

CA FINAL



AIR1CA CAREER INSTITUTE

INTEGRATED BUSINESS SOLUTIONS

MAY & NOV 2024 EXAMS

Case Studies

**Question
Bank**



Coverage of All Case Studies with Solutions as per ICAI

☒ New Course Digest	☒ Old Course Digest
☒ Students Journal	☒ Revision Test Papers (RTP)
☒ Past Exam Papers	☒ Mock Test Papers (MTP)

Integrated Business Solutions

Edition: 2024

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INTEGRATED BUSINESS SOLUTIONS

About the Case Studies Question Bank

नमस्कार दोस्तों, राधे राधे !!

This Case Studies Question Bank is prepared by CA Atul Agarwal (AIR 1). He is also a Gold Medalist in Audit & Direct Tax. This book contains 100 Case Studies which are bifurcated in 5 Sections (Section I: New Course Digest, Section II: Old Course Digest, Section III: Past Papers, Section IV: RTP, Section V: MTP). All Case Studies in this Question Bank are fully amended.

Key words and Key adjustments as per ICAI are Highlighted in the answers of all Case Studies. Source for each case studies, content summary and detailed analysis of topics of all subjects have been provided after Index of the book.

It is recommended to practice all Case Studies of this Question Bank after referring the concept book and revision videos of all subjects. This will help you to develop a strong grasp over the subject and be well-prepared for the exams.

Best wishes

CA Atul Agarwal

Reach out to us at following for Classes, Test Series, Notes, Question Banks and Guidance

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INTEGRATED BUSINESS SOLUTIONS

Section I: New Course Digest (18 Case Studies)

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CS 4	1.19 – 1.26	CS 9	1.55 – 1.60	CS 14	1.86 – 1.91		
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Section II: Old Course Digest (34 Case Studies)

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CS 2	2.9 – 2.15	CS 11	2.80 – 2.91	CS 20	2.154 – 2.161	CS 29	2.214 – 2.219
CS 3	2.16 – 2.24	CS 12	2.92 – 2.99	CS 21	2.162 – 2.166	CS 30	2.220 – 2.226
CS 4	2.25 – 2.33	CS 13	2.100 – 2.105	CS 22	2.167 – 2.174	CS 31	2.227 – 2.235
CS 5	2.34 – 2.41	CS 14	2.106 – 2.115	CS 23	2.175 – 2.180	CS 32	2.236 – 2.243
CS 6	2.42 – 2.47	CS 15	2.116 – 2.124	CS 24	2.181 – 2.185	CS 33	2.244 – 2.251
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Section III: Past Papers (31 Case Studies)

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CS 1	3.1 – 3.5	CS 9	3.44 – 3.50	CS 17	3.88 – 3.93	CS 25	3.131 – 3.135
CS 2	3.6 – 3.9	CS 10	3.51 – 3.55	CS 18	3.94 – 3.98	CS 26	3.136 – 3.139
CS 3	3.10 – 3.15	CS 11	3.56 – 3.60	CS 19	3.99 – 3.105	CS 27	3.140 – 3.144
CS 4	3.16 – 3.20	CS 12	3.61 – 3.66	CS 20	3.106 – 3.111	CS 28	3.145 – 3.150
CS 5	3.21 – 3.26	CS 13	3.67 – 3.74	CS 21	3.112 – 3.116	CS 29	3.151 – 3.156
CS 6	3.27 – 3.32	CS 14	3.75 – 3.79	CS 22	3.117 – 3.121	CS 30	3.157 – 3.162
CS 7	3.33 – 3.37	CS 15	3.80 – 3.83	CS 23	3.122 – 3.125	CS 31	3.163 – 3.170
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Section IV: RTP (2 Case Studies)

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CS 1	4.1 – 4.15	CS 2	4.16 – 4.22				

Section V: MTP (15 Case Studies)

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CS 2	5.6 – 5.10	CS 6	5.30 – 5.35	CS 10	5.55 – 5.60	CS 14	5.80 – 5.84
CS 3	5.11 – 5.15	CS 7	5.36 – 5.41	CS 11	5.61 – 5.67	CS 15	5.85 – 5.90
CS 4	5.16 – 5.21	CS 8	5.42 – 5.47	CS 12	5.68 – 5.73		

SOURCE OF QUESTIONS



AIR1CA CAREER INSTITUTE

INTEGRATED BUSINESS SOLUTIONS

Section	New Digest	Old Digest	Past Papers	RTP	MTP
Section I	1 to 15 [Journal: 16 to 18]	–	–	–	–
Section II	–	1 to 34	–	–	–
Section III	–	–	1 (N19), 2 & 3 (N20), 4 to 8 (Jan21), 9 to 13 (July21), 14 to 17 (D21), 18 to 22 (M22), 23 to 26 (N22), 27 to 31 (N23), [New Digest: 9 to 12, 14 (M23)]	–	–
Section IV	–	–	–	1 to 2 (M24)	–
Section V	–	–	–	–	1 (N19), 2 & 3 (M21), 4 to 6 (M22), 7 to 10 (N22), 11 to 15 (M23)

IBS

Case Study Analysis

ALL SUBJECTS MARKS SUMMARY				
Subject	Digest (New & Old)	Past Papers	RTP & MTP	Total
FR	267	186	101	554 (22%)
AFM	20	68	–	88 (3.5%)
AUDIT	118	80	41	239 (9.5%)
DT	415	157	114	686 (27%)
IDT	260	78	60	398 (16%)
LAW	148	145	74	367 (15%)
SCPM	72	61	35	168 (7%)
	1300 Marks (52 Case Studies)	775 Marks (31 Case Studies)	425 Marks (17 Case Studies)	2500 Marks (100 Case Studies)

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IBS - FR

Case Study Analysis

OVERALL SUMMARY

Section I & II: New & Old Course Digest		
Chapter	No. of CS	Marks
Ind AS 103 (Business Combination)	7	52
Ind AS 115	6	30
Schedule III	3	25
Ind AS 21	3	16
Ind AS 1	2	12
Ind AS 8	4	14
Ind AS 20	3	14
CFS (Ind AS 28, 110)	2	11
Ind AS 36	2	11
Ind AS 41	2	10
Ind AS 101	1	10
Ind AS 12	2	8
Ind AS 2	1	8
Basics	2	7
Ind AS 7	2	7
Ind AS 24	1	7
Ind AS 40	1	7
Ind AS 19, 23, 37, 38, 109	6	18
		267

Section III: Past Papers		
Chapter	No. of CS	Marks
Ind AS 101	2	23
Schedule III	5	19
Ind AS 16	4	19
Ind AS 37	4	18
CFS (Ind AS 28, 110)	3	10
Ind AS 2	3	9
Ind AS 115	2	9
Ind AS 12	2	9
Ind AS 23	2	9
Conceptual Framework for FR under Ind AS	1	9
Ind AS 113	1	7

IBS FR: Case Study Analysis

Ind AS 33	1	6
Ind AS 116	1	6
Ind AS 24	2	5
Ind AS 7	1	5
Ind AS 41	1	5
Ind AS 8	2	4
Ind AS 10	2	4
Ind AS 19, 38, 40, 102	4	10
		186

Section IV & V: RTP & MTP		
Chapter	No. of CS	Marks
Ind AS 16	1	14
Ind AS 115	2	11
CFS (Ind AS 28, 111)	2	10
Ind AS 19	2	9
Ind AS 116	1	9
Ind AS 109 (Financial Instruments)	2	8
Conceptual Framework for FR under Ind AS	1	6
Ind AS 8	1	5
Ind AS 10 & 37	1	5
Ind AS 12	1	5
Ind AS 20	1	5
Introduction to Ind AS (Applicability of Ind AS)	1	4
Ind AS 113	1	4
Ind AS 21, 38, 40	3	6
		101

Summary of Content - Case Study Wise

Section I: New Course Digest		
CS 5	Ind AS 21 – Intra group transaction (Foreign operation)	5 Marks
CS 6	Ind AS 20 – Grants related to asset, income and its presentation	5 Marks
CS 7	Ind AS 41 – Basics	5 Marks
CS 8	Ind AS 115 – Step 5 (Cost of Major Component not Installed)	(2 + 5) Marks
CS 9	Ind AS 103 – Step 2 (Date of Acquisition), Step 5 (NCI)	4 Marks MCQ
	Ind AS 103 – Step 1 (Identifying the Acquirer), Step 2 (Date of Acquisition)	5 Marks
	Ind AS 115 – Modification Accounting	5 Marks
CS 10	Ind AS 36 – Impairment Loss on CGU	2 Marks MCQ
	Ind AS 36 – Reversal of Impairment Loss (Theory)	6 Marks
CS 12	Ind AS 103 – Step 3 (ESOP)	10 Marks
CS 13	Ind AS 103 – Common Control Transactions	2 Marks MCQ
	Ind AS 103 – Demerger	10 Marks
CS 16	Ind AS 41 – Basics, Accounting of Agricultural Produce	5 Marks

Section II: Old Course Digest		
CS 1	Ind AS 103 – Step 6 (Goodwill or GBP)	4 Marks MCQ
CS 2	Ind AS 1 – Accrual Basis	5 Marks
	Basics – Working Capital	5 Marks
CS 3	Ind AS 103 – Step 5 (NCI), Step 6 (Goodwill or GBP), Step 7 (Journal Entry)	5 Marks
	Ind AS 103 – Step 1 (Identifying the Acquirer), Step 2 (Date of Acquisition)	2 Marks MCQ
CS 4	Ind AS 21 – Impairment Loss in foreign currency, Intra group transaction (FO)	4 Marks MCQ
	Ind AS 21 – Functional Currency	5 Marks
CS 8	Ind AS 12 – Current Tax Basics	2 Marks MCQ
	Ind AS 20 – Grant related to income	2 Marks MCQ
	Ind AS 40 – Subsequent recognition of IP	2 Marks MCQ
	Ind AS 40 – Disclosure regarding IP	5 Marks
CS 9	Ind AS 19 – Defined Benefit Plan	2 Marks MCQ
	Ind AS 1 & 8 – Reclassification (Prior Period Error)	5 Marks
	Ind AS 109 – ACM (Financial Asset – Security Deposit)	5 Marks
CS 10	Ind AS 103 – Step 3 (ESOP)	5 Marks
CS 12	Ind AS 20 – Grant related to income, asset	(2 + 5) Marks
CS 13	Ind AS 21 – Accounting for foreign currency transaction	2 Marks MCQ
CS 14	Basics – Prepaid expense	2 Marks MCQ
CS 15	Ind AS 12 – DTL calculation	2 Marks MCQ
	Ind AS 12 – Journal entries TDS	4 Marks
CS 16	Ind AS 115 – Step 2 (Performance Obligation)	2 Marks MCQ
	Ind AS 115 – Step 5 (Revenue Recognition)	2 Marks MCQ

CS 17	Ind AS 8 – Change in Accounting Policy	5 Marks
CS 18	Ind AS 28 – Accounting for investment in associate	(4 + 5) Marks
CS 19	Ind AS 23 – Capitalisation of borrowing costs	5 Marks
CS 22	Ind AS 101 – Accounting for transition to Ind AS	10 Marks
CS 23	Ind AS 7 – Cash Flow from Investing Activities	2 Marks MCQ
CS 24	Ind AS 7 – Cash Flow from All Activities	5 Marks
CS 25	Ind AS 115 – Step 3 (Non Cash Consideration) Ind AS 115 – Step 5 (Cost of Major Component not Installed)	2 Marks MCQ 5 Marks
CS 26	Ind AS 115 – Step 3 (Variable Consideration) Schedule III – Correction	2 Marks MCQ (2 + 8) Marks
CS 27	Ind AS 110 – Basics Schedule III – Balance Sheet Correction Ind AS 103 – Step 5 (NCI)	2 Marks MCQ 10 Marks 5 Marks
CS 29	Ind AS 1 – Disclosure of Accounting Policy Ind AS 8 – Disclosure of Change in Accounting Estimate Ind AS 38 – Meaning & Recognition Ind AS 1 – Disclosure related to deviation from Ind AS	2 Marks MCQ 2 Marks MCQ 2 Marks MCQ 5 Marks
CS 30	Schedule III – Correction Ind AS 36 – Impairment Loss on individual asset Ind AS 37 – Recognition of provision	5 Marks 3 Marks 2 Marks
CS 31	Ind AS 2 – Cost of inventories, Cost measurement techniques Ind AS 8 – Prior period errors	8 Marks MCQ 2 Marks MCQ
CS 32	Ind AS 24 – Related Party & its disclosure Ind AS 24 – Related Party & its disclosure	2 Marks MCQ 5 Marks
CS 33	Ind AS 37 – Recognition of provision Ind AS 115 – Step 3 (Significant financing component)	2 Marks MCQ 5 Marks

Section III: Past Papers

CS 1	Ind AS 19 – Bonus (Profit Sharing Plan)	4 Marks MCQ
CS 2	Ind AS 37 – Recognition of provision	2 Marks MCQ
CS 3	Schedule III – Correction Ind AS 16 – Accounting for revaluation	5 Marks 5 Marks
CS 6	Ind AS 16 – Accounting for revaluation	7 Marks
CS 7	Ind AS 10 – Adjusting event	2 Marks MCQ
CS 8	Ind AS 12 – Condition for recognising DTA Ind AS 41 – Government grants on Biological Assets	2 Marks MCQ 5 Marks
CS 9	Ind AS 1 & 8 – Reclassification (Prior period error) Schedule III – Correction	2 Marks MCQ 4 Marks
CS 10	Schedule III – Correction Ind AS 16 – Component accounting	2 Marks MCQ 5 Marks

CS 13	Ind AS 101 – Transition to Ind AS	15 Marks
CS 14	Ind AS 28 – Basics	2 Marks MCQ
	Ind AS 16 – Recognition of PPE	2 Marks MCQ
	Ind AS 24 – Related party disclosures	3 Marks
CS 15	Ind AS 38 – Recognition of IA	2 Marks MCQ
	Ind AS 37 – Provision	2 Marks MCQ
	Ind AS 2 – Meaning and cost of inventories	5 Marks
CS 16	Ind AS 2 – Measurement of Inventories	2 Marks MCQ
	Conceptual Framework for FR under Ind AS – Elements of FS	9 Marks
CS 17	Ind AS 10 – Adjusting event	2 Marks MCQ
CS 18	Schedule III – Correction	2 Marks MCQ
	Ind AS 23 – Period of capitalisation	(2 + 5) Marks
	Ind AS 115 – Step 3 (Variable consideration)	7 Marks
CS 19	Ind AS 113 – Fair Value	(2 + 5) Marks
CS 20	Ind AS 116 – Lessee Accounting	2 Marks MCQ
	Ind AS 116 – Lease Definition	4 Marks
CS 21	Ind AS 110 – Basics	4 Marks MCQ
	Ind AS 101 – Goodwill amortisation	8 Marks
CS 22	Ind AS 37 – Basics	2 Marks MCQ
	Ind AS 37 – Provision	2 Marks MCQ
	Ind AS 37 – Onerous Contract	6 Marks
CS 23	Schedule III – Correction	6 Marks
CS 24	Ind AS 2 – Measurement of inventories	2 Marks MCQ
	Ind AS 12 – Deferred Tax calculation	2 Marks MCQ
	Ind AS 12 – Temporary differences	5 Marks
	Ind AS 7 – Non cash transaction	5 Marks
CS 26	Ind AS 24 – Related parties	2 Marks MCQ
CS 27	Ind AS 102 – SBP to Other Parties (Purchase of Machinery)	2 Marks MCQ
CS 28	Ind AS 8 – Prior Period Error	2 Marks MCQ
	Ind AS 37 – Onerous Contract	4 Marks
CS 29	Ind AS 23 – Capitalisation of Borrowing Costs	2 Marks MCQ
	Ind AS 33 – Basic EPS	6 Marks
CS 30	Ind AS 115 – Step 4 (Allocation of Transaction Price in Performance Obligations)	2 Marks MCQ
	Ind AS 40 – Transfer of PPE to Investment Property	2 Marks MCQ
CS 31	Ind AS 110 – Sale of Stake in Subsidiary	4 Marks

Section IV: RTP

CS 1	Ind AS 115 – Step 3 (Transaction Price)	3 Marks
CS 2	Ind AS 20 – Grants related to asset and its presentation	5 Marks

Section V: MTP		
CS 1	Ind AS 38 – Meaning & Recognition	2 Marks MCQ
	Ind AS 16 – Cost of PPE	4 Marks MCQ
	Ind AS 21 – Accounting for foreign currency transaction	2 Marks MCQ
	Ind AS 16 – Cost of PPE	5 Marks
	Ind AS 16 – Disclosure requirements	5 Marks
CS 3	Introduction to Ind AS – Applicability of Ind AS	4 Marks
CS 4	Ind AS 28 – Accounting for investment in associate	(2 + 6) Marks
	Ind AS 111 – Accounting for sale of asset to Joint Operation	2 Marks
CS 6	Ind AS 12 – Accounting for Deferred Tax and Tax reconciliation disclosures	5 Marks
CS 7	Ind AS 113 – Determining price for Fair Value Measurement	4 Marks
CS 9	Ind AS 40 – Meaning of Investment Property	2 Marks MCQ
	Ind AS 116 – Accounting of finance lease by dealer lessor	9 Marks
CS 10	Ind AS 19 – Defined Benefit Plan	4 Marks MCQ
CS 11	Ind AS 10 & 37 – Adjusting Event & Contingent Asset	5 Marks
	Ind AS 19 – Profit sharing plan, Paid leaves, Defined contribution plan	5 Marks
CS 13	Ind AS 8 – Change in Accounting Estimate	5 Marks
	Ind AS 109 – Derivative Financial Liability Definition	5 Marks
CS 14	Ind AS 115 – Step 2 (Performance Obligation)	3 Marks
	Ind AS 115 – Step 3 (Variable Consideration)	5 Marks
	Ind AS 109 – ACM (Financial Asset: Security Deposit)	3 Marks
CS 15	Conceptual Framework for FR under Ind AS – Other Points (Ind AS 105)	6 Marks

IBS - AFM

Case Study Analysis

OVERALL SUMMARY

Section I: New Course Digest		
Chapter	No. of CS	Marks
Startup Finance	1	7
Forex	1	5
Mutual Funds	1	4
Business Valuation	1	2
Interest Rate Risk Management (IRRM)	1	2
		20

Section III: Past Papers		
Chapter	No. of CS	Marks
Mergers	4	23
Business Valuation	2	14
Security Valuation	1	8
Advanced Capital Budgeting Decisions	1	7
Securitization	1	5
Startup Finance	1	5
Portfolio Management, Interest Rate Risk Management (IRRM), Forex	3	6
		68

Summary of Content - Case Study Wise

Section I: New Course Digest		
CS 1	Mutual Funds – Basics, NAV	4 Marks MCQ
CS 2	Startup Finance – Bootstrapping	2 Marks MCQ
	Business Valuation – Valuation of Startup	2 Marks MCQ
	Startup Finance – Venture Capital Investment Process (Due Diligence)	5 Marks
CS 18	Interest Rate Risk Management – Interest Rate Swap	2 Marks MCQ
	Forex – Leading & Lagging	5 Marks

Section III: Past Papers		
CS 1	Interest Rate Risk Management – Swaption	2 Marks MCQ
	Securitization – Securitization Instruments	5 Marks
CS 7	ACB Decisions – Replacement of Existing Machine	7 Marks
	Mergers – M&A through Shares Offer	8 Marks
CS 9	Business Valuation – Incremental Value of Strategy	8 Marks
CS 10	Startup Finance – Ways to Finance Startup	5 Marks
CS 11	Mergers – M&A through Shares Offer	8 Marks
CS 20	Mergers – Exchange Ratio	2 Marks MCQ
	Portfolio Management – Portfolio Beta	2 Marks MCQ
CS 25	Business Valuation – Chop Shop method	2 Marks MCQ
	Business Valuation – Enterprise Value	4 Marks
	Mergers – Reverse Merger	5 Marks
CS 30	Forex – Fate of Forward Contract	2 Marks MCQ
	Security Valuation – Bond Pricing, Bond Yield	8 Marks

