Companies (Auditor's Report) Order, 2020 (the Order) under the head Other Legal and Regulatory Requirements, the auditor included a statement on inventories. State whether the reporting is in accordance with the reporting requirement under the Order.
 - Yes, the auditor has reported as per the reporting requirement.
 - No, the auditor has not reported as per the reporting requirement which requires stating the steps taken by the auditor for physical verification of inventories.
 - No, the auditor has not reported as per reporting requirement which also requires stating whether the coverage & procedure of such verification by management is appropriate.
 - No, the auditor has not reported as per the reporting requirement.
- Every listed company shall appoint at least one woman director on the Board in compliance of the provisions of the Companies Act, 2013 read with the Companies (Appointment and Qualification of Directors) Rules, 2014. In the given case, the company went through an intermittent vacancy of the woman director, which was filled later on. State whether the appointment of another women director by the Board to fill the intermittent vacancy is valid.

- (a) The intermittent vacancy of a woman director can only be filled by the shareholders not later than coming annual general meeting. Thus, the appointment is invalid.
 - (b) The intermittent vacancy of the woman director shall be filled by the Board. There is no such compliance for time limit. Thus, the appointment is valid.
 - (c) The intermittent vacancy of a woman director can only be filled by the Board not later than immediate next Board Meeting or two months from the date of such vacancy whichever is later. Thus, the appointment is invalid.
 - (d) The intermittent vacancy of a woman director can only be filled by the Board not later than immediate next Board Meeting or three months from the date of such vacancy whichever is later. Thus, the appointment is valid.
3. The Securities and Exchange Board of India (SEBI) has issued the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("LODR Regulations"). The objective of the LODR Regulations are streamlining and consolidating the provisions of various listing agreements in operation for different segments of the capital markets. State which of the following companies is not covered under LODR Regulation for the purpose of its compliances.
- (a) Vayu Sanchar Limited which has established a Code of Conduct, Human Rights Policies towards protection of Human Rights. In addition to this, the company has also set up Internal Complaint Committee to prevent sexual harassment at workplace.
 - (b) Hawa Sanch Limited, a public company, which has a paid up capital of ₹ 100 crore.
 - (c) Lucy Limited which has a paid up capital of ₹ 10 crore and listed non-convertible debt securities.
 - (d) Magadh Limited which has listed securitised debt instruments on a recognised stock exchange.
4. Regarding demand notice for custom duty from the custom authorities, state, whether the company needed to provide for the provision/liability/contingent liability in the books of Vayu Sanchar Limited.
- (a) A provision is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. Thus, provision shall be made in the financial statements, instead of showing it to the notes to financial statements.
 - (b) It is a liability of uncertain timing and amount, thus, the demand shall be recognised as a liability.
 - (c) It is a possible obligation that arises from past events and whose existence will be confirmed only by occurrence or non-occurrence of one or more uncertain future events not wholly within control of entity. Thus, presentation as contingent liability under notes to financial statements is correct.
 - (d) It is a present obligation that arises from past events but is not recognised because (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or (ii) the amount of the obligation cannot be measured with sufficient reliability. Thus, the presentation as contingent liability under notes to financial statements is correct.
5. Referring the Independent Auditor's Report to the members of Vayu Sanchar Limited, the auditor has included a section with the heading "Auditor's Responsibilities for the Audit of the Financial Statements.". Elucidate, what shall not be stated under this section of the Auditor's Report.
- (a) Auditor's responsibilities for identifying and assessing the risks of material misstatement of the financial statements.
 - (b) Auditor's responsibilities for obtaining an understanding of internal control relevant to the audit in order to design audit procedures.

- (c) Auditor's responsibilities for assessing the entity's ability to continue as a going concern.
- (d) Auditor's responsibilities for evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates.

Descriptive Questions

6. Referring the presentation made by the auditor regarding Emphasis of Matter paragraph in the Auditor's Report, state the conditions for including such paragraph. Also give certain examples of cases where the auditor may consider necessary to include an Emphasis of Matter paragraph. Consequently, state, whether the reporting made by the auditor in the Auditor's Report is in accordance with the relevant Standards on Auditing.
7. Considering the Balance Sheet of Vayu Sanchar Limited and 'Other information' as provided along with the facts mentioned below, construct a statement of cash flows under indirect method.
 - (i) Income tax paid during the current year is ₹ 30,00,000.
 - (ii) Other Non-Current Assets and Current Liabilities do not contain any element of Financing and Investing Activities.

ANSWERS TO THE CASE STUDY 3

Answers to the Multiple Choice Questions

1. (c) No, the auditor has not reported as per reporting requirement which also requires stating whether the coverage & procedure of such verification by management is appropriate.
Reason: As per clause (ii) of Para 3 of CARO, 2020, the auditor of a company has to report whether physical verification of inventory has been conducted at reasonable intervals by management and whether coverage & procedure of such verification by management is appropriate; whether any discrepancies of 10% or more in aggregate for each class of inventory were noticed and if so, whether they have been properly dealt with in books.
2. (d) The intermittent vacancy of a woman director can only be filled by the Board not later than immediate next Board Meeting or three months from the date of such vacancy whichever is later. Thus, the appointment is valid.
Reason: As per section 149(1) of the Companies Act, 2013 read with the Companies (Appointment and Qualification of Directors) Rules, 2014, the Board shall fill the vacancy by 18th August, 2023 or by 18th September, 2023 (i.e. 3 months from the date of such vacancy) whichever is later. In the given case, it has been filled on 18th September, 2023, thus the appointment is valid.
3. (b) Hawa Sanch Ltd., a public company, which has a paid-up capital of ₹ 100 crore.
Reason: The LODR Regulations shall apply to the listed entity who has listed designated securities on recognised stock exchange.
4. (c) It is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Thus, the presentation as contingent liability under notes to financial statements is correct.
Reason: As per Ind AS 37, a contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. In the given case, the appeal is

pending before the court which is a possible obligation because the liability for payment arising or not is dependent on the outcome of court decision.

5. (c) Auditor's responsibilities for assessing the entity's ability to continue as a going concern.

Reason: As per SA 700, the auditor's report shall include a section with a heading "Responsibilities of Management for the Financial Statements.". This section of the auditor's report shall describe management's responsibility for assessing the entity's ability to continue as a going concern.

Answers to the Descriptive Questions

6. **SA 706 'Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report'**, provides that if the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, **in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements**, the auditor shall include an Emphasis of Matter paragraph in the auditor's report provided:

- (a) The auditor would **not be required to modify the opinion** in accordance with SA 705 'Modifications to the Opinion in the Independent Auditor's Report' as a result of the matter; and
- (b) When SA 701 'Communicating Key Audit Matters in the Independent Auditor's Report' applies, the matter has **not been determined to be a key audit matter** to be communicated in the auditor's report.

Examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph are:

- (a) An uncertainty relating to the **future outcome of exceptional litigation or regulatory action**.
- (b) A **significant subsequent event** that occurs between the date of the financial statements and the date of the auditor's report.
- (c) **Early application** (where permitted) of a **new accounting standard** that has a material effect on the financial statements.
- (d) A **major catastrophe** that has had, or continues to have, a significant effect on the entity's financial position.

In the given case, the auditor has included a paragraph on Emphasis of Matter which describes the uncertainties related to the legal outcome of Department of Telecommunications demand with respect to one-time spectrum charges. Further, the opinion is also not modified in respect of this matter.

Thus, all the conditions and circumstances have been considered by the auditor while including a paragraph on the Emphasis of Matter. Therefore, the reporting is in accordance with SA 706.

7. **Statement of Cash Flows of Vayu Sanchar Limited**

Particulars	Amount (₹)	Amount (₹)
Cash Flows from Operating Activities		
Net Profit after Tax	1,40,00,000	
Add: Income Tax Paid	30,00,000	
Net Profit before Tax	1,70,00,000	
Add: Depreciation	15,00,000	
Less: Gain on Sale of Machine	(1,00,000)	
	1,84,00,000	

Change in Operating Assets and Liabilities		
Less: Increase in Other Non-Current Asset (₹ 3,92,00,000 – ₹ 2,79,40,000)	(1,12,60,000)	
Less: Increase in Trade Receivables (₹ 1,35,00,000 – ₹ 1,26,60,000)	(8,40,000)	
Add: Increase in Other Current Liabilities (₹ 1,50,00,000 – ₹ 1,16,00,000)	34,00,000	
Add: Increase in Trade Payables (₹ 2,55,00,000 – ₹ 1,70,00,000)	85,00,000	
Add: Increase in Payables for Expenses (₹ 2,24,00,000 – ₹ 1,49,00,000)	75,00,000	
	2,57,00,000	
Less: Income Tax Paid	(30,00,000)	
Cash inflow Activities from Operating	2,27,00,000	2,27,00,000
Cash Flows Activities from Investing		
Sale of Property, Plant and Equipment during the year	9,00,000	
Purchase of Property, Plant and Equipment during the year [₹ 8,44,00,000 – (₹ 7,17,40,000 – ₹ 15,00,000 – ₹ 8,00,000)]	(1,49,60,000)	
Sale of Investments (₹ 2,12,00,000 – ₹ 1,95,00,000)	17,00,000	
Cash outflow from Investing Activities	(1,23,60,000)	(1,23,60,000)
Cash Flows from Financing Activities		
Interim Dividend paid	(9,00,000)	
Long Term Borrowings paid (₹ 3,90,00,000 – ₹ 2,25,00,000)	(1,65,00,000)	
Cash outflow from Financing Activities	(1,74,00,000)	(1,74,00,000)
Net Cash outflow from all the Activities		(70,60,000)
Add: Opening Cash and cash Equivalents		1,44,60,000
Closing Cash and Cash Equivalents		74,00,000

ADDITIONAL (Students Journal Aug 20)

Case Study 4

Subjects	Topics Covered	Marks
DT	Salary Basics	4
IDT	Time of Supply, Value of Supply, GST Exemption	21

Glaxosd Ltd. has dedicated an expenditure of Rs. 50 lakhs towards advertising of its products. They contacted advertising agencies such as McLeod to undertake the marketing of its products. They entered into a contractual arrangement for undertaking advertisement on TV, Hotstar and Netflix for FY 2023-24. However, McLeod did not charge any money to Glaxosd Ltd. as Glaxosd Ltd. has helped McLeod during the recession in the year 2008. In order to show gratitude, McLeod did not bill them for advertising services rendered by them. McLeod charges a sum of Rs. 25 lakhs for advertising on TV, Hotstar and Netflix to companies who are engaged in trading of goods for a year. McLeod generally charges a mark -up of 40% on the cost.

Glaxosd Ltd. has a branch at Guwahati. It supplied 1,00,000 pieces of garments to the branch on 17th January, 2024. Since it had supplied the goods to the branch, it did not charge any consideration from the branch.

Guwahati branch sources its entire purchase from the Glaxosd Ltd. The branch in turn sells it to retail customers. The Branch sells the goods to the customers at a price of Rs. 15 per piece. Glaxosd Ltd. issued an invoice of Rs. 1,50,000 plus 5 percent GST to a customer who bought 20,000 pieces on 15th May, 2023. The goods sold to the customer were from the defect lot. On 20th May 2023, the rate of tax changed from 5 percent to 18 percent. The customer paid the company through a cheque dated 18th May, 2023. The funds got credited in the bank account on 25th May 2023. The customer got delivery of goods on 21st May, 2023.

Mr. Adrio works in Canada for Glaxosd Ltd. He earned salary of USD 10,000 per month.

Mr. Adrio works exclusively to develop the market of the product which Glaxosd Ltd. trades in India.

He is deputed in Canada since January 2023. Glaxosd Ltd. has also deputed Mr. Ricky for assisting Mr. Adrio in all the administrative work of the Mr. Adrio. His salary is USD 100. Salary to the employee is due on last day of the month. Salary is paid on the due date only. The telegraphic transfer Buying rate is stated as under:

Date	TT Buying Rate
31.10.2023	65.50
30.11.2023	69.45
31.12.2023	70.57
31.01.2024	72.58
29.02.2024	73.68
31.03.2024	74.69

Mr. Adrio has signed a contract with Glaxosd Ltd. for a period of 6 years. Glaxosd Ltd. has insisted Mr. Adrio to sign this agreement as the nature of services rendered by him are crucial for the company so that they can establish a market in Canada.

The Company got on board the brand "Jain Sweets" to manage the hunger needs of its employees from May 2023 onwards. The company distributed coupons to its entire staff worth Rs. 200 each. Jain Sweets has variety of food items on its shelf: samosa, burger, sweets, farsan, sandwich, etc. The Company distributes the coupons on monthly basis. i.e. at the start of the month. The Company has 100 employees on its payroll. The Company also received advance consideration worth Rs. 10,00,000 on 16th August, 2023 from Jain Sweets in respect of the goods in which the company trades in. Jain Sweets wanted to buy such goods to distribute it in his village

as a token of love. The goods are to be delivered by end of February, 2024. Glaxosd Ltd. requests the Commissioner of Police, Mumbai to provide security in and around the NESCO where exhibition will be held for 5 days from 17th January to 21st January, 2024. The Commissioner of Police arranges the required security for an agreed consideration of Rs. 10 lakhs.

The son of the promoter of Glaxosd Ltd. wanted to enroll himself at IIM for a post graduate degree in business Analytics. Since, he is a CA Final student, IIM discussed the following details with him so that IIM could check his knowledge on GST.

IIMs have designed following courses for FY 2023-24:

Name of the Course	Duration of the Course	Annual Fee
Post graduate in Business Analytics	2 years	Rs. 2,50,000
Diploma Course in Data Science	9 months	Rs. 3,50,000
Masters in Business Planning	3 years	Rs. 4,00,000

IIM also has canteen for its students and teachers and professors. It has in-house canteen for those students who take post graduate and Masters course in IIM. It has outsourced the catering services to "Jagdishan Foods" for students pursuing Diploma courses.

During the month of April, 2023, 20 students have enrolled for postgraduate course, 30 students have enrolled for Diploma course and 50 students for Masters course. The monthly billing of in-house canteen is Rs. 5,00,000 and the monthly billing of Jagdishan Foods is Rs. 2,00,000 for the month of April, 2023.

Multiple Choice Questions

- What is the amount of salary chargeable to tax in the hands of Mr. Adrio and Mr. Ricky? Assume that salary is chargeable to tax in India.
 - Rs. 22,09,500 and Rs. 21,683
 - Rs. 22,31,183 and Rs. 22,095
 - Rs. 22,09,500 and Rs. 22,095
 - Rs. 22,31,183 and Rs. 21,683
- Would Mr. Adrio be eligible for gratuity from Glaxosd Ltd., on completion of his period of service?
 - No, since he is rendering services outside India
 - No, since he is only a contractual employee
 - No, due to reasons mentioned in both (a) and (b) above
 - Yes, he is entitled to gratuity from Glaxosd Ltd. since he would have rendered continuous service of not less than 5 years.
- What is the value of supply of goods sent by Glaxosd Ltd. to its branch?
 - Rs. 13,50,000
 - Rs. 15,00,000
 - Rs. 7,50,000
 - Rs. 11,55,000
- What is the time of supply in case of sale of goods by Glaxosd to a customer?
 - 15th May, 2023
 - 20th May, 2023

- (c) 21st May, 2023
 (d) 25th May, 2023
5. Who will pay the GST on the services provided by Mumbai Police?
- (a) Mumbai Police.
 (b) Glaxosd Ltd.
 (c) No liability to pay tax as services rendered by Mumbai Police are exempt.
 (d) No liability to pay tax as services rendered by Mumbai Police are covered under zero rated supply.

Descriptive Questions

6. What is the value of supply rendered to Glaxosd Ltd. by McLeod?
7. When should Jain Sweets pay GST on the vouchers distributed to employees of Glaxosd Ltd. for the month of August 2023 and when should Glaxosd Ltd. pay GST on advance received by them from Jain Sweets?
8. What is the value of supply of service rendered by IIMs chargeable under the GST Act?

ANSWERS TO THE CASE STUDY 4

Answers to the Multiple Choice Questions

1. (a) Rs. 22,09,500 and Rs. 21,683

Reason: Since both the expatriates received their salaries in foreign currency. In such cases, the salary denominated in foreign currency is to be converted to Indian rupees using the Telegraphic Transfer Buying Rate of such foreign currency as on the following dates:

— In case where tax is deducted at source by the employer: the date on which tax is required to be deducted at source

i.e. at the time of payment of such salary

— In other cases: the last day of the month immediately preceding the month in which the salary is due or is paid in advance or in arrears.

Thus, salary of Mr. Adrio and Mr. Ricky is computed as under:

Date	TT Buying Rate	Mr. Adrio Salary	Mr. Ricky Salary
31.10.2023	65.50		
30.11.2023	69.45		
31.12.2023	70.57		
31.01.2024	72.58	7,25,800	= 100*70.57=7,057
29.02.2024	73.68	7,36,800	= 100*72.58=7,258
31.03.2024	74.69	7,46,900	= 100*73.68=7,368
Total		Rs. 22,09,500	Rs. 21,683

2. (d) Yes, he is entitled to gratuity from Glaxosd Ltd. since he would have rendered continuous service of not less than 5 years.

Reason: Section 10(10) of Income-tax Act, 1961 dealing with gratuity is stated as under:

“(ii) any gratuity received under the Payment of Gratuity Act, 1972 (39 of 1972), to the extent it does not exceed an amount calculated in accordance with the provisions of sub-sections

(2) and (3) of section 4 of that Act;

(iii) any other gratuity received by an employee on his retirement or on his becoming incapacitated prior to such retirement or on termination of his employment, or any gratuity received by his widow, children or dependants on his death, to the extent it does not, in either case, exceed one-half month's salary for each year of completed service, calculated on the basis of the average salary for the ten months immediately preceding the month in which any such event occurs, subject to such limit as the Central Government may, by notification in the Official Gazette, specify in this behalf having regard to the limit applicable in this behalf to the employees of that Government :"

As per Section 4 of the Payment of Gratuity Act, 1972, gratuity shall be payable to an employee on the termination of his employment after he has rendered continuous service for not less than five years;

- on his superannuation, or
- on his retirement or resignation, or
- on his death or disablement due to accident or disease.

An expatriate who has already rendered five years of service reserves the right to claim gratuity from the Indian employer at the time of termination.

3. (a) Rs. 13,50,000

Reason: As per Rule 28 of CGST Rules, the methods of valuation of transactions between related persons and between distinct persons, in the sequence in which they are to be applied, are as follows:

- (a) the open market value of such supply;
- (b) if open market value is not available, the value of supply of goods or services of like kind and quality;
- (c) if value cannot be determined under the above methods, it must be worked out based on the cost of the supply plus 10% mark-up [Rule 30] or by other reasonable means, in that sequence [Rule 31].

If the goods are intended to be supplied as such by the recipient

Value = 90% of the price charged for the supply of goods of like kind and quality by the recipient to his unrelated customer.

However, it is not mandatory for the supplier to adopt this method of valuation. He can opt to value his goods in accordance with the valuation methods prescribed in clause (a), (b) or (c) above.

Thus, as per above Rule, no open market value of goods is available. The value of supply of goods or services of like kind and quality is not available as Glaxosol sold defect lot to its customer. The third option of cost plus mark-up also does not work out as no information is available.

The branch sells the goods to the retail customers as it is, then the value shall be 90% of the price charged for the supply of goods of like kind and quality by the recipient to his unrelated customer = 15 (price charged to retail customers by branch * 1,00,000 pieces * 90% = Rs. 13,50,000

4. (d) 25th May, 2023

Reason: As per Section 14 of CGST Act, the timing of two of the three markers (supply, invoice, payment) determines the time of supply. If any two of them occur before the change in rate of tax,

the time of supply will fall in the period prior to change in rate of tax i.e., old rate will be applicable. However, if any two of them occur after the change in rate of tax, the time of supply will fall in the period after the change in rate of tax i.e., new rate will be applicable.