IBS - AUDIT

Case Study Analysis

OVERALL SUMMARY

Section I & II: New & Old Course Digest		
Chapter	No. of CS	Marks
Auditing Standards (SQC 1, SA 300, 315, 330, 540, 550, 600, 701, 706)	11	56
Professional Ethics	7	29
Due Diligence & Forensic Accounting	3	14
Reporting (CARO)	3	10
Internal Audit, Group Audit	3	9
		118

Section III: Past Papers		
Chapter	No. of CS	Marks
Auditing Standards (SA 240, 250, 299, 300, 505, 550, 560)	8	34
Professional Ethics	5	23
Internal Audit, Group Audit, Investigation	3	14
Basics & Reporting	3	9
		80

Section IV & V: RTP & MTP		
Chapter	No. of CS	Marks
Auditing Standards (SA 320, 402, 540)	3	15
Professional Ethics	4	10
Reporting	2	10
Internal Audit, Risk Assessment	2	6
		41

Summary of Content - Case Study Wise

Section I: New Course Digest		
CS 5	SA 300 – Audit Strategy	2 Marks MCQ
	Reporting – CARO 2020 (Clause (xv): Non-cash Transaction)	5 Marks
CS 7	SA 300 – Formulation of Audit Strategy (Factors for Online Shopping)	5 Marks
CS 11	Professional Ethics – UDIN	2 Marks MCQ
	Reporting – CARO 2020 (Clause (xviii): Resignation of Auditor)	2 Marks MCQ
	SA 706 – Circumstances to include EOM Para	5 Marks
CS 14	Internal Audit – Applicability	2 Marks MCQ
	SQC 1 – EQCR Description	2 Marks MCQ
	SQC 1 – Issues for EQCR Appointment, Contents of Review Policy & Procedures	5 Marks
CS 16	SA 540 – Inquiries of Management about Changes in Circumstances	5 Marks

Section II: Old Course Digest		
CS 1	Group Audit – Applicability for Preparation of CFS	2 Marks
	SA 330 – Planning to use Audit Evidence from Previous Audit, Re-test of Controls	3 Marks
CS 3	SA 315 – Assertions, Misstatement Indicators	4 Marks MCQ
	SA 315 – Assess ROMM at 2 Levels, Validity of Account Balances	5 Marks
CS 5	Professional Ethics – Website, Teaching Hours	4 Marks MCQ
CS 7	Internal Control – Procedure to claim Expense Reimbursement to strengthen Controls	3 Marks
	Reporting – CARO 2020 (Clause (vii): Statutory Dues)	3 Marks
CS 8	SA 701 – Key Audit Matter	2 Marks MCQ
CS 9	SA 600 – Division of Responsibility	5 Marks
CS 16	Professional Ethics – Working Papers, Disclosure of Information to Third Party	4 Marks MCQ
CS 19	Due Diligence – Contents of Due Diligence Report	5 Marks
CS 20	Professional Ethics – Self-Interest Threats, Use of Name-board, Maintenance of Books	6 Marks MCQ
CS 24	Due Diligence – Type of Due Diligence	4 Marks MCQ
CS 29	Professional Ethics – Second Schedule	5 Marks
CS 30	Professional Ethics – Tax Audit Assignments	4 Marks MCQ
CS 31	Internal Audit - Difference between Internal and External Audit	5 Marks
CS 32	SA 550 – Related Party	10 Marks
CS 33	Forensic Accounting - Difference between Forensic and Other Audit	5 Marks
CS 34	Professional Ethics – Basics, Disclosure of Information to Third Party	4 Marks MCQ

Section III: Past Papers		
CS 4	SA 505 – Factors to be considered for using Negative Confirmation Requests	5 Marks
	SA 560 – Specific Enquiry to Evaluate Subsequent Events	5 Marks
	Basics – Material Misstatement	5 Marks
CS 7	Professional Ethics – Basics and Website	6 Marks MCQ

IBS Audit: Case Study Analysis

CS 8	Investigation – Inventory Frauds	5 Marks
CS 9	SA – SA 505, SA 550 Professional Ethics – Communication with Previous Auditor	4 Marks MCQ 3 Marks
CS 14	Professional Ethics – Basics, Communication with Previous Auditor	4 Marks MCQ
CS 17	SA 300 – Formulation of Audit Strategy (Factors for Online Shopping) Internal Audit – Applicability	5 Marks 5 Marks
CS 18	Reporting – Fraud	2 Marks MCQ
CS 20	Professional Ethics – Communication with Previous Auditor	(2 + 4) Marks
CS 21	Group Audit – Basics	4 Marks MCQ
CS 25	SA 240 – Basics, No Representation by Management	(2 + 6) Marks
CS 28	Professional Ethics – Other Misconduct	4 Marks
CS 30	Reporting – Basics	2 Marks MCQ
CS 31	SA 250 – Audit Procedures when Non-Compliance is Identified or Suspected SA 299 – Difference of Opinion Among Joint Auditors	3 Marks 4 Marks

Section IV: RTP

CS 1	Risk Assessment – Inherent Risk Professional Ethics – Gross Negligence	2 Marks MCQ 2 Marks MCQ
CS 2	SA 320 – Required to Lower Materiality SA 540 – Evaluation of Accounting Estimates that give Rise to Significant Risks	5 Marks 5 Marks

Section V: MTP

CS 3	Internal Audit – Applicability Professional Ethics – Council Decisions	4 Marks MCQ 3 Marks
CS 4	Reporting – Audit Report	5 Marks
CS 6	Professional Ethics – Council Decisions	2 Marks MCQ
CS 11	SA 402 – Controls at Sub-Service Organization	5 Marks
CS 12	Professional Ethics – Fails to keep Money of Client in Separate Bank Account	3 Marks
CS 13	Reporting – Audit Report	5 Marks

IBS - DT

Case Study Analysis

OVERALL SUMMARY

Section I: New & Old Course Digest		
Chapter	No. of CS	Marks
PGBP (Basics, PGBP Income)	21	140
TDS & TCS (194C/H/I/J, 195)	14	64
Capital Gains (Basics, Slump Sales)	7	46
NR Taxation (Residential Status, POEM, Section 9)	5	39
Basics & Tax Rates	4	24
Tax Audit	5	21
IFOS	6	20
Double Tax Relief & Equalisation Levy	2	20
Charitable Trust	1	19
Deductions	3	8
Other Topics (Transfer Pricing, Return Filing etc.)	5	14
		415

Section III: Past Papers		
Chapter	No. of CS	Marks
PGBP (Basics, PGBP Income)	10	53
Tax Audit	5	17
NR Taxation (Residential Status, Section 9)	3	17
TDS & TCS (194C/IA/J)	4	14
Various Entities (MAT)	2	12
Assessment Procedure, Revision	2	10
IFOS & Set-off	2	9
Penalty & Miscellaneous	3	6
Transfer Pricing	1	6
Other Topics (Basics, Capital Gains etc.)	4	13
		157

Section IV & V: RTP & MTP		
Chapter	No. of CS	Marks
TDS & TCS (194C/H/I)	2	26
PGBP (Basics)	2	18
Return Filing & Assessment Procedure	2	17
Various Entities (Buyback, Business Trust)	2	14
Equalisation Levy	1	10
Double Tax Relief	1	10
Transfer Pricing	2	9
Tax Audit, Charitable Trust	2	10
		114

Summary of Content - Case Study Wise

Section I: New Course Digest		
CS 1	TDS – Section 195 Return Filing – Section 139 Capital Gains – Section 50AA, 111A, 112A, 112	2 Marks MCQ 2 Marks MCQ 10 Marks
CS 2	Deductions – Section 80IAC (Eligible Startup) IFOS – Section 56(2)(viib)	4 Marks MCQ 10 Marks
CS 3	TDS – Section 194C, 194I NR Taxation – Section 172 (Occasional Shipping Business)	6 Marks MCQ 8 Marks
CS 4	TDS – Section 194C Tax Rates – Section 115BAB (Domestic New Manufacturing Company)	2 Marks MCQ 8 Marks
CS 6	TDS – Section 194J	2 Marks MCQ
CS 7	Basics – Application v/s Diversion PGBP – Section 33AB (Tea Business) PGBP – Section 33AB (Tea Business)	2 Marks MCQ 2 Marks MCQ 5 Marks
CS 8	IFOS – Section 56(2)(x) (Gift) PGBP – Total Income & Tax Liability	2 Marks MCQ 10 Marks
CS 9	IFOS – Deemed Dividend PGBP – MSME Deduction	2 Marks MCQ 2 Marks MCQ
CS 10	PGBP – Depreciation TDS – Section 195	2 Marks MCQ 2 Marks MCQ
CS 11	Capital Gains – Sale of Land TCS – Overseas Remittance	2 Marks MCQ 2 Marks MCQ
CS 12	Tax Audit – Clause 30B (Section 94B)	2 Marks MCQ
CS 13	NR Taxation – Residential Status, Section 115BBA (NR Sportsman) NR Taxation – Scope of Total Income	6 Marks MCQ 5 Marks
CS 14	IFOS – Section 94 (Bonus Stripping) TDS – Section 194C	2 Marks MCQ 3 Marks
CS 15	TDS – Section 194C PGBP – Interest Deduction PGBP – Actual Cost of Asset, Depreciation	2 Marks MCQ 2 Marks MCQ 5 Marks

Section II: Old Course Digest		
CS 1	IFOS & Setoff – Section 56(2)(viib) & 79 PGBP – Actual Cost of Asset	2 Marks MCQ 2 Marks MCQ
CS 2	PGBP – Loss of Stock Deduction PGBP – Depreciation	2 Marks MCQ 5 Marks
CS 3	PGBP – PGBP Income	5 Marks
CS 4	NR Taxation – Residential Status NR Taxation – POEM	2 Marks MCQ 5 Marks

CS 5	Capital Gains – Slump Sales	(2 + 8) Marks
CS 6	PGBP – Non deduction of TDS, Interest Payable to GST Department PGBP – Sales Commission to Overseas Agent, Secret Commission	4 Marks MCQ 5 Marks
CS 7	PGBP – PGBP Income Deductions – Section 80G Tax Audit – Clause 31 (Section 269SS/269ST)	2 Marks MCQ 2 Marks MCQ 2 Marks MCQ
CS 8	Penalty – Failure to furnish Tax Audit Report PGBP – Total Income & Tax Liability Advance Tax – Advance Tax Liability and Due Date	2 Marks MCQ 7 Marks 3 Marks
CS 9	Basics – Total Income of Individual Return Filing – ITR Form	4 Marks MCQ 2 Marks MCQ
CS 11	Tax Audit – Errors/Observations in Form 3CD	10 Marks
CS 12	PGBP – Section 44AD (Presumptive Taxation) TDS – Section 192, 19C, 194H, 194J Tax Audit – Applicability	4 Marks MCQ (4 + 5) Marks 5 Marks
CS 13	TCS – Section 206C(1H) (Sale of Goods)	(4 + 5) Marks
CS 14	PGBP – Depreciation, Section 40(b)	6 Marks MCQ
CS 15	Capital Gains – STCG on Sale of Property TDS – Section 194H, Fees for Delay in Filing of TDS Return TDS – Section 194A, 194C, 194H, 194I, 194J	2 Marks MCQ 4 Marks MCQ 8 Marks MCQ
CS 16	PGBP – Allowability of Items	5 Marks
CS 17	Capital Gains – Basics and Slump Sales	(4 + 5) Marks
CS 18	PGBP – Section 35 (Scientific Research) PGBP – PGBP Income	2 Marks MCQ 10 Marks
CS 19	Transfer Pricing – Associated Enterprise NR Taxation – Residential Status NR Taxation – POEM	6 Marks MCQ 4 Marks MCQ 5 Marks
CS 20	PGBP – Glow Sign Boards, Interest Payable to GST Department PGBP – Total Income	4 Marks MCQ 10 Marks
CS 21	Advance Rulings - Basics NR Taxation – NRI, Section 173 Double Tax Relief – Section 90 (DTAA)	2 Marks MCQ 4 Marks MCQ 10 Marks
CS 22	Capital Gains – Depreciable Asset TDS – Section 194IA	2 Marks MCQ 6 Marks MCQ
CS 23	TDS – Certificate from AO, PAN IFOS – Basics Basics – Total Income of Individual	4 Marks MCQ 2 Marks MCQ 10 Marks
CS 24	Capital Gains – Basics & Section 54G	(6 + 5) Marks
CS 25	PGBP – Basics & Section 35ABB (Telecom Licence) PGBP – PGBP Income	4 Marks MCQ 10 Marks
CS 26	PGBP – Bank Guarantee, Sales Commission to Overseas Agent	4 Marks MCQ

CS 28	Equalisation Levy – Action Plan 1 Equalisation Levy – Specified Service	2 Marks MCQ 8 Marks
CS 29	PGBP – ICDS PGBP – Pre-payment Premium, Emergency Spares	4 Marks MCQ 5 Marks
CS 31	PGBP – Total Income	10 Marks
CS 32	Tax Audit – Clause 23 (Payment to Relative)	2 Marks MCQ
CS 33	Deductions – Section 80JJAA	2 Marks MCQ
CS 34	PGBP – Deduction u/s 30 Charitable Trust – Section 11 Charitable Trust – Section 12A, Exit Tax	2 Marks MCQ 4 Marks MCQ 15 Marks

Section III: Past Papers

CS 1	PGBP – Basics, Allowability of Certain Expenses	(2 + 6) Marks
CS 3	Assessment Procedure – Section 147 to 149	5 Marks
CS 4	PGBP – Non-deduction of TDS	2 Marks MCQ
CS 5	TDS – Section 194J	2 Marks MCQ
CS 6	PGBP – Depreciation, Section 37 NR Taxation – Section 9 (Interest)	6 Marks MCQ 5 Marks
CS 8	Set-off – Merger	2 Marks MCQ
CS 9	PGBP – Depreciation, Section 37	4 Marks MCQ
CS 10	Tax Audit – Change in Method of Accounting Revision – Section 263 & 264 (Partial & Total Merger)	2 Marks MCQ 5 Marks
CS 11	PGBP – Dis-allowability of Expenses	4 Marks MCQ
CS 13	TDS – Section 194C, 194J	6 Marks MCQ
CS 14	PGBP – Depreciation	(2 + 5) Marks
CS 15	PGBP – LLP NR Taxation – Section 9 (Royalty & FTS)	6 Marks MCQ 5 Marks
CS 16	Tax Audit – Clause 31 (Section 269ST) Penalty – Cash Advance	2 Marks MCQ 2 Marks MCQ
CS 22	Various Entities – MAT – PGBP – ICDS X	(3 + 4) Marks 5 Marks
CS 23	PGBP – Deductions Tax Audit – Clause 20(b) (Employee Contribution)	6 Marks MCQ 9 Marks
CS 24	Miscellaneous – SFT TCS – Section 206C(1H) (Sale of Goods) Equalisation Levy – Specified Service	2 Marks MCQ 2 Marks MCQ 2 Marks MCQ
CS 25	Tax Audit – Clause 21(d) (Cash Payment)	2 Marks MCQ
CS 26	Tax Audit – Basics NR Taxation – Residential Status Capital Gains – Sale of Property	2 Marks MCQ (2 + 5) Marks 5 Marks

CS 27	PGBP – PGBP Income	5 Marks
CS 28	Various Entities – MAT Miscellaneous – SFT	2 Marks MCQ 2 Marks MCQ
CS 29	Deductions – Section 80M Transfer Pricing – Associated Enterprise, Most Appropriate Method	2 Marks MCQ (2 + 4) Marks
CS 30	IFOS – Section 115BBH (Virtual Digital Asset)	7 Marks
CS 31	TDS – Section 194, 194IA, 194M Basics – Total Income of Individual	4 Marks MCQ 4 Marks

Section IV: RTP

CS 2	Transfer Pricing – Secondary Adjustment	2 Marks MCQ

Section V: MTP

CS 2	PGBP – Section 40(a)(ia), 41, 43B	8 Marks MCQ
CS 3	Return Filing – Verification of Return Assessment Procedure – Special Audit	6 Marks MCQ 4 Marks
CS 4	Various Entities – Buyback	4 Marks MCQ
CS 6	Charitable Trust – Total Income	5 Marks
CS 7	Transfer Pricing – Rollback Double Tax Relief – Calculation of Relief u/s 91	(2 + 5) Marks 10 Marks
CS 8	Equalisation Levy – E-commerce Supply	(2 + 8) Marks
CS 9	TDS – Basics, Section 194I TDS – Section 194DA	4 Marks MCQ 8 Marks
CS 10	Assessment Procedure – Section 132 (Search)	7 Marks
CS 12	TCS – Section 206C(1H) (Sale of Goods), Overseas Tour Package TDS – Section 194C, 194H Tax Audit – Clause 21(h), Clause 22, Clause 29A	10 Marks MCQ 4 Marks 5 Marks
CS 13	Various Entities – Business Trust	10 Marks MCQ
CS 15	PGBP/Capital Gains/IFOS – Section 43CA, Section 50C, Section 56(2)(x)	10 Marks MCQ

IBS - IDT

Case Study Analysis

OVERALL SUMMARY

Section I: New Course Digest		
Chapter	No. of CS	Marks
Input Tax Credit (Basics, Blocked Credit, Job Work)	13	60
Supply under GST (Schedules)	8	40
Value of Supply (Section 15, Rules)	10	30
Account & Records, E-way Bill (Basics, Validity)	6	25
Place of Supply	6	22
Import & Export under GST	3	16
Refund under GST	2	13
Charge under GST (RCM)	5	10
Tax Invoice	3	9
Time of Supply	3	8
Customs Valuation	1	6
Other Topics (Basics, Registration, TDS, Appeals etc.)	7	21
		260

Section III: Past Papers		
Chapter	No. of CS	Marks
Value of Supply (Section 15, Rules)	3	18
Import & Export under GST	2	12
Input Tax Credit (Basics, Job Work)	4	11
Charge under GST (Composition)	1	9
Refund under GST	1	7
Custom Valuation	1	7
Place of Supply	3	6
Other Topics (Basics, Tax Invoice etc.)	4	8
		78

Section IV: RTP		
Chapter	No. of CS	Marks
Value of Supply (Section 15, Rules)	4	16
Input Tax Credit (Basics, Blocked Credit)	3	13
Registration under GST	2	8
Exemption under GST	1	7
Charge under GST (RCM)	2	6
Other Topics (Supply, TCS etc.)	4	10
		60

Summary of Content - Case Study Wise

Section I: New Course Digest		
CS 3	Input Tax Credit – Blocked Credit (Section 17(5)) Charge under GST – RCM (Security Service) Input Tax Credit – Rule- 42/43	2 Marks MCQ 2 Marks MCQ 7 Marks
CS 4	Import & Export – Basics Value of Supply – Exchange Rate (Rule 34) Input Tax Credit – Blocked Credit (Section 17(5)) Refund Under GST & Import & Export Under GST	2 Marks MCQ 2 Marks MCQ 1 Marks MCQ 8 Marks
CS 5	Foreign Trade Policy – IEC Code Supply Under GST – Negative List Import & Export under GST – Basics and Deemed Export	2 Marks MCQ 4 Marks MCQ 5 Marks
CS 6	Place of Supply – Immovable Property, Tickets Charge under GST – RCM (Sitting fees) Supply Under GST – Schedule-I & Place of Supply & RCM	4 Marks MCQ 2 Marks MCQ 5 Marks
CS 7	GST Basics Job work – ITC-04	2 Marks MCQ 2 Marks MCQ
CS 8	Custom Valuation – Assessable Value & Duty Payable	6 Marks MCQ
CS 10	Input Tax Credit – Basics (Time limit to avail ITC)	3 Marks
CS 12	Value of Supply – Rule 32(2)(a) Foreign currency conversion Supply under GST – Schedule-III & RCM (Sitting fees)	2 Marks MCQ 7 Marks
CS 14	Input Tax Credit – Blocked Credit (Section 17(5)) Time of Supply – Change in Rate of tax Charge under GST – RCM (Transport)	2 Marks MCQ 2 Marks MCQ 2 Marks
CS 15	Input Tax Credit – Basic eligibility & Blocked Credit (Section 17(5))	(2 + 5) Marks
CS 17	Place of Supply – Immovable Property & ITC Basic Exemption under GST– Agricultural produce	2 Marks MCQ 2 Marks MCQ