Date of crediting of payment in bank account to be the “date of receipt of payment” if such crediting takes place after 4 working days of change in rate of tax

Thus, applying the above provision,

- Issuance of invoice happened on 15th May, 2023
- Supply of goods - 21st May, 2023
- Receipt of payment: 25th May, 2023

The rate of tax changed on 20th May, 2023. Since two events i.e. supply of goods and receipt of payment took place after the date of change in tax rate, the time of supply will be the 25th May, 2023 i.e. after the date of change in tax rate.

5. **(b)** Glaxosd Ltd.

Reason: Services provided by Police or security agencies of Government to PSU/private business entities are not exempt from GST.

Such services are taxable supplies and the recipients are required to pay the tax under reverse charge mechanism on the amount of consideration paid to Government for such supply of services. In this case, services of providing security by the police personnel are not exempt. As the services are provided by Government, Glaxosd Ltd. is liable to pay the tax on the consideration paid, albeit under reverse charge mechanism.

Answers to the Descriptive Questions

6. Rule 29 of CGST Rules dealing with principal and agent is applicable for value of supply of goods between the principal and agent. However, Mcleod (agent) rendered services to Glaxosd Ltd. (being the principal).

Thus, the value of supply can be determined as per Rule 30 or Rule 31.

As per Rule 30, If the value of a supply of goods and/or services cannot be worked out by the foregoing methods, its value will be **110% of the cost** of production/manufacture/acquisition of such goods or cost of provision of such services

So, the value of supply as per Rule 30 is calculated as under:

Price charged by Mcleod	Rs. 25,00,000
Cost of services = Selling Price/140*100	Rs. 17,85,714.3
As per Rule 30, value of supply = 110% of cost	Rs. 19,64,285.7

The value of supply as per Rule 31, the residual method consists of determination of value by using reasonable means consistent with the principles and general provisions of Section 15 and these Rules.

As per Rule 31, it shall be **open market value** in case of services rendered by Mcleod.

7. **As per Section 12(4) of CGST Act, time of supply of vouchers exchangeable for goods and services is stated as under:**

- (a) Supply of goods is identifiable at the time of issue of voucher
 - **Date of issue of the voucher**
- (b) Other cases

➤ **Date of redemption of the voucher**

Since the supply of goods is not identifiable at the time of issue of voucher (as Jain Sweets sell various products), date of redemption of voucher is the time of supply.

For the month of August, the tax needs to be paid by 20th September, 2023.

No GST on advances received for supply of goods: In case of supply of goods by a registered person (excluding composition supplier), GST is to be paid on the outward supply of goods on the date of issue of invoice or the last date on which invoice ought to have been issued in terms of section 31 [Notification No. 66/2017 CT dated 15.11.2017].

Thus, no GST shall be paid at the time of receipt of advance. Since goods will be delivered by end of February, invoice shall be issued by Glaxosd Ltd. in the month of February and GST shall be paid on or before 20th March, 2024.

8. IIMs provide various long duration programs (1 year or more) for which they award diploma/degree certificate duly recommended by Board of Governors as per the power vested in them under the IIM Act, 2017. Therefore, it is clarified that **services provided by Indian Institutes of Managements to their students in all such long duration programs (one year or more) are exempt from levy of GST. Thus, services rendered by providing post graduate and master courses are exempt.** IIMs also provide various short duration/short term programs (less than 1 year) for which they award participation certificate to the executives/professionals as they are considered as “participants” of the said programmes. These participation certificates are not any qualification recognized by law. **Such participants are also not considered as students of IIMs. Services provided by IIMs as an educational institution to such participants are not exempt from GST. Such short duration executive programs attract standard rate of GST @ 18% (CGST 9% + SGST 9%)** [Circular No. 82/01/2019 GST dated 01.01.2019]. **The services provided through Diploma course attracts GST, thus the value of services is Rs. 1,05,00,000.**

If the catering service is one of the services provided by an educational institution to its students, faculty and staff and the said educational institution is covered by the definition of ‘educational institution’ as given above, then the same is exempt. **Thus, the canteen services run by in-house team of IIMs are exempt.**

If the catering services, i.e., supply of food or drink in a mess or canteen, are provided by anyone other than the educational institution, i.e. the institution outsources the catering activity to an outside contractor, then it is a supply of service to the concerned educational institution by such outside caterer and attracts GST. **The billing of Rs. 2,00,000 from Jagdishan Foods is taxable under the Act.**

Thus, the value of taxable supply by IIM is Rs. 1,05,00,000 and the value of taxable supply by Jagdishan Foods is Rs. 2,00,000.

ADDITIONAL (Students Journal Oct 20)

Case Study 5

Subjects	Topics Covered	Marks
DT	Deduction (Section 80IAC), NR Taxation	14
IDT	GST Exemption, ITC	11

M/s Bishon Rainwear has bought a new office premises at Bandra Kurla Complex. He made the furniture for the office through an architect. Following are the bills which M/s Bishon Rainwear has paid for the furniture made at the new office in the month of April, 2023:

Nature of bills	Amount (₹)	GST Amount (₹)
Purchase of spare parts	2,50,000	45,000
Purchase of accessories	10,00,000	1,80,000
Purchase of wood for furniture, tiles	15,00,000	2,70,000

In the month of May, 2023, the amount of input tax credit as per GST portal is ₹ 23,539 (CGST) and ₹ 23,539 (SGST). The total input tax credit claimed as per the accounting software of M/s Bishon Rainwear is ₹ 25,164 (CGST) and ₹ 25,164 (SGST). The credit (₹ 1,624-inclusive of CGST AND SGST) pertaining to supplier by the name "Shah Zipper" is not reflected in the GST portal.

M/s Bishon Rainwear has capitalised the above furniture costs in his books of accounts.

M/s Bishon Rainwear has an employee Mr. Tony who left his job in the month of April, 2023 and left India for good. He shifted to France. He has invested in the shares of listed companies. During the FY 2023-24, he earned dividend of ₹ 10,00,000 from the investment in the listed shares of Indian companies.

M/s Bishon Rainwear has started a start up by the name "Franky Cranky Ltd." in the year 2021. It is an eligible start-up as per section 80-IAC. During the financial year 2021-22, it incurred a loss of ₹ 100 crores. During FY 2022-23, it incurred a loss of ₹ 50 crore.

M/s Bishon Rainwear projects the profits/loss from the start-up as under:

FY	FY 23-24	FY 24-25	FY 25-26	FY 26-27	FY 27-28	FY 28-29	FY 29-30	FY 30-31	FY 31-32	FY 32-33
Amount of profit or (loss)	50 crore	150 crore	200 crore	400 crore	800 crore	100 crore	100 crore	200 crore	250 crore	50 crore

Mr. Tony's friend, Mr. Raghav stays in Spain since last 5 years. Before leaving India, he had investments in India. He came to India on 2nd February, 2024 and stayed in India for 75 days. The particulars of his income for P.Y.2023-24 are as follows:

Nature of Income	Amount (₹)
Interest Income from Indian company on rupee denominated bonds issued during December 2018	10,00,000
Rental Income form property situated in India	20,00,000
Interest payable by a unit located in an IFSC in respect of monies borrowed	5,00,000
Salary from Spain	10,00,000
Interest on money standing to his credit in NRE account	1,00,000

Mr. Arnav, who is cousin of Mr. Raghav is a Person of Indian Origin as his father was born in India. Mr. Raghav

has foreign passport only. He was born in Spain and also stays in Spain. During FY 2023-24, Arnav did not visit India. He stays in Country X, but is not taxed in Country X also as the number of days stay in Country X is less as required to be a resident of Country X. During FY 2023-24, he did not come to India. He has following income from India:

S.No.	Nature of income	Amount (₹)
1.	Interest Income from fixed deposits with Indian companies	5,00,000
2.	Salary income in Spain	10,00,000
3.	Rental Income from Indian Property	20,00,000

M/s Bishon Rainwear has a hospital by the name “Kaiffee Hospital”. The services provided by hospital are stated as under:

- Providing rooms to patients
- In-house canteen to patients and their relatives
- Calling senior and expert doctors from India’s best hospitals.
- Pathology services

During the month of April, 2023, the hospital billed as under:

S.No.	Nature of services	Amount (₹)
1.	Rent of Rooms	10,00,000
2.	In-house canteen to patients	5,00,000
3.	Canteen services to relatives of patients	7,00,000
4.	Pathology	20,00,000
5.	Cost of senior and expert doctors	15,00,000
6.	Cost of in-house doctors and nurses	10,00,000

During May, 2023, M/s Mcleod approached Kaiffee Hospital to display the advertising banner of its clients who deals in medicines at a price of ₹ 2,00,000 per month. Further, Kaiffee hospital is also proposing to get independent physiotherapist on board to serve its patients. The physiotherapist shall charge a monthly fee of ₹ 1,50,000.

Multiple Choice Questions

- What is the amount of ITC that can be taken by M/s Bishon Rainwear for the month of April, 2023?
 - ₹ 45,000
 - ₹ 4,95,000
 - ₹ 1,80,000
 - 0
- State which year’s profit should be taken into consideration for maximising the utilisation of deduction available under the Act.
 - FY 2025-26 to FY 2027-28
 - FY 2023-24 to FY 2025-26
 - FY 2028-29 to FY 2030-31
 - FY 2030-31 to FY 2032-33

3. What is the residential status of Mr. Raghav for A.Y.2024-25?
 - (a) Resident but not ordinarily resident
 - (b) Resident and ordinary resident
 - (c) Non resident
 - (d) None of the above
4. What is the value of service provided by Kaifee Hospital for month of April which is chargeable to GST?
 - (a) ₹ 67,00,000
 - (b) ₹ 45,00,000
 - (c) ₹ 7,00,000
 - (d) ₹ 22,00,000
5. What is the value of supply chargeable to GST in respect of advertising banner and putting physiotherapist on board for one month?
 - (a) ₹ 3,50,000
 - (b) ₹ 2,00,000
 - (c) ₹ 1,50,000
 - (d) Nil

Descriptive Questions

6. What is the amount of input tax credit that can be taken for the month of May, 2023 by M/s Bishon Rainwear?
7. What is the income chargeable to tax in the hands of Mr. Raghav during FY 2023-24 as per Income-tax Act, 1961?
8. What is the income chargeable to tax in the hands of Mr. Arnav as per Income-tax Act, 1961?

ANSWERS TO THE CASE STUDY 5

Answers to the Multiple Choice Questions

1. **(d)** 0
Reason: As per clause d of section 17(5) of CGST Act, input tax credit (ITC) is not allowed on goods and or services received by a taxable person for construction of an immovable property (other than plant and machinery) on his own account even though such goods and or services are used in course of furtherance of business. Thus, no input tax credit shall be available. Since the cost of furniture is capitalised, ITC will not be available.
2. **(a)** FY 2025-26 to FY 2027-28
Reason: As per Section 80IAC of Income-tax Act, 1961, the deduction under the said section 80-IAC shall be available to an eligible start-up for a period of three consecutive assessment years out of seven years beginning from the year in which it is incorporated.
 It is best to select the profits for FY 2025-26 to FY 2027-28 as in the earlier years, the profits are getting reduced due to brought forward losses of earlier years.
3. **(c)** Non resident

Reason: Since he has stayed in India only for 59 days during P.Y.2023-24, he is non-resident in India for A.Y.2024-25.

4. (c) ₹ 7,00,000

Reason: Rent of rooms provided to in-patients in hospitals is exempt [Circular No. 27/01/2018 GST dated 04.01.2018].

It is clarified by CBIC that services provided by such senior doctors/consultants/technicians, whether employees or not, are healthcare services which are exempt from GST [Circular No. 32/06/2018 GST dated 12.02.2018].

Health care services provided by the clinical establishments will include food supplied to the patients; but such food may be prepared by the canteens run by the hospitals or may be outsourced by the hospitals from outdoor caterers.

Food supplied to the in-patients as advised by the doctor/nutritionists is a part of composite supply of healthcare and not separately taxable.

Other supplies of food by a hospital to patients (not admitted) or their attendants or visitors are taxable [Circular No. 32/06/2018 GST dated 12.02.2018]

Thus, apart from canteen services to relatives of patients, all the other services provided by Kaiffee Hospital are exempt from GST.

5. (b) ₹ 2,00,000

Reason: Supply of services other than healthcare services such as renting of shops, auditoriums in the premises of the clinical establishment, display of advertisements etc. will be subject to GST.

Paramedics are trained health care professionals, for example, nursing staff, physiotherapists, technicians, lab assistants etc. Services provided by them in a clinical establishment would be in capacity of employee and not provided in independent capacity and will be considered as services by such clinical establishment. Similar services in independent capacity are also exempted.

Thus, only consideration received from advertising of ₹ 2,00,000 shall be chargeable to GST.

Answers to the Descriptive Questions

6. Input tax credit to be taken for the month of May, 2023 is calculated as under:

Calculation for the month of May	CGST	SGST
Total credit as per accounting software	25,164	25,164
Input tax credit as per GST portal	23,539	23,539
Net credit can be taken	23,539	23,539

Thus, the net credit that can be taken for the month of May, 2023 is ₹ 23,539 [CGST] plus ₹ 23,539 [SGST].

7. Mr. Raghav is a non-resident since he has stayed in India only for 59 days during the P.Y.2023-24.

Thus, the taxability of the income for FY 2023-24 is computed as under:

Nature of Income	Amount in ₹	Taxability
Interest Income from Indian company on rupee denominated bonds issued during December, 2018	10,00,000	Exempt u/s 10(4C)
Rental Income form property situated in India	20,00,000	Taxable as per slab rate
Interest payable by a unit located in an IFSC in respect of monies borrowed	5,00,000	Exempt u/s 10(15)(ix)

Salary from Spain	10,00,000	Not Taxable in the hands of a non-resident, since it is from a source outside India
Interest on money standing to his credit in NRE A/c	1,00,000	Not taxable as per section 10(4)(ii)

Thus, the taxable income is computed as under:

Income from House Property	Amount in ₹	Amount in ₹
Annual Value	20,00,000	
Less: Deduction u/s 24(a)	6,00,000	
Net Income from House Property		14,00,000
Income from Other Sources		
Interest on money standing to his credit in NRE A/c	Exempt	
Interest payable by a unit located in an IFSC in respect of monies borrowed	Exempt	
Interest Income from Indian company on rupee denominated bonds issued during December, 2018	Exempt	-
Gross Total Income		14,00,000

8. Arnab is a non-resident since he has not visited India during the P.Y.2023-24.

Thus, the items of income chargeable to tax as per Income- tax Act, 1961 is as under:

S.No.	Nature of income	₹
1	Indian Interest Income	5,00,000
2	Rental Income from Indian Property	20,00,000

Computation of income is as under:

Particulars	Amount (₹)	Amount (₹)
Income from House Property	20,00,000	
Less: 30% Standard Deduction	6,00,000	
Net Income from House Property		14,00,000
Income from Other Sources		
Indian Interest Income		5,00,000
Gross Total Income		1,90,0000

Note – Salary income in Spain is not chargeable to tax in India, since it accrues and arises outside India and is also received outside India.

ADDITIONAL (MTP I May 24)

Case Study 6

Subjects	Topics Covered	Marks
FR	Ind AS 19	3
AFM	Capital Budgeting	5
Audit	Professional Ethics, SA 610	4
DT	Search and Survey, Revision (Section 263)	7
IDT	Supply, Place of Supply, Payment	6

Para 1

Mr. Harsh Chawda, is a practising Chartered Accountant, resident of Pune. The marriage of his daughter, Seema Chawda, has been finalized with Mr. Dharmesh Raval, an NRI settled in Argentina. The marriage is scheduled on 21st October in Pune during the Diwali Festival. Mr. Harsh Chawda wanted to send 2,000 marriage invitation cards to all his relatives and friends in India to attend the marriage. He had to send invitations by inland letters. He also wished to provide a gift pack of food items to his relatives at the Haldi programme of his daughter for which he provided order to M/s Goyal Sweets for 500 packs, made as per its Diwali offer.

Para 2

M/s Goyal 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 ₹ 600 (GST inclusive).

Para 3

Mr. Harsh Chawda also provides management consultancy and internal audit services to 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. Harsh to take guidance on some topics of financial management subject related to his course. Mr. Harsh, 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 hours in a day. However, he had not taken any specific permission for such private tutorship from the Council.

Para 4

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

BMK & Co. was appointed to conduct statutory audit of Khwab Pharma Ltd. The engagement partner of the firm, Mr. Rajan asked Mr. Harsh 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.

Para 5

Khwab 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. Harsh for providing project appraisal, based on following information:

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

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

Para 6

Khwab Pharma Ltd. has 200 employees, who are each entitled to five working days of paid sick leaves for 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, on the basis of experience, expects that 184 employees will take not more than five days of paid sick leaves in 2024-2025 and that the remaining sixteen employees will take on an average six and half days each.

The entity expects that it will pay an additional 24 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 twenty or more years of service.

Para 7

The Assessing Officer having proper jurisdiction surveyed the principal business place of Khwab Pharma Ltd. at 8 p.m. in night for the purpose of collecting information which may be useful for the purposes of the Income-tax Act, 1961. The place of business of the company is kept open for business every day between 10 a.m. and 9 p.m. 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. Further, he made an inventory of valuable articles in form of gold biscuits found at such place weighing 3 kgs each.

The Commissioner of Income-tax had issued notice to revise the order passed by an Assessing Officer under section 143 in case of Khwab Pharma Ltd. During the pendency of proceedings before the Commissioner, on the basis of material gathered during the aforesaid survey under section 133A after issue of the first notice, the Commissioner of Income-tax issued a second notice, the contents of which were different from the contents of the first notice.

Para 8

During the November month, the company entered into an agreement to sell a consignment of some medicines to Rajratna Medicines of Rampur, Uttar Pradesh. While the goods were being packed in Pune factory of the company, Rajratna Medicines got an order from Saras Med Pvt. Ltd. of Udupi, Karnataka for the said goods. Rajratna Medicines agreed to supply the said goods to Saras Med Pvt. Ltd. and asked the company to deliver the goods to Saras Med Pvt. Ltd. at Udupi. For determining the place of supply in case of aforesaid situation, Mr. Arvind, the tax manager of the company, made discussion with Mr. Harsh.

Further, during the December month, the company had availed input tax credit of ₹ 84,500 for one of the invoices during December month under IGST head, instead of availing ₹ 42,250 under CGST & SGST heads. Mr.

Arvind asked the accountant to use Form GST PMT-09 for making a transfer from IGST head to respective CGST & SGST heads.

Multiple Choice Questions

1. With respect to information given in Para 2, calculate the amount of GST payable in respect of supply of a gift pack in the form of a single basket by M/s Goyal Sweets.
 - (a) ₹ 108
 - (b) ₹ 168
 - (c) ₹ 92
 - (d) ₹ 131
2. With respect to information given in Para 3, Whether Mr. Harsh is guilty of professional misconduct in providing private tutorship to Mr. Jaman along with some other aspirants as described in case study?
 - (a) Mr. Harsh is not guilty of professional misconduct as there are no restrictions on providing private tutorship.
 - (b) Mr. Harsh is guilty of professional misconduct as private tutorship cannot be provided by practising chartered accountants.
 - (c) Mr. Harsh is guilty of professional misconduct as he has not obtained specific permission from the Council for the same.
 - (d) Mr. Harsh is not guilty of professional misconduct as he is teaching within prescribed hours permitted by the Council generally.
3. With respect to information given in Para 4, engagement partner sought direct assistance from Mr. Harsh, internal auditor. Advise as to whether he is permitted to do so in accordance with relevant Standards on Auditing.
 - (a) The engagement partner cannot ask Mr. Harsh for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements. However, Mr. Harsh may assist engagement partner in assembling information necessary to resolve exceptions in confirmation responses.
 - (b) Mr. Harsh cannot assist engagement partner in assembling information necessary to resolve exceptions in confirmation responses. However, the engagement partner can ask Mr. Harsh for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements.
 - (c) The engagement partner cannot ask Mr. Harsh for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements and in assembling the information necessary to resolve exceptions in confirmation responses.
 - (d) The engagement partner can ask Mr. Harsh for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements and in assembling the information necessary to resolve exceptions in confirmation responses.
4. With respect to information given in Para 7, which of the following statements is correct in respect of the survey conducted at the business place of Khwab Pharma Ltd.?
 - (a) The Assessing Officer's action in entering the business place of Khwab Pharma Ltd. at 8 p.m. and impounding books of account and documents inspected by him is in order.
 - (b) The Assessing Officer's action in entering the business place of Khwab Pharma Ltd. at 8 p.m. is not

in order, since he should enter the business place at least 3 hours before the close of business place and impounding books of account and documents inspected by him is in order.

- (c) The Assessing Officer's action in entering the business place of Khwab Pharma Ltd. at 8 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.
 - (d) The Assessing Officer's action in entering the business place of Khwab Pharma Ltd. at 8 p.m. is in order but impounding books of account and documents inspected by him is not in order.
5. With respect to information given in Para 7, which of the following statements is correct as to making presumptions in relation to the survey conducted at the business place of Khwab Pharma Ltd.?
- (i) The books of account, other documents and gold biscuits belong to Khwab Pharma Ltd.
 - (ii) The contents of such books of account and other documents are not true.
 - (iii) The contents of such books of account and other documents are true.
 - (iv) For documents stamped, executed or attested, that it was not duly stamped and executed or attested by the company.
- (a) (i), (iii) & (iv)
 - (b) (ii) & (iii)
 - (c) (i) & (iii)
 - (d) (ii) & (iv) (5 x 2 = 10 Marks)

Descriptive Questions

6. With respect to information given in Para 5,
- (i) Which project would have been recommended by Mr. Harsh? Explain whether his opinion will change, if coefficient of variation is used as a measure of risk.
 - (ii) Suppose if Mr. Harsh has been asked to suggest approaches that may be used while appraising the project under inflationary conditions. Explain these approaches.
7. With respect to information given in Para 6,
- (i) Comment whether the entity would require to recognize any liability in respect of leaves.
 - (ii) State how the benefit to be attributed for the employee service for the last 20 years, 10 and 20 years and within 10 years, be measured.
8. With respect to information given in Para 7, examine whether the action of the Commissioner in case of Khwab Pharma Ltd. is justified as to the second notice.
9. With respect to information given in Para 8,
- (i) Determine the place of supply(ies) between Khwab Pharma Ltd., Rajratna Medicines and Saras Med Pvt. Ltd.
 - (ii) Mr. Arvind, asked the accountant to use Form GST PMT-09 for making a transfer from IGST head to respective CGST & SGST heads. Examine the said scenario.

ANSWERS TO THE CASE STUDY 6

Answers to the Multiple Choice Questions

1. (d) 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 Cournville Chocolate (50 mg) taxable @ 28% and the price of ₹ 600 is GST inclusive. Accordingly, GST payable would be $\text{₹ } 600 \times 28/128 = \text{₹ } 131$ (rounded off)
2. (d) 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 parttime 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.
3. (a) As per SA 610 "Using the Work of Internal Auditor", the external auditor shall not use internal auditors to provide direct assistance to perform procedures that Involve making significant judgments in the audit. Significant judgments, inter- alia, include the following:
 - Assessing the risks of material misstatement;
 - Evaluating significant accounting estimates;

Further, in accordance with SA 505, "External Confirmation" the external auditor is required to maintain control over external confirmation requests and evaluate the results of external confirmation procedures, it would not be appropriate to assign these responsibilities to internal auditors. However, internal auditors may assist in assembling information necessary for the external auditor to resolve exceptions in confirmation responses.
4. (a) Section 133A(2) 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.
Further, as per section 133A(3) of the Income Tax Act, 1961,
An income-tax authority, inter-alia, 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.

5. (c) Section 292C of the Income Tax Act, 1961, provides that where any books of account, other documents, money, bullion, jewellery or other valuable article or thing are or is found in the possession or control of any person in the course of a search under section 132 or survey under section 133A, it may, in any proceeding under this Act, be presumed that –
- (i) such books of account, other documents, money, bullion, jewellery or other valuable article or thing belong or belongs to such person;
 - (ii) the contents of such books of account and other documents are true; and
 - (iii) the signature and every other part of such books of account and other documents which purport to be in the handwriting of any particular person or which may reasonably be assumed to have been signed by, or to be in the handwriting of, any particular person, are in that person's handwriting;
 - (iv) In the case of a document stamped, executed or attested, that it was duly stamped and executed or attested by the person by whom it purports to have been so executed or attested.

Answers to the Descriptive Questions

6. (i) On the basis of standard deviation project Dehradun Plant be chosen because it is less risky than Project Borsad Plant having higher standard deviation.

Decision on the basis of CV:

CV of project Dehradun Plant = $SD/ENPV = 1,80,00,000/2,44,00,000 = 0.738$

CV 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.

- (ii) 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:**

- (1) **Adjust each year's cash flows to an inflation index**, recognizing selling price increases and cost increases annually; or
- (2) **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 on the basis of experience expects 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 24 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 24 days of sick pay.

- (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, 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 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. **The action of the Commissioner in issuing the second notice is not justified.** The term “record” has been defined in clause (b) of Explanation 1 to section 263(1). According to this **definition “record” shall include and shall be deemed always to have included all records relating to any proceeding under the Act available at the time of examination by the Commissioner.** In other words, the information, material, report etc. which were not in existence at the time the assessment was made and came into existence afterwards can be taken into consideration by the Commissioner for the purpose of invoking his jurisdiction under section 263(1). However, at the same time, in view of the express provisions contained in clause (b) of the Explanation 1 to section 263(1), such information, material, report etc. can be relied upon by the Commissioner only if the same forms part of record when the action under section 263 is taken by the Commissioner. Issuance of a notice under section 263 succeeds the examination of record by Commissioner.

In the present case, the Commissioner initially issued a notice under section 263, after the examination of the record available before him. The subsequent second notice was on the basis of material collected under section 133A, which was totally unrelated and irrelevant to the issues sought to be revised in the first notice. **Accordingly, the material on the basis of which the second notice was issued could not be said to be “record” available at the time of examination** as emphasized in Explanation 1(b) to section 263(1).

9. (i) The supply between Khwab Pharma Ltd. (Pune) and Rajratna Medicines (Rampur) is a **bill to ship to supply** where the goods are delivered by the supplier [Khwab Pharma Ltd.] to a recipient [Saras Med Pvt. Ltd. (Udupi)] or any other person on the direction of a third person [Rajratna Medicines]. The place of supply in case of domestic bill to ship to supply of goods is determined in terms of section 10(1)(b) of the IGST Act, 2017.

As per section 10(1)(b) of the IGST Act, 2017, where the goods are delivered by the supplier to a recipient or any other person on the direction of a third person, whether acting as an agent or otherwise, before or during movement of goods, either by way of transfer of documents of title to the goods or otherwise, **it shall be deemed that the said third person has received the goods and the place of supply of such goods shall be the principal place of business of such person.**

Thus, in the given case, it is deemed that the Rajratna Medicines has received the goods and the place of supply of such goods is the principal place of business of Rajratna Medicines. **Accordingly,**

the place of supply between Khwab Pharma Ltd. (Pune) and Rajratna Medicines (Rampur) will be Rampur, Uttar Pradesh.

This situation involves another supply between Rajratna Medicines (Rampur) and Saras Med Pvt. Ltd. (Udupi). 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 goods at the time when the movement of goods terminates for delivery to the recipient (Saras Med Pvt. Ltd.), i.e. **Udupi, Karnataka.**

- (ii)** As per provisions of section 49(10) read with rule 87(13) of CGST Rules, 2017, “A registered person may, on the common portal, transfer any amount of tax, interest, penalty, fee or any other amount available in the electronic cash ledger under the Act to the electronic cash ledger for integrated tax, central tax, State tax or Union territory tax or cess in FORM GST PMT-09”.

It is important to note that **only amounts available under Electronic Cash Ledger can be transferred to the respective heads using Form GST PMT-09** and not otherwise.

Accordingly, contention of Mr. Arvind by asking the accountant to use Form GST PMT-09 is not valid for transfer of ₹ 84,500 from head IGST to respective CGST & SGST in Electronic Credit Ledger.

ADDITIONAL (MTP I May 24)

Case Study 7

Subjects	Topics Covered	Marks
FR	Ind AS 2	4
AFM	Mutual Funds	7
Audit	Digital Auditing, Professional Ethics	8
DT	Assessment Procedure	4
IDT	GST Exemption	2

Para 1

YK & Associates is a reputable firm of Chartered Accountants, with its headquarters situated in the vibrant city of Jaipur, Rajasthan. Founded by CA. Yashdeep and CA. Karan, the firm has established itself as a trusted entity in the field of accounting and financial consultancy within the region.

Led by the expertise and vision of its partners, YK & Associates offers a comprehensive range of professional services tailored to meet the diverse needs of its clients. From auditing and taxation to financial advisory and compliance, the firm prides itself on delivering reliable solutions that drive business success.

With a deep understanding of both local regulations and global market dynamics, YK & Associates serves a diverse clientele spanning across industries such as manufacturing, hospitality, retail, and more. Whether assisting startups in navigating regulatory frameworks or providing strategic insights to established enterprises, the firm's commitment to excellence remains unwavering.

Beyond its professional endeavour, YK & Associates actively engages in initiatives aimed at contributing to the local community and promoting financial literacy. Through seminars, workshops, and pro bono services, firm strives to empower individuals and businesses with knowledge needed to make informed financial decisions.

Para 2

YK & Associates get their website developed as www.YKassociates.com from Adarsh Tech Ltd. The colour of their website was very bright and attractive to run on a “push” technology. Names of the partners of the firm and the major clients were also displayed on the web-site without any disclosure obligation from any regulator.

Para 3

In exchange of consideration of developing website by Adarsh Tech Ltd., CA. Yashdeep, accepted appointment as its tax auditor for A.Y. 2024-25 and commenced the tax audit within four days of appointment since the client was in hurry to file Return of Income before the due date.

However, before signing the tax audit report, he sent a registered post letter to the previous auditor and obtained the postal acknowledgement.

Para 4

Adarsh Tech Ltd. duly filed its income tax return for the Assessment Year (AY) 2024-25 duly on September 30th, 2024. The Income Tax Department processed return and sent an intimation to Adarsh Tech Ltd., indicating that no immediate issues were found. Despite the intimation, the return was selected for regular assessment.

Para 5

Jaipur Municipal Corporation (JMC) had invited online bids for development of online cloud system, for maintaining some vital statistics including registration of births and deaths, within the pre-defined period as per the contract. The work involved composite supply of goods and services wherein the supply of services

was the principal supply.

The value of goods (in form of computer hardwares) constituted 25% of the total value of composite supply. Mr. Arsh, Managing Director of Adarsh Tech Ltd., located and registered under GST in Jaipur, wanted to bid for the same.

Para 6

Mr. Arsh wanted investment advisory services from YK& Associates for investing the surplus funds of Adarsh Tech Ltd. for which purpose he had invited Mr. Yashdeep for a meeting. In the meeting, Mr. Yashdeep explained the benefits of investing in mutual fund schemes along with its drawbacks and also recommended investing in Scheme Purnarth floated by HMKD Plus Mutual Fund managed by his own friend. The details of such scheme are as follows:

HMKD Plus Mutual Fund had the following assets in Scheme Purnarth at close of business on 31st March, 2024.

Company	No. of Shares	Market Price Per Share
Nepathya Ltd.	25000	20
D-Con Ltd.	35000	300
Sarpan Ltd.	29000	380
Care Health Ltd.	40000	500

The total number of units of Scheme Purnarth are 12 lakhs. The Scheme Purnarth has accrued expenses of ₹ 1,50,000 and other liabilities of ₹ 3,00,000.

Para 7

Further, Mr. Yashdeep, in his busy schedule, took some time to attend one another meeting, this time arranged by manager of RFIN Bank, Mr. Ravi, who wanted Mr. Yash's firm to perform an audit of the blockchain-based system, the details of which are provided by Mr. Ravi to Mr. Yashdeep, in the said meeting, as follows:

Bouyanc Bank, headquartered in Chicago, offers a broad range of financial services including asset management, commercial banking, investment banking, and treasury and securities services.

RFIN Bank in partnership with Bouyanc Bank, provides a comprehensive range of banking services and products encompassing retail banking, corporate banking, international banking, and other financial services. RFIN Bank has been significant contributors to the digitalization of banking services in India.

Under the pilot programme, the Indian bank will open on-chain Nostro accounts with Bouyanc Bank branch in Gift City. The blockchain-based system is expected to facilitate instant, 24×7 settlement between the accounts held at the US bank. Essentially, it will create a private intra-correspondent banking network, redefining the traditional banking hours and enabling seamless money transfer.

Para 8

Mr. Ravi, the manager of RFIN Bank, gave an order on 1st January, 2024 for 1,000 custom-made corporate gifts to be provided to their prestigious corporate clients along with the information about the aforesaid blockchain-based system to GM Stores Pvt. Ltd. (GMSPL), the financial statements of which are audited by YK & Associates.

On 3rd January, 2024, GMSPL purchased raw materials to be consumed in the production process for ₹ 6,50,000, including ₹ 50,000 refundable purchase taxes. The purchase price was funded by raising a loan of ₹ 6,55,000 (including ₹ 5,000 loan-raising fees). The loan is secured by the inventories.

During January, 2024, GMSPL designed the corporate gifts for the customer bank. Design costs included:

- cost of external designer = ₹ 6,000; and
- labour = ₹ 4,000.

During February, 2024, GMSPL's production team developed the manufacturing technique and made further modifications necessary to bring the inventories to the conditions specified in the agreement. The following costs were incurred in the testing phase:

- materials, net of ₹ 3,000 recovered from the sale of the scrapped output = ₹ 21,000
- labour = ₹ 11,000
- depreciation of plant used to perform the modifications = ₹ 5,000

During February, 2024, GMSPL incurred the following additional costs in manufacturing the customised corporate gifts:

- consumable stores = ₹ 55,000
- labour = ₹ 65,000
- depreciation of plant used to manufacture the customised corporate gifts = ₹ 15,000

The customised corporate gifts were ready for supply on 1st March, 2024. No abnormal wastage occurred in the development and manufacture of the corporate gifts. The accountant head of GMSPL took assistance of CA Karan for computing the inventory cost involved in the aforesaid supply at the time of routine audit conducted by CA Karan.

Multiple Choice Questions

1. With reference to the information given in Para 2, whether, website designed for YK & Associates is in compliance with guidelines issued by the Council in this regard:
 - (a) Yes, website can have names of partners and major clients along with its fees.
 - (b) Yes, as the websites can be designed on a "push" technology.
 - (c) No, as there is restriction on the colours used in the website.
 - (d) No, as names of major clients were displayed without any disclosure obligation from a Regulator.
2. With reference to the information given in Para 3, before signing the tax audit report, CA. Yashdeep sent a registered post letter to the previous auditor and obtained the postal acknowledgement. Will CA. Yashdeep be held guilty of professional misconduct under the Chartered Accountants Act, 1949?
 - (a) CA. Yashdeep will not be held guilty of professional misconduct as he communicated with the previous tax auditor before signing the audit report.
 - (b) CA. Yashdeep will not be held guilty of professional misconduct since the requirement for communicating with the previous auditor would apply to statutory audit only and not to tax audit of company.
 - (c) CA. Yashdeep will be held guilty of professional misconduct since he has accepted the tax audit, without first communicating with the previous auditor in writing.
 - (d) CA. Yashdeep will not be held guilty of professional misconduct since he has already obtained postal acknowledgement regarding communication with previous auditor.
3. With reference to the information given in Para 4, the time limit for service of notice for regular assessment under Income-Tax Law in this case is –
 - (a) 30.06.2025
 - (b) 30.9.2025
 - (c) 31.12.2025
 - (d) 31.03.2026

4. With reference to the information given in Para 4, which of the following cannot be adjusted in computation of total income of Adarsh Tech Ltd. while processing the return of income for A.Y. 2024-25?
- (a) any arithmetical error in the return
 - (b) an incorrect claim apparent from any information in the return
 - (c) disallowance of expenditure indicated in the audit report but not taken into account in computing total income in the return.
 - (d) addition of income appearing in Form 26AS which has not been included in computing total income in the return.
5. With reference to the information given in Para 5, Adarsh Tech Ltd. approaches you to ascertain the taxability of supply of services of development of online cloud system to JMC under GST law, in the given case, for quoting the best price. You are required to determine the taxability of the given supply.
- (a) GST is exempt on said supply since the value of supply of goods constitutes not more than 25% of the value of the said composite supply.
 - (b) GST is payable on said supply. It will be exempt if value of supply of goods constitutes less than 25% of the value of the said composite supply.
 - (c) GST is payable on said supply. It will be exempt if value of supply of goods constitutes more than 25% of the value of the said composite supply.
 - (d) Said supply is neither supply of goods nor supply of services in terms of Schedule III of the CGST Act, 2017.

Descriptive Questions

6. With reference to the information given in Para 6,
- (i) Calculate the NAV per unit of the Scheme Purnarth
 - (ii) Explain any three advantages as well as drawbacks of investing in Mutual Funds as would have been narrated by Mr. Yashdeep.
7. With reference to the information given in Para 7, provide some illustrative steps for performing audit of the blockchain-based system.
8. With reference to the information given in Para 8, compute the cost of the inventory? Substantiate your answer with appropriate reasons and calculations, wherever required.

ANSWERS TO THE CASE STUDY 7**Answers to the Multiple Choice Questions**

1. **(d)** Guidelines for Advertisement pursuant to decision of Council at its 388th Meeting:
Disclosure of names of clients and/or fees charged, on the website is permissible only where it is required by a regulator, whether or not constituted under a statute, in India or outside India.
2. **(c)** As per Clause (8) of the Part I of the First Schedule to the Chartered Accountants Act, 1949, a chartered accountant in practice cannot accept position as auditor previously held by another chartered accountant without first communicating with him/her in writing.
3. **(a)** Notice for detailed scrutiny i.e. regular assessment, under section 143(2) of the Income Tax Act, 1961, cannot be served after the expiry of 3 months from the end of the financial year in which the return of income is furnished.

Here, Adarsh Tech Ltd. filed its return of income for A.Y. 2024- 25 on 30th September, 2024, so, 3 months would expire on 30.06.2025.

4. (d) Section 143(1)(a) of the Income Tax Act, 1961, provides for computation of the total income of an assessee after making the following adjustments to the returned income:
- any arithmetical error in the return;
 - an incorrect claim, if such incorrect claim is apparent from any information in the return;
 - Disallowance of loss claimed, if return of the previous year for which set-off is claimed was filed beyond due date u/s 139(1);
 - Disallowance of expenditure or increase in income indicated in the audit report but not taken into account in computing the total income in the return;
 - Disallowance of deduction claimed under section 10AA or under any of the provisions of Chapter VI-A under the heading "C. - Deductions in respect of certain incomes", if return is filed beyond due date u/s 139(1)
5. (a) Entry 3A of the Exemption Notification No. 12/2017 Central Tax (Rate) dated 28.06.2017: provides exemption to composite supply of goods and services in which the value of supply of goods constitutes not more than 25% of the value of the said composite supply provided to the Central Government, State Government or Union territory or local authority by way of any activity: in relation to any function entrusted to a Panchayat under article 243G of the Constitution or in relation to any function entrusted to a Municipality under article 243W of the Constitution. Thus, GST is exempt on supply of services of development of online cloud system to JMC, in the given case, for quoting the best price.