Section II: Old Course Digest		
CS 2	Input Tax Credit – Basics & Blocked Credit (Section 17(5)) Job work – Basics & ITC-04 E-Way Bill – Basics	4 Marks MCQ 2 Marks MCQ 2 Marks MCQ
CS 3	Value of Supply – Rule 32(6) Coupons Input Tax Credit – Blocked Credit (Section 17(5))	2 Marks MCQ 2 Marks MCQ
CS 5	E-Way Bill – Consignment Value Refund under GST – Time limit, Unutilized ITC (Rule 89(4) & 89(5))	2 Marks MCQ (2 + 7) Marks
CS 6	Charge under GST – RCM (Sponsorship services) Value of Supply – Pre-Supply Discount Supply under GST – Schedule-III & Customs-Basics	2 Marks MCQ 2 Marks MCQ 5 Marks
CS 7	Place of Supply – Immovable Property	2 Marks MCQ

	Tax Invoice – Bill of supply Computation of GST liability	2 Marks MCQ 9 Marks
CS 10	E-Way Bill – Validity TDS under GST & Interest thereon Time and Place of Supply – In case of goods Value of Supply - Section 15	2 Marks MCQ 4 Marks MCQ 3 Marks 2 Marks
CS 11	GST Liability – Basics Place of Supply – In case of goods Tax Invoice – Format	4 Marks MCQ 2 Marks MCQ 5 Marks
CS 13	E-Way Bill – Basics & Editing of E-way Bill E-Way Bill – Consignment Value, Penalty for non-issuance	2 Marks MCQ 5 Marks
CS 14	Value of Supply – Rule 32 (3) Air Travel	2 Marks MCQ
CS 15	Tax Invoice – Bill of supply GST Liability – Basics & TDS under GST	2 Marks MCQ 3 Marks
CS 16	Value of Supply – Rule 28 (Transaction with Related person) Appeals – Cross empowerment, Appeal to Appellate Authority, Pre-deposit	2 Marks MCQ 5 Marks
CS 17	Place of Supply – Immovable Property, Training Value of Supply – Rule 27 (Consideration not wholly in money) Value of Supply - Section 15	4 Marks MCQ 2 Marks MCQ 5 Marks
CS 20	Value of Supply – Rule 27 (Consideration not wholly in money) Time of Supply – Change in Rate of tax	2 Marks 3 Marks
CS 21	Place of Supply – Immovable Property, General Input Tax Credit – ITC on returned, expired goods	4 Marks MCQ 5 Marks
CS 22	Supply under GST – Schedule-III Supply under GST – Schedule-I	2 Marks MCQ 5 Marks
CS 23	Registration – Requirement of Registration	2 Marks MCQ
CS 24	Accounts and Records – BOA & documents to be maintained	5 Marks
CS 25	Supply under GST – Schedule-I & Schedule-II	4 Marks MCQ
CS 26	GST Liability – Basics	7 Marks
CS 27	Aggregate turnover	2 Marks MCQ
CS 28	Supply under GST – Schedule-III Place of Supply – In case of goods Place of Supply – In case of goods & Import-Export under GST	2 Marks MCQ 2 Marks MCQ 7 Marks
CS 30	E-Way Bill – Basics & Validity- Bill to ship to model E-Way Bill – Basics & Validity- Bill to ship to model	2 Marks MCQ 5 Marks
CS 32	Supply under GST – Basics & Schedule-I	6 Marks MCQ
CS 33	Return under GST – GSTR 9C Value of Supply – Discount Value of Supply – Discount & Section 15	4 Marks MCQ 2 Marks MCQ 5 Marks

Section III: Past Papers		
CS 5	GST Basics	2 Marks MCQ
	Place of Supply – Intra v/s Inter in case of SEZ	2 Marks MCQ
	Input Tax Credit – Basics	2 Marks MCQ
	Return – Basics	2 Marks MCQ
	Value of Supply – Section 15	8 Marks
	Custom valuation & Duty Payable	7 Marks
CS 12	Tax Invoice – Credit Note	2 Marks MCQ
	Liability in case of retiring Partner	2 Marks MCQ
	Refund under GST – Time limit	2 Marks MCQ
	Refund under GST – Unjust Enrichment & Allowable refunds	5 Marks
CS 13	Place of Supply – General	2 Marks MCQ
CS 15	Import Export under GST – Basics and taxability of OIDAR services	5 Marks
CS 16	Job Work	2 Marks MCQ
	Value of Supply – OEM	8 Marks
CS 20	Charge under GST – Composition levy	(2 + 7) Marks
CS 23	Place of Supply – Training	2 Marks MCQ
	Input Tax Credit – Basics	2 Marks MCQ
CS 27	Import & Export under GST – Merchant Exporter	(2 + 5) Marks
CS 28	Job Work – Basics	(2 + 3) Marks
CS 31	Value of Supply – Rule 32(2) & Rule 32(3) foreign exchange and air travel booking	2 Marks MCQ

Section IV: RTP		
CS 1	Value of Supply – Rule 33 (Pure Agent)- Airlines PSF/UDF	2 Marks
CS 2	Input Tax Credit – Basics & Utilization of ITC & rule 86B	2 Marks MCQ
	Value of Supply – Section 15	2 Marks MCQ

Section V: MTP		
CS 2	ITC – Basics	2 Marks MCQ
CS 3	Registration- Basics	4 Marks
CS 4	Supply under GST – Circular related to joint venture	2 Marks
CS 5	Input Tax Credit – Blocked Credit (Section 17(5))	2 Marks MCQ
	Input Tax Credit – Basics & Blocked Credit (Section 17(5))	7 Marks
CS 6	Import Export under GST – Basics and taxability of OIDAR services	2 Marks MCQ
	Exemption under GST – Charitable Activities and Import of service	5 Marks
CS 8	Electronic commerce operator (Section 9(5)) & TCS (Section 52)	6 Marks MCQ
CS 10	Value of Supply – Rule 32 (3) Air Travel	2 Marks MCQ
	Value of Supply – Rule 32(2)(a) Foreign currency conversion	8 Marks
CS 11	Charge under GST – RCM (Sitting fees & OIDAR Services)	4 Marks MCQ

CS 14	Registration – Basics and ITC – Basics	4 Marks MCQ
	E-Way Bill – Exceptions	2 Marks MCQ
	Value of Supply – Rule 33 (Pure Agent)	2 Marks MCQ
	Exemption under GST	2 Marks MCQ

IBS - Law

Case Study Analysis

OVERALL SUMMARY

Section I & II: New & Old Course Digest		
Chapter	No. of CS	Marks
Meeting of Board and its Powers (173, 174, 177, 180, 185, 190, 192)	11	35
FEMA (Schedules, Residential Status, Section 6)	6	30
Appointment and Qualifications of Directors (149, 151, 152, 161)	7	27
Appointment & Remuneration of Managerial Personnel (197, 198, 202, 203, Sch V)	3	14
SEBI LODR (17A, 18, 21)	3	11
The Insolvency and Bankruptcy Code, 2016 (Sec. 31, 53)	2	9
Compromises, Arrangements and Amalgamations (230, 232, 233)	2	7
FCRA (Sec. 3)	1	5
Other Topics (Basics)	5	10
		148

Section III: Past Papers		
Chapter	No. of CS	Marks
Meeting of Board and its Powers (174, 177, 180, 182, 186, 188)	8	31
Appointment & Remuneration of Managerial Personnel (196, 197, 202, 203, Sch V)	7	30
Compromises, Arrangements and Amalgamations (230, 233, 235, 236)	4	23
FEMA (Section 6, OI & Other Regulations)	5	19
SEBI LODR (17, 18, 21, 29)	5	15
Appointment and Qualifications of Directors (149, 161, 165)	3	10
The Insolvency and Bankruptcy Code, 2016 (Sec. 4, 8, 9, 21)	3	9
Other Topics (Miscellaneous, FCRA etc.)	4	8
		145

Section IV & V: RTP & MTP		
Chapter	No. of CS	Marks
Appointment & Remuneration of Managerial Personnel (196 to 198, 201, 202, Sch V)	4	32
Meeting of Board and its Powers (180, 181, 186, 188)	5	15
Appointment and Qualifications of Directors (151, 152, 161)	3	9
FEMA (Residential Status, Section 13)	2	8
FCRA (Sec. 3, 16)	2	4
Other Topics (LODR etc.)	2	6
		74

Summary of Content - Case Study Wise

Section I: New Course Digest		
CS 1	FEMA – Schedule III FEMA – Section 6	2 Marks MCQ 5 Marks
CS 2	Compromises, Arrangements and Amalgamations – Section 233	2 Marks MCQ
CS 4	Books of Accounts (Basics)	2 Marks MCQ
CS 5	Meeting of Board and its Powers – Section 192	2 Marks MCQ
CS 6	Meeting of Board and its Powers – Section 180 Appointment and Qualifications of Directors – Section 152	2 Marks MCQ 5 Marks
CS 7	Meeting of Board and its Powers – Section 180	2 Marks MCQ
CS 9	Appointment and Qualifications of Directors – Section 161 Meeting of Board and its Powers – Section 185	2 Marks MCQ 5 Marks
CS 10	Meeting of Board and its Powers – Section 190 Appointment and Qualifications of Directors – Section 161 Appointment and Qualifications of Directors – Sec. 149 + Meeting of Board – Sec.177	2 Marks MCQ 2 Marks MCQ 6 Marks
CS 11	e-Filing – CSR-2 FEMA – Schedule III (LRS)	2 Marks MCQ 5 Marks
CS 12	SEBI LODR – Regulation 17A, 18 Appointment and Qualifications of Directors – Section 149 + Section 168	2 Marks MCQ 2 Marks MCQ
CS 13	Appointment and Qualifications of Directors – Section 149	2 Marks MCQ
CS 14	FCRA – Section 3	5 Marks
CS 15	Appointment and Qualifications of Directors – Section 149 Appointment and Qualifications of Directors – Section 151	2 Marks MCQ (2 + 5) Marks
CS 17	FEMA – Schedule I (Prohibition for drawal of Foreign Exchange)	2 Marks MCQ
CS 18	FEMA – Schedule I of Foreign Exchange Management (OI) Rules, 2022	2 Marks MCQ

Section II: Old Course Digest		
CS 1	Appointment and Remuneration of Managerial Personnel – Section 203 Meeting of Board and its Powers – Section 192 Auditor not to render certain services (Section 144)	(2 + 3) Marks 5 Marks 2 Marks
CS 4	FEMA – Residential Status, Schedule I & II FEMA – Import of Goods and Services	4 Marks MCQ 5 Marks
CS 6	Auditor not to render certain services (Section 144) SEBI LODR – Regulation 21	2 Marks MCQ 5 Marks
CS 9	Meeting of Board and its Powers – Section 180	2 Marks MCQ
CS 10	Meeting of Board and its Powers – Section 173, 174 Compromises, Arrangements and Amalgamations – Section 230, 232 Appointment and Remuneration of Managerial Personnel – Section 202	2 Marks MCQ (2 + 3) Marks 2 Marks
CS 11	Appointment and Qualifications of Directors – Section 149	2 Marks MCQ

	Meeting of Board and its Powers – Section 173	2 Marks MCQ
CS 13	Appointment and Remuneration of Managerial Personnel – Section 197	2 Marks MCQ
	Appointment and Remuneration of Managerial Personnel – Section 198, Schedule V	5 Marks
CS 16	The Insolvency and Bankruptcy Code, 2016 – Section 53	5 Marks
CS 18	Meeting of Board and its Powers – Section 177	4 Marks MCQ
CS 23	FEMA – Schedule III	5 Marks
CS 26	Auditor not to render certain services (Section 144)	2 Marks MCQ
CS 27	Meeting of Board and its Powers – Section 173, 174	4 Marks MCQ
CS 28	SEBI LODR – Regulation 18	4 Marks MCQ
CS 30	The Insolvency and Bankruptcy Code, 2016 – Regulation 3	2 Marks MCQ
	The Insolvency and Bankruptcy Code, 2016 – Section 31	2 Marks MCQ

Section III: Past Papers		
CS 2	Meeting of Board and its Powers – Section 174, 182	4 Marks MCQ
CS 3	Appointment and Qualifications of Directors – Section 149, 165	6 Marks MCQ
	Appointment and Remuneration of Managerial Personnel – Section 203	4 Marks MCQ
CS 4	Miscellaneous Provisions – Section 247 (Registered Valuer)	2 Marks MCQ
	SEBI LODR – Regulation 17	2 Marks MCQ
CS 6	Appointment and Remuneration of Managerial Personnel – Section 196 + Schedule V	(2 + 5) Marks
CS 7	FCRA – Section 2(1)(h) + Rule 6A	2 Marks MCQ
CS 8	FEMA – Section 6	2 Marks MCQ
	Compromises, Arrangements and Amalgamations – Section 230 + Section 202	2 Marks MCQ
	Miscellaneous – Section 439	2 Marks MCQ
	The Insolvency and Bankruptcy Code, 2016 – Section 8, 9	5 Marks
CS 10	FEMA – Section 6	4 Marks MCQ
	The Insolvency and Bankruptcy Code, 2016 – Section 4	2 Marks MCQ
CS 11	Compromises, Arrangements and Amalgamations – Section 233	2 Marks MCQ
	Prevention Of Oppression and Mismanagement – Section 241, 244	2 Marks MCQ
CS 12	Compromises, Arrangements and Amalgamations – Section 235, 236	(4 + 10) Marks
CS 13	Meeting of Board and its Powers – Section 182	2 Marks MCQ
CS 14	Meeting of Board and its Powers – Section 188	(2 + 5) Marks
CS 17	Appointment and Qualifications of Directors – Section 161	2 Marks MCQ
	Appointment and Remuneration of Managerial Personnel – Schedule V	2 Marks MCQ
	The Insolvency and Bankruptcy Code, 2016 – Section 21	2 Marks MCQ
CS 19	SEBI LODR – Regulation 18, 21	2 Marks MCQ
	Appointment and Remuneration of Managerial Personnel – Section 203	4 Marks MCQ
	Meeting of Board and its Powers – Section 177	(2 + 5) Marks
	Compromises, Arrangements and Amalgamations – Section 230	5 Marks
CS 21	FEMA – Foreign Exchange Management (OI) Regulations, 2022 + LRS	2 Marks MCQ
	FEMA – Schedule I of Foreign Exchange Management (OI) Rules, 2022	7 Marks

CS 24	Meeting of Board and its Powers – Section 177 + SEBI LODR – Regulation 18	5 Marks
CS 25	Meeting of Board and its Powers – Section 180 SEBI LODR – Regulation 29	2 Marks MCQ 2 Marks MCQ
CS 26	Appointment and Qualifications of Directors – Section 149 Appointment and Remuneration of Managerial Personnel – Section 202	2 Marks MCQ (2 + 5) Marks
CS 27	Meeting of Board and its Powers – Section 186 FEMA – Export of Goods and Services Regulations	2 Marks MCQ 2 Marks MCQ
CS 28	Appointment and Remuneration of Managerial Personnel – Section 197 + Rule 4	(2 + 4) Marks
CS 29	SEBI LODR – Regulation 6, 29, 31 and 32	(2 + 5) Marks
CS 30	Meeting of Board and its Powers – Section 180	2 Marks MCQ
CS 31	SEBI LODR – Regulation 17 FEMA – Section 2(j)	2 Marks MCQ 2 Marks MCQ

Section IV: RTP

CS 1	SEBI – Regulation 17A Appointment and Qualifications of Directors – Section 161	2 Marks MCQ 5 Marks
CS 2	Meeting of Board and its Powers – Section 188 FCRA – Section 16	2 Marks MCQ 2 Marks MCQ

Section V: MTP

CS 4	Meeting of Board and its Powers – Section 180, 186	4 Marks MCQ
CS 5	Appointment and Remuneration of Managerial Personnel – Section 196, 201 Appointment and Remuneration of Managerial Personnel – Section 198 + Schedule V	4 Marks MCQ 8 Marks
CS 6	Meeting of Board and its Powers – Section 181 FCRA – Section 2(1)(h) + Section 3	4 Marks MCQ 2 Marks MCQ
CS 7	Inspection, Inquiry and Investigation – Section 210	4 Marks MCQ
CS 8	Appointment and Remuneration of Managerial Personnel – Section 203 Appointment and Remuneration of Managerial Personnel – Section 202	2 Marks MCQ 7 Marks
CS 9	Appointment and Qualifications of Directors – Section 152 + Section 169	2 Marks MCQ
CS 10	FEMA – General Guidelines for Imports, Section 13	4 Marks MCQ
CS 11	Appointment and Remuneration of Managerial Personnel – Section 197 Meeting of Board and its Powers – Section 180 Appointment and Qualifications of Directors – Section 151	2 Marks MCQ 2 Marks MCQ 2 Marks MCQ
CS 12	Meeting of Board and its Powers – Section 181	3 Marks
CS 14	FEMA – Residential Status	4 Marks
CS 15	Appointment and Remuneration of Managerial Personnel – Section 197	9 Marks

IBS - SCPM

Case Study Analysis

OVERALL SUMMARY

Section I & II: New & Old Course Digest		
Chapter	No. of CS	Marks
Strategic Revenue Management (Decision Making & Pricing)	4	24
Introduction to SCM	2	24
Strategic Profit Management (Customer Profitability)	2	15
Other Topics (JIT, Target Costing)	2	9
		72

Section III: Past Papers		
Chapter	No. of CS	Marks
Standard Costing	4	25
Strategic Revenue Management (Decision Making & Pricing)	4	20
Other Topics (Target Costing, Profit Sharing Plan)	4	16
		61

Section IV & V: RTP & MTP		
Chapter	No. of CS	Marks
Strategic Revenue Management (Decision Making & Pricing)	3	21
Strategic Profit Management (Customer Profitability)	1	5
Balanced Scorecard	1	5
Introduction to SCM	1	4
		35

Summary of Content - Case Study Wise

Section I: New Course Digest		
CS 11	Decision Making (Minimum Price)	5 Marks
CS 16	Horizontal Integration, Mendelow's Matrix, Value Proposition	6 Marks MCQ
	Theory of Constraints	2 Marks MCQ
	Transfer Pricing	2 Marks MCQ
	Porter's Five Forces	5 Marks
CS 17	Target Costing	2 Marks MCQ
	Pricing Strategy	2 Marks MCQ
	JIT	5 Marks
	Customer Profitability Analysis	10 Marks
CS 18	Forward Integration	2 Marks MCQ
	Distribution Channel	(4 + 5) Marks
	Customer Profitability Analysis	5 Marks

Section II: Old Course Digest		
CS 14	Basics Calculation (Revenue and Commission)	15 Marks
CS 27	Decision Making (Minimum Price)	2 Marks MCQ

Section III: Past Papers		
CS 1	Customer Lifetime Value (CLV)	2 Marks MCQ
	Outsourcing	4 Marks
CS 2	Budget Slack	2 Marks MCQ
	Process Innovation	2 Marks MCQ
	Standard Costing	15 Marks
CS 4	Budget Slack, Standard Setting Approach	4 Marks MCQ
CS 11	Decision Making (Changes to Inspection Process)	4 Marks
	Target Costing	5 Marks
CS 17	Budget Slack	2 Marks MCQ
	Pricing	5 Marks
CS 18	Profit Sharing Plan	(4 + 3) Marks
CS 27	Pricing	(2 + 5) Marks
CS 29	Standard Costing	2 Marks MCQ

Section IV: RTP		
CS 1	Kano Model	2 Marks MCQ
	Porter's Five Forces Model	2 Marks MCQ
	Balanced Scorecard	5 Marks

Section V: MTP		
CS 1	Basics	2 Marks MCQ
	Breakeven Point	5 Marks
CS 2	Make or Buy Decision	5 Marks
	Outsourcing	5 Marks
	Customer Profitability Analysis	5 Marks
CS 5	Outsourcing	2 Marks MCQ
	Activity Based CVP Analysis	2 Marks MCQ

Section - I

NEW COURSE DIGEST

(18 Case Studies)

NEW COURSE DIGEST

Case Study 1

Subjects	Topics Covered	Marks
AFM	Mutual Funds (Basics, NAV)	4
DT	Capital Gains (50AA, 111A, 112A, 112), TDS (Sec. 195), Return Filing	14
Law	FEMA (Section 6, Schedule III)	7

CA. M has a flourishing practice spanning in areas of auditing, taxation (both direct as well as indirect), consultancy (particularly in foreign exchange laws) in Chennai. His clients include many HNIs (High net worth individuals) apart from corporates and non-corporates.

One day, one of his HNI clients, Mr. P, called him to inquire about tweaking of certain rules pertaining to taxation on redemption of mutual fund investments. He had heard that redemption for certain types of mutual fund investments is now going to attract increased income tax payouts. He had also heard news of the same on BTBC news channel but was unable to comprehend it lucidly. There was no clarity to him whether changes have been made in income tax law or in rules framed by SEBI.

Rely Consultancy, an AMFI registered mutual fund distributor through which MF investments were made, was continuously forwarding messages received from AMFI (Association of Mutual Funds in India) to his mobile. The messages were, at the best, cryptic and required investors to be in touch with their Chartered Accountants/tax consultants.

Mr. P had an impressive investment portfolio of around ₹ 50 crores in various mutual funds and any changes in income tax payouts pertaining to it could affect his ROI adversely. Under stress, he sought for an immediate appointment with CA M. Armed with summary of investments made in mutual funds, he came to CA's office and sought his much-needed advice. The summary of mutual fund investments as on 31st March, 2023 looked as under: - CA. M has a flourishing practice spanning in areas of auditing, taxation (both direct as well as indirect), consultancy (particularly in foreign exchange laws) in Chennai. His clients include many HNIs (High net worth individuals) apart from corporates and non-corporates.

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S.N.	Type of fund in which money invested	Date of Investment	Amount invested (in ₹ crores)
1	MTL Low Duration Fund	3/4/2020	10

2	Bon India Low Duration Fund	12/12/2020	15
3	ABD New Green Energy Fund	2/12/2022	15
4	SBA Life Arbitrage Fund	8/11/2021	10

Besides, he had also invested ₹ 5 lacs in a liquid fund. Since amount invested was small, he was not bothered about the same.

He also informed to CA M that funds stated at 1 and 2 are debt funds and funds stated at 3 and 4 are equity funds. He further informs that these debt funds have invested 30% of their proceeds in equity shares of domestic companies and equity funds have invested 70% of their proceeds in equity shares of domestic companies. The investment pattern of funds is going to remain unchanged in coming years too. He was planning to redeem his entire mutual fund investment portfolio in month of October 2023 tentatively depending upon suitable market conditions.

Their discussion also veered towards returns from debt funds. Debt funds invest predominantly in government and high-grade corporate bonds. Mr. P was of the view that interest rates in economy are likely to go up in few months' times keeping in view broad macroeconomic indicators.

The discussion stretched a bit and it came out that he plans to buy a villa in Goa. He is already 65 and wants to spend quality time in scenic beauty of Goa. In fact, it transpires that he is going to make an advance payment of ₹ 1.00 crore to owner of villa, Mr. Christopher, an Indian citizen who is non-resident. The non-resident owner of villa had acquired this ancestral property through registered will of his late father. The total consideration to be paid to Mr. Christopher amounts to ₹ 5 crores (including advance payment of ₹ 1 crores).

In fact, it is also one of the reasons for planned redemption of MF investments in current financial year. He enquires from CA M regarding any precautions to be taken/legal requirements to be complied with at the time of entering such transaction. Mr. P also discusses the matter with said Mr. Christopher over phone who happens to be in India at that time for a short visit. He, in turn, also enquires from CA M regarding investment avenues, if any available to non-residents like purchase of other house/investments in NHAI bonds, under taxation laws to save capital gains tax and other requirements pertaining to filing of income tax return. It also transpires that India does not have any DTAA with the country of which Mr. Christopher is a resident.

Mr. Christopher plans to repatriate proposed sale proceeds of villa to the country in which he is resident. He does not know about modalities of the same and inquires from CA M in this matter.

Multiple Choice Questions

- Mr. P has invested ₹ 10 crores in SBA Life Arbitrage fund. Which of the following statements is most appropriate about arbitrage funds?
 - Such funds tend to provide better returns than equity. However, they have lower volatility in comparison to equity. Besides, they seek to capitalize on price differential between spot and futures market. Expense ratios in arbitrage funds are likely to be lower as compared to liquid funds.
 - Such funds tend to provide better returns than debt instruments. However, they have higher volatility in comparison to equity. Besides, they seek to capitalize on price differential between spot and futures market. Expense ratios in arbitrage funds are likely to be higher as compared to liquid funds.
 - Such funds tend to provide better returns than debt instruments. However, they have lower volatility in comparison to equity. Besides, they seek to capitalize on price differential between

spot and futures market. Expense ratios in arbitrage funds are likely to be higher as compared to liquid funds.

- (d) Such funds tend to provide better returns than equity. Therefore, they have higher volatility in comparison to equity. Besides, they do not seek to capitalize on price differential between spot and futures market. Expense ratios in arbitrage funds are likely to be lower as compared to liquid funds.
2. Mr. P is of the view that interest rates in economy are likely to rise. What likely impact it would have on NAV of debt fund? (Ignore other factors like duration of bonds etc.)
- (a) It is likely to lead to fall in NAV of debt fund.
- (b) It is likely to lead to rise in NAV of debt fund.
- (c) NAV of debt fund is likely to remain at past level.
- (d) NAV of debt fund is not affected by movement in interest rate.
3. As regards proposed purchase of villa in Goa from Mr. Christopher is concerned, which of the following statements is likely to be correct as regards deduction of tax at source (TDS) is concerned? Assume he does not have any other taxable income in India except capital gain from proposed sale of villa. Ignore surcharge and cess.
- (a) Mr. P is required to obtain TAN. TDS is required to be deducted @ 1% of ₹ 5 crores. Entire TDS can be deducted at time of/before registration of title deed.
- (b) It is not mandatory for Mr. P to obtain TAN. TDS is mandatorily required to be deducted @ 20% on ₹ 5 crores. However, TDS would be deducted at time of making advance payment as well as at time of making balance payment.
- (c) It is not mandatory for Mr. P to obtain TAN. An application can be made to Assessing Officer for determining capital gains on which tax is to be deducted. In that case, TDS would be deducted at lower rate after determination of capital gains by AO in the international wing. If lower deduction certificate is not available, TDS would be deducted at maximum marginal rate of 30% on ₹ 5 crores. However, TDS would be deducted at the time of making advance payment as well as at time of making balance payment.
- (d) Mr. P is required to obtain TAN. An application can be made to Assessing Officer for determining capital gains on which tax is to be deducted. In that case, TDS would be deducted at lower rate after determination of capital gains by AO in the international wing. If lower deduction certificate is not available, TDS would be deducted at 20% on ₹ 5 crores. However, TDS would be deducted at the time of making advance payment as well as at time of making balance payment.
4. As regards Mr. Christopher's enquiry regarding purchase of another residential property in India and investment in bonds of NHAI (National Highways Authority of India) and filing of income tax return, which of following statements is most appropriate? (Ignore issue of refund arising on account of TDS deduction for return filing.)
- (a) Non-residents can make above said investments to save capital gains tax. However, after making investments, if he has no taxable income, there is no legal obligation to file income tax return.
- (b) Non-residents can make above said investments to save capital gains tax. However, if his total income before giving effect to deduction against such investments exceeds basic exemption limit, there is legal obligation to file income tax return.
- (c) Non-residents cannot make above investments to save capital gains tax. Such investments can be

made by residents only to save capital gains tax. Therefore, question of obligation of filing of return would become superfluous as he would be compulsorily required to file income tax return showing taxable income from sale of villa.

- (d) Non-residents can make investments by purchase of another residential property in India but cannot make investments in bonds of NHAI which can be subscribed by residents only. Therefore, filing of return would depend upon whether he has taxable income left after investing in residential house property.
5. Mr. Christopher plans to repatriate from India sale proceeds of villa. Which of the following statements is most appropriate in this regard?
- (a) Proceeds up to USD 250000 can be repatriated in a financial year by using Liberalised Remittance Scheme (LRS) as it is a capital account transaction falling under the scheme.
- (b) Proceeds up to USD 250000 can be repatriated in a calendar year by using Liberalised Remittance Scheme (LRS) as it is a capital account transaction falling under the scheme.
- (c) Proceeds can be repatriated using NRO account subject to certain restrictions in a financial year.
- (d) Proceeds up to USD 200000 can be repatriated in a financial year by using Liberalised Remittance Scheme (LRS) as it is a capital account transaction falling under the scheme.

Descriptive Questions

6. Since Mr. P wants to redeem his entire portfolio in month of October 2023, what should be the advice of CA. M to him regarding income tax implications of such redemption? (Do not calculate income tax liability in each case. Just describe manner of taxation and rates. Ignore surcharge and cess). What further advice he should offer regarding news heard on TV/messages received on mobile?
7. Mr. P has also plan to invest further amount of ₹10 crores in MTL Low Duration Fund and Bon India Low Duration Fund taken together in FY 2023-24. What are tax implications on redemption of above investment after holding it for more than 3 years down the line? (Assume that tax law as applicable in FY 2023-24 remains unchanged at time of redemption).
8. Mr. Christopher, a non-resident, is planning to sell his villa in Goa. Examine validity of transaction w.r.t FEMA, 1999.

ANSWERS TO THE CASE STUDY 1

Answers to the Multiple Choice Questions

1. (c) Arbitrage funds provide better returns than debt instruments as they work on the principle of capitalizing price differential between spot and futures market. Equities are riskiest and obviously have high rate of returns. However, arbitrage funds have lower volatility as compared to equity.
- Typically, expense ratios in arbitrage funds are likely to be higher as compared to liquid funds. Since arbitrage funds would carry large number of trades to capitalize price differential between different markets, expense ratios tend to be higher as compared to liquid funds. Liquid funds invest in highly liquid money market instruments and debt securities of short tenure which are normally held till maturity resulting in lower expenses.
2. (a) Debt funds invest in government bonds/securities, high grade corporate bonds etc. There is

inverse relationship between market value of bond and interest rates. As interest rate goes up, market value of bond falls and vice-versa. In economic conditions of rising interest rates, people would be unwilling to buy bonds carrying lower interest rates issued previously. Therefore, price of bond falls exhorting people to buy such bonds which were issued at a lower coupon rate. It, in turn, leads to fall in NAV.

3. (d) Tax on purchase of immovable property from non-resident owner is deducted u/s 195 of Income Tax Act, 1961 where the deductor is required to obtain TAN. There is no DTAA agreement with overseas country in which Mr. Christopher is residing. TDS would be deducted @ 20% on ₹ 5 crores. However, application can be made to AO u/s 195(2) or 197 for determination of capital gains on which tax is to be deducted. In that case, tax would be deducted at lower rate. Tax is deducted u/s 195 at the time of credit of such income to the account of payee or at the time of payment, whichever is earlier. Therefore, TDS deduction is required at time of paying advance as well as at the time of making balance payment.
4. (b) Non-residents can make investments by purchasing another residential property u/s 54 and/or by purchasing bonds of NHAI in accordance with provisions of section 54EC. There is no bar in these sections for investments to be made by Non-residents.

Under Section 139 of Income Tax Act, every person, if his total income without giving effect to the provisions of section 54 or section 54B or section 54D or section 54EC or section 54F or section 54G or section 54GA or Chapter VI-A exceeded the maximum amount which is not chargeable to income-tax, shall, on or before the due date, furnish a return of his income. Therefore, there is a legal obligation to file the return when total income before giving effect to deduction u/s 54 & 54EC exceeds basic exemption limit.
5. (c) Liberalised Remittance Scheme is available for resident individuals only. Sale proceeds of villa would be repatriated by non-resident Mr. Christopher using NRO account subject to certain restrictions in accordance with relevant regulations/circulars i.e. USD 1 million per financial year.

Answers to the Descriptive Questions

6. **MTL Low Duration Fund and Bon India Low Duration Fund are debt funds.** However, in case of **MTL Low Duration Fund**, holding period would likely to be more than 36 months. It would qualify as a long-term capital asset by virtue of provisions of 2(29AA) and 2(42A) of Income tax act. Therefore, **long term capital gain would arise on redemption of units of this fund. Indexation benefit would be available and long-term capital gain would be taxable @ 20% u/s 112 of Income-tax Act, 1961.**

In case of **Bon India Low Duration Fund** (another debt fund), holding period would likely to be less than 36 months. Therefore, short term capital gains would arise on redemption of units of this fund. **Short-term capital gain would arise on redemption of these units taxable at normal rates of tax applicable to Mr. P.** There is no special rate for short term capital gain on debt funds.

ADB New Energy Green Fund is an equity-oriented fund as it has invested more than 65% of its proceeds in equity shares of domestic companies. **Short-term capital gains would arise due to redemption of units of this Fund in month of October 2023 as holding period would be less than 12 months in accordance with provisions of section 2(42A) of Income-tax Act. Such short-term capital gains of equity-oriented funds would be taxable @15% u/s 111A of Income-tax Act, 1961.**

SBA Life Arbitrage Fund is also an equity-oriented fund just like ADB New Energy Green Fund. However, long term capital gains would arise on redemption of units of this fund as holding

period would be more than 12 months. Such long-term capital gains would be taxable @10% u/s 112A of Income-tax Act, 1961 exceeding ₹ 1 lakh.

CA M should inform Mr. P that there is no change in taxation pertaining to redemption of his investment portfolio as it stood on 31st March, 2023 and these would continue to be taxed as discussed above. The news/messages received by him are applicable to investments made on or after 1st April, 2023.

7. Both MTL Low Duration Fund and Bon India Low Duration Fund have invested 30% of their proceeds in equity shares of domestic companies. Finance Act, 2023 has introduced new section 50AA which states that capital gains arising on redemption of units of a Specified Mutual Fund which has been acquired on or after 1st April, 2023 shall be deemed to be arising from transfer of a short-term capital asset. Specified Mutual Fund is a mutual fund which invests not more than 35% of its total proceeds in the equity shares of domestic companies.

Therefore, if Mr. P redeems his proposed investment even holding it for a period of more than 3 years down the line, indexation benefit would not be available to Mr. P and such income would be deemed as short-term capital gains and it would be taxable in accordance with slab rates applicable to him.

8. As per section 6(5) of the FEMA, 1999, a person resident outside India may hold, own, transfer or invest in Indian currency, security or any immovable property situated in India if such currency, security or property was acquired, held or owned by such person when he was resident in India or inherited from a person who was resident in India.

In the given case, villa at Goa was an ancestral property and was obtained through registered will of his father, who was an Indian resident. Sale of villa by a non-resident owner, is a valid transaction.

NEW COURSE DIGEST

Case Study 2

Subjects	Topics Covered	Marks
AFM	Startup Finance, Business Valuation	9
DT	IFOS (Section 56(2)(viib)), Section 80IAC	14
Law	Companies Act (Section 233)	2

An article singing paeans for India's space-tech start-ups appeared in "The New York Times" recently. The article underlined that India has become home to many such start-ups. It pointed out that space technology is fulfilling smaller-scale and commercial purposes like helping farmers in timely insurance of their crops. Space technology is also helping commercial fishing fleets in tracking their catch by sending images back to Earth. Satellites are bringing phone signals to country's remotest corners and are helping in operation of solar farms far away from India's megacities. It's also one of India's most sought-after sectors for venture capital investors.

Start-ups are mushrooming in different sectors of India's economy as varied as education, health, agriculture, fintech, clean energy, electric vehicles, bio technology, waste management, food processing and even drones. Economic Survey for year 2022-23 highlights that by capitalising on the digital infrastructure support, India has also emerged as one of the world's most vibrant destinations for start-up ecosystems. Start-ups are being envisioned as the spine of new India. In fact, India is home to world's third largest start-up eco system.

GrowFine is an ed-tech start-up incorporated as a private company in April 2023. The founders of start-up believe that some benefits are available to start-ups under income tax law. However, they are unaware about nitty-gritty of same as they are from engineering and management backgrounds. The company had launched its products in year 2023-24 itself and had a turnover of ₹ 20 crores. It is recognized by DPIIT (Department for Promotion of Industry and Internal Trade under Ministry of Commerce and Industry) and holds a certificate of eligible business and is recognized as a technology driven start-up by competent authority.

GrowFine has issued shares to certain investors who are familiar with founders of this ed-tech start-up during year 2023-24. They believe in the business idea of founders of the company and have decided to invest money out of their own resources. These investors are wedded to idea of providing quality affordable education to all and promoting standards of education in the country. In this way, their ideological belief stands aligned with mission of founders of start-up.

The start-up GrowFine has issued equity shares having face value of ₹ 10/-per share to these individuals @ ₹ 50/-per share during year 2023-24. The fair market value of equity shares of start-up as on valuation date is ₹ 11/-per share. The existing paid up share capital of company is ₹ 1.50 crores. The company has not issued shares at premium anytime in past.

GrowFine is still in nascent stages. However, it has already launched its products and has entered a segment of the market. The market has a considerable potential for company's business to grow. Start-ups not only need finance but they also require favourable and conducive eco system to grow. It includes not only hand holding at time of germination of a business idea but also policy measures having a legislative backing. In India, relaxations and benefits have been provided to start-ups under various laws like under Income tax Act, 1961 and Companies Act, 2013.

GrowFine needs talented and skilled employees for its business. However, the company is not in a position to pay high cash salaries to attract and retain employees. It is, therefore, considering route of employee stock option plans (ESOPs). Employee stock option plans provide a chance to employees to become shareholders in

the company and also be benefitted by its future growth. The company plans to draft an ESOP scheme containing matters relating to grant of option, vesting period and manner of determining exercise price among others. The company is approaching many talented persons for assuming various senior roles in its organizational set-up. One such senior person, Mr. X, has shown interest in joining the company. However, he is sceptical regarding income tax implications pertaining to ESOPs. He has a doubt that it may lead to withholding of tax by start-up impacting his immediate "in-hand" salary.

GrowFine is planning to merge another start-up company engaged in similar line of activity to increase its size, revenue and scalability. However, founders of the company are clueless regarding modalities of the same under relevant laws.

Valuation of start-ups is often required for bringing in investments. The value of a start-up is dependent upon its future growth prospects. It is also quite likely that such a business idea has never been tested before. It only lies in realms of future. Another problem in start-up valuation is totally new or non-comparable business products and strategies. Start-ups also depend upon many rounds of funding. GrowFine may also approach another set of investors in further rounds of funding.

Multiple Choice Questions

1. From the description given in case study relating to finance brought by individuals from their own resources and whose belief in promoting affordable education to all in the country and also improving its standards is aligned with mission of founders, which type of financing for a start-up is being referred to?
 - (a) Bootstrapping
 - (b) Venture capital financing
 - (c) Funding by angel investors
 - (d) Factoring
2. The founders of GrowFine believe that some benefits are available to start-ups. Considering the description provided in case study, which of the following statements is in accordance with provisions of income tax law?
 - (a) Company is eligible to deduction @ 75% of its profits from eligible business for any 5 consecutive assessment years out of 10 years beginning from the year in which start-up is incorporated. Further, certificate of eligible business in this regard is provided by Inter-Ministerial Board for Certification.
 - (b) Company is eligible to deduction @ 100% of its profits from eligible business for any 3 consecutive assessment years out of 10 years beginning from the year in which start-up is incorporated. Further, certificate of eligible business in this regard is provided by Inter-Ministerial Board for Certification.
 - (c) Company is eligible to deduction @ 75% of its profits from eligible business for any 5 consecutive assessment years out of 10 years beginning from the year in which start-up is incorporated. Further, certificate of eligible business in this regard is provided by CBDT.
 - (d) Company is eligible to deduction @ 100% of its profits from eligible business for any 3 consecutive years out of 10 years beginning from the year in which start-up is incorporated. Further, certificate of eligible business in this regard is provided by CBDT.
3. As regards doubt of Mr. X regarding withholding tax in relation to ESOPs is concerned, which of the following statements is most appropriate?