Answers to the Descriptive Questions

6. (i)

Shares	No. of shares	Price	Amount (₹)
Nepathya Ltd.	25,000	20.00	5,00,000
D-Con Ltd.	35,000	300.00	1,05,00,000
Sarpan Ltd.	29,000	380.00	1,10,20,000
Care Health Ltd.	40,000	500.00	2,00,00,000
			4,20,20,000
Less: Accrued Expenses			1,50,000
Other Liabilities			3,00,000
Total Value			4,15,70,000
No. of Units			12,00,000
NAV per Unit (4,15,70,000/12,00,000)			34.64

(ii) **ADVANTAGES OF MUTUAL FUND**

- Professional Management:** The funds are managed by skilled and professionally experienced managers backed by a team of Research Analysts.
- Diversification:** Mutual Funds invest into many securities and offer diversification which reduces the concentration risk.
- Convenient Administration:** There are no administrative risks of share transfer, as many

of the Mutual Funds offer services in a demat form which saves investor's time and prevents delay.

- (d) **Higher Returns:** Over a medium to long-term investment horizon, investors get higher returns in Mutual Funds as compared to other avenues of investment. However, investors are cautioned that such very high returns during the exceptional bull phase of the market like IT boom or Infrastructure boom should not be considered as regular returns and therefore one should look at the average returns provided by the Mutual Funds particularly in the equity schemes over a long period of time.
- (e) **Low Cost of Management:** SEBI has prescribed maximum limit of charging 2.50% for Equity Mutual Funds. No Mutual Fund can increase the cost beyond prescribed limits of 2.5% maximum and any extra cost of management is to be borne by the AMC.
- (f) **Liquidity:** In all the open ended funds, liquidity is provided by direct sales/repurchase by the Mutual Fund and in case of close ended funds, the liquidity is provided by listing the units on the Stock Exchange.
- (g) **Transparency:** The SEBI Regulations now compel all the Mutual Funds to disclose their portfolios on a half- yearly basis. However, many Mutual Funds disclose their Scheme Portfolio on a quarterly or monthly basis to their investors. The NAVs are calculated on a daily basis in case of open ended funds and are published through AMFI in the newspapers.
- (h) **Other Benefits:** Mutual Funds provide systematic withdrawal and systematic investment plans according to the need of the investors. The investors can also switch from one scheme to another without any restrictions except in case of Tax Savings Fund which restricts switch out for first 3 years of its investments.
- (i) **Highly Regulated:** Mutual Funds all over the world are highly regulated and in India all Mutual Funds are registered with SEBI and are strictly regulated as per the Mutual Fund Regulations which provide high level of investor protection.
- (j) **Economies of scale:** The way mutual funds are structured gives it a natural advantage. The "pooled" money from numerous investors ensures that mutual funds enjoy economies of scale; it is cheaper compared to investing directly in the capital markets which involves higher charges. This also allows retail investors access to participation in the Capital Market which otherwise is difficult for them go directly.
- (k) **Flexibility:** One of the biggest advantages of a Mutual Fund Scheme is its flexibility. An investor can opt for Systematic Investment Plan (SIP), Systematic Withdrawal Plan etc. to plan his cash flow requirements as per his convenience. The wide range of schemes being launched in India by different mutual funds also provides an added flexibility to the investor to plan his portfolio accordingly.
- (l) **Convenience:** It is very convenient & easy to invest & disinvest from Mutual Fund Schemes specially through digital transaction portals

Note: Any three points need to be mentioned.

DRAWBACKS OF MUTUAL FUND

(a) No guarantee of Return – There are three issues involved:

- (i) **All Mutual Funds cannot be winners.** There may be some Schemes who may underperform against the benchmark index. However, the Fund Manager will endeavour to give better return than the underlying benchmark Index in the long run.

- (ii) A mutual fund may perform better than the stock market but this does not necessarily lead to a similar gain for every investor. This is because of **the different entry & exit points for each investor.**
- (iii) **In case of a massive fall in the value of the stocks held in the Portfolio, the investor may lose principal in the short-term** e.g., during Global Financial Crisis in 2008 or during outbreak of Covid 19 pandemic in 2020 etc. But if the investment is held for a longer term, the chances of losing principal are very remote & negligible.
- (b) **Diversification** – A mutual fund helps to create a diversified portfolio. Though diversification minimizes risk, it does not ensure maximizing returns. The returns that mutual funds offer is at times lesser than what an investor can earn from a single stock. For example, if a single security held by a mutual fund double in value, the mutual fund itself would not double in value because that security is only one small part of the fund's holdings. By holding a large number of different investments, mutual funds tend to do neither exceptionally well nor exceptionally poor.
- (c) **Selection of Proper Fund** – It may be easy for someone to select the right share rather than the right mutual fund scheme. For stocks, one can rely his selection on the parameters of economic, industry and company analysis. In case of mutual funds, past performance is the one of the most important criteria to fall back upon but the past performance cannot predict the future.
- (d) **Cost Factor** – Every Mutual Fund Scheme charges some fund management fees as a part of Annual Recurring Expenses. Although there are no charges/load on entry, but at times an exit may get charged if withdrawn before a stipulated period, known as “Exit Load”. Amount withdrawn after the stipulated period of holding, if withdrawn, doesn’t attract any Exit Load. The fees paid to the Asset Management Company is in no way related to performance.

Note: Any three points need to be mentioned.

7. Following are the illustrative steps for performing audit of above said block chain:

- (a) Obtain a comprehensive understanding of the blockchain- based pilot program, including its objectives, scope, and key processes involved.
- (b) Review the partnership agreements, contracts, and legal documentation governing the relationship between the Indian bank and Bouyanc Bank.
- (c) Identify the specific blockchain technology used, its functionalities, and the underlying smart contracts.
- (d) **Assess Internal Controls:**
Review policies and procedures related to the on-chain Nostro accounts, settlement processes, and money transfer mechanisms.
Assess the governance framework, risk management practices, and compliance procedures established by the Indian bank and Bouyanc Bank.
- (e) **Review Security Measures:**
Assess encryption methods, cryptographic key management, and secure transmission protocols used for data protection.
Review measures taken to prevent unauthorized access, cyber threats, and potential vulnerabilities in the blockchain network.

(f) Test Transaction Validity and Accuracy:

Validate that transactions are recorded and settled accurately on the blockchain, ensuring adherence to relevant regulations and contractual obligations.

Perform reconciliations between on-chain Nostro accounts and the corresponding accounts held at Bouyanc Bank to confirm the accuracy of balances and transactions.

(g) Evaluate Compliance and Regulatory Requirements:

Review documentation and procedures related to customer due diligence, transaction monitoring, and reporting obligations.

Ensure that the pilot program adheres to industry-specific standards and best practices.

(h) Assess Business Continuity and Disaster Recovery:

Evaluate the adequacy of backup and recovery procedures, redundancy measures, and failover mechanisms to ensure uninterrupted operations.

Test the effectiveness of these plans by conducting simulations or examining historical incidents and response procedures.

(i) Report Findings and Recommendations:

Provide recommendations for improving internal controls, security measures, compliance procedures, and overall efficiency and effectiveness of the pilot program.

Communicate the audit results to the relevant stakeholders, highlighting areas of concern and suggesting remedial actions.

8. Statement showing computation of inventory cost

Particulars	Amount (₹)	Remarks
Costs of purchase	6,00,000	Purchase price of raw material [purchase price (6,50,000) less refundable purchase taxes (50,000)]
Loan-raising fee	–	Included in the measurement of the liability
Costs of purchase	55,000	Purchase price of consumable stores
Costs of conversion	65,000	Direct costs - labour
Production overheads	15,000	Fixed costs - depreciation
Production overheads	10,000	Product design costs and labour cost for specific customer
Other costs	37,000	Refer working note
Borrowing costs	–	Recognized as an expense in profit or loss
Total cost of inventories	7,82,000	

Working Note:**Costs of testing product designed for specific customer:**

= ₹ 21,000 material (i.e. net of the ₹ 3,000 recovered from the sale of the scrapped output) + ₹ 11,000 labour + ₹ 5,000 depreciation.

= ₹ 37,000

ADDITIONAL (MTP I May 24)

Case Study 8

Subjects	Topics Covered	Marks
FR	Ind AS 28	2
Audit	Internal Audit	6
Law	IBC (Section 14)	2
SCPM	Pricing, Performance Measurement, McKinsey 7s Framework	15

Background for establishment of Thunderbolt Airlines Private Limited (TAPL).

Avian Airlines Inc. is a renowned airline company with a global presence, headquartered in New York, United States of America. In the year 2000, Avian Airlines Inc. (AAI) established a branch office in Mumbai to handle its Indian flight operations. The Indian flight operations are handled only at the Mumbai airport.

Passengers are either transported from Mumbai to destinations abroad or transported to Mumbai from overseas. There are no domestic flight operations within India. The Mumbai office handles routine day-to-day operations undertaken by junior and middle-level management staff. The work handled by the Mumbai office includes flight ticket booking and cancellation, managing Avian's airport lounge facilities, managing the check-in counters at the airport, assisting customers with services like in-flight meals, providing access to airport lounge facilities, providing flight information, travel insurance information, assisting with missing luggage queries, and any other customer-related services. At the same time, the place of effective management is outside India, and it is determined that Avian Airlines Inc. has an active business outside India.

Below are the details of revenue from business operations of operating aircrafts received by the Mumbai Branch office for the year ended 31st March 2024:

- (i) ₹ 5 crores in India on account of carriage of passengers from Mumbai to destinations outside India
- (ii) ₹ 2 crores in India on account of carriage of passengers from outside India to Mumbai
- (iii) ₹ 3 crores in New York, United States of America on account of carriage of passengers from United States of America to Mumbai

The total expenditure incurred by AAI's Mumbai branch for the purpose of carrying out its operations in India is ₹8 crores.

The Indian economy is considered one of the fastest-growing economies, with projections for GDP growth of 7% year-on-year. Private consumption and growing economic activity in both the manufacturing and service sectors have spurred growth since 2022. Post-pandemic, with the easing of restrictions on civil aviation, consumers' appetite for travel has increased manifold. It is expected that domestic aviation will require at least 4,000 fleets within the next two decades to meet the anticipated growth in demand.

Since 2022, passenger traffic in India has increased. With the rise in disposable incomes, rapid urbanization, and an increase in working-class population, growth in demand for air travel is expected to remain constant. Tier 2 and Tier 3 cities are also expected to play a pivotal role due to the greater spread of economic activity and increasing population in these cities. The government is focused on building and expanding modern infrastructure facilities across the country to support domestic civil aviation industry. Almost 100 more new airports will be operational by 2028, giving scope for the development of new regional routes that can provide excellent connectivity within India. A growing economy will need to be supported by a burgeoning demand for international travel to and from India. Hence, India will require better connectivity with international destinations. This opens up the scope for developing newer routes to connect passengers across the globe.

TAPL, a Joint Venture between Avian Airlines Inc. and Power Group Limited

In order to be part of a growing market, Avian Airlines Inc. has decided to enter the Indian aviation industry. On April 1, 2024, AAI plans to enter into a joint venture with Power Group Ltd. (PGL), which is one of India's largest conglomerates with business interests in various sectors ranging from technology, automotive, infrastructure, to consumer and retail. Power Group Ltd. (PGL) is headquartered in Mumbai, India. Thunderbolt Airlines Private Limited (TAPL) is the joint venture between Power Group Ltd. and Avian Airlines Inc. Power Group Ltd. will have a 60% stake in the joint venture, while Avian Airlines Inc. will hold a 40% stake.

Avian Airlines Inc. is renowned for its full-service airline service, catering to the premium flying segment. On the other hand, Power Group Limited (PGL) has access to global markets due to its operations in various business segments. It has been a pioneer in many of the businesses it operates, hence it is considered one of India's most valuable conglomerates. The brand image of PGL has given it deep penetration in the Indian domestic market due to the various businesses it operates.

Most airlines in the Indian market operate as low-cost carriers (LCC). However, intense competition combined with inflationary pressures on input costs like ATF fuel, personnel costs, etc., means that margins are limited and always under pressure. Therefore, it has been decided to position TAPL as a full-service airline in the domestic civil aviation market. The targeted customer segment would be high-end business travelers in a price-sensitive market. Currently, 95% of the seating capacity within the domestic civil aviation sector is economy seats. The remaining 5% capacity consists of highly priced premium seats sold mostly to price-indifferent passengers, who form a very limited and niche market existing only on certain routes within the country. TAPL plans to offer a new segment of seats in its aircraft: "premium economy," which combines the benefits of premium flying at affordable rates. Given that growing economic activity generally spurs the demand for business-related travel, TAPL plans to foray into the "premium economy" segment, positioned midway between economy seats and premium first-class seats.

While the rates may be slightly higher than the regular market price for economy seats offered by other airlines, for a small additional cost, passengers can avail themselves of benefits like customized service, faster check-in, and a better in-flight experience. All seats in TAPL's aircraft will offer "premium economy" seating.

TAPL will have its main operational hub in Mumbai, which will serve as the nodal point for most of its domestic airline flights. It will also operate international flights to Dubai, where AAI has a major nodal hub for its international operations in Asia and the Middle East. Hence, a business flyer can connect to both domestic flights using TAPL's fleet as well as international destinations through AAI's fleet from Dubai.

TAPL's vision "To be the most loved, most efficient, and most valuable airline".

TAPL's mission "To enhance customer experience by offering seamless connectivity".

Avian Airlines Inc. will provide the technical and managerial support required to run a full-service airline. Power Group Limited (PGL), with its market presence and brand image, will provide access to the Indian aviation sector for AAI, acting as a stable and trustworthy partner in the joint venture. A few executives from AAI and PGL will be part of TAPL's management team for the initial years until the airline can manage its operations independently. These executives will be well-versed with TAPL's overall strategy, helping guide the company in its initial years of establishment. Once the "start-up" phase is over, TAPL will hire eligible executives with appropriate experience from the Indian market to oversee airline operations.

TAPL will have a hierarchical structure, with Mr. Tan being appointed as the Chief Operating Officer for India. Since TAPL is being developed as a full-fledged service carrier, it has been decided that decision-making, in the initial years of establishment, will follow a centralized model. Senior management at TAPL will comprise executives from AAI and PGL. Operations will be managed by AAI, given their expertise in the aviation sector, while PGL will oversee Sales & Marketing and Finance, being a recognized brand in India. The Directors of

Operations, Finance, Human Resources, and Sales & Marketing will all report to Mr. Tan, who, in turn, reports to the Board Members at AAI and PGL.

As mentioned above, TAPL will have specific departments that will look into Operations, Finance, Human Resources, and Sales & Marketing. TAPL will invest in digitalization and the use of information technology to provide a high level of customized service to its passengers. Similarly, based on guidance from executives at AAI, workflows will be documented, established, and communicated throughout the organization. Digitalization can smooth process flows, make interactions less cumbersome, and speed up process times, all of which contribute towards cost efficiencies and enhanced customer satisfaction. Each department will have specific goals and performance measurement systems in place.

AAI and PGL are reputed companies with work cultures and ethics defined by the core values of their respective companies. The employees and other support partners of TAPL are expected to uphold similar values such as honesty, excellent work ethic, transparency in working, accountability, and trust. Both companies have a global presence. Hence, TAPL is expected to support a culture of diversity at its workplace in terms of gender, background, and age.

The aviation sector is a highly competitive industry. The success of joint venture depends on the management leadership and teamwork at TAPL. It is expected that each department will create synergy that merges the work cultures of both AAI and PGL. Cross-functional project teams will be deployed to build this synergy and foster team spirit. This will encourage creativity and motivate employees to work towards a successful venture.

Due to its competitive environment, the aviation industry is prone to high attrition due to employee poaching. TAPL aims to create value for its employees by offering attractive pay packages, facilities, and a conducive environment for professional growth. A high attrition rate could have a detrimental impact on a business that wishes to be a full-fledged premium service airline.

Since TAPL is targeting to be a full-fledged service carrier, it is important for the staff to be well-experienced both technically and in soft skills like customer service. TAPL is expected to hire pilots, engineers, and other technical staff who are already working at other airlines. They are also planning to collaborate with institutes that offer aeronautical engineering and aviation technology courses to hire a well-experienced and rounded pool of staff who are highly skilled, as well as to arrange for periodic training of staff. Senior executives of AAI, who are deputed to TAPL, will be in charge of ensuring that the workforce comprises highly skilled and qualified staff in charge of airline operations. The other non-technical staff will be hired by the Human Resources department in consultation with the respective department heads.

However, Mr. Tan was well aware of key factors required for success in airline industry. He understood that one essential aspect was routes, and he knew that his main hub in Mumbai would only make sense if he secured a set of routes from Mumbai; otherwise, it would be catastrophic for the airline due to the high parking costs at Mumbai Airport. Being new to Airlines of India, Mr. Tan was not familiar with all laws but was determined to achieve his goals. He was aware that renowned airline, TruJet Airways which had major routes originating from Mumbai, was undergoing insolvency due to running in losses and default in payment to secured creditors including in payment of current dues for the right to use the property in possession at Mumbai Airport.

Consequently, Mr. Tan hired the best lawyers in town to acquire their slots. The lawyers immediately approached the DGCA and requested the reallocation of these rights to them. They argued that TruJet is not entitled and had no right to use. They claimed that this was a breach of TruJet's operating conditions with the DGCA, as no other Airlines were allotted and permitted to use. So requested that the slots should be immediately handed over for consumer welfare. The DGCA agreed and handed over the slots to TAPL.

TruJet was offended by this order and approached the Apex court, claiming it was unjust. It argued that no one, including the regulators, has the right to take possession of any property from an owner or lessor in possession

of the Corporate Debtor. DGCA countered that they had not initiated any new proceedings and that it was a matter of breach of contract; hence, the DGCA had the right to refuse the Right of use to TruJet.

Multiple Choice Questions

1. On April 30th 2024, Power Group Ltd. (PGL) sells an aircraft that it owns to Thunderbolt Airlines Private Limited (TAPL). This aircraft is of an older model. Therefore, its fair value is ₹ 45 crores while the carrying cost in PGL's latest books is ₹ 50 crores. How will PGL account for the loss in its books?
 - (a) Recognize a loss of ₹ 5 crores in its books
 - (b) Recognize a loss of ₹ 3 crores in its books
 - (c) Recognize a loss of ₹ 2 crores in its books
 - (d) Will not recognize a loss as the books will be consolidated at the year end
2. Which type of product would the premium economy seats be considered as?
 - (a) Revolutionary product
 - (b) Evolutionary product
 - (c) Me-too product
 - (d) Perishable product
3. Which of the following will not be true regarding the accountability in performance measurement system for the Human Resource department at TAPL?
 - (a) Maintaining staff attrition below the threshold level would be hard accountability for the Human Resource department
 - (b) Ensuring that employee payout and benefits are within budgeted limits would be a hard accountability for the Human Resource department
 - (c) Addressing employee concerns about working environment would be a soft accountability for the Human Resource department
 - (d) Ensuring synergy between work cultures of executives of PGL & AAI deputed at TAPL by arranging for team building exercises would be hard accountability for the Human Resource department
4. TAPL has identified the following critical success factor (CSF) "Enhance customer experience by maintaining the best on-time performance within the industry"

Which one of the following would be the most suitable key performance indicator for this CSF?