- (a) Income tax would be withheld at rates in force when option is exercised and shares are allotted to Mr. X.
 - (b) The company is an eligible start-up holding certificate of eligible business. Income tax would not be withheld when option is exercised and shares are allotted to Mr. X as such transactions are exempted from withholding tax in case of eligible start-ups.
 - (c) The company is an eligible start-up holding certificate of eligible business. However, such start-up is allowed to defer withholding tax when option is exercised and shares are allotted to Mr. X. It is deducted in required manner after expiry of certain timelines or happening of certain events.
 - (d) Income tax would be withheld when option is granted. Such withholding tax would be deducted at the rates in force at time option is granted to Mr. X.
4. The start-up is planning merger with another start-up engaged in similar activities. Which of the following statements is in line with provisions of law regarding proposed merger of these start-ups?
- (a) It requires filing of proposed scheme with NCLT and final order in respect of merger is made by NCLT after following a detailed procedure.
 - (b) It involves giving notice of proposed scheme to Registrar and Official Liquidators and approval of scheme by both the companies. After approval of scheme by creditors, the scheme is approved by Registrar of Companies.
 - (c) It involves giving notice of proposed scheme to Registrar and Official Liquidators and approval of scheme by both companies. After approval of scheme by creditors, scheme is filed with Regional Director, Registrar and Official Liquidators. The scheme is finally registered by Regional Director.
 - (d) It requires filing of proposed scheme with NCLT and final order in respect of merger is made by NCLT after following a fast-track procedure.
5. Which of the following is not a factor to be considered for valuing a start-up like GrowFine?
- (a) Past performance indicators
 - (b) Educational background of founders
 - (c) Uniqueness of product launched by start-up
 - (d) Traction

Descriptive Questions

6. GrowFine has issued equity shares to individuals having face value of ₹ 10/-per share at a price of ₹ 50/-per share. What are income tax implications for the same for GrowFine? What is such tax commonly and popularly known as? Under which circumstances can GrowFine claim exemption from such a tax?
7. Start-up GrowFine is also planning to approach other investors to fund its business requirements. What specific points shall be considered while carrying out due diligence of such start-up for picking up an equity interest by a prospective investor?

ANSWERS TO THE CASE STUDY 2

Answers to the Multiple Choice Questions

1. (c) Angel investors typically use their own money. Often, they are among an entrepreneur's family

and friends. They generally invest in small-start-ups and are attached to the idea of the business floated by start-up. However, venture capitalists take care of pooled money from other investors and place them in a strategically managed fund. Bootstrapping is an attempt to build the company from personal finances or from operating revenues of the company. Factoring is a method of bootstrapping.

2. (b) Under section 80-IAC(1) of Income tax act, 1961, where the gross total income of an assessee, being an eligible start-up, includes any profits and gains derived from eligible business, there shall, in accordance with and subject to the provisions of this section, be allowed, in computing the total income of the assessee, a deduction of an amount equal to one hundred per cent of the profits and gains derived from such business for three consecutive assessment years.

(2) The deduction may at the option of the assessee, be claimed by him for any three consecutive assessment years out of ten years beginning from the year in which the eligible start-up is incorporated.

Further, explanation to section 80-IAC also defines eligible start-up which fulfils the following conditions namely: -

- (a) it is incorporated on or after the 1st day of April, 2016 but before the 1st day of April, 2024
- (b) the total turnover of its business does not exceed one hundred crore rupees in the previous year relevant to the assessment year for which deduction under sub-section (1) is claimed and
- (c) it holds a certificate of eligible business from the Inter-Ministerial Board of Certification as notified in the Official Gazette by the Central Government

3. (c) Under section 192(1C), a person, being an eligible start-up referred to in section 80-IAC, responsible for paying any income to the assessee being perquisite of the nature specified in sub clause (vi) of sub-section (2) of section 17 in any previous year relevant to the assessment year, shall deduct or pay, as the case may be, tax on such income within fourteen days:

- (i) after the expiry of forty-eight months from the end of the relevant assessment year or
- (ii) from the date of the sale of such specified security or sweat equity share by the assessee or
- (iii) from the date of the assessee ceasing to be the employee of the person

whichever is the earliest, on the basis of rates in force for the financial year in which the said specified security or sweat equity share is allotted or transferred.

Therefore, section 192(IC) provides for deferment of withholding tax in case of eligible start-ups.

4. (c) In case of merger between small companies/start-ups, fast track procedure for merger has been prescribed under section 233 of Companies Act, 2013. It does not require filing of application with NCLT. The notices are to be given to registrar, official liquidator and Central Govt (powers delegated to Regional Director). After considering objections of registrar and official liquidator, the scheme is finally registered by Regional Director.
5. (a) In valuation of a start-up like GrowFine, there is no historical data on basis of which future projections can be drawn. Valuation of a start-up entirely rests on its future growth potential. The assessments of future growth are dependent upon competence and drive of persons running the business.

Answers to the Descriptive Questions

6. Under clause (viib) of Sub-section 2 of Section 56 of Income Tax Act, where a company, not being a company in which the public are substantially interested, receives, in any previous year, from any person, any consideration for issue of shares that exceeds the face value of such shares, the aggregate consideration received for such shares as exceeds the fair market value of the shares is chargeable to income tax under head "Income from other sources". Amount received by company which is in excess of fair market value of shares shall be taxable under the head "Income from Other Sources." This tax is commonly and popularly called as "Angel tax".

However, this clause shall **not** apply where the consideration for issue of shares is received—

- (i) by a **venture capital undertaking** from a venture capital company or a venture capital fund or a specified fund; or
- (ii) by a company from a class or classes of persons as may be notified by the Central Government in this behalf.

Accordingly, the Central Government has, vide Notification No. 30/2023 dated 24.5.23 notified that the provisions of section 56(2)(viib) of Income-tax Act shall not apply to consideration received by a company for issue of shares that exceeds the face value of such shares, if the said consideration has been received from any person, by a company which fulfils the following conditions specified in para 4 of notification number GSR 127(E) dated 19.2.2019 issued by Ministry of Commerce and Industry in the Department for Promotion of Industry and Internal Trade (DPIIT).

- (i) it has been recognised by DPIIT under this notification or as per any earlier notification on the subject
- (ii) **Aggregate amount of paid-up share capital and share premium of the startup after issue or proposed issue of share, if any, does not exceed, twenty five crore rupees.**
- (iii) It has not invested in any of the following assets:
 - (a) Building or land appurtenant thereto, being a residential house, other than that used by the Startup for the purposes of renting or held by it as stock- in-trade, in the ordinary course of business
 - (b) land or building, or both, not being a residential house, other than that occupied by the Startup for its business or used by it for purposes of renting or held by it as stock-in trade, in the ordinary course of business
 - (c) loans and advances, other than loans or advances extended in the ordinary course of business by the Startup where the lending of money is substantial part of its business
 - (d) capital contribution made to any other entity
 - (e) shares and securities
 - (f) a motor vehicle, aircraft, yacht or any other mode of transport, the actual cost of which exceeds ten lakh rupees, other than that held by the Startup for the purpose of plying, hiring, leasing or as stock-in-trade, in the ordinary course of business
 - (g) jewellery other than that held by the Startup as stock-in-trade in the ordinary course of business
 - (h) any other asset, whether in the nature of capital asset or otherwise, of the nature specified in section 56(2)(vii)(d) (iv) to (ix) of the Act.

It has been further provided that the startup should not invest in any of the above assets for the period of seven years from the end of the latest financial year in which shares are issued at premium.

A start-up fulfilling above conditions has to file a form with DIPP which is forwarded by it to CBDT. By fulfilling above conditions and taking advantage of above notification, start-up can claim exemption from paying angel tax.

7. **A prospective investor shall carry out due diligence** before picking up equity interest in a start-up. Background of the promoters and credentials would be looked into. It is necessary to **verify start-up's claims regarding future growth and numbers**. The prospective investor should be convinced about business model of start-up and type of service provided by it. The start-up should be differentiated to meet specific customer needs or to solve a unique customer problem. Besides, **start-up should show potential to scale up in near future** in accordance with a suitable business plan.

The prospective investor would also look for **market size and likely obtainable market share and macroeconomic drivers for the market**. The extent of competition in the market in this segment also needs to be looked at. Nonetheless, **investor would also be looking for exit avenues**. The investor would also be taking into account the fact whether a start-up is showcasing potential future acquirers or alliance partners. It is a valuable parameter for the investor. **Subsequent rounds of fundings and acquisitions all are examples of exit options**.

NEW COURSE DIGEST

Case Study 3

Subjects	Topics Covered	Marks
DT	TDS (Section 194C, 194I), NR Taxation (Section 172)	14
IDT	RCM, ITC (Blocked Credit, Rule 42 & 43)	11

FST Limited is engaged in the business of manufacturing and export of ready-made garments like T-shirts, skirts, tops and similar casual wear. CA T is statutory auditor of the company and also provides tax consultancy services. He also handles matters pertaining to direct and indirect taxes of the company. On a Monday morning, he had gone to the company's office located in NOIDA for participating in a pre-arranged meeting with certain key directors of company on some matters. The said location also houses company's manufacturing facilities.

Barely had the meeting started, a team of three officers from Income Tax department descended upon the company's premises to conduct TDS survey under Income Tax Act, 1961. After completing the necessary formalities, they asked for financial statements for last three years and evidence of TDS returns filed during those periods. Thereafter, they took control of the systems of the company containing its books of accounts. Meanwhile, directors of the company requested CA T to stay there and help them out in this situation.

After perusing company's accounts books, documentary evidence including bills for few hours, the team summarized following points/purported lapses by company in matter of TDS deduction and incidental issues:

- (i) It was pointed out that company has made payments during these years to Bharat Container Corporation Limited (BCCL), a government owned PSU. The said company operates container cargo services and its terminal is linked with rail lines to various gateway ports including one at JNPT, Nhava Sheva, Mumbai. FST Limited sends its export bound cargo utilizing above PSU's services. On going through bills raised by BCCL on FST Limited, it was observed that these pertained to charges levied by BCCL for handling containers, road transportation charges and railway freight. The team has pointed out that tax has been short-deducted for above payments made to BCCL.
- (ii) FST Limited has made payments during these years to certain companies providing clearing and forwarding services for carriage of goods. The team has pointed out that tax has been deducted on these payments at inappropriate rates leading to short-deduction of tax. The team insists that these payments are in the nature of brokerage and warrant tax deduction rate of 5%.
- (iii) FST Limited had also recently participated in a fair in Mumbai in 2023-24 and had paid charges of ₹ 5.00 lacs towards makeshift stall and use of furniture in an exhibition centre owned by a company. The team had pointed out non-deduction of tax at source by FST Limited on the same.
- (iv) During the survey, team also stumbled upon service bills of few clearing and forwarding agents. These agents were acting as shipping agents of non-resident ship owners. FST Limited had paid ocean freight to these shipping agents of non-resident shipping lines. The team had pointed out that tax has not been deducted on ocean freight paid to these shipping agents.

Before leaving, the team raised show-cause notice (SCN) relating to above issues.

Just when he was working on preparing a reply to above SCN after few days in his office, CA T received copy of a notice forwarded by the company. The said notice issued by Superintendent (Anti-Evasion), CGST Division informed that exporter company has been flagged as a "risky exporter" on the basis of risk analysis by DGARM (Directorate General of Analytics & Risk Management). The said notice contained a long list of documents to be submitted by the company including copies of GSTR-9, GSTR-3B, GSTR-1, reconciliations with ITC reflecting

on portal, reconciliation of e-way bills issued with GSTR-1, financial statements of past years. The company is exporting goods on payment of IGST. Its export bound shipments attract GST @ 5%. Subsequently, a departmental team also visited premises of the company.

On going through documents submitted by the company and after conducting necessary verifications, team raised the following issues: -

- (A) The team pointed out that fabric which is main raw material for manufacturing of garments having taxable value of ₹ 50.00 lacs attracting GST rate of 5% was destroyed in a fire in premises of the company during month of April 2023. The company had availed ITC of ₹ 2.50 lacs in the month of April 2023.
- (B) The company has been availing services of a security service agency for providing it with security manpower. The company has paid amount of ₹ 10.00 lacs to one such security service agency (a proprietorship concern) during year 2023-24 up to date of team's visit. It is insisted that company was required to pay GST on such services under reverse charge mechanism.
- (C) It has been pointed out that company has received duty credit scrips under foreign trade policy of the government by virtue of being in export trade. These duty credit scrips, in turn, have been sold by the company to third parties. Supply of such duty credit scrips are exempt from GST under notification no.35/2017-Central tax (Rate). The team points out that company is required to reverse ITC on common input services relating to such exempt supplies.

Assume that Income Tax Law for financial year 2023-24 (AY 2024-25) is applicable in situations involving past years. Ignore surcharges.

Multiple Choice Questions

1. Considering matter stated at [i] relating to short-deduction of tax from payments made to BCCL by survey team in their show-cause notice, which of the following statements is most appropriate in this regard?
 - (a) Tax was required to be deducted on handling charges and railway freight. However, no tax was required to be deducted on road transportation charges under relevant provisions of law.
 - (b) Tax was required to be deducted on road transportation charges and railway freight. However, no tax was required to be deducted on handling charges under relevant provisions of law.
 - (c) Tax was required to be deducted on handling charges, road transportation charges and railway freight. The issue raised in SCN is correct and company has short deducted tax from payments made to BCCL.
 - (d) Tax was required to be deducted on handling charges and road transportation charges. However, no tax was required to be deducted on railway freight under relevant provisions of law.
2. The survey team has raised the issue of application of inappropriate rate while deducting tax from payments made to certain companies providing clearing and forwarding services at JNPT, Nhava Sheva, Mumbai. Which of following statements is likely to be correct in this regard?
 - (a) Tax was required to be deducted @ 5%. FST Limited has deducted tax from payments made to companies providing clearing and forwarding services @ 1%. Hence, there is short deduction of tax @ 4% from payments made to these companies.
 - (b) Tax was required to be deducted @ 5%. FST Limited has deducted tax from payments made to companies providing clearing and forwarding services @ 2%. Hence, there is short deduction of tax @ 3% from payments made to these companies.
 - (c) Tax was required to be deducted @ 2% and not @ 5% as pointed out by team. The issue raised in

SCN is not in accordance with law.

- (d) Tax was required to be deducted @ 5%. FST Limited has deducted tax from payments made to companies providing clearing and forwarding services @ 0.5%. Hence, there is short deduction of tax @ 4.5% from payments made to these companies.
3. It was pointed out in the SCN that FST Limited has failed to deduct tax at source on payment made to a company owning exhibition centre in Mumbai for a makeshift stall and use of furniture. Which of following statements is in accordance with law in this regard?
 - (a) Tax was required to be deducted at source on payment made to the company owning exhibition centre. Such type of payment necessitates deduction of tax at source @ 2%.
 - (b) Tax was required to be deducted at source on payment made to the company owning exhibition centre. Such type of payment necessitates deduction of tax at source @ 10%.
 - (c) Tax was required to be deducted only for charges for use of makeshift stall @ 2% and for use of furniture @ 10%.
 - (d) Tax was not required to be deducted on the type of payment discussed above. Therefore, issued raised in SCN is not in accordance with law.
 4. As regards destruction of stock of raw material in a fire in the month of April 2023 is concerned, which statement is most appropriate?
 - (a) Reversal of ITC of ₹ 2.50 lacs by the company
 - (b) Reducing output liability by ₹ 2.50 lacs by the company
 - (c) Increasing output liability by ₹ 2.50 lacs by the company
 - (d) The issue raised by the team is not in accordance with law.
 5. The team has raised the issue of non-payment of GST on availing services of a security agency described in case study under reverse charge mechanism. Which of the following is true in this regard?
 - (a) GST of ₹ 0.50 lac was required to be paid under reverse charge and ITC of ₹ 0.50 lac was required to be taken by the company in its monthly GSTR-3B.
 - (b) GST of ₹ 1.80 lac was required to be paid under reverse charge and ITC of ₹ 1.80 lac was required to be taken by the company in its monthly GSTR-3B.
 - (c) GST of ₹ 0.50 lac was required to be paid under reverse charge but no credit of the same was required to be taken by the company in its monthly GSTR-3B.
 - (d) GST of ₹ 1.80 lac was required to be paid under reverse charge but no credit of the same was required to be taken by the company in its monthly GSTR-3B.

Descriptive Questions

6. The survey team has raised the matter regarding non-deduction of tax at source on ocean freight paid to shipping agents of non-resident foreign shipping companies in its show-cause notice. How can CA T defend the company while preparing reply to show cause notice as far as this issue is concerned? Quote relevant provisions of law (including notifications/circulars) on this subject matter.
7. The GST team has pointed out that the company is required to reverse the ITC on common input services relating to exempt supplies of duty credit scrips. What is your opinion on this issue considering relevant provisions of law?

ANSWERS TO THE CASE STUDY 3

Answers to the Multiple Choice Questions

1. (d) Under provisions of section 194C of Income Tax Act, 1961, tax is required to be deducted at source in accordance with provisions of this section for carrying out any work. Explanation to Section 194C explains that work shall include carriage of goods or passengers by any mode of transport other than by railways. Therefore, transport charges by railways does not require deduction of tax at source. Handling charges are in nature of service contracts and require deduction of tax at source under section 194C.

2. (c) The team has pointed out that tax has been deducted on payments made to certain companies providing clearing and forwarding services at inappropriate rates leading to short-deduction of tax. The team insists that these payments are in nature of brokerage and warrant tax deduction rate of 5%. However, team's view point is not in accordance with law. The expenses incurred are not in nature of brokerage. Explanation to section 194H provides that "commission or brokerage" includes any payment received or receivable, directly or indirectly, by a person acting on behalf of another person for services rendered (not being professional services) or for any services in the course of buying or selling of goods or in relation to any transaction relating to any asset, valuable article or thing, not being securities.

However, in the given situation, services are being rendered by companies as forwarders and for facilitating their movement and carriage from port to the country of destination. Brokerage is normally associated with payment in nature of buying or selling of goods or in relation to any transaction relating to any asset. Further, circular no.715 dated 8.8.1995 issued by CBDT states that "as regards payment to clearing and forwarding agent for carriage of goods, the same shall be subject to tax deduction at source under section 194C of Income Tax Act.

3. (b) Under provisions of section 194-I of Income Tax Act, 1961, any person, not being an individual or a Hindu undivided family, who is responsible for paying to a resident any income by way of rent, shall, at the time of credit of such income to the account of the payee or at the time of payment thereof in cash or by the issue of a cheque or draft or by any other mode, whichever is earlier, deduct income- tax thereon at the rate of:
 - (i) two per cent for the use of any machinery or plant or equipment; and
 - (ii) ten per cent for the use of any land or building (including factory building) or land appurtenant to a building (including factory building) or furniture or fittings

Provided that no deduction shall be made under this section where the amount of such income or, as the case may be, the aggregate of the amounts of such income credited or paid or likely to be credited or paid during the financial year by the aforesaid person to the account of, or to, the payee, does not exceed two hundred and forty thousand rupees.

The company has made payment of ₹ 5.00 lacs for use of building and furniture which is more than threshold limit of section 194-I. It attracts TDS @ 10% as provided for under section 194-I.

4. (a) Section 17(5)(h) of CGST Act, 2017 states that input tax credit shall not be available in respect of goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples. Since raw material having taxable value of ₹ 50.00 lac has been destroyed in fire, ITC on same amounting to ₹ 2.50 lac needs to be reversed by the company.

5. (b) Security services provided by a person other than a body corporate to a registered person located in taxable territory are liable to GST under reverse charge mechanism under notification number 29/2018 - Central Tax (Rate) dated 31.12.2018. Since FST Limited has availed services provided by way of supply of security personnel from a proprietary firm, it has to pay GST under reverse charge mechanism.

Further, GST rate for services i.e. 18% is applicable to such services under reverse charge mechanism and company needs to take ITC in respect of same.

Answers to the Descriptive Questions

6. In the given situation, FST Limited has made payment of ocean freight to agents of non-resident foreign shipping companies.

Section 194C states that any person responsible for paying any sum to any resident for carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract between the contractor and a specified person shall, at the time of credit of such sum to the account of the contractor or at the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, whichever is earlier, deduct tax at source at specified rates. In accordance with provisions of section 194C, work also includes carriage of goods and passengers by any mode of transport other than railways.

However, Board has issued circular no.723 dated 19.9.1995 in this regard relating to shipping business of non-residents. It states that section 172 deals with shipping business of non-residents. Section 172(1) provides that the mode of the levy and recovery of tax in the case of any ship, belonging to or chartered by a non-resident, which carries passengers, livestock, mail or goods shipped at a port in India. An analysis of the provisions of section 172 would show that these provisions have to be applied to every journey a ship, belonging to or chartered by a non-resident, undertakes from any port in India. Section 172 is a self-contained code for the levy and recovery of the tax, ship-wise, and journey wise, and requires the filing of the return within a maximum time of thirty days from the date of departure of the ship.

The provisions of section 172 are to apply, notwithstanding anything contained in other provisions of the Act. Therefore, in such cases, the provisions of sections 194C and 195 relating to tax deduction at source are not applicable. The recovery of tax is to be regulated, for a voyage undertaken from any port in India by a ship under the provisions of section 172.

Section 194C deals with work contracts including carriage of goods and passengers by any mode of transport other than railways. This section applies to payments made by a person to any "resident" (termed as contractor). It is clear from the section that the area of operation of TDS is confined to payments made to any "resident". On the other hand, section 172 operates in the area of computation of profits from shipping business of non-residents. Thus, there is no overlapping in the areas of operation of these sections.

It further states that there would, however, be cases where payments are made to shipping agents of non-resident ship-owners or charterers for carriage of passengers etc., shipped at a port in India. Since, the agent acts on behalf of the non-resident ship-owner or charterer, he steps into the shoes of the principal. Accordingly, provisions of section 172 shall apply and those of sections 194C and 195 will not apply.

Therefore, it is very much clear from above analysis that FST Limited was not required to deduct tax at source from payments on account of ocean freight to shipping agents of non-resident ship owners. CA T can defend the company by preparing reply to SCN on these lines.

7. Section 17(2) of CGST Act, 2017 states that where the goods or services or both are used by the registered person partly for effecting taxable supplies including zero-rated supplies under this Act or under the Integrated Goods and Services Tax Act and partly for effecting exempt supplies under the said Acts, the amount of credit shall be restricted to so much of the input tax as is attributable to the said taxable supplies including zero-rated supplies.

Further, section 17(3) states that the value of exempt supply under sub-section (2) shall be such as may be prescribed, and shall include supplies on which the recipient is liable to pay tax on reverse charge basis, transactions in securities, sale of land and, subject to clause (b) of paragraph 5 of Schedule II, sale of building.

[Explanation - For the purposes of this sub-section, the expression "value of exempt supply" shall not include the value of activities or transactions specified in Schedule III, except those specified in paragraph 5 of the said Schedule]

In this regard, Rule 42 of CGST Rules, 2017 prescribes manner of determination of input tax credit in respect of inputs and input services and reversal thereof where input or input services have been partly used for effecting taxable supplies including zero rated supplies and partly for effecting exempt supplies.

Further, Rule 43(1) of CGST Rules, 2017 prescribes manner of determination of input tax credit in respect of capital goods and reversal thereof in certain cases including where such ITC is partly used for effecting taxable supplies including zero rated supplies and partly for effecting exempt supplies.

Explanation 1 under this clause states that for the purposes of rule 42 and rule 43, aggregate value of exempt supplies shall exclude: -

- the value of services by way of accepting deposits, extending loans or advances in so far as the consideration is represented by way of interest or discount, except in case of a banking company or a financial institution including a non-banking financial company, engaged in supplying services by way of accepting deposits, extending loans or advances and
- the value of supply of services by way of transportation of goods by a vessel from the customs station of clearance in India to a place outside India.
- the value of supply of Duty Credit Scrips specified in the notification of the Government of India, Ministry of Finance, Department of Revenue No. 35/2017- Central Tax (Rate), dated 13.10.2017.

Therefore, value of supply of duty credit scrips is excluded from aggregate value of exempt supplies determined under Rule 42 of CGST Rules, 2017. Since value of such supply is excluded while determining value of exempt supplies under Rule 42, no ITC is required to be reversed in respect of such exempt supply.

NEW COURSE DIGEST

Case Study 4

Subjects	Topics Covered	Marks
DT	TDS (Section 194C), Section 115BAB	10
IDT	ITC (Basics), GST Refund, Import & Export Procedure	13
Law	Companies Act (Books of Accounts)	2

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

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

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

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

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

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

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

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

The company has achieved export turnover of ₹50 crores during year ended 31st March, 2024. It has also credited duty drawback from customs authorities amounting to ₹ 2.00 crores in its statement of profit and loss for the same period. During the year ended 31st March 2024, the company has also incurred research and development expenditure of ₹ 10.00 lakhs. The financial statements of the company reflected a net profit before tax amounting to ₹ 7.50 crores. for the same period.

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

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

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

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

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

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

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

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

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

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

Multiple Choice Questions

1. Which of the opinion given by the staff members of inhouse GST Team regarding preparation of an Invoice for export transaction is MOST LIKELY in conformity with relevant legal provisions?
 - (a) Opinion I is in conformity with relevant legal provisions.
 - (b) Opinion II is in conformity with relevant legal provisions.
 - (c) Opinion III is in conformity with relevant legal provisions.
 - (d) Opinion IV is in conformity with relevant legal provisions.
2. Regarding tax liability of the said company for the month of October 23 under provisions contained in GST laws and rules, which statement is correct?
 - (a) Opinion II is correct.
 - (b) Opinion III is correct.
 - (c) Opinion I is correct.
 - (d) Opinion IV is correct.
3. In context of machinery purchase related transactions involving clearing charges, freight etc. discussed in Para D of the case study, consider the following table of compliances under income tax law as well as under GST law:

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

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

- (a) Combination (1) and (i)
 - (b) Combination (2) and(ii)
 - (c) Combination (3) and (iii)
 - (d) Combination (4) and (iv)
4. The company is under statutory obligation to submit documentary evidence regarding proof of import of machinery. Which of the following statements is correct in this regard?
 - (a) Bill of lading is appropriate documentary evidence regarding evidence of import of machinery and its copy is required to be submitted to jurisdictional office of GST by importer.

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

Descriptive Questions

6. The promoters of the company are law compliant and do not want to be seen on the wrong side of law. However, they are also prudent minded and want to take tax benefits available legally and seek your advice.

Advise promoters of company of any such legally permissible benefits to lower its income tax liability for A.Y. 2024-25. Ignore the adjustment on account of depreciation under the Income-tax Act, 1961.

7. The company has exported made ups of ₹ 50 crores on payment of IGST during year 2023-24 carrying a GST rate of 5%. Further, the company had availed ITC of ₹ 2.00 crore during year 2023-24. The details of same are as under:

Eligible ITC on inputs	₹ 1.50 crore
Eligible ITC on capital goods	₹ 0.36 crore
Eligible ITC on services	₹ 0.14 crore

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

ANSWERS TO THE CASE STUDY 4

Answers to the Multiple Choice Questions

1. (b) The company is legally bound to raise a tax invoice in Indian Rupees as well as commercial invoice in foreign currency in accordance with relevant rules and procedures governing such transactions.

Further, foreign currency amount is to be converted into Indian Rupees in tax invoice by using exchange rate in accordance with exchange rate notification issued by CBIC relevant in relation to date of invoice.

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

2. (a) Opinion II is correct.

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

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

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

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

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

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

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

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

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

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

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

Reason: The Importer of goods has to present to the proper officer electronically bill of entry. Therefore, bill of entry is appropriate document establishing import of goods. The bill of entry has

to be submitted to concerned bank branch through whom remittance was made as evidence for import of goods. It is not required to be submitted to GST office.

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

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

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

Answers to the Descriptive Questions

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

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

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

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

The following are the conditions specified under section 115BAB:

- (a) the company has been set-up and registered on or after the 1.10.2019, and has commenced manufacturing or production of an article or thing on or before the 31.3.2024 and, —

(i) the business is not formed by splitting up, or the reconstruction, of a business already in existence:

(ii) does not use any machinery or plant previously used for any purpose.

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

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

Further, where in the case of a person, any machinery or plant or any part thereof previously used for any purpose is put to use by the company and the total value of the machinery or plant or part so transferred does not exceed 20% of the total value of the machinery or plant used by the

company, then, the condition specified that the company does not use any machinery or plant previously used for any purpose would be deemed to have been complied with.

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

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

- (i) **development of computer software** in any form or in any media;
 - (ii) **mining;**
 - (iii) **conversion of marble blocks or similar items into slabs;**
 - (iv) **bottling of gas into cylinder;**
 - (v) **printing of books or production of cinematograph film;** or
 - (vi) any other business as may be notified by the Central Government in this behalf; and
- (c) the **total income of the company has been computed, —**
- (i) **without any deduction under the provisions of section 10AA or clause (ia) of sub-section (1) of section 32 or section 32AD or section 33AB or section 33ABA or sub-clause (ii) or sub-clause (ia) or sub-clause (iii) of sub-section (1) or sub-section (2AA) or sub-section (2AB) of section 35 or section 35AD or section 35CCC or section 35CCD or under any provisions of Chapter VI-A other than provisions of section 80JJAA or section 80M;**
 - (ii) **without set-off of any loss or allowance for unabsorbed depreciation deemed so u/s 72A where such loss or depreciation is attributable to any deductions referred in sub-clause (i).**
 - (iii) **by claiming the depreciation under the provision of section 32, except clause (ia) of sub-section (1) of the said section, determined in such manner as may be prescribed.**

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

- (1) It is a company registered after 1.10.2019 and has started production on or before 31.3.2024.
 - (2) Its business is not formed by splitting or reconstruction of business already in existence.
 - (3) Although it has used plant and machinery previously used, it falls within overall cap of 20% stipulated u/s 115BAB. The total value of plant and machinery used by company is ₹ 10.65 crores. However, value of machinery previously used is only ₹ 2.00 crore which is 18.78% of total value of plant and machinery. Hence, this newly set up domestic company satisfies this criterion also.
 - (4) The company is engaged in business of manufacturing of an article or thing and research in relation to it.
 - ~~(4)~~ The company's business does not fall into prohibited categories.
 - (5) The company has not taken benefit of other beneficial provisions as listed out u/s 115BAB.
 - (6) The company has to exercise the option by filing Form 10-ID by due date of filing first return of income under section 139 for A.Y. 2024-25.
7. Under provisions of section 16(3) of IGST Act, 2017, a registered person making zero rated supply shall be eligible to claim refund under either of the following options, namely:
- (a) he may supply goods or services or both under bond or Letter of Undertaking, subject to such

conditions, safeguards and procedure as may be prescribed, **without payment of integrated tax and claim refund of unutilised input tax credit;** or

- (b) he may **supply goods or services or both**, subject to such conditions, safeguards and procedure as may be prescribed, **on payment of integrated tax and claim refund of such tax paid** on goods or services or both supplied, in accordance with the provisions of section 54 of the Central Goods and Services Tax Act or the rules made thereunder.'

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

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

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

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

Export under LUT or bond

Tax liability	0
Refund of unutilized ITC	₹ 1.64 crore

Export on payment of IGST

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

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

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

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

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

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

NEW COURSE DIGEST

Case Study 5

Subjects	Topics Covered	Marks
FR	Ind AS 21	5
Audit	Audit Strategy, CARO 2020	7
IDT	Supply (Negative List), Import & Export (ZRS, Deemed Export), IEC Code	11
Law	Companies Act (Section 192)	2

ABCD Ltd. is a textile manufacturing company based in Surat, Gujarat, which enjoys a vintage of more than 50 years of good reputation and business. The Company was set up by Mr. Amar Dev in the 60's in a small room and as years passed by, it became such a successful and big business that now after serving domestic consumers, the Company has gone global and expanding its business across Europe and Canada through third party sales from India. Mr. Rahul Dev, grandson of Mr. Amar Dev is Managing Director of Company and has been following quite an aggressive approach in globalizing their business after graduating from college. He remains in constant touch with CA Nitin Garg, partner of Nitin Garg & Co., Chartered Accountants, and keeps on discussing with him legal compliances and procedures.

Rahul knows that the complexities in business have increased a lot particularly after advent of GST and it is imperative to diversify the ever-expanding businesses. He understands that their company is well integrated into the web of international business transactions. There is inward as well as outward flow of goods and services between India and other countries. GST impacts imports and exports too. Provisions in the GST laws seek to (i) provide a level playing field to domestic suppliers vis a vis international suppliers in case of imports and (ii) make exports more competitive. He has been discussing various provisions of GST law as will be applicable on import and export supplies w.r.t. their business, if they wish to enter the global market directly, apart from the normal customs levy.

ABCD Limited wants to expand its business and management has found a suitable site which meets its requirements. The said site is owned by one of directors of company i.e. Mr. D. However, Mr. D was unwilling to sell his prized property to the company. The company, however, offers him, in exchange, a bigger site located in an area having commercial potential. Lured by offer, Mr. D agrees to above. A property valuer (Civil engineer by profession) who is having experience of 20 years in valuing properties for commercial banks is also approached by company for arriving at value of assets involved in above deal. The valuer does not possess any other registrations or accreditations.

Rahul, in order to expand his business, also discusses with Nitin on setting up a subsidiary outside India at Paris for specifically carrying out the Import-Export transactions easily and soon afterwards Rahul sets up a subsidiary at Paris under the name & style of PQRS Ltd.

ABCD Ltd. is engaged in the business of manufacturing cloth for other textile companies and non-textile companies. Now the company will be itself carrying out the Import-Export transactions without involving any 3rd Party for export purposes which it had been doing till now. It applies for the IEC – Importer Exporter Code online and gets the same. Its wholly owned subsidiary, PQRS Ltd., is engaged in the business of readymade designer garments. The subsidiary purchases garments and other stuff from its parent company. The demand for garments of PQRS Ltd. is very high and hence to cater to its shortfall, PQRS Ltd also purchases garments from other companies. Purchases are made at competitive prices. During the year 2023-24, ABCD Ltd sold garments to PQRS Ltd for Euro 13 lakhs on 1st January, 2024. The cost of these garments was ₹ 936 lakhs in the books of ABCD Ltd at the time of sale. At the year-end i.e., 31st March 2024, all these Garments were lying as

closing stock with PQRS Ltd. Euro is the functional currency of PQRS Ltd. while Indian Rupee is the functional currency of ABCD Ltd.

ABCD Limited seeks help from CA Nitin on the following issues:

- (a) During the year, Rahul is finding it difficult to comprehend the GST taxation w.r.t. export sales made by their company, ABCD Ltd., which are of a peculiar nature. One such sale is where ABCD Ltd. receives an order to supply goods to a dealer 'B' in Greece. The company finds a supplier 'C' in Singapore and asks him to supply goods to 'B' in Greece. Two invoices are raised here: one by the company on 'B' in Greece and the other by 'C' in Singapore on ABCD Ltd. in India. The point to be noted here is that goods do not touch the Indian shores; they are shipped by 'C' from Singapore to 'B' in Greece. There are many more, such kind of export sales and Rahul seeks CA Nitin's help in getting out of this confusion.
- (b) Rahul seeks CA Nitin's opinion on the GST procedures and treatment for the following two types of Export transactions which he plans to proceed with in near future:
- Rahul has purchased a license to put up a stall in the Textile Supermarket Global Fair to be held at Milan, Italy and he wishes to send his team to this fair alongwith their company's merchandise to be distributed over there for promotional purposes.
 - He had heard from a dear friend that he could sell his company's products within India but these could still be categorized as exports. He was eager to know about such circumstances.
- (c) The Chief accountant of the Company further seeks CA Nitin's time to understand about the valuation & taxability of the following transactions under GST:
- ABCD Ltd. has imported a special fabric from Paris and files an ex-bond bill of entry for clearing such warehoused goods for home consumption.
 - ABCD Ltd. imported textile fabric from London and sells them to a Panacea Pvt. Ltd. in India itself before the goods are cleared for home consumption. The customs declarations i.e. bill of entry etc. is filed by the agent of Panacea Pvt. Ltd. for clearance of such goods.

The Statutory audit of the company ABCD Ltd. is also being carried out by Nitin Garg & Co. under the supervision of the Engagement Partner CA Krit Garg. CA Krit understands that as the auditor, he should develop an audit plan that shall include a description of the procedures to be performed as per SA 315 & 330. The audit plan is more detailed than the overall audit strategy that includes the nature, timing and extent of audit procedures to be performed by engagement team members. Planning for these audit procedures takes place over the course of the audit as the audit plan for the engagement develops. He asks Megha in his audit team to work on planning the nature, timing and extent of specific further audit procedures and Saurab on planning of risk assessment procedures. Further, CA Krit knows that the overall audit strategy & audit plan should take into consideration the element of materiality and its relationship with Risks & procedures to be adopted. CA Krit has already developed an audit strategy and while a detailed audit plan is being developed, he decides that materiality levels set earlier need to be lowered as weaknesses in the internal controls were highlighted in the internal audit reports. Subsequently, a deviation from the audit strategy is felt necessary and he is stuck in a dilemma as what to do first – modify the audit strategy and then revise the audit plan or vice-versa and seeks his Partner CA Nitin's suggestion.

Multiple Choice Questions

1. Which of the following is responsible for issuing/granting IEC (Importer Exporter code)?
- (a) Customs under Department of Revenue, Ministry of Finance
- (b) Directorate General of Foreign trade (DGFT), Ministry of Commerce and Industry

(c) Department for Promotion of Industry and Internal Trade (DPIIT)

(d) Ministry of Corporate Affairs (MCA)

2. What should CA Nitin advise CA Krit to do when the latter is stuck in the revision dilemma of materiality levels set earlier?

(a) Firstly, modify the overall strategy and thereafter, prepare the audit plan in line with the strategy.

(b) Firstly, prepare the audit plan and then modify the overall audit strategy in line with the Plan.

(c) Modify the Audit Plan and Strategy simultaneously.

(d) Go with change in anyone, as these are not inter-related.

3. STATEMENT 1: GST is leviable on the fabric imported from Paris while filing for its clearance.

STATEMENT 2: GST is not leviable on the sales made to Panacea Pvt. Ltd.

(a) Statement 1 is Correct but statement 2 is Incorrect.

(b) Both the statements are Correct and independent of each other.

(c) Statement 2 is Correct & Statement 1 supports Statement 2.

(d) Statement 1 is Correct but Statement 2 is Incorrect.

4. Considering transaction with Mr. D, one of the directors of company, which of following statements is most appropriate?

(a) The transaction with Mr. D is permissible subject to certain conditions laid down in Companies Act, 2013. However, the company is not acting in accordance with law by approaching a valuer referred to in the description. Such a valuer needs registration from The Institute of Actuaries of India to act as valuer.

(b) The transaction with Mr. D is permissible subject to certain conditions laid down in the Companies Act, 2013. The company is acting in accordance with law by approaching a valuer referred to in the description.

(c) The transaction with Mr. D is permissible subject to certain conditions laid down in the Companies Act, 2013. However, the company is not acting in accordance with law by approaching a valuer referred to in the description. Such a valuer needs registration from Insolvency and Bankruptcy Board of India to act as valuer.

(d) The transaction with Mr. D is permissible subject to certain conditions laid down in Companies Act, 2013. However, the company is not acting in accordance with law by approaching a valuer referred to in the description. Such a valuer needs registration from The Institution of Engineers (India) to act as valuer.

5. STATEMENT 1: In case of trade involving 'B' in Greece and 'C' in Singapore, invoicing should not have been done by ABCD Ltd. in India.

STATEMENT 2: Value of such shipments has to be included by ABCD Ltd. in the value of exempt supply for the purpose of reversal of ITC under rules 42 and 43 of CGST Rules.

(a) Statement 1 is Correct & Statement 2 supports Statement 1.

(b) Both the Statements are Incorrect.

(c) Statement 2 is Correct & Statement 1 supports Statement 2.

(d) Statement 1 is Incorrect but Statement 2 is Correct.

Descriptive Questions

6. Provide the accounting treatment w.r.t. transaction between ABCD Ltd. and PQRS Ltd. in their respective books of accounts. Also show its impact on consolidated financial statements. Support your answer by Journal entries, wherever necessary, in the books of ABCD Ltd.

Following additional information is available:

Exchange rate on 1st January, 2024

1 Euro = ₹ 83

Exchange rate on 31st March, 2024

1 Euro = ₹ 85

7. As regards transaction with Mr. D, one of the directors, state few audit procedures pertaining to transaction to be performed by CA Krit Garg. Discuss probable purpose of such audit procedures also.
8. Discuss implications of proposed transaction relating to sending of company's merchandise for display in textile fair in Italy. Also discuss under what circumstances goods sold within India can still be categorized as exports under GST law and also touch upon taxability of such transactions under such law.