 - (a) Reduce the number of customer complaints regarding flight delays by 25%
 - (b) Reduce the average time taken to deal with complaints regarding flight delays by 20%
 - (c) Keep log/record of flight on time performance
 - (d) Increase the training for customer facing staff like those at the check-in counters, staff assisting boarding and the aircraft cabin crew
5. Mr. Tan texted the CFO of the company about the recent efforts to acquire those slots and asked for his opinion on what the outcome might be. The CFO then sent you an email asking you to analyze what verdict the Apex Court could deliver.
 - (a) As a regulator, the DGCA was well within its powers to transfer the right of use, and did not breach the Insolvency and Bankruptcy Code, 2016 due to default in payment of current dues arising for the use of possession of Mumbai airport.

- (b) As a regulator, the DGCA was well within its powers to transfer the right of use, but it breached the Insolvency and Bankruptcy Code, 2016.
- (c) The DGCA has no right to reallocate the rights because the airline was paying their current dues. However, they did not breach the Insolvency Bankruptcy Code, 2016 during the hearing of TAPL's petition.
- (d) The DGCA had no right to reallocate the rights because the airline was paying their current dues, but it breached the Insolvency and Bankruptcy Code, 2016 during the hearing of TAPL's petition.

Descriptive Questions

6. AAI plans to enter into a joint venture with PGL from 1st April, 2024. TAPL is new vehicle for this purpose. What role internal audit function can play in such a joint venture?
7. Assess each of the hard and soft elements based on the McKinsey 7s Framework.

ANSWERS TO THE CASE STUDY 8

Answers to the Multiple Choice Questions

1. **The correct answer is (a)** Recognize a loss of ₹ 5 crores in its books. As per Ind AS 28, Investment in Associates and Joint Ventures, the sale of aircraft by PGL to TAPL will be a downstream transaction where the investor sells the asset to the joint venture. There has been an impairment loss of ₹ 5 crores in the value of the aircraft since the fair value is less than the carrying value of the asset. As per para 29 of Ind AS 28, in case of downstream transactions where there has been an impairment in the net realizable value of the asset, the loss should be recognized in full by the investor.
Therefore, the entire loss has to be recognized by PGL, who is the investor in TAPL.
2. **The correct answer is (b)** Evolutionary product. Premium economy are an upgraded version of economy seats which currently form 95% of the seating capacity within the domestic aviation market. Premium economy offers few upgraded services and facilities as compared to the economy seats for a slightly higher charge. Hence, they have evolved out economy seat concept, with few additional features. At the same time premium economy are not as niche in terms of their service as full premium seats.
3. **The correct answer is (d)** Ensuring synergy between the work cultures of executives of PGL and AAI deputed at TAPL by arranging team building exercises would be soft accountability for Human Resources department. Team building exercises to build synergy is human input in the system that cannot be objectively measured and is essentially intangible in nature. Hence from a performance management perspective, it is a soft measure.
The other measures are either financial or quantitative information which can be measured.
4. **The answer is (a)** since reduction in the number of complaints will be definitively indicative of achievement of on time performance
Reduction in time taken to attend customer complaints, record of on time performance or increased staff training do not necessarily indicate the achievement of the best on time performance within the industry.
5. **The answer is (a)** According to Section 14 of the Insolvency and Bankruptcy Code, 2016, the institution of suits and continuation of pending proceedings against a Corporate Debtor in any court is not allowed during the period of moratorium. However, the DGCA had not instituted any suit to reallocate the right; hence, they did not breach the Insolvency and Bankruptcy Code.

Furthermore, Section 14 explicitly states that a license, permit, registration, or similar grant or right issued by the Central Government, State Government, local authority, or sectoral regulator shall not be suspended or terminated on the grounds of insolvency, provided there is no default in the payment of current dues arising from the use of such license or grant during the moratorium.

The DGCA has right to reallocate the rights to use due to default of the current dues by Trujet. However, DGCA did not breach the Insolvency and Bankruptcy Code, 2016 during the hearing of TAPL's petition.

Answers to the Descriptive Questions

6. The internal audit can play an important role in joint venture in assessing key governance risks. Such risks in a joint venture may include:

- Establishing **joint venture strategy** and its monitoring
- **Issues in capital planning**
- Controls **governing investments** in joint venture
- **Division of governance functions** and consequent delegation of authority
- **Agreement** between both the stakeholders on key governance matters

The purpose of a joint venture is sharing risks and rewards in developing new market for “premium economy” segment in India. A joint venture involves joint control of a business with contribution of resources by investors to run it.

Internal audit provides independent assurance on effectiveness of internal controls and risk management processes to enhance governance and achieve organisational objectives. In fact, internal audit can help an organisation in achieving its objective without compromising upon its independence. It includes review of operational activities, underlying internal controls and compliance with applicable laws and regulations.

Therefore, internal audit function can play a critical role in joint venture like TAPL.

7. AAI and PGL will benefit from the McKinsey 7s framework as it is undergoing substantial change in its operations by entering the Indian aviation sector. There are 3 hard elements – Strategy, Structure and Systems and 4 soft elements – Shared values, Style, Staff and Skills. Each of these elements represent a constellation of systems, which when integrated well assist in effective implementation of strategies, efficient use of resources and ultimately enables the organization to create value. The hard elements can be easily quantified, defined, and influenced by the management while the soft elements are those that are influenced by culture within an organization, making them intangible in nature and therefore relatively difficult for the management to influence. It is important for TAPL to have properly integrated systems in place in order to execute its strategies well in the highly competitive aviation industry. It is a Joint Venture between two globally established, reputed organizations and therefore this framework will help the organization identify any blind spots at the inception stage itself.

Strategy

- TAPL strategically positions itself in the “premium economy” segment to capture a unique market niche, leveraging Avian Airlines' premium services and PGL's extensive market presence.
- It differentiates by offering superior service at slightly higher rates than economy, aiming to attract business travellers and price-sensitive premium customers.
- The partnership with AAI enhances global connectivity, a key differentiator in the competitive Indian aviation market.

Structure

- The joint venture's structure, with PGL's majority and AAI's strategic stake, balances expertise and control, optimizing the organizational workflow.
- Initially centralized under COO Mr. Tan for coherent early decision-making, with a view to evolve towards flexibility and scalability as TAPL grows.
- Functional departmentalization harnesses AAI's aviation expertise and PGL's market insight, fostering efficiency and market responsiveness.

Systems

- Digitalization and technology adoption streamline operations and improve customer satisfaction, positioning TAPL for operational excellence.
- Strategic implementation of advanced reservation and CRM systems underpins competitive advantage through enhanced efficiency and service personalization.
- Clear goals and performance measurement for each department ensure aligned and efficient operational execution.

Style

- Leadership style integrates AAI and PGL's diverse cultures, promoting innovation, agility, and a unified approach towards strategic goals.
- Emphasizes a corporate culture of creativity, motivation, and customer-centricity, crucial for navigating the dynamic aviation sector.
- Cross-functional teams foster collaboration and a shared vision, enhancing TAPL's strategic and operational agility.

Staff

- TAPL's strategic talent management focuses on diversity, competitive remuneration, and professional growth to mitigate industry-high attrition rates.
- A supportive work environment and opportunities for development aim to attract and retain a motivated workforce.
- Recognizes staff as crucial for delivering the high service standards expected in the premium economy segment.

Skills

- Collaborative training and continuous learning initiatives ensure the workforce is equipped with necessary technical and soft skills.
- Balanced focus on operational safety and customer service excellence supports TAPL's differentiation strategy.
- Continuous investment in staff development ensures alignment with TAPL's premium service ethos and brand promise.

Shared Values

- TAPL's core values of honesty, work ethic, transparency, accountability, and trust underpin its operations and customer interactions. These values are central to building a strong, customer-focused brand identity and fostering loyalty in the competitive aviation sector.
- Aligning strategic and operational practices with these shared values ensures TAPL's market positioning and brand strength.

ADDITIONAL (MTP II May 24)

Case Study 9

Subjects	Topics Covered	Marks
Audit	Risk Assessment, SA 250	7
DT	Charitable Trust	6
Law	FCRA (Section 7, 8, 12, 17)	12

Non-governmental organizations (NGOs) are non-profit entities working independent of government. UN Department of Global Communications defines an NGO as “a not-for profit voluntary citizen’s group that is organized on a local, national or international level to address issues in support of the public good. Task-oriented and made up of people with a common interest, NGOs perform a variety of services and humanitarian functions, bring citizen’s concerns to governments, monitor policy and program implementation, and encourage participation of civil society stakeholders at the community level.” A paper released by World Bank states that NGOs are typically value-based organizations which depend, in whole or in part, on charitable donations and voluntary service.

NGOs have become very influential and prominent in world affairs and a substantial chunk of overseas development aid is routed through NGOs. Our country also has a long history of civil society movements with organizations working in diverse fields such as health, education, community services, environment protection, sanitation, drinking water and poverty eradication. With passage of time, foreign funds began flowing to domestic NGOs in India. Although work being done by NGOs has been commendable in diverse areas, it is not without criticism. One of such criticisms relates to issue of foreign donations. It has been argued that foreign funding makes NGOs accountable to fund-providing donors and can pose risk to sovereignty of a country.

Foreign contributions in India are regulated under the Foreign Contribution (Regulation) Act, 2010 (FCRA). The objective of such a law is to regulate the acceptance and utilization of foreign contribution or foreign hospitality by certain individuals or associations or companies and to prohibit acceptance and utilization of foreign contribution or foreign hospitality for any activities detrimental to national interest and for matters connected therewith or incidental thereto.

DSB Trust is one such organization working in field of preserving ecology and environment. It has been working on environmental issues since last few years and is very vocal and prominent in raising issues. However, the trust is over-zealous in its approach and has sometimes been accused of stalling crucial development projects in guise of protecting environment. It also receives substantial foreign donations from overseas agencies, trusts and its well-wishers and such donations are main source of funding for carrying out activities of trust.

The office-bearers of trust met on 25th March, 2023 to take stock of situation arising from amendments to FCRA law and rules in recent past. One of the office bearers Mr. X lamented about increased compliance burden and changes in manner about receiving foreign contributions. He was also worried that FCRA registration of their trust is going to expire in this year and modalities for renewing FCRA registration may have undergone change due to change in laws and rules. On closer perusal, he finds that FCRA registration of trust is going to expire on 31st December, 2023.

Another office bearer, Mrs. C who is herself an activist, pointed out that legislation has tightened noose around NGOs receiving foreign contributions making it difficult for them to undertake certain types of works and incur certain expenses due to restrictions being made more stringent in respect of utilization of foreign

contributions. She is of the view that expenditure relating to writing and filing reports is directly related to trust's activity of preserving ecology and environment and may be out of purview of regulatory restrictions. However, she is unsure about her stand and its legal implications.

Mr. Y also agreed with both of them and opined that field programmes cannot be run without systems and procedures in place for supervision, management, policy design and strategy. He had heard about changes in rules relating to transfer of foreign contributions to other NGOs. About 5 years ago, the trust had transferred foreign contributions to smaller NGOs having better reach to the intended beneficiaries of program run by the trust. The office-bearers were in a fix whether foreign contributions received can be transferred to another NGO for running programmes of trust now.

During meeting, Mr. Z also chipped in. He also reminisces that there had been changes in rules pertaining to registration of charitable trusts under income tax law in recent past and new procedure of registration was complied with by trust in 2021 by filing application in Form 10A. However, he wants to be clear about modalities of renewal of registration under income tax law whenever it falls due for renewal next time. Besides, the trust is planning to sell during financial year 2023-24 an immovable property held under trust wholly for charitable purposes since last 5 years and whole of proposed net consideration is to be invested in acquiring another capital asset to be held wholly for charitable purposes.

The trust has recently appointed their new auditor and tax consultant CA Madhusudan. Mr. Z is of the view that they should consult their tax consultant in respect of these matters for necessary guidance.

CA Madhusudan has also to audit account of foreign contribution for year 2023-24 and has to certify various figures pertaining to brought forward contribution at beginning of financial year, foreign contribution received during the year, interest accrued on foreign contribution, balance of unutilized foreign contribution at end of financial year. Further, utilisation of foreign contribution received for the purpose for which trust was registered is also required to be certified.

Besides, he is also required to express an opinion on financial statements of trust for financial year 2023-24.

Multiple Choice Questions

1. Mr. X is worried that FCRA registration of trust is going to expire in year 2023 itself. Which of the following statements is most appropriate regarding renewal of registration of trust and receipt of foreign contributions under FCRA?
 - (a) An application for renewal of certificate of registration may be made by trust in month of September 2023 electronically to online portal of FCRA services under Ministry of Home Affairs. Foreign contribution can only be received in an account designated as "FCRA account" to be opened in designated branch of State Bank of India at New Delhi.
 - (b) An application for renewal of certificate of registration may be made by trust in month of June 2023 electronically to online portal of FCRA services under Ministry of Home Affairs. Foreign contribution can only be received in an account designated as "FCRA account" to be opened in designated branch of State Bank of India at New Delhi.
 - (c) An application for renewal of certificate of registration may be made by trust in month of June, 2023 electronically to online portal of FCRA services under Ministry of Finance. Foreign contribution can only be received in an account designated as "FCRA account" to be opened in any designated branch of any scheduled Bank.
 - (d) An application for renewal of certificate of registration may be made by trust in month of September 2023 electronically to online portal of FCRA services under Ministry of Finance. Foreign contribution can only be received in an account designated as "FCRA account" to be opened in any

designated branch of any scheduled Bank.

2. Mrs. C has put forth her view on certain expenditures. However, she is unsure about legal footing of her view and related matters described in case study. Which of following statements is correct in this regard?
 - (a) Expenditure of type referred to by Mrs. C is in nature of administrative expenses. The trust cannot defray an amount in excess of 50% of such foreign contribution received in a financial year to meet administrative expenses. However, expenses above stipulated limit may be defrayed with prior approval of Central Government.
 - (b) Expenditure of type referred to by Mrs. C is not in nature of administrative expenses. The trust cannot defray an amount in excess of 50% of such foreign contribution received in a financial year to meet such expenses. However, expenses above stipulated limit may be defrayed with prior approval of Central Government.
 - (c) Expenditure of type referred to by Mrs. C is in nature of administrative expenses. The trust cannot defray an amount in excess of 20% of such foreign contribution received in a financial year to meet administrative expenses. However, expenses above stipulated limit may be defrayed with prior approval of Central Government.
 - (d) Expenditure of type referred to by Mrs. C is not in nature of administrative expenses. The trust cannot defray an amount in excess of 20% of such foreign contribution received in a financial year to meet such expenses. However, expenses above stipulated limit may be defrayed with prior approval of Central Government.
3. Which of the following statements is likely to be correct regarding discussion among trust members for proposed transfer of contribution for carrying out its programme described in case study?
 - (a) Foreign contribution received can be transferred to another FCRA registered trust for carrying out programme of DBS Trust.
 - (b) Foreign contribution received can be transferred to another FCRA registered trust for carrying out programme of DBS Trust with permission of Central Government.
 - (c) Foreign contribution received cannot be transferred to any other person. It is immaterial whether such person is FCRA registered or not.
 - (d) Whole of foreign contribution received cannot be transferred to any other person. A certain percentage can be transferred to any other person. It is immaterial whether such person is FCRA registered or not.
4. Mr. Z, office bearer of trust, has approached CA Madhusudan to seek his advice regarding modalities of renewal of registration of trust under income tax law. Which of following advice rendered by CA Madhusudan is in accordance with provisions of law?
 - (a) The registration application is to be made in Form no.10B at least six months prior to expiry date of registration of trust. Further, copy of registration under the FCRA, 2010 is mandatory with application as DBS Trust is registered under the FCRA.
 - (b) The registration application is to be made in Form no.10AB at least six months prior to expiry date of registration of trust. Further, copy of registration under the FCRA, 2010 is mandatory with application as DBS Trust is registered under the FCRA.
 - (c) The registration application is to be made in Form no.10AB at least six months prior to expiry date of registration of trust. However, copy of registration under the FCRA, 2010 is not mandatory while filing application for registration under income tax law as it is a separate independent registration under a different law.

- (d) The registration application is to be made in Form no.10B at least six months prior to expiry date of registration of trust. However, copy of registration under the FCRA, 2010 is not mandatory while filing application for registration under income tax law as it is a separate independent registration under a different law.
5. Certification from Chartered Accountant is required by DBS Trust in respect of certain matters under the FCRA described in case study. Which of following statements is true in this context?
- (a) Such certification forms part of FC-4, which is prescribed annual return. It has to be uploaded duly accompanied by a balance sheet and statement of receipt and payment certified by a Chartered Accountant. If there is no receipt/utilization of foreign contribution during the year, certificate of Chartered Accountant and audited statements of account are not required to be uploaded. However, submission of a NIL return even in such a case, is mandatory.
- (b) Such certification is required in FC-4, which is not an annual return. It has to be uploaded duly accompanied by a balance sheet and statement of receipt and payment certified by a Chartered Accountant. If there is no receipt/utilization of foreign contribution during the year, certificate of Chartered Accountant and audited statements of account and FC-4 are not required to be uploaded.
- (c) Such certification is required in FC-2, which is not an annual return. It has to be uploaded duly accompanied by a balance sheet and statement of receipt and payment certified by a Chartered Accountant. If there is no receipt/utilization of foreign contribution during the year, certificate of Chartered Accountant and audited statements of account and FC-2 are not required to be uploaded.
- (d) Such certification forms part of FC-2, which is prescribed annual return. It has to be uploaded duly accompanied by a balance sheet and statement of receipt and payment certified by a Chartered Accountant. If there is no receipt/utilization of foreign contribution during the year, certificate of Chartered Accountant and audited statements of account are not required to be uploaded. However, submission of a NIL return even in such a case, is mandatory.

Descriptive Questions

6. Certain matters have been highlighted in case study which may have ramifications for renewal of registration of trust under the FCRA. At the time of applying for renewal of registration of a person under the FCRA, 2010, Central Government is empowered to make inquiry in respect of wide range of matters. Discuss those matters. Do matters highlighted in case study fall among such matters?
7. (a) On basis of overall description of case study, what factors should be considered by CA Madhusudan while assessing audit risk of DBS Trust during course of audit for financial year 2023-24?
- (b) Assume that during course of audit, CA Madhusudan suspects that there may be non-compliance by NGO in relation to some aspects of FCRA, 2010. How he should proceed in such a situation?
8. What should be proper advice of CA Madhusudan to Mr. Z regarding implications of proposed sale of a capital asset and acquisition of another capital asset as described in case study?

ANSWERS TO THE CASE STUDY 9**Answers to the Multiple Choice Questions**

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

Ministry of Home Affairs. Therefore, application for registration of trust may be made in month of June, 2023.