ANSWERS TO THE CASE STUDY 5

Answers to the Multiple Choice Questions

1. (b) Directorate General of Foreign trade under Ministry of Commerce and Industry is responsible for granting IEC.
2. (a) Firstly, modify the overall strategy and thereafter, prepare the audit plan in line with the strategy.
Reason: CA Krit should firstly modify the overall strategy and thereafter, prepare the audit plan in line with the strategy. This shows that the audit strategy and audit plan are closely inter-related as change in one is resulting into change in the other.
3. (b) Both the statements are Correct and independent of each other
Reason: GST is not leviable when goods deposited in customs bonded warehouse are sold before clearance; same is leviable when ex-bond bill of entry is filed for clearing such warehoused goods for home consumption. GST is not leviable on high sea sales (sales made to Panacea Pvt. Ltd.).
4. (c) The description provided in case study is an example of non-cash transactions with directors of company. Such transactions are governed u/s 192 of Companies Act, 2013. The company can undertake such transactions after fulfillment of conditions prescribed u/s 192 of Companies Act, 2013 like prior approval of such arrangement in general meeting accorded by resolution. Further, notice of such resolution also needs to indicate value of assets involved in such an arrangement calculated by a registered valuer. Such a valuer needs qualifications and experience as described in section 247 and relevant rules and needs registration from Insolvency and Bankruptcy Board of India (IBBI) to act as valuer. The valuation examination is also conducted by IBBI.
5. (b) Both the Statements are Incorrect.
Reason: Third country shipments or triangular trade is a common practice in international trade whereby goods move from one country to another without touching India; only invoicing is done by the registered person in India. Paragraph 7 of the Schedule III to CGST Act provides that supply of goods from a place in the non-taxable territory to another place in the non-taxable territory without such goods entering into India (third country shipments) is treated neither as a supply of goods nor a supply of services. Thus, there is no GST liability on such sales. Further, value of such

third country shipments is not included in the value of exempt supply for the purpose of reversal of ITC under rules 42 and 43 of CGST Rules [Explanation to section 17(3) of the CGST Act].

Answers to the Descriptive Questions

6. Accounting treatment in the books of ABCD Ltd (Functional Currency ₹)

ABCD Ltd will recognize sales of ₹ 1079 lakhs (13 lakhs Euro x 83)

Profit on sale of Inventory = 1079 lakhs – 936 lakhs = ₹ 143 lakhs.

On balance sheet date receivable from PQRS Ltd. will be translated at closing rate i.e. 1 Euro = ₹ 85. Therefore, unrealised forex gain will be recorded in standalone profit and loss of ₹ 26 lakhs. (i.e. (85 - 83) x 13 Lakhs)

Journal Entries

	₹ (in Lakhs)	₹ (in Lakhs)
PQRS Ltd. A/c Dr.	1079	
To Sales		1079
(Being revenue recorded on initial recognition)		
PQRS Ltd. A/c Dr.	26	
To Foreign exchange difference (unrealised)		26
(Being foreign exchange difference recorded at year end)		

Accounting treatment in the books of PQRS Ltd. (Functional currency EURO)

PQRS Ltd will recognize inventory on 1st January, 2024 of Euro 13 lakhs which will also be its closing stock at year end.

Accounting treatment in the consolidated financial statements

Receivable and payable in respect of above-mentioned sale/purchase between ABCD Ltd and PQRS Ltd will get eliminated.

The closing stock of PQRS Ltd will be recorded at lower of cost or NRV.

	Euro (in lakhs)	Rate	₹ (in lakhs)
Cost	13	83	1079
NRV (Assumed Same)	13	85	1105

Therefore, no write off is required. The amount of closing stock of ₹ 1079 includes two components–

Cost of inventory for ₹ 936 lakhs; and Profit element of ₹ 143 lakhs; and

At the time of consolidation, the second element amounting to ₹ 143 lakhs will be eliminated from the closing stock.

Journal Entry

	₹ (in Lakhs)	₹ (in Lakhs)
Consolidated P&L A/c Dr.	143	
To Inventory		143
(Being profit element of intragroup transaction eliminated)		

7. The transaction with Mr. D, director of company, is in nature of non-cash transactions referred to in section 192(1) of Companies Act, 2013. Few audit procedures in this regard include:

- (i) Obtain management representation as to whether the company has undertaken any non-cash transactions with the directors or persons connected with the directors, as envisaged in section 192(1) of the Companies Act, 2013. The auditor would need to corroborate the management representation with sufficient appropriate audit evidence. Reference can be made to minute books, movements in PPE register of company, and relevant registers/records.
- (ii) The auditor should check compliance with section 192(2) of the Companies Act, 2013 and verify the notice of the general meeting that it includes particulars of arrangement along with the value of the assets involved in such arrangements.
- (iii) The said value of assets should be calculated by the registered valuer in compliance of Companies (Registered Valuers and Valuation) Rules, 2017.

The purpose of performing such audit procedures could be reporting requirement for non-cash transactions under clause (xv) of Paragraph 3 of CARO, 2020. The said clause requires the auditor to report whether the company has entered into any non-cash transactions with directors or persons connected with him and if so, whether the provisions of section 192 of Companies Act have been complied with.

8. Export of goods or services are treated as inter-State supply and zero rated. This means that even if there is full exemption for the supply, ITC is still available to the exporter. The exporter will have an option to either pay IGST on the outward supply and claim refund of such IGST paid or export under Bond/LUT without payment of IGST and claim refund of ITC. The objective is to make Indian exports competitive in the international market. It may be noted that since exports are inter-State supplies, the tax associated with them will always be IGST.

- (a) Rahul has purchased a license to put up a stall in the Textile Supermarket Global Fair to be held at Milan, Italy and he wishes to send his team to this fair along with their company's merchandise to displayed over there for promotional purposes.

Sending/taking goods out of India for exhibition or on consignment basis for export promotion: Circular No. 108/27/2019 GST dated 18.07.2019 has clarified that the activity of sending/taking goods out of India for exhibition or on consignment basis for export promotion, except when such activity satisfy the tests laid down in Schedule I of the CGST Act, does not constitute supply as the said activity does not fall within the scope of section 7 of the CGST Act as there is no consideration at that point in time. Since such activity is not a 'supply', the same cannot be considered as "zero rated supply" as per the provisions contained in section 16 of the IGST Act. Thus, activity of sending/ taking specified goods out of India is not a zero-rated supply. That being the case, execution of a bond or LUT, as required under section 16 of the IGST Act, is not required.

- (b) He had heard from a dear friend that he could sell his company's products within India and these still can be categorized as exports.

It takes place in deemed exports. Deemed exports refers to supplies of goods manufactured in India (and not services) which are notified as deemed exports under section 147 of the CGST Act. Such supplies do not leave India and the payment for the same is received either in Indian rupees or in convertible foreign exchange.

Following categories of supply of goods have been notified as deemed exports by the Government vide Notification No. 48/2017 CT dated 18.10.2017:

- (a) Supply of goods by a registered person against Advance Authorisation (AA)

- (b) Supply of capital goods by a registered person against **Export Promotion Capital Goods Authorisation (EPCG)**
- (c) Supply of goods by a registered person to **Export Oriented Unit (EOU)**
- (d) Supply of gold by a bank or **Public sector Undertaking** specified in Notification No. 50/2017 Cus dated 30.06.2017 (as amended) against **AA**

Taxability of deemed exports

Deemed exports are not zero-rated supplies by default, unlike the regular exports. Hence, all supplies notified as supply for deemed export are subject to levy of taxes, i.e. such supplies can be made on payment of tax and cannot be supplied under a Bond/LUT.

However, the refund of tax paid on the supply regarded as deemed export is admissible to either the supplier or the recipient. Thus, the application for refund has to be filed by the supplier or the recipient (subject to certain conditions) of deemed export supplies, as the case may be.

NEW COURSE DIGEST

Case Study 6

Subjects	Topics Covered	Marks
FR	Ind AS 20	5
DT	TDS (Section 194J)	2
IDT	Supply, Place of Supply, RCM	11
Law	Companies Act (Section 152, 180)	7

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

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

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

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

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

During the financial year under consideration, the Board of Directors of the company passed a board resolution to sell one of the company's undertakings out of the multiple undertakings of the company. One of the directors of the company, Mr. Ramesh, is of the view that the board can exercise this power with the consent of the

shareholders by way of an ordinary resolution and passing only Board resolution would not be sufficient. The other directors on the Board, however, did not agree to him. The investment of company in said undertaking which has been proposed to sell is 22% of its net worth as per the audited balance sheet of F.Y. 2022-23.

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

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

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

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

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

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

Multiple Choice Questions

1. Is the understanding of Mr. Ramesh for obtaining prior consent for selling one of the undertakings of the company, correct, considering the fact that Luminous Limited is not a private company?
 - (a) No, as only board's resolution is required in this case, which has been duly passed.
 - (b) No, as the Board can exercise this power with the consent of the shareholders by a special resolution and not on its own simply by passing of an ordinary resolution.
 - (c) Yes, his understanding is correct.
 - (d) Partly correct, as the Board shall exercise the powers with the consent of the company by an ordinary resolution and not only by passing a Board resolution at a Board meeting. Further, prior approval of the Registrar of Companies is also required.
2. What is the place of supply with respect to the professional service rendered by Mr. George to Mr. Ramesh?
 - (a) Chennai

- (b) Delhi
 - (c) USA
 - (d) Place of supply is not relevant, as such services are not liable to GST as the property is situated outside India.
3. What is the place of supply with respect to the tickets bought by Mr. Ramesh for the amusement park?
- (a) Delhi
 - (b) Gurugram
 - (c) With respect to tickets purchased for Mr. Ramesh and his wife, the place of supply is Delhi and for the ticket purchased for his son, the place of supply is Jaipur.
 - (d) Either Delhi or Gurugram
4. Which of the following is the correct statement with respect to the GST liability in case of the fees paid to Mr. Baldev?
- (a) GST shall be payable by Luminous Ltd. under reverse charge mechanism.
 - (b) GST shall be payable by Mr. Baldev.
 - (c) Sitting fees paid to the director of a company is not liable to GST.
 - (d) Sitting fees paid to the director of a company is treated as salary paid to the director and is subjected to deduction of TDS under section 192 of the Income Tax Act, 1961 and not liable to GST.
5. Mr. Baldev has got sitting fees amounting to ₹ 35,000 in the capacity of director of company for month of December. Which of following statements is most appropriate in this regard?
- (a) Such an income is taxable in hands of Mr. Baldev under the head "Income from other Sources". The company should deduct tax at source @ 1% while making such payment.
 - (b) Such an income is taxable in hands of Mr. Baldev under the head "Salaries". The company should deduct tax at source at rates in force applicable to salaried individual while making such payment.
 - (c) Such an income is taxable in hands of Mr. Baldev under the head "Income from other Sources". The company should deduct tax at source @ 5% while making such payment.
 - (d) Such an income is taxable in hands of Mr. Baldev under the head "Income from other Sources". The company should deduct tax at source @ 10% while making such payment.

Descriptive Questions

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

ANSWERS TO THE CASE STUDY 6

Answers to the Multiple Choice Questions

1. (b) No, as the Board can exercise this power with the consent of the shareholders by a special resolution and not on its own simply by passing of an ordinary resolution.

Reason: The powers of the Board of Directors of a company are not unrestricted or uncontrollable as Section 180 of the Companies Act 2013 portrays. This Section contains directive provisions which direct that the powers in respect of specified matters shall be exercised by the Board subject to the certain restrictions i.e. in such cases the exercise of powers by the Board shall be restricted as per law. Section 180 is not applicable to a private company.

- (i) Matters in respect of which powers shall be exercised after obtaining consent by a special resolution: According to Section 180(1), following are the matters in respect of which the Board shall exercise the powers with the consent of the company by a special resolution and not on its own simply by passing a Board resolution at a Board meeting:

To sell, lease or otherwise dispose of the whole or substantially the whole of the undertaking of the company or where the company owns more than one undertaking, of the whole or substantially the whole of any of such undertakings. In other words, out of multiple undertakings of a company even if one is sold, leased or disposed of, either wholly or substantially, the consent by special resolution shall be required.

2. (b) Delhi

Reason: The place of supply of services--

- (a) directly in relation to an immovable property, including services provided by architects, interior decorators, surveyors, engineers and other related experts or estate agents, any service provided by way of grant of rights to use immovable property or for carrying out or co-ordination of construction work; or
- (b) by way of lodging accommodation by a hotel, inn, guest house, home stay, club or campsite, by whatever name called, and including a house boat or any other vessel; or
- (c) by way of accommodation in any immovable property for organising any marriage or reception or matters related thereto, official, social, cultural, religious or business function including services provided in relation to such function at such property; or

- (d) any services ancillary to the services referred to in clauses (a), (b) and (c),

shall be the location at which the immovable property or boat or vessel, as the case may be, is located or intended to be located. Provided that if the location of the immovable property or boat or vessel is located or intended to be located outside India, the place of supply shall be the location of the recipient.

3. (b) Gurugram

Reason: The place of supply of following services-

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

is the place where the event is actually held or where the park or such other place is located.

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

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

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

Answers to the Descriptive Questions

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

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

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

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

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

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

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

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

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

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

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

Service of Attorney taken by Luminous Limited:

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

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

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

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

1. Entire grant amount of ₹ 30 lakhs should be recognised immediately in the profit & Loss account as there are no conditions attached to the grant.
2. ₹ 5 lakhs should be recognised as deferred income and will be transferred to profit and loss over the useful life of the asset. In this case, ₹ 1,00,000 [₹ 5 lakhs/5] should be credited to profit and loss each year over period of 5 years.

Alternatively, ₹ 5,00,000 may be deducted from the cost of the asset and depreciation shall be charged at ₹ 10,00,000 (₹ 15,00,000 – ₹ 5,00,000).

3. Land should be recognised at fair value of ₹ 20 lakhs and government grants should be presented in the balance sheet by setting up the grant as deferred income. Alternatively, deduct the amount of grant from the cost of the asset. In the given case, the land is granted at no cost. It will be presented in the books at nominal value.
4. As per paragraph 29 of Ind AS 20, Grants related to income are presented as part of profit or loss, either separately or under a general heading such as 'Other income'; alternatively, they are deducted in reporting the related expense.

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

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

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

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

The Standard regards both the methods as acceptable for the presentation of grants related to income. However, method 2 may be more appropriate when the company can relate the grant to a specific expenditure. The Standard also provides that disclosure of the grant may be necessary for a proper understanding of the financial statements. Disclosure of the effect of the grants on any item of income or expense which is required to be separately disclosed is usually appropriate.

NEW COURSE DIGEST

Case Study 7

Subjects	Topics Covered	Marks
FR	Ind AS 41	5
Audit	Audit Strategy	5
DT	Application v/s Diversion, PGBP (Section 33AB)	9
IDT	GST Basics, Job Work	4
Law	Companies Act (Section 180)	2

Mr. Murli Lal & Mrs. Bansuri Devi have been residing in the village of Manpur since their marriage. They have been actively involved in their Agriculture & Dairy farming business in the village and sell their output in the nearby villages as well. They have earned much accolades for the business they run and have accrued much wealth. There have been many instances where the couple felt that they could move to a metro town to explore more but without any knowledge of the business world and modern compliances, they would feel handicapped. Their children are also settled abroad. One fine day, when they are visited by CA Puru, a fast friend of their son who would usually come down to village quite often to know about the well being of his friend's parents from time to time, Mrs. Bansuri Devi discusses with him about the agricultural operations she manages with the help of her team in the village and the scale of operations they maintain. Puru tells them about how agricultural activities are maintained and operated in the metro towns like Mumbai where he lives and practices his profession. During the discussion, he tells her that one of his clients, M/s Khetibaadi Ltd., a listed company is involved in agricultural and allied operations by procuring material from nearby areas. This company is also involved in various other types of Animal Husbandry operations and works on the same scale as Mrs. Bansuri Devi & Mr. Murli Lal work in the village. On getting curious, Mrs. Bansuri Dev asks him about the form and style in which Khetibaadi Ltd. works in the city. Puru tells her that unlike villages, in corporate world, the large businesses have to follow certain standards of accounting while maintaining the books and balances of their businesses. Standards related to agriculture set 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). The standards generally require biological assets to be measured at fair value less costs to sell. He tells her about following activities carried out by Khetibaadi Ltd.:

- Managing animal-related recreational activities like Zoo
- Fishing in the ocean
- Fish farming
- Development of living organisms such as cells, bacteria and viruses for research
- Growing of plants to be used in the production of drugs.

Hearing about this, Mrs. Bansuri Devi persuades Mr. Murlilal to set up a company in town under Puru's guidance to expand their business outside village as well. CA Puru assures Mr. Murlilal on all his queries and tells him that he and his team will help them at every step in setting up their company. Soon, the couple, with the help of CA Puru, set up and started operating their company in Mumbai under the name & style of M/s. Bansuri Pvt. Ltd. which ventured into business of agricultural operations with Mr. Murlilal, Mrs. Bansuri Devi and Mr. Prabhudeva as the Directors of the Company. Mr. Prabhudeva appointed as the managing director, as the former directors are quite busy in the business already set up at Manpur. The company got registered under GST, solely, in the state of the Maharashtra. During the year, the company falls short of funds and they decide

to borrow funds from the market. The Board of Directors of the company resolve to borrow a sum of ₹ 20 crores from a nationalized bank at a Board meeting held on 15.1.2024. Mr. Prabhudeva, who opposes the said borrowing as not in the interest of the company has raised an issue that the said borrowing is outside the borrowing powers of the Board putting forward the following data:

- (i) Share Capital ₹ 5 crores
- (ii) Reserves and Surplus ₹ 5 crores
- (iii) Secured Loans ₹ 10 crores
- (iv) Unsecured Loans ₹ 5 crores.

After the meeting, since Mr. Murlilal was in Mumbai, he wanted to discuss all the tax matters with CA Puru and sits with him in his office for the same:

1. With business expansion, Mr. Murlilal has also purchased a controlling stake in M/s Khetibaadi Ltd. and is now a Director in the said company. He wants Puru to tell him briefly about the performance of this company in Tea Market as well. Puru tells him that for the previous year ended 31.03.2023, Khetibaadi Ltd.'s composite business profits before allowing deduction relating to growing and manufacturing of tea is ₹ 50,00,000. On 01.09.2023, it deposited a sum of ₹ 10,00,000 in the Tea Development Account. During the previous year 2021-22, this company had incurred a business loss of ₹ 15,00,000 which has been carried forward. On 25.01.2024, it withdrew ₹ 10 lakhs, from deposit account which is utilized as:
 - (1) ₹ 6,00,000 for purchase on non-depreciable asset as per the scheme specified;
 - (2) ₹ 3,00,000 for purchase of machinery to be installed in the office premises;
 - (3) ₹ 1,00,000 was spent for the purpose of scheme on 05.04.2024.

Mr. Murlilal wants to know about the income of the company for the year & the tax liabilities, if any, thereon, and about which CA Puru gives him an approximate idea of at that time itself.

2. Mr. Prabhudeva had informed CA Puru about two peculiar transactions related to GST which he wanted to discuss in the presence of Mr. Murlilal, related to M/s Bansuri Pvt. Ltd. In one of the cases, they send raw tea leaves to their registered job worker under GST, Mr. Sharma in Mangalore, Karnataka and further, the processed flavored tea, which is further delivered to the wholesalers in Telangana from the job worker's place in Mangalore itself with invoice and the e-way bill was issued by the company's department from the Mumbai office. Further, he asks him about the treatment of another transaction. They had sent a special lot of Tea "Rosa" to another Job worker, Mr. Shakti Puri, in Ratlam for making flavored tea as per the directions given. Further, due to a decline in the market of flavored tea, they send fresh normal unprocessed raw tea with new instructions to the job worker to hold the earlier consignment in stock till a buyer is found. The new stock is easily sold, but the old stock lies in the godown of the job worker for over a year. CA Puru guides them properly about the tax treatment of these two transactions under GST.
3. Mr. Murlilal is happy that their business has gone online as well and now they are selling their products through various e-commerce platforms. Mr. Prabhudeva shows his concern over the online selling part and wants CA Puru to keep a check on working of same during his audit. CA Puru assures him that his audit strategy would majorly be based on the fact that a good part of company's business has gone online. In the evening, Mr. Murlilal takes Puru with him to meet his old friend Mr. Babu Lal who resides in Mumbai with his family. Mr. Babulal had requested him for a meeting with Puru so as he could discuss with latter certain tax related issues of his family and hire his services for tax related work. Mr. Babulal tells Puru that his son Gautam is liable to pay ₹ 10,000 per month to Barkha (his ex-wife) as alimony. Gautam, being an employee of PQR Pvt. Ltd., has instructed his company's HR department to pay ₹ 10,000

per month out of his salary to his wife directly and remit the remaining salary in his account. Mr. Babulal wants to know the tax treatment of such alimony given by Gautam in his hands. Further, he tells CA Puru that he works under a partnership firm in which he and his other two sons, Mr. B & Mr. C are partners. The partnership deed provides that after his death, Mr. B & Mr. C shall continue the business of the firm subject to a condition that 20% of profit of the firm shall be given to Mrs. Daya (wife of Mr. Babu Lal). Mr. Babu Lal wants to know the tax treatment of such receipt in his wife's hands after his death. Puru satisfies Mr. Babu Lal by solving all his queries and quotes his fee to handle all tax related matters of the family.