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

2. (c) Section 8 of the FCRA stipulates that every person who is granted a certificate or given prior permission to receive foreign contributions shall utilize such contribution for the purposes for which the contribution has been received. It further provides that such person shall not defray as far as possible such sum, not exceeding 20% of such contribution received in a financial year to meet administrative expenses. It further states that administrative expenses exceeding 20% of such contribution may be defrayed with prior approval of Central Government. Rule 5 of FCRA rules states that cost of writing and filing reports is in nature of administrative expenses.
3. (c) Section 7 of the FCRA states that no person who is registered and granted a certificate or has obtained prior permission under this Act and receives any foreign contribution shall transfer such foreign contribution to any other person. Keeping in view above, it is clear that foreign contribution received by DBS Trust cannot be transferred to any other person. It is immaterial whether such person is FCRA registered or not.
4. (b) It is clear from case study that trust had complied with changed requirements of registration in 2021 and had registered itself under section 12AB of the Income Tax Act, 1961. In accordance with section 12A(1)(ac)(ii), where trust is registered under section 12AB, it shall make an application to Principal Commissioner or Commissioner at least six months prior when said registration is due to expire.
Rule 17A states that application made under section 12A(1)(ac)(ii) shall be in Form No.10AB. It also requires that applications shall be accompanied by self-certified copy of registration under the FCRA, 2010, if the applicant is registered under the Act.
5. (a) Under the FCRA Rules, every person who receives foreign contribution under the Act is required to submit a report in Form FC-4 accompanied by income and expenditure statement, receipt and payment account and balance sheet for every financial year within 9 months of closure of financial year. Under the rules, FC-4 is an annual return. Submission of a NIL return, even if there is no receipt/utilization of foreign contribution during the year, is mandatory. However, in such case, certificate from Chartered Accountant and audited statement of accounts is not required to be uploaded.

Answers to the Descriptive Questions

6. The Central Government may, before renewing the certificate, make such inquiry, as it deems fit, to satisfy itself that such person has fulfilled all conditions specified in Section 12(4) of the FCRA, 2010. The conditions are as under:
 - (a) The person making such application:
 - i. is not fictitious or benami
 - ii. has not been prosecuted or convicted for indulging in activities aimed at conversion through inducement or force, either directly or indirectly, from one religious faith to another
 - iii. has not been prosecuted or convicted for creating communal tension or disharmony

- in any specified district or any other part of the country.
- iv. **has not been found guilty of diversion or mis-utilisation of its funds**
 - v. **is not engaged** or likely to engage in **propagation of sedition** or advocate violent methods to achieve its ends
 - vi. **is not likely to use the foreign contribution for personal gains** or divert it for undesirable purposes
 - vii. **has not contravened any of the provisions of this Act**
 - viii. **has not been prohibited from accepting foreign contribution**
- (b) the person making an application has **undertaken reasonable activity in its chosen field for the benefit of the society** for which the foreign contribution is proposed to be utilized.
 - (c) the person making an application has **prepared a reasonable project for the benefit of the society** for which the foreign contribution is proposed to be utilized.
 - (d) the person being an individual, such individual has **neither been convicted under any law for the time being in force nor any prosecution** for any offence is pending against him.
 - (e) the person being other than an individual, any of its directors or office bearers has neither been convicted under any law for the time being in force nor any prosecution for any offence is pending against him.
 - (f) the acceptance of foreign contribution by association/person is **not likely to affect prejudicially**
 - i. **the sovereignty and integrity of India**
 - ii. **the security, strategic, scientific or economic interest** of the State
 - iii. **the public interest**
 - iv. **freedom or fairness of election** to any Legislature,
 - v. **friendly relation** with any foreign State
 - vi. **harmony** between religious, racial, social, linguistic, regional groups, castes or communities.
 - (g) the acceptance of foreign contribution
 - i. **shall not lead to incitement of an offence**
 - ii. **shall not endanger the life or physical safety of any person.**

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

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

Shady NGOs can be involved in money laundering activities or in mis-utilizing funds received from donors. Besides, trust is over-zealous in its approach and has been accused of stalling development projects. The auditor needs to assess whether trust continues to comply with conditions for registration under the FCRA. **Non-compliance with provisions of the FCRA can make activities of NGO risky.** It can have serious implications for the trust as it **could lead to cancellation of FCRA certificate** and other regulatory consequences. Drying up of foreign

donations due to cancellation of FCRA certificate can hamper its activities badly as such donations are its main source of funding. Therefore, it **requires proper assessment of control risk that control systems and procedures are operating effectively** to comply with provisions of FCRA. The auditor is conducting audit of trust for first time. Therefore, it may **lead to higher detection risk due to inappropriate sampling procedures** or faulty application of audit procedures.

- (b) In accordance with SA 250, if the auditor **suspects there may be non-compliance**, auditor shall **discuss the matter with management** and, where appropriate, those charged with governance.

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

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

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

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

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

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

ADDITIONAL (MTP II May 24)

Case Study 10

Subjects	Topics Covered	Marks
Audit	Prospective Financial Information	2
DT	PGBP (Basics, Section 40(b))	10
SCPM	Basics, Performance Measurement (Building Block Model)	13

Fresh Foods is a popular fast food joint in Bangalore. It was formed by the partnership of 3 friends Ajay, Biren and Chand. Ajay and Biren are working partners, while Chand is a non-working partner. For the previous year 2023-24, Fresh Foods reported a net profit of ₹ 30,00,000 before the following deductions:

- (1) Salary of ₹ 50,000 each per month payable to Ajay and Biren. Salary of ₹ 10,000 per month payable to Chand. These payments have been authorized by the partnership deed.
- (2) Depreciation on plant and machinery under Section 32 (computed) ₹ 5,00,000.
- (3) Interest on capital at 15% per annum on the capital of Ajay, Biren and Chand. The capital on which interest is to be calculated is Ajay: ₹10,00,000; Biren: ₹ 10,00,000 and Chand: ₹ 50,00,000.

A general survey published in a food trade magazine highlighted people's perception about the food served by food joints across the city. Current food platter was found to be predominantly unhealthy. People want healthier choices in the menu when they dine out. At the same time, they do not want to compromise on taste or presentation of the food item.

The partners have decided to use this as an opportunity to entirely revamp Fresh Foods as a speciality restaurant that offers healthier variety of food choices catering to the health-conscious customers. Ajay, Biren and Chand are having a meeting to discuss this venture in further detail.

The partners would restate their mission as: **"Spread health and happiness through the craft of cooking, catering to the discerning palette that forge long lasting bonds with our loyal customers."**

"A menu focussed on vegan and vegetarian food options emphasizing the natural, organic and high quality of ingredients would give us a niche segment of loyal customers."

- Chand

"How would we be able to assess the market size? The food industry is largely unorganized and within that there is no data available for ventures like ours that catering to health-conscious customers."

- Ajay

"You are correct! There is no easy way to measure the market size. So let us set to conquer this uncharted territory. At this nascent stage, let us first begin serving this menu at our restaurant only for lunch and dinner. Our restaurant has a capacity to seat 50 customers at a time. Our restaurant should be filled at least 90%, if not more during the peak hours when it is open. If we are overbooked regularly, we can even consider expanding our operations."

- Chand

"Catering to the health-conscious customer is not a novel idea. Many have tried it out before and failed. Investment in kitchen infrastructure, redoing ambience and décor to match the product offering would costs us at least ₹ 5 crores as initial investment. We would need to raise a term loan from the bank for this. We need to generate sufficient profits to repay the loan. Due to overall uncertain business conditions after the pandemic, the bank may in turn expect us to maintain certain levels of debt service ratio or interest coverage ratio. In

addition, our benchmark has been to earn at least 18% ROI. Since our menu offerings are going to be unique and healthy, we have some leverage to charge higher price to our customers. At the same time, industry margins are under pressure due to inflationary conditions as our input costs of material, labour and overheads are continuously rising. How do we achieve financial stability?"

-Biren

"Yes, we are in this business to make money! So let us reengineer our menu. Let us segregate items based on their popularity and profitability. Class A items will be highly popular and profitable. Class B items on the list would be highly popular but not that profitable. Class C items on the menu would be profitable but not very popular. Class D items are the ones over time show that they are neither popular nor profitable! This segregation will give us ample information on which items should be our focus areas while knowing how much margins they would generate! I expect to generate turnover of about ₹ 60 lakh in the first year of operations, with an increase of at least 3% each year. While this gives us a first mover advantage, we need to constantly re-engineer our menu to beat our competitors who may also start replicating our model and menu. For this, let us take constant feedback from our customers."

-Chand

"This would be possible only if we have expert chefs and a team that can handle speciality dishes, catering to different customer preferences, in a cost-effective manner. Popularity is also driven by the quality of food that we serve. High quality standards drive growth. Periodic weekly quality checks would be required. External certifications from government food inspectors and other recognized agencies would also be required to be met. We need to keep a formal record of quality issues identified by either the customer or team."

- Ajay

"Yes, quality has to be matched with service. Ours is a customer centric business. Hence, personnel interacting with the customers should have good people management skills. Complaints should be handled in a professional yet personable manner, for which our customer facing staff have to be trained. Service also means that orders given by the customer should be delivered correctly as per their expectations. Errors in order taking process, stock outs due to unavailability of material should be avoided at all costs. It should be our aim to deliver the food within 15 minutes after placing the order and the food should be both warm and fresh. Rejected raw material, customer rejections of food delivered also need to be tracked. Again, our formal record also needs to capture these errors, inability to deliver orders, delays in delivery of food."

-Biren

"COVID pandemic taught us an important lesson on maintain a robust supply chain that can deal with disruptions. For critical resources such as raw material, labour etc.

our firm should have multiple partners who can provide for the requirements reliably. This will also be helpful when we scale up operations in future."

-Chand

"Not just that, our internal processes should make efficient use of resources. The order taking system and food delivery system should work in sync and support each other to avoid errors and stock outs. Our core team of chefs should be adept at minimizing waste and preparing unique dishes in an economical way! We need build a kitchen infrastructure that can support this providing them with appropriate space, machines and tools for cooking and storage. As regards our marketing process, we may need to use technological solutions like social media platforms to reach out to potential customers."

-Ajay

"High staff attrition is a perennial problem in our industry. Expert chefs are our key to success. Should we

explore the possibility of taking out Keyman Insurance policy on key employees, including us partners. This would not only boost their morale but also help in retaining them. The Speciality chefs may also enjoy working with us if we give them sufficient scope for innovation to satisfy customers, cost permitting of course!”

- Biren

“Wonderful! I am excited at the range of possibilities this venture can offer. Let us get started by putting in place a system for performance measurement of various parameters.”

-Chand

It was decided that Ajay would be in charge of restaurant operations (supply chain management activities like material/labour procurement, kitchen operations, supply chain and quality control and any other daily business operations), Biren would be in charge of finance, administration and marketing. He vegetarian will be in charge of activities like negotiating settlement dates with vendors, procuring loans at effective rates, promotional campaigns to build the firm’s visibility. Chand would continue to be a non-working partner giving strategic insights and if needed additional capital infusion for any business needs. There will be separate departments created to form a proper organization structure with clearly defined authority and responsibility. The periodic management of the menu which will define the food choices based on their profitability and popularity among customers will be decided jointly by all three partners. The partnership deed is being modified accordingly to reflect the new roles and responsibilities.

Multiple Choice Questions

1. Which of the following is not true regarding Keyman Insurance Policy?
 - (i) Any sum received under Keyman Insurance Policy is taxable in the hands of Fresh Foods.
 - (ii) Insurance paid under Keyman Insurance Policy pertaining to life of partners of Fresh Foods is a deductible expenditure
 - (iii) Bonus received under Keyman Insurance Policy is taxable in the hands of Fresh Foods
 - (a) (i) and (iii)
 - (b) (i) and (ii)
 - (c) (i), (ii) and (iii)
 - (d) Only (ii)
2. Fresh Foods has approached Indi Bank Ltd. for a term loan of ₹ 5 crores. For this they need to submit prospective financial statements. Fresh Foods has approached CA Anil for examination of the prospective financial statements that it has prepared. Which of the following statements is not true regarding examination of prospective financial statements by CA Anil?
 - (i) CA Anil need not be the statutory auditor of Fresh Foods to accept the engagement to examine the prospective financial statements.
 - (ii) CA Anil can express an opinion on whether the results shown in the prospective financial information can be achieved or not.
 - (iii) CA Anil can vouch for the accuracy of projections while examining the prospective financial statements.
 - (iv) CA Anil should consider the sources of information considered by the partners for the purpose of preparing prospective financial statements, their adequacy, reliability of underlying data including data derived from third parties such as industry statistics, to support the assumptions.
 - (a) (i) and (iii)

- (b) (ii) and (iii)
 - (c) (iii) and (iv)
 - (d) (i) and (iv)
3. Which of the following statements would not be true as regards product pricing for the individual food items?
- (a) Standard costing techniques may be used to compute the costs of individual food items.
 - (b) Target costing techniques may be used for managing profitability of food items having popular close substitutes (even if they are not as healthy) that are offered by competitors.
 - (c) Product pricing to be used to determine expected revenue for yearly budgetary planning which can be determined based on relevant costing techniques.
 - (d) If the price quality perception or the unique value perception for certain food items is high, customers will be less price sensitive for those items.
4. Which of the following will not be value added activity?
- (i) Inspection of food items on a regular weekly basis to ensure quality standards are met
 - (ii) Using Kaizen costing methodologies to reduce the turnaround time in delivering the order to the customer.
 - (iii) Redoing the food items as they did not match the customer specifications that were given while placing the order.
 - (iv) Wait time of batch of food item for baking process as the ovens in the kitchen are occupied in baking other batches of food items.
- (a) (i), (iii) and (iv)
 - (b) (ii), (iii) and (iv)
 - (c) (i), (ii) and (iii)
 - (d) (ii), (iii) and (iv)
5. The partners have identified certain critical success factors (CSFs) for Fresh Foods like tracking menu offerings that maximize customer satisfaction, customer service related parameters like complaints, customer response time etc. Which of the following is true about CSFs?
- (a) These factors contribute towards reducing costs
 - (b) These factors are fundamental to strategic success
 - (c) These factors need to be only financial factors
 - (d) These factors concentrate on achieving short term goals

Descriptive Questions

6. (i) Calculate the book profit of the partnership for the purpose of calculation of allowable deduction for salary paid to partners as per the Income Tax Act, 1961
- (ii) Allowable deduction for salary paid to partners the assessment year 2024-25.
7. Fresh Foods is in the service industry, where it is essential to link strategy to the management of human resources. The partners would like to have a framework based on the Building Block model to assess performance management. Using performance management system as proposed by the model EVALUATE the following questions:

- (I) What dimensions of performance should Fresh Food measure? Dimensions are the goals that the firm wants to achieve based on its overall strategy, those goals that define its success.
- (II) How to set the standards (benchmarks) for the dimensions determined for Fresh Foods?
- (III) What are the characteristics of rewards system needed to motivate employees to achieve the standards determined for Fresh Foods?

ANSWERS TO THE CASE STUDY 10

Answers to the Multiple Choice Questions

1. **(c)** Any sum including bonus received under Keyman Insurance Policy is taxable in the hands of Fresh Foods and insurance paid under Keyman Insurance Policy pertaining to life of partners of Fresh Foods is a deductible expenditure.
2. **(b)** statements (ii) and (iii) are not true regarding examination of prospective financial statements by CA Anil.

CA Anil cannot express an opinion on whether the results shown in the prospective financial information can be achieved or not. CA Anil cannot vouch for the accuracy of projections while examining the prospective financial statements.
3. **(c)** Relevant costing is used for short-run tactical decision making, where one course of action has to be taken amongst various feasible options. These are business decisions are made concerning very specific business situations which exist over a very short time horizon. Yearly budgeting planning has a longer time frame and requires strategic decision making rather than tactical decision making. Hence, relevant costing techniques may not be very useful here. Standard costing techniques may be used to determine the standard rate of material, labor, overheads etc. while determining the price of individual products.
4. **(a)** (i), (iii) and (iv)

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

Kaizen costing methodologies aim to eliminate waste in business processes. Reduction in the turnaround time in delivering the order to the customer ensures shorter customer response time, builds efficiency and add value for customer. Hence, this is value adding activity.
5. **(b)** These factors are fundamental to strategic success. CSF provide information that can be used to outperform competitors and improve on its core competencies.

Answers to the Descriptive Questions

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

In the present case, the net profit given is before deduction of depreciation on plant and machinery,

interest on capital of partners and salary to the working partners. Therefore, the book profit will be computed as follows:

Particulars	₹	₹
Net Profit (before deduction of depreciation, interest and salary)		30,00,000
Less		
Depreciation on plant and machinery as per section 32	5,00,000	
Interest @ 12% p.a. (maximum allowable as per section 40(b))		
Ajay – 12% of ₹10,00,000 = 1,20,000		
Biren – 12% of ₹10,00,000 = 1,20,000		
Chan – 12% of ₹50,00,000 = 6,00,000		
Total interest deductible	<u>8,40,000</u>	
Total deductions		<u>13,40,000</u>
Book Profit		16,60,000

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

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

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

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

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

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

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

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

Results:

- (a) **Financial performance (result):** Fresh Foods is a closely held partnership with 3 partners.

Partners are interested in earning profits that have been benchmarked at an overall return on investment of at least 18% each year. Partners want to retain the current capital structure. They may take loans from banks for funding their expansion. They expect certain conditions to be laid down in terms of the debt service ratio and interest service ratio that may need to be maintained for the period that the loan is outstanding.

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

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

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

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

Determinants:

- (a) **Quality (determinant):** The firm is focused on offering high quality food to its customers. High quality standards drive growth. Periodic weekly quality checks, external certifications from government food inspectors and other recognized agencies would also be required to be met. A formal record of quality issues identified by either the customer or team would help identify quality related issues. Non- compliance may require immediate attention of the management. For customer facing staff, periodic training programs can be initiated to educate the staff with people management skills. Therefore, Fresh Foods should focus on both product and service quality parameter and continuously work on improving them.
- (b) **Innovation (determinant):** Healthy yet delectable vegetarian and vegan food choices is the unique selling point of Fresh Foods. This requires innovative efforts from qualified and skilled chefs. Segregation of the menu into various classes such as A, B, C and D based on popularity and profitability would help the management identify the food choices to focus on.

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

- (c) **Flexibility (determinant):** Growth in scale of operations combined with a competitive business environment implies that the firm should have some flexibility in its operations. The ability to build a robust supply chain that can deal with disruptions is very important for continuity of business operations as well as its future growth. For critical resources such as raw material, labour etc. the firm should have multiple partners who can provide for the requirements reliably. Appropriate investment in infrastructure in the kitchen, design and décor of the restaurant should be done to build flexibility in operations in order to scale up operations if customer demand picks up.
- (d) **Resource utilization (determinant):** The ability to deliver food within 15 minutes of placing the order requires a high level co-ordination of order taking and food delivery systems. Errors in order taking process, stock outs due to unavailability of material should be avoided at all costs as it causes customer dissatisfaction. Not just this, chefs have to prepare the food economizing costs and minimizing food wastage. They would not just require the requisite skill, but also the right tools in the kitchen to make this happen. Appropriate kitchen infrastructure that can support this providing them with appropriate space, machines and tools for cooking and storage would be needed.

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

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

(II) Standards at Fresh Foods:

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

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

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

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

Brien in charge of marketing will be in charge of generating maximum coverage for the business through social media. Number of promotional campaigns and the resultant conversion of potential customers into actual customers, may be a metric for marketing

(Dimension: Determinant; Resource utilization). Similarly, ability to get the maximum credit period from suppliers, managing loans at effective rates (Dimension: Determinant; Flexibility*) etc. will be performance parameters Biren regarding the finance function.

(*Can also be related with financial performance)

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

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

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

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

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

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

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

(III) Rewards at Fresh Foods:

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

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

While some part of compensation may be fixed, other parts can be made variable. For this, the **performance measurement indicators have to be communicated** and understood by the staff. For example, bonus of the marketing staff can be aligned to the sales generated,

Chefs can be rewarded bonus based on turnover generated by the various categories of food choice as well quality measures etc. Keyman Insurance on key personnel is also a way of motivating and can help stem attrition to a certain extent.

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

- (b) **Clarity: Communication and clarity are must for the staff** to understand how their compensation package will be driven by the various performance measurement metrics. As regards the partners, they should also have clarity about how each of them will be individually compensated based on the performance measurement metrics. These can be defined within the partnership deed. Disputes about remuneration (salary, bonus, commission etc.) among the partners can even lead to dissolution of the partnership, which can negatively affect the continuity of business.
- (c) **Controllability:** Unlike the traditional understanding, **rewards need not be based only on the financial element that the staff can control.** There may be other non-financial elements for which rewards can be given. Both aspects however need to be controllable by the staff concerned. For example, the chef can come up with a popular menu. If the pricing of the product, managed by the partners, is such that it results in a loss to Fresh Foods, the chef may not get the much deserved bonus. This is not a good reward system and might lead to attrition.

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

ADDITIONAL MTP II May 24

Case Study 11

Subjects	Topics Covered	Marks
FR	Ind AS 113, Ind AS 115	7
AFM	Merger (Post Merger EPS), Forex (Forward Contract)	7
Audit	Group Audits, SA 710, Audit Evidence	9
DT	PGBP (Section 43B)	2

Para 1

Established in 2003, RP Ltd. (RPL), based in Tirupur, Tamil Nadu, India, has established a foothold for itself as a prominent manufacturer, wholesaler and exporter of high-quality T-shirts. Recognised as a prestigious export house, RPL takes pride in its brand, "RK," known for its commitment to style, comfort, and ethical manufacturing practices.

RPL boasts a state-of-the-art manufacturing facility equipped with advanced technology and machinery. Their production process adheres to stringent quality control measures, ensuring every "RK" T-shirt is crafted using premium materials and delivers exceptional durability, comfort, and style. The company's dedication to quality has not only earned them the trust and loyalty of their domestic clientele but has also established them as a reliable and sought-after supplier in the international market.

Understanding the evolving preferences of their customers, RPL offers a diverse range of T-shirts. Their product portfolio encompasses a wide variety of styles, colours, and designs, catering to diverse demographics and fashion trends. They prioritise innovation and constantly update their collections, ensuring their brand stays ahead of the curve and caters to the ever-changing needs of the T-shirt market.

Looking ahead, RPL is committed to sustainable growth and expanding its global footprint. They are actively exploring new markets and forging strategic partnerships to broaden their international reach. Additionally, they are implementing eco-friendly practices throughout their operations, prioritising responsible sourcing and sustainable manufacturing processes. With a focus on continuous improvement, innovation, and ethical practices, RPL strives to solidify its position as a leading player in the global T-shirt industry.

Para 2

On 23rd April, 2023, RPL enters into a contract with JM Ltd. (JML) to sell T-shirts for ₹ 600 per T-shirt. As per the terms of the contract, if JML purchases more than 2,000 T-shirts till March 2024, the price per T-shirt will be retrospectively reduced to ₹ 540 per unit. Till September 2023, RPL sold 190 T-shirts to JML. RPL estimates that JML's purchases by March 2024 will not exceed the required threshold of 2,000 T-shirts.

In October 2023, JML acquires DC Ltd. (DCL) and from October 2023 to December 2023, RPL sells an additional 1,200 T-shirts to JML. Due to these developments, RPL estimates that purchases of JML will exceed the 2,000 T-shirts threshold for the period and therefore, it will be required to retrospectively reduce the price per T-shirt to ₹ 540.

Para 3

RPL is analyzing a strategic move – the potential acquisition of JML through a merger. This decision is driven by the potential for significant synergy benefits that could propel RPL's growth and market position.

The synergy between the two companies can be multifaceted. Firstly, combining their manufacturing capabilities could lead to economies of scale. Sharing resources and expertise could optimize production processes, potentially reducing costs and increasing overall efficiency. Additionally, a larger production

capacity could allow RPL to cater to a broader range of customer demands and potentially enter new markets.

The following data are available:

Company	After-tax earnings	No. of equity shares	Market price per share
RPL	₹ 10 crores	10,00,000	₹ 75
JML	₹ 3 crores	2,50,000	₹ 60

It is proposed that certain changes in the shareholding of JML would be made in case of consolidation with RPL, as per the discussion between the management of the two companies, RPL & JML.

Para 4

During the course of the audit of RPL, CA Devanshi Bisht is verifying export revenues of the company for the F.Y. 2023-24, with her engagement team.

She has verified transactions entered in "Export Sales" account maintained in accounting software from relevant export invoices. The export sales are being made on payment of IGST, for which a refund is automatically credited in the account of the company after the goods are shipped.

On enquiring from internal audit staff regarding the recognition of export revenues, she is told that export sales are recognised for the year on the basis of "Bills of Lading". However, she is not convinced with such a response and feels that the same does not appear to be proper. She finds that four export invoices bearing dates in the month of March 2024 having a total value of ₹ 125 lakhs have not been recognized in export revenue on the ground that bills of lading for these invoices were issued in the month of April 2024.

Further, during audit of current year, CA Devanshi had identified that there was a misstatement also in last year pertaining to export revenues of the company and the same is still not corrected. She had issued unmodified audit report in last year.

Para 5

In respect of its Japanese exports, on 31st March, 2024, RPL has an export exposure of JPY 10,00,000 receivables. Japanese Yen (JPY) is not directly quoted against Indian Rupee.

The current spot rates are:

INR/US \$	₹ 62.22
JPY/US\$	JPY 102.34

It is estimated that Japanese Yen will depreciate to 124 level & Indian Rupee to depreciate against US \$ to ₹ 65.

Forward rates for March 2024 are:

INR/US \$	₹66.50
JPY/US\$	JPY 110.35

CA Devanshi recommended that taking a forward cover in such a situation would be beneficial.

Para 6

On 31st March, 2024, RPL has an outstanding interest liability of ₹ 1 crore towards loan payable to BFCI Ltd., a public financial institution. On the same date, it issued debentures to BFCI Ltd. in lieu of the outstanding interest and deducted the said interest while computing profits and gains of business of A.Y.2024-25. The Assessing Officer, however, rejected the deduction of interest on loan claimed by RPL.

After the issue of such debentures, the company has a total debt of ₹ 3 crores and surplus funds to the tune of ₹ 5 crores. Further, it has made a gross profit of ₹ 18 crores and incurred indirect expenses of ₹ 4 crores for the financial year.

Multiple Choice Questions

1. With respect to information given in Para 3, if the merger goes through by exchange of equity shares between RPL and JML and the exchange ratio is set according to the current market prices, what is the post merger earnings per share of RPL?
 - (a) ₹ 104
 - (b) ₹ 108.33
 - (c) ₹ 83.33
 - (d) ₹ 130
2. With respect to information given in Para 3, certain adjustments would be required to be made to account for change in the shareholding of JML in case of consolidation. These adjustments are known as:
 - (a) Memorandum adjustments.
 - (b) Current period consolidation adjustments.
 - (c) Permanent consolidation adjustments.
 - (d) Temporary period consolidation adjustments.
3. With respect to information given in Para 4, guide CA Devanshi on the audit opinion considering the fact that the last year's misstatement pertaining to export revenues has been identified in the current year and unmodified opinion was issued in the last year.
 - (a) CA Devanshi should give unmodified opinion, but include other matters paragraph in the audit report as last year's profit is being reflected in reserve and surplus.
 - (b) CA Devanshi should seek legal opinion.
 - (c) CA Devanshi should express a qualified opinion or adverse opinion in auditor's report of current period financial statements, modified with respect to corresponding figures included therein.
 - (d) CA Devanshi should give unmodified opinion, but last period's unmodified opinion should be highlighted in Emphasis of matter paragraph.
4. With respect to information given in Para 6, comment upon the validity of the action of the Assessing Officer on rejecting the deduction of interest on loan claimed by RPL.
 - (a) The interest so converted into debentures and not actually paid shall not be deemed as actual payment, and hence, would not be allowed as deduction while computing its profits and gains of business for A.Y.2024-25. The action of Assessing Officer is correct.
 - (b) The interest so converted into debentures shall be deemed as actual payment but would not be allowed as deduction while computing its profits and gains of business for A.Y.2024-25. The action of Assessing Officer is correct.
 - (c) The interest so converted into debentures shall be deemed as actual payment, and hence, would be allowed as deduction but while computing 'Income from other sources' for A.Y.2024-25 even though the liability to pay is deferred to a future date. Thus, the action of Assessing Officer is partially correct, as the said interest though not allowed while computing profits and gains of business but would be allowed as deduction while computing 'Income from other sources'.
 - (d) The interest so converted into debentures shall be deemed as actual payment as in the given case loan is provided by a public financial institution and hence, would be allowed as deduction while computing its profits and gains of business for A.Y.2024-25. The action of Assessing Officer is not correct.

5. With respect to information given in Para 6, calculate the Equity Value of RPL if the applicable EBITDA multiple is 4:
- (a) ₹ 53 crores
 - (b) ₹ 58 crores
 - (c) ₹ 64 crores
 - (d) ₹ 74 crores

Descriptive Questions

6. With respect to information given in Para 2, analyse and state how the revenue should be recognised in respect of sale of T-shirts by RPL to JML.
7. With reference to information given in Para 4, discuss from what sources CA Devanshi can obtain reliable audit evidence in respect of the export revenues particularly for the four export invoices of current year. How can she challenge management's assertion regarding the completeness of export revenues for the F.Y. 2023-24?
8. With respect to information given in Para 5,
- (i) Calculate the expected loss, if the hedging is not done. How the position will change, if the firm takes forward cover?
 - (ii) If the spot rates on March 31, 2024 are: INR/US \$ = ₹ 66.25
JPY/US \$ = JPY 110.85
Is the decision to take forward cover justified?
Note: For cross rate of ₹/¥ round off up to 4 decimal points.

ANSWERS TO THE CASE STUDY 11

Answers to the Multiple Choice Questions

1. **(b)** The current market price is the basis of exchange of equity shares, in the proposed merger, shareholders of JML will get only 2,00,000 shares in all or 4 shares of RPL for every 5 shares held by them, i.e., $= (2,50,000 \div 5) \times 4 = 2,00,000$
The total number of shares in RPL will then be 12,00,000 and, ignoring any synergistic effect, the profit will be ₹ 13,00,00,000. The new earning per share (EPS) of RPL will be ₹ 108.33, i.e., $\text{₹ } 13,00,00,000 / 12,00,000$.
2. **(c)** Permanent consolidation adjustments are those adjustments that are made only on the first occasion or subsequent occasions in which there is a change in the shareholding of a particular entity which is consolidated.
3. **(c)** SA 710 - Para 12
If the auditor obtains audit evidence that a material misstatement exists in the prior period financial statements on which an unmodified opinion has been previously issued, the auditor shall verify whether the misstatement has been dealt with as required under the applicable financial reporting framework and, if that is not the case, the auditor shall express a qualified opinion or an adverse opinion in the auditor's report on the current period financial statements, modified with respect to the corresponding figures included therein.

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

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

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

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

5. (b) **Equity Value of Company**

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

Answers to the Descriptive Questions

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

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

RPL estimates that the consideration in the above contract is variable. Therefore, in accordance with paragraphs 56 and 57 of Ind AS 115, **RPL is required to consider the constraints in estimating variable consideration.** RPL determines that it has significant experience with this product and with the purchasing pattern of the JML. **Thus, if RPL concludes that it is highly probable that a significant reversal in the cumulative amount of revenue recognised (i.e. ₹ 600 per unit) will not occur when the uncertainty is resolved (i.e. when the total amount of purchases is known), then the RPL will**

recognise revenue of ₹ 1,14,000 (190 T-shirts x ₹ 600 per T-shirt) for the half year ended 30th September, 2023.

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

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

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

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

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

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

*₹ 600 - ₹540 = ₹ 60

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

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

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

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

$$\text{₹}/\$ \times \$/\text{¥} = \text{₹}/\text{¥} \quad 62.22/102.34 = 0.6080$$

Spot rate on date of export $1\text{¥} = \text{₹ } 0.6080$

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

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

(i) Calculation of expected loss without hedging

Value of export at the time of export ($\text{₹ } 0.6080 \times \text{₹}10,00,000$)	₹ 6,08,000
Estimated payment to be received on March 2024 ($\text{₹ } 0.5242 \times \text{₹}10,00,000$)	₹ 5,24,200
Loss	₹ 83,800

Hedging of loss under Forward Cover

Value of export at the time of export ($\text{₹ } 0.6080 \times \text{₹}10,00,000$)	₹ 6,08,000
Payment to be received under Forward Cover ($\text{₹ } 0.6026 \times \text{₹}10,00,000$)	₹ 6,02,600
Loss	₹ 5,400

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

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

Value of export at the time of export ($\text{₹ } 0.6080 \times \text{₹}10,00,000$)	₹ 6,08,000
Estimated payment to be received on March 2024 ($\text{₹ } 0.5977 \times \text{₹}10,00,000$)	₹ 5,97,700
Loss	₹ 10,300

The decision to take forward cover is still justified.

ADDITIONAL (MTP II May 24)

Case Study 12

Subjects	Topics Covered	Marks
FR	Ind AS 1	4
Audit	SA 560	5
DT	PGBP (Basics)	5
IDT	Customs (Basics, Valuation)	7
Law	Companies Act (Section 151, Filing of Documents Rules)	4

Para A

In the bustling heart of Kolkata, West Bengal, lies Mantrupty Ltd. (MTL), a listed public company established in 1994. They have secured a position for themselves as a distinguished manufacturer and retailer of a diverse selection of coffee and tea powders, catering to a discerning clientele across India.

MTL takes immense pride in its modern processing and packaging facility. They source the finest coffee beans and tea leaves from around the world, meticulously selecting them for quality and freshness. Their rigorous production process adheres to thorough quality management processes, ensuring that every cup of coffee or tea brewed from their powders delivers an exceptional taste experience. This unwavering obsession with has not only earned them the faith of their customers but has also established them as a leading brand in the Indian coffee and tea industry.

Keeping in view market desires, MTL offers a comprehensive range of coffee and tea products. Their portfolio encompasses classic instant coffee blends, aromatic loose leaf teas, and a delightful selection of flavored varieties, catering to diverse palates and brewing preferences. They are constantly pioneering and growing their product offerings, keeping pace with current trends and consumer demands.

With a vision to establish a strong national presence, MTL is actively expanding its distribution network. They are forging partnerships with leading retailers and supermarkets, making their products accessible to a wider customer base across the country. Additionally, they are exploring strategic collaborations and international trade opportunities to broaden their market reach and solidify their position as a prominent player in the global coffee and tea market.

Para B

On July 1st, MTL imported a consignment of coffee beans from Brazil, through establishing contact with such coffee bean supplier situated in Brazil and negotiating the purchase agreement, including price, quality specifications, and delivery terms. Both parties prepared necessary documents, such as a commercial invoice, packing list, bill of lading (ocean freight), and certificate of origin.

MTL has a customs broker, Mr. Deval Kali, to handle the clearance process in India, ensuring compliance with import regulations and duties. The bill of entry for warehousing of goods was presented on 5th July and the goods were duly warehoused. The goods were subject to duty @ 50% ad valorem.

In the meanwhile, on 1st August, an exemption notification was issued reducing the effecting customs duty @ 30%, ad valorem. Mr. Deval on behalf of MTL filed bill of entry for home consumption on 1st September claiming duty @ 30% ad valorem. However, Customs Department charged duty @ 50% ad valorem being the rate on the date of clearance into the warehouse. Also the proper officer raised some queries on the accuracy of the declared value.

Further, the cost of insurance was not ascertainable from the documents submitted before the customs

authorities by Mr. Deval on behalf of MTL relevant for determining the CIF price of the imported goods which is obtained by making certain additions to the value of imported goods as prescribed.

Para C

The shareholding base of the company is quite wide and therefore, the number of small shareholders having stake in the company is substantial. It so happened that some of them wished to appoint Mr. Tapan Dubey, a seasoned finance professional, as small shareholders' director on the Board of the company. After due process, Mr. Tapan was appointed by the company as Director to represent small shareholders.

MTL is an Ind AS compliant company. It has a paid-up capital of ₹ 50 crores and turnover of ₹ 500 crores. It presents financial results for three years (i.e., one for current year and two comparative years) internally for the purpose of management information every year in addition to the general-purpose financial statements. The aforesaid financial results are presented without furnishing the related notes because these are not required by the management for internal purposes.

During the current year, management thought why not they should present third year statement of profit and loss also in the general-purpose financial statements. It will save time and will be available easily whenever management needs this in future.

MTL is required to file its financial statements through XBRL which enables producers and consumers of financial data to switch resources away from costly manual processes, typically involving time-consuming comparison, assembly and re-entry of data, making the data readable, with the help of two documents: Taxonomy & Instance Document.

The management of MTL on analysis of such additional information, inter-alia, observed that there were variances which arise because of inaccurate or faulty standards, not in control of management, and they should not be held responsible for it.

Para D

DRT & Co., are the Auditors of MTL, for the year ended on 31/03/2024. The Audit Report for that year was signed by the Auditors on 04/05/2024. The Annual General Meeting was decided to be held during the month of August 2024. On 06/05/2024, the Company had received a communication from the Central Government that an amount of ₹ 20 crore kept pending on account of incentives pertaining to Financial Year 2023-24 had been approved and the amount would be paid to the Company before the end of May 2024.

To a query to Chief Financial officer of the Company, Mr. Rajeev Dutt, by the management, it was informed that this amount had not been recognised in the Audited Financial Statements in view of the same not being released before the close of the Financial Year and due to uncertainty of receipt. Now, having received the amount, the management wished to include this amount in the Financial Statements of the Company for the Financial Year ended on 31/03/2024.

On 08/05/2024, the management amended the accounts and approved the same. During the intervening period between 4/5/24 and 8/5/24, the audit financial statements and audit report were not issued to anybody. The management requested the auditor to consider the situation and issue a fresh Audit Report on the Financial Statements for the year ended on 31/03/2024.

Para E

Further, DRT & Co. observed that MTL had issued debentures in the P.Y. 2023-24, which were to be matured at the end of 5 years. The debenture holder was given an option of one time upfront payment of ₹ 50 per debenture on account of interest which was to be immediately paid by the company. As per the option exercised by the debenture holders, company paid interest upfront to them in the first year itself and the same was claimed as deduction in the return of the company.

But in the accounts, the interest expenditure was shown as deferred expenditure to be written off over a period of 5 years. During the course of assessment, the Assessing Officer spread the upfront interest paid over a period of five year term of debentures and allowed only one-fifth of the amount in the previous year 2023-24.

Multiple Choice Questions

1. With reference to information given in Para B, in the case of MTL, amount of cost of insurance would be determined as:
 - (i) 20% of free on board value of imported goods
 - (ii) 1.125% of free on board value of imported goods
 - (iii) Where free on board value is not ascertainable, but sum of free on board value and cost of transport, loading, unloading and handling charges up to place of importation is ascertainable; then 1.125% of such sum
 - (iv) Where free on board value is not ascertainable, but sum of free on board value and cost of transport, loading, unloading and handling charges up to place of importation is ascertainable; then 20% of such sum.
 - (a) (i) or (iii)
 - (b) (i) or (iv)
 - (c) (ii) or (iii)
 - (d) (ii) or (iv)
2. With reference to information given in Para C, to hold such position of director, what is the nominal value of shares which Mr. Tapan is required to own?
 - (a) He is required to own shares of the nominal value of ₹ 20,000 in the company prior to his appointment as small shareholders' director.
 - (b) He is required to own shares of the nominal value of at least ₹ 10,000 in the company prior to his appointment as small shareholders' director.
 - (c) He is required to own shares of the nominal value of at least ₹ 5,000 prior to his appointment as small shareholders' director.
 - (d) He is not required to own shares of any nominal value in the company prior to his appointment as small shareholders' director.
3. With reference to information given in Para C, can management of MTL present the third statement of profit and loss as an additional comparative in the general-purpose financial statements?
 - (a) Yes, an entity may present comparative information in addition to the minimum comparative financial statements required by Ind AS, as long as that information is prepared in accordance with Ind AS. However, the entity shall present related note information for those additional statements.
 - (b) Yes, but an entity shall present comparative information as at the beginning of the preceding period in addition to the minimum comparative financial statements.
 - (c) No, an entity cannot present comparative information in addition to the minimum comparative financial statements required by Ind AS.
 - (d) Yes, an entity may present comparative information in addition to minimum comparative financial statements required by Ind AS, as long as that information is prepared in accordance with Ind AS. The entity does not need to present related note information for those additional statements.

4. With reference to information given in Para C, can management of MTL present such third statement of profit and loss only as additional comparative in the general-purpose financial statements without furnishing other components (like balance sheet, statement of cash flows, statement of change in equity) of financial statements?
- (a) No, in such case a complete set of financial statements need to be presented with respect to such third statement of profit and loss in addition to the minimum comparative financial statements required by Ind AS, as long as that information is prepared in accordance with Ind AS.
 - (b) Yes, such comparative information may consist of one or more statements as specified but need not comprise a complete set of financial statements.
 - (c) No, an entity cannot present only such comparative information at the first place in addition to the minimum comparative financial statements required by Ind AS. So, the question of furnishing other components (like balance sheet, statement of cash flows, statement of change in equity) of financial statements does not arise at all.
 - (d) No, in such case a complete set of financial statements need to be presented with respect to such third statement of profit and loss in addition to the minimum comparative financial statements required by Ind AS, as long as that information is prepared in accordance with Ind AS. However, the entity may present related note information only for such third statement of profit and loss.
5. With reference to information given in Para C, MTL is required to file financial statements through XBRL as _____ and XBRL stands for _____
- (a) Its paid-up capital and turnover exceeds the prescribed limit, is listed and also is an Ind-AS compliant company and XBRL stands for eXtensible Business Reporting Language.
 - (b) Its paid-up capital and turnover exceeds the prescribed limit and also is an Ind-AS compliant company and XBRL stands for eXtension Business Reporting Language.
 - (c) Its paid-up capital exceeds the prescribed limit, is listed and also is an Ind-AS compliant company and XBRL stands for eXtensible Business Reporting Language.
 - (d) Its turnover exceeds the prescribed limit and, is listed and also is an Ind- AS compliant company and XBRL stands for eXtension Business Reporting Language.

Descriptive Questions

6. With reference to information given in Para B,
- (i) Explain the rate of duty applicable for clearance for home consumption.
 - (ii) Whether the rate of exchange on 1st September could be adopted for purpose of conversion of foreign currency into local currency?
 - (iii) Explain briefly the chief reasons on the basis of which the proper officer can raise doubts on the truth or accuracy of the declared value as happened in the case of MTL.
7. With reference to information given in Para D, analyse the issues involved and give your views as to whether or not the auditor, DRT & Co., could accede to the request of the management.
8. With reference to information given in Para E, examine the correctness of the action of Assessing Officer in respect of the interest expenditure claimed by MTL.

ANSWERS TO THE CASE STUDY 12

Answers to the Multiple Choice Questions

1. (c) For determining the CIF price of the imported goods, certain additions have to be made to the value of imported goods under rule 10(2) of the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007. If cost of insurance is not ascertainable from the documents submitted before the customs authorities, then such amount is determined as follows:
 1.125% of free on board value of imported goods;
 Where free on board value is not ascertainable, but sum of free on board value and cost of transport, loading, unloading and handling charges up to place of importation is ascertainable; then 1.125% of such sum.
2. (d) According to Section 151 of Companies Act, 2013, a listed company may have one director elected by the small shareholders. This provision enables small shareholders to place their representative on the Board of Directors of a listed company so that their voice is also listened effectively.
 The small shareholders intending to propose a person as a candidate for the post of small shareholders' director shall give a notice of their intention with the company at least fourteen days before the meeting under their signature specifying the name, address, shares held and folio number of the person whose name is being proposed for the post of director and of the small shareholders who are proposing such person for the office of director.
 However, if the person being proposed does not hold any shares in the company, the details of shares held and folio number need not be specified in the notice. This implies that such Director is not required to own shares of any nominal value in the company prior to his appointment as small shareholders' director.
3. (a) Yes, as per Para 38C of Ind AS 1, an entity may present comparative information in addition to the minimum comparative financial statements required by Ind AS, as long as that information is prepared in accordance with Ind AS. This comparative information may consist of one or more statements referred to in paragraph 10 but need not comprise a complete set of financial statements. When this is the case, the entity shall present related note information for those additional statements.
4. (b) Yes, as per Para 38C of Ind AS 1, an entity may present comparative information in addition to the minimum comparative financial statements required by Ind AS, as long as that information is prepared in accordance with Ind AS. This comparative information may consist of one or more statements referred to in paragraph 10 but need not comprise a complete set of financial statements. When this is the case, the entity shall present related note information for those additional statements.
5. (a) According to Rule 2(1)(d) of the Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Rules, 2015, 'Extensible Business Reporting Language (XBRL)' means a standardised language for communication in electronic form to express, report or file financial information by the companies under the Companies Act, 2013.
 According to Rule 3(1) of the Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Rules, 2015, the following class of companies shall file their financial statements and other documents under section 137 of the Companies Act, 2013 with the Registrar in e-Form AOC-4 XBRL as per Annexure-I:

- (i) Companies listed with stock exchanges in India and their Indian subsidiaries;
- (ii) Companies having paid-up capital of five crore rupees or above;
- (iii) Companies having turnover of one hundred crore rupees or above;
- (iv) All companies which are required to prepare their financial statements in accordance with Companies (Indian Accounting Standards) Rules, 2015.

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

Answers to the Descriptive Questions

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

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

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

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

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

- (a) the **significantly higher value at which identical or similar goods imported** at or about same time in comparable quantities in a comparable commercial transaction were assessed;
- (b) the **sale involves an abnormal discount** or abnormal reduction from the ordinary competitive price;
- (c) the **sale involves special discounts** limited to exclusive agents;
- (d) the **misdeclaration of goods** in parameters such as description, quality, quantity, country of origin, year of manufacture or production;
- (e) the **non declaration of parameters** such as brand, grade, specifications that have relevance to value;
- (f) the **fraudulent or manipulated documents**

7. **Facts Which Become Known to the Auditor After the Date of the Auditor's Report but Before the Date the Financial Statements are Issued:**

As per SA 560, "Subsequent Events", the auditor has **no obligation to perform any audit procedures** regarding the financial statements **after the date of the auditor's report**. However, when, after the date of the auditor's report but before the date the financial statements are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the **auditor shall:**

- (i) **Discuss the matter with management** and, where appropriate, those charged with governance.

- (ii) Determine whether the **financial statements need amendment** and, if so,
- (iii) Inquire how **management intends to address the matter** in the financial statements.

If management amends the financial statements, the auditor shall **carry out the audit procedures** necessary in the circumstances **on the amendment**. Further, the auditor shall extend the audit procedures and provide a new auditor's report on the amended financial statements. However, the **new auditor's report shall not be dated earlier than date of approval of amended financial statements**.

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

After applying the conditions given in SA 560, DRT & Co. can issue new audit report subject to date of audit report which should not be earlier than the date of approval of the amended financial statements.

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

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

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

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

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

ADDITIONAL (MTP II May 24)

Case Study 13

Subjects	Topics Covered	Marks
FR	Professional & Ethical Duty	6
AFM	Capital Budgeting (Risk Analysis)	4
DT	Deductions (Section 80C), TDS (Section 192), Return Filing	11
Law	Companies Act (Section 186, 197)	4

Subham Ltd., incorporated in 1999, is a public unlisted company headquartered in Surat, Gujarat, India. It has carved a niche for itself in the production of high-quality industrial spare parts catering to a diverse clientele across the manufacturing, construction, and allied industries.

Subham Ltd. boasts a cutting-edge manufacturing facility equipped with advanced machinery and technology. Their production process prioritizes rigorous quality checks, ensuring their spare parts meet the highest standards of durability, functionality, and efficiency. The company's passion for excellence has earned them the devotion of their customers, establishing them as a reliable and dependable supplier in the industry.

Driven by a customer-centric approach, Subham Ltd. maintains a wide inventory of spare parts to cater to the diverse needs of their clients. Their product portfolio encompasses a comprehensive range of parts, including bearings, gears, seals, and various other components critical for the smooth operation of machinery and equipment. Additionally, they offer custom-made solutions to cater to specific client requirements, ensuring their parts seamlessly integrate into existing machinery.

Looking ahead, Subham Ltd. is committed to continuous innovation and expansion. They actively invest in research and development to stay abreast of the latest advancements in materials and manufacturing techniques. The company also plans to broaden its geographic reach by establishing alliances and linkages, strengthening its position as a leading player in the industrial spare parts industry.

Issue 1

The company desires to upgrade its production process since the directors believe that technology-led production is the only way the company can remain competitive. On 1 April 2023, the company entered into a property lease arrangement in order to obtain tax benefits. However, the draft financial statements do not show a lease asset or a lease liability as on date.

A new finance manager, CA Manoj Desai, joined Subham Ltd. before the financial year ending 31st March, 2024 and was engaged in the review of financial statements to prepare for the upcoming audit and to begin making a loan application to finance the new technology.

CA Manoj believes that the lease arrangement should be recognized in the Balance Sheet. However, the Managing Director, Ms. Disha Devan, an MBA,

strongly disagrees. She wishes to charge the lease rentals to the Statement of Profit or Loss.

Her opinion is based on the understanding that the lease arrangement is merely a monthly rental payment, without any corresponding asset or obligation, since there is no 'invoice' for transfer of asset to Subham Ltd.

Her disagreement also stems from the fact that showing a lease obligation in the Financial Statements would impact the gearing ratio of the company, which could have an adverse impact on the upcoming loan application. Ms. Disha has made it clear to CA Manoj Desai that at stake is not only the loan application but also his future prospects at Subham Ltd.

Issue 2

Ms. Disha believed that no matter how much authority and autonomy are given to responsibility managers, performance reports are needed to evaluate the performance of the managers at all operating levels of the organization.

At bottom levels, it helps in determining what corrective measures are required in their segments. At top management level, these reports keep them top managers informed on the performance of all segments.

In the said context, to assess the performance of CA Manoj's finance department, she wanted internal performance reporting to be done, at regular intervals, also due to the fact that CA Manoj was newly appointed.

Issue 3

CA Manoj kindly requested Ms. Disha to call for a meeting of the Board of the company to consider for the investment of surplus funds amounting to ₹ 10 crores of the company. Out of the total strength of six Directors of the company, five attended the said Board Meeting called by Ms. Disha.

The investment of the said amount was to be made in a project of associate company of Subham Ltd. The risk-free rate of return is 7%. Risk premium expected by CA Manoj is 7%. The life of the project is 5 years.

Following are the cash flows that are estimated over the life of the project:

Year	Cash flows (₹ in lakhs)
1	250
2	600
3	750
4	800
5	650

Issue 4

Looking at the financial and taxation knowledge of CA Manoj, Ms. Disha asked a favour from him to help her to calculate deduction available to her under appropriate provisions of the Income-tax Act, 1961 for A.Y. 2024-25, considering the following particulars for the year ending 31.03.2024:

- Life Insurance Premium paid – ₹ 20,000, actual capital sum of the policy assured for ₹ 2,60,000. The insurance policy was taken on 31.03.2012;
- Contribution to Public Provident Fund – ₹ 30,000 in the name of father;
- Tuition fee payment – ₹ 8,000 each for 2 sons pursuing full time graduation course in Surat; Tuition fee for daughter pursuing PHD in Stanford University, USA – ₹ 2.50 lakhs;
- Housing loan principal repayment – ₹ 23,000 to Axis Bank. This property is under construction at Surat as on 31.03.2024;
- Principal repayment of housing loan taken from a relative – ₹ 80,000. The property is self-occupied situated at Surat;
- Five-year time deposit in an account under Post Office Time Deposit Scheme – ₹ 60,000;
- Investment in National Savings Certificate – ₹ 60,000

The company credited the salary due for the month of March 2024 to the account of Ms. Disha in its books of account on 31.3.2024. She has not intimated her intended tax regime to the company. However, she has decided to shift out of the default tax regime under section 115BAC and because of which got her eligible deductions computed from CA Manoj.

Further, in the current F.Y. 2023-24, a chance scrutiny of accounts revealed that during the last financial year, by oversight, Mrs. Disha, had drawn remuneration in excess of the limit provided by the relevant statutory provisions.

Issue 5

Further, Mr. Suarabh Dev, a new joiner, in the finance department of the company as junior accountant, requested CA Manoj to advise whether he would be required to file return of income for A.Y.2024-25 based on the following data:

He has a gross total income of ₹ 2,50,000 for A.Y.2024-25 comprising of his salary income since he joined Subham Ltd. from January, 2024 only. He does not have any deduction under Chapter VI-A.

He pays electricity bills of ₹ 10,000 per month. He made a visit to Melbourne along with his wife for a month in May, 2023 for which he incurred to and fro flight charges of ₹ 1.10 lakhs. The remaining expenditure for his visa, stay and sightseeing amounting to ₹ 90,000 was met by his brother residing in Melbourne.

Multiple Choice Questions

1. With respect to information given in Issue 3, the resolution relating to investment shall be taken as passed by the Board in which of the following cases:
 - (a) When all the five Directors of Subham Ltd. attending the meeting consent to such investment of funds.
 - (b) When any four Directors of Subham Ltd. out of five attending the meeting consent to such investment of funds.
 - (c) When any three Directors of Subham Ltd. out of five attending the meeting consent to such investment of funds.
 - (d) Investment proposal must be consented to by the total strength of six Directors of Subham Ltd.
2. With respect to information given in Issue 3, approximately the Net Present Value of the project proposed for making investment based on Risk free rate is:
 - (a) ₹ 2443.50 lakhs
 - (b) ₹ 1443.50 lakhs
 - (c) ₹ 997.85 lakhs
 - (d) ₹ 1997.85 lakhs
3. With respect to information given in Issue 3, approximately the Net Present Value of the project proposed for making investment on the basis of Risks adjusted discount rate is:
 - (a) ₹ 2443.50 lakhs
 - (b) ₹ 1443.50 lakhs
 - (c) ₹ 997.85 lakhs
 - (d) ₹ 1997.85 lakhs
4. With respect to information given in Issue 4, as regards recovery of the excess remuneration drawn by Mrs. Disha, which of the following options is applicable:
 - (a) The company shall not waive recovery of excess remuneration paid unless approved by a special resolution within one year from the date the sum becomes refundable.
 - (b) The company shall not waive recovery of excess remuneration paid unless approved by a special resolution within two years from the date the sum becomes refundable.

- (c) The company shall not waive recovery of excess remuneration paid unless approved by the Central Government.
- (d) The company shall not waive recovery of excess remuneration paid unless approved by a special resolution within three years from the date the sum becomes refundable.
5. With respect to information given in Issue 5, is Mr. Suarabh required to file his return of income for A.Y.2024-25, and if so, why?
- (a) No, Mr. Suarabh is not required to file his return of income
- (b) Yes, Mr. Suarabh is required to file his return of income, since his gross total income/total income is not less than the basic exemption limit
- (c) Yes, Mr. Suarabh is required to file his return of income since he pays electricity bills of ₹ 10,000 per month, which exceeds the prescribed annual threshold
- (d) Yes, Mr. Suarabh is required to file his return of income since he has incurred foreign travel expenditure exceeding ₹ 1 lakh

Descriptive Questions

6. With respect to information given in Issue 1, discuss the potential ethical conflicts which may arise in respect of the lease arrangement and the ethical principles which would guide how the finance manager, CA Manoj, should respond to the situation.
7. With respect to information given in Issue 4, compute the deduction available to Ms. Disha under appropriate provisions of the Income-tax, 1961 for A.Y. 2024-25.
8. With respect to information given in Issue 4, examine the obligation of Subham Ltd. to deduct tax at source while paying/crediting salary to Ms. Disha.

ANSWERS TO THE CASE STUDY 13

Answers to the Multiple Choice Questions

1. (a) [Section 186(5) of the Companies Act, 2013]: Any investment shall be made or loan or guarantee or security given by the company only after when the resolution sanctioning it is passed at a meeting of the Board with the consent of all the directors present at the meeting.
2. (b) The Present Value of the Cash Flows for all the years by discounting the cash flow at 7% is calculated as below:

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

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

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

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

4. (b) The company shall not waive the recovery of any sum refundable to it under Section 197(9) of the Companies Act, 2013. However, the waiver is possible only if it is approved by the company by passing a special resolution within two years from the date the sum becomes refundable.
5. (c) Any person other than a company or a firm, who is not required to furnish a return under section 139(1), would have to file income-tax return in the prescribed form and manner on or before the due date if, during the previous year, such person –
- has deposited an amount or aggregate of the amounts exceeding ₹ 1 crore in one or more current accounts maintained with a banking company or a co-operative bank; or
 - has incurred expenditure of an amount or aggregate of the amounts exceeding ₹ 2 lakh for himself or any other person for travel to a foreign country; or
 - has incurred expenditure of an amount or aggregate of the amounts exceeding ₹ 1 lakh towards consumption of electricity; or
 - fulfils such other prescribed conditions

Answers to the Descriptive Questions

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

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

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

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

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

Ethical issues:

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

Threats to fundamental principles

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

Professional competence

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

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

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

Particulars	₹
Life Insurance Premium (See Note 1)	20,000
Contribution to Public Provident fund (See Note 2)	Nil
Tuition fee of 2 sons for graduation course (See Note 3)	16,000
Housing loan principal repayment (See Notes 4 & 5)	Nil
Post Office Time Deposit Scheme (See Note 6)	60,000

Investment in National Savings Certificate (See Note 6)	<u>60,000</u>
Total Investment	<u>1,56,000</u>
Deduction under section 80C restricted to	<u>1,50,000</u>

Notes:

1. Any amount of life insurance premium paid in excess of the specified percentage of actual capital sum assured shall be ignored for the purpose of deduction under section 80C. In the given case, since the insurance policy has been issued before 1.04.2012, therefore, premium paid upto 20% of actual capital sum assured i.e., ₹52,000 shall be allowed as deduction. Hence, the premium of ₹ 20,000 paid during the year is allowable as deduction under section 80C.
2. In the case of an individual, contribution to PPF can be made in his name or in the name of his spouse or children to qualify for deduction under section 80C. As the contribution was made in the name of his father, deduction is not allowable.
3. Tuition fee paid is eligible for deduction under section 80C for a maximum of two children. Therefore, ₹16,000 shall be allowed as deduction. Tuition fee paid to an educational institution situated outside India is not eligible for deduction.
4. In order to claim the principal repayment on loan borrowed for house property as deduction, the construction of such property should have been completed and should be chargeable to tax under the head "Income from house property". In the given case, since the property is under construction, principal repayment does not qualify for deduction.
5. Repayment of principal on housing loan is not allowed as deduction in case the loan is borrowed from friends, relatives etc. In order to qualify for deduction, the loan should have been obtained from Central Government/State Government/bank/specified employer/institution.
6. The following investments are also eligible for deduction under section 80C:
 - (1) five year time deposit in an account under Post Office Time Deposit Rules, 1981; and
 - (2) investment in National Savings Certificate
8. **Section 192 requires deduction of tax from salary at the time of payment. Thus, the employer, i.e. Subham Ltd., is not required to deduct tax at source when salary has not been paid but is merely credited to the account of the employee in its books of account. Subham Ltd., therefore, is not required to deduct tax at source in respect of the salary of March, 2024 which is merely credited to the account of employee, Ms. Disha, and not paid.**

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

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