Multiple Choice Questions

1. An assessee carrying on business of growing and manufacturing tea is allowed a deduction under income tax law upon fulfilment of certain conditions like depositing amount in a deposit account opened in accordance with scheme framed by Tea Board. Deposits made in accordance with schemes framed by other Boards for agricultural commodities also qualify for similar deduction. Which of following schemes qualify in this regard?
 - (a) Schemes framed by Coffee Board and Spices Board
 - (b) Schemes framed by Rubber Board and Spices Board
 - (c) Schemes framed by Coffee Board and Rubber Board
 - (d) Schemes framed by Coffee Board, Rubber Board and Spices Board
2. Select the correct option on the basis of the following two statements:
 STATEMENT 1: Payment of 20% Profit to Mrs. Daya is Application of Income.
 STATEMENT 2: Payment of alimony by Gautam to his ex-wife is Diversion of Income.
 - (a) Statement 1 is Correct but Statement 2 is Incorrect.
 - (b) Statement 1 is Incorrect but Statement 2 is Correct.
 - (c) Both the Statements are Correct.
 - (d) Both the Statements are Incorrect.
3. What would be the GST Treatment of the stock lying with Mr. Shakti Puri?
 - (a) Tax payable by Mr. Shakti Puri.
 - (b) Tax payable by Bansuri Pvt. Ltd.
 - (c) No GST liability.
 - (d) Tax payable by Bansuri Pvt. Ltd. on its removal from the premises of Mr. Shakti Puri.
4. Bansuri Pvt. Ltd. is also engaged in sending raw tea leaves to job workers and selling processed tea after the job work is performed. Which of the following forms/returns is to be filed by Bansuri Pvt Ltd on GST portal in this respect:
 - (a) ITC-04
 - (b) ITC-03
 - (c) ITC-02
 - (d) ITC-01
5. W.r.t the decision taken at the 4th Board Meeting, the contention of Director Prabhudeva is -
 - (a) Valid, as per the provisions of the Companies Act, 2013.

- (b) Invalid, as Bansuri Pvt Ltd is a Private Company.
- (c) Valid, subject to passing an Ordinary Resolution in the General Meeting.
- (d) Valid, subject to passing a Special Resolution in the General Meeting.

Descriptive Questions

6. Analyse whether the activities as narrated by CA Puru to Mrs. Bansuri Devi w.r.t Khetibaadi Ltd. fall within the scope of Ind AS 41 with proper reasoning.
7. You are required to state income tax implications of withdrawals from deposit account during financial year 2023-24 relevant for assessment year 2024-25.
8. What specific factors for online shopping would be considered by CA Puru in formulating the audit strategy of the company in the above case keeping in mind the concern raised by Mr. Prabhudeva?

ANSWERS TO THE CASE STUDY 7

Answers to the Multiple Choice Questions

1. (c) Schemes framed by Coffee Board and Rubber Board enjoy similar deduction under section 33AB of Income Tax Act.
2. (d) Both the Statements are Incorrect.
Reason: STATEMENT 1: Such income does not reach the assessee-firm. Rather, such income stands diverted to the other person as such other person has a better title on such income than the title of the assessee. The firm might have received the said amount, but it so received for and on behalf of Mrs. Dayaa, who possesses the overriding title. Therefore, amount payable to Mrs. Daya after the death of Mr. Babu Lal would be excluded from income of partnership firm in question.
STATEMENT 2: In this case, the amount of ₹ 10,000 per month is an obligation of Gautam to pay to his ex-wife out of his income and not an income in which she had over riding entitlement. In other words, this is the income of Gautam, which is applied by him to fulfill an obligation and hence, includible in his total income and a mere arrangement to pay a sum directly to his ex-wife would not make it a case of diversion of income.
3. (b) Tax payable by Bansuri Pvt. Ltd.
Reason: Here, sending of unprocessed tea by Bansuri Pvt Ltd to the job worker Mr. Shakti Puri in the first lot will be deemed as a supply and thus, tax would be payable on the same by the company.
4. (a) ITC-04.
Reason: ITC-04 is the prescribed return/form under GST Rules for giving account of goods sent on job work and received back.
5. (b) Invalid, as Bansuri Pvt Ltd is a Private Company.
Reason: According to the provisions of Section 180(1)(c) of the Companies Act, 2013, the powers of the Board are not uncontrolled and there are restrictions on the borrowing powers to be exercised by the Board of Directors. According to the said section, the borrowings should not exceed the aggregate of the paid-up share capital, free reserves and securities premium. While calculating the limit, the temporary loans obtained by the company from its bankers in the ordinary course of business will be excluded. However, from the figures available in the present case, the proposed borrowing of ₹ 20 crore will exceed the limit calculated as per the given

information. Thus, the proposed borrowings are beyond the powers of the Board of Directors. In view of the above position, the management of any Company should take steps to pass a special resolution authorising to borrow the proposed amount of ₹ 20.00 crore, so that the requirement of Section 180(1)(c) is satisfied. Only thereafter, the proposed borrowing can be availed of.

However, Bansuri Private Limited is a Private Company and as per the MCA notification dated 5th June, 2015 which stated that this section shall not apply to private companies. Further on 4th January 2017, Specified IFSC public company would also not be required to comply with this section, unless the article of the company provides otherwise. Hence, they can avail the required Borrowing. As notified by the MCA, Section 180 of the Act (i.e. restrictions on the powers of the Board) shall not apply to a private company which has not committed a default in filing its financial statements under Section 137 or Annual Return under Section 92 with the Registrar. [Notification No. 464(E), dated 5th June, 2015 as amended by Notification No. 583 (E), dated 13th June, 2017.]

Answers to the Descriptive Questions

6. Activities in scope of Ind AS 41

Activity	Whether in the scope of Ind AS 41?	Remarks
Managing animal-related recreational activities like Zoo	No	Since the primary purpose is to show the animals to public for recreational purposes, there is no management of biological transformation but simply control of the number of animals. Hence it will not fall in the purview of considered in the definition of agricultural activity.
Fishing in the ocean	No	Fishing in ocean is harvesting biological assets from unmanaged sources. There is no management of biological transformation since fish grow naturally in the ocean. Hence, it will not fall in the scope of the definition of agricultural activity.
Fish farming	Yes	Managing the growth of fish and then harvest for sale is agricultural activity within the scope of Ind AS 41 since there is management of biological transformation of biological assets for sale or additional biological assets.
Development of living organisms such as cells, bacteria viruses	No	The development of living organisms for research purposes does not qualify as agricultural activity, as those organisms are not being developed for sale, or for conversion into agricultural produce or into additional biological assets. Hence, development of such organisms for said purposes does not fall under scope of Ind AS 41.
Growing of plants to be used in the production of drugs	Yes	If an entity grows plants for using it in production of drugs, the activity will be agricultural activity. Hence it will come under the scope of Ind AS 41.

7. Tax consequences for the A.Y. 2024-25

Particulars	(₹)
₹ 10,00,000 being the amount withdrawn from Tea Development Account has to be utilized in the	

prescribed manner, otherwise, the withdrawn amount would be chargeable to tax as business income. In the given case, the taxability of withdrawal amount based on their utilization is as follows:

- ₹ 6,00,000, out of the amount withdrawn from the deposit account, utilised for purchase of non-depreciable asset as per the specified scheme. [As per section 33AB(6), no deduction would be allowed under section 33AB since amount is spent out of ₹ 10 lakh deposited in Tea Development Account, which has already been allowed as deduction in A.Y.2023-24 (See Working Note below)].	Not taxable
- ₹ 3,00,000, being the amount utilized for purchase of machinery to be installed in the office premises is not a permissible utilization. Hence, the amount would be deemed as profits and gains of business of the previous year 2023-24 as per section 33AB(4).	3,00,000
- ₹ 1,00,000 was spent for the purpose of scheme on 05.04.2024. As per section 33AB(7), this amount would be taxable since the same is not utilized during the same previous year (i.e., P.Y. 2023-24) in which the amount is withdrawn from the deposit account.	1,00,000

When any part of withdrawal amount becomes taxable, the agricultural and non-agricultural portions of income must be segregated.

Accordingly, ₹ 1,60,000, being 40% of ₹ 4,00,000 (₹ 3,00,000 + ₹ 1,00,000) would be chargeable to tax as business income and the balance ₹ 2,40,000, being 60% of ₹ 4,00,000 would be agricultural income exempt from tax.

Working Note:

Computation of Business Income of Khetibaadi Ltd. for A.Y. 2023-24

Particulars	(₹)
Composite business profits before allowing deduction under section 33AB	50,00,000
Less: Deduction under section 33AB(1) would be the lower of:	
- Amount deposited in Tea Development Account on or before 30.9.2023 [i.e., ₹ 10,00,000]	
- 40% of profits of such business [i.e., ₹ 20,00,000, being 40% of ₹ 50,00,000]	10,00,000
	40,00,000
Less: 60% of ₹ 40,00,000, being agricultural income [as per Rule 8]	24,00,000
Business income	16,00,000
Less: Brought forward business loss of A.Y. 2022-23 set-off as per section 72	15,00,000
Business income chargeable to tax	1,00,000

8. Formulation of Audit Strategy: While formulating the audit strategy for a company, following specific factors may be considered by the auditor for Online Shopping:

The auditor shall also obtain an understanding of the information system including the related business processes due to new venture of online shopping in the following areas:

- The classes of transactions in the entity's operations that are significant to financial statements;
- The procedures, within both information technology (IT) and manual systems, by which those transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements;
- The related accounting records, supporting information and specific accounts in the

financial statements that are used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information is transferred to the general ledger. The records may be in either manual or electronic form;

- (iv) **How the information system captures events and conditions**, other than transactions, that are significant to the financial statements;
- (v) **Controls surrounding journal entries**, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments.

NEW COURSE DIGEST

Case Study 8

Subjects	Topics Covered	Marks
FR	Ind AS 115	7
DT	PGBP, IFOS [Section 56(2)(x)]	12
IDT	Customs Valuation	6

LWS & Co., a Chartered Accountant Firm has been into practice since 2006 in Delhi. CA Suresh Shah and CA Harvinder Kaur started their firm after practicing individually for almost 4 years and now firm has grown into big firm of 5 partners. The partners of firm have contributed various articles on subjects of Direct Tax and Allied Laws in professional journals and magazines. The clientele encompasses various segments i.e. software, education, NGOs, Government Bodies, Real Estates, Construction, jewellery and a host of others. Over the years, the firm has evolved into renowned professional firm that has worked on various assignments ranging from Statutory Audits, Management Audits, Income Tax Planning, FEMA Consultancy, GST Consultancy, Establishment of Overseas ventures and other related matters.

The firm has unique way of training its articles by involving them with its experienced partners on crucial projects so that they are able to learn and understand the practical issues arising in the industry. Currently, Subhash, Ashish and Manoj being articles of the firm are working with CA Harsh Bhatia, CA Nikhil Grover and CA Sakshi Ahuja, respectively for the prestigious clients of the firm.

(1) Subhash assisting CA Harsh Bhatia

Currently, CA Harsh Bhatia is working on the applicability of Ind-AS for various clients. The firm has a prestigious client, Shivalik Construction Private Limited, a construction company. On 1st January 2024, the company contracts to renovate a building including the installation of new elevators. The company estimates the following with respect to the contract:

Particulars	Amount (₹)
Transaction price	60,00,000
Expected costs:	
(a) Elevators	10,00,000
(b) Other costs	35,00,000
	45,00,000

The company purchased the elevators and they are delivered to the site six months before they will be installed. The Company uses an input method based on cost to measure progress towards completion. The Company has incurred actual other costs of ₹ 7,00,000 by 31st March, 2024. The accounts team of the Company is facing difficulty in recognising revenue in respect of above contract. So, they have approached CA Harsh Bhatia with the abovementioned facts. So, CA Harsh Bhatia delegated the said work to Subhash to start initial working and then revert to him with his opinion.

(2) Ashish assisting CA Nikhil Grover

CA Nikhil Grover handles the tax department of the firm. The final calculation of income tax and their tax planning is being headed by CA Nikhil Grover. He is nowadays being assisted by Ashish. One of the oldest clients of the firm is MVS Private Ltd. The accountant of the company approached CA Nikhil Grover for calculation of final tax liability of the company. CA Nikhil assigned the work to Ashish. The accountant showed the financials of the company to Ashish as below:

The Profit & Loss Account of MVS private Limited for the year ended 31st March, 2024 shows a profit of ₹ 75

lakhs after debiting the following items:

- (i) ₹ 2-Lakhs contributed to Employee's Welfare Trust (not required as per any law for the time being in force).
- (ii) ₹ 7,80,000 paid towards course fee and hostel expenses for MBA course of a close relative of a director. The relative is not in employment with the company.
- (iii) ₹ 3.50 lakhs being expenses incurred on installation of a traffic signal, so as to facilitate its employees coming to office to overcome traffic jam and save office time.
- (iv) ₹ 3 lakhs spent of gift items distributed to various dealers under the company's sales incentive scheme.
- (v) ₹ 6 lakhs being expenses incurred on the travelling of the wife of MD, who accompanied him on tour to Singapore on invitation of Trade and Commerce chamber, Singapore.
- (vi) ₹ 3 lakhs being amount paid in March 2024 consequent upon change in currency rate due to exchange fluctuation in excess of the amount due to the supplier of machinery. Such second hand machinery was acquired and put to use on 10th September, 2023.
- (vii) ₹ 18,000 and ₹ 9,000 paid in cash on 25th October, 2023 by two separate vouchers to a contractor who carried out certain repair work in the office premises.
- (viii) Interest of ₹ 2 lakhs was paid in September, 2023 to a company on a loan taken from it. Tax deducted at source, during P.Y. 2023-24, from such interest was deposited in April, 2024.

Additional Information:

- (a) Audit fee of ₹ 6 lakhs was credited during Previous Year 2022-23 without deducting tax at source. Such fee was paid to the auditors in September, 2023 after deducting tax under section 194J and the tax so deducted was deposited on 7th December, 2023. 30% of audit fee was disallowed while computing income for financial year 2022-23.
- (b) During financial year under consideration, the company purchased 10,000 shares of AB Private Limited out of its total 2 lakh shares at ₹ 40 per share. The fair market value of such shares on the date of transaction was ₹ 60 per share.

(3) Manoj assisting CA Sakshi Ahuja

Mr Amit, the director of SSI Pvt. Ltd. visited CA Sakshi Ahuja who is handling all the custom related work of the clients for past 7 years. The company imported machinery from USA by air for which the details are given as under. FC signifies foreign currency in appended table.

Purchase cost of Machinery	FC 7,000
Accessories worth FC-2,000 compulsorily supplied with machine, price of which is included in price of machine	
Air Freight	FC 2,000
Insurance	FC 100
Local Agent Commission (not buying commission)	₹ 4,500
Exchange Rate with respect to INR	1 FC = 70
Custom Duty on Machine	10% ad valorem
Custom duty on Accessory	20% ad valorem
Integrated Tax	12%
GST Compensation cess	Nil
SWS (Social Welfare Surcharge)	10%

Multiple Choice Questions

1. With reference to the Information given in point (3), compute the customs FOB value of machinery purchased by SSI Pvt. Ltd. as per the Customs Act, 1962.
 - (a) ₹ 4,90,000
 - (b) ₹ 4,94,500
 - (c) ₹ 6,30,000
 - (d) ₹ 6,37,000
2. With reference to the Information given in point (3), compute Assessable Value of Machinery purchased by SSI Pvt. Ltd. as per the Customs Act, 1962.
 - (a) ₹ 6,00,400
 - (b) ₹ 6,37,000
 - (c) ₹ 6,41,500
 - (d) ₹ 7,81,500
3. With reference to the Information given in point (3), compute the total customs duty and integrated tax payable as per the Customs Act, 1962 by SSI Pvt. Ltd. in respect of imported machine.
 - (a) ₹ 1,54,918
 - (b) ₹ 1,46,017
 - (c) ₹ 1,56,013
 - (d) ₹ 1,90,060
4. With reference to the Information given in point (2), compute the Income of MVS Private Limited taxable under the head "Income from other sources".
 - (a) ₹ 4,00,000
 - (b) ₹ 1,50,000
 - (c) ₹ 2,00,000
 - (d) Nil
5. Existence of which of the conditions would make it appropriate for Shivalik Construction Private Ltd. to recognise revenue only to extent of costs incurred?
 - (i) The goods do not represent a distinct performance obligation;
 - (ii) The goods represent a distinct performance obligation;
 - (iii) Customer is expected to obtain control of the goods significantly before receiving the services;
 - (iv) Cost of such goods is significant relative to the total expected costs to complete the performance obligation; and
 - (v) The entity procures the goods from a third party and does not significantly involve in designing / manufacturing the goods (even if the entity is a principal in the arrangement between the entity and end customer).

In the above context, which of the following is correct combination:

- (a) (i), (ii), (iii), (iv), (v)
- (b) (i), (iii), (iv), (v)

- (c) (ii), (iii), (iv), (v)
 (d) (i), (ii), (iii), (iv)

Descriptive Questions

6. Compute total income of MVS Private Limited for Assessment Year 2024-25 and tax payable under Income Tax Act on such income indicating reasons for treatment of each item. Ignore the provisions relating to minimum alternative tax. Assume that company does not opt for provisions of section 115BAA. (Turnover of the company for Previous Year 2021-22 was ₹ 250 crores)
7. How will Shivalik Construction Private Limited recognize revenue as per the relevant Ind AS, if performance obligation is met over a period of time.

ANSWERS TO THE CASE STUDY 8

Answers to the Multiple Choice Questions

1. (b) ₹ 4,94,500

Reason:

Particulars	Amount
Cost of machinery inclusive of accessory (FOB) (See note)	FC 7,000
Total (in Indian ₹) FC 7000 * ₹ 70 (being Exchange Rate)	₹ 4,90,000
Add: Local Agency Commission	₹ 4,500
FOB Value as per Customs	₹ 4,94,500

Note:

- As per Accessories (Conditions) Rules, 1963, accessories and spare parts compulsorily supplied with main implements are chargeable at the same rate applicable to main machine. Therefore, such accessories shall also be chargeable with duty at the rate applicable to the machinery i.e. 10% ad valorem
- Agency Commission, which is incurred in India, is not regarded as Buying Commission and therefore will be added to determine customs FOB Value.

2. (a) ₹ 6,00,400

Reason:

Particulars	Amount
Cost of machinery inclusive of accessory (FOB) (See note)	FC 7,000
Total (in Indian ₹) FC 7,000 * ₹ 70 (being Exchange Rate)	₹ 4,90,000
Add: Agency Commission	₹ 4,500
FOB Value as per Customs	₹ 4,94,500
Add: Cost of insurance (FC 100 * ₹ 70)	₹ 7,000
Add: Air freight restricted to 20% of FOB Value as per customs	₹ 98,900
CIF Value/Assessable Value	₹ 6,00,400

Note: Actual Air freight is FC 2,000, it is limited to 20% of Custom FOB value of Goods as per Rule 10(2) of Custom Valuation Rules

3. (b) ₹ 1,46,017

Reason:

Particulars		Amount (₹)
Assessable Value	(A)	6,00,400
Add: Basic Custom Duty (10%)	(B)	60,040
Add: SWS @10% on BCD	(C)	6,004
Total for Integrated Tax u/s 3(7) CTA,1975	(D)	6,66,444
Integrated Tax @ 12% of ₹ 6,66,444 (rounded off)	(E)	79,973

Total Custom Duty Payable = (B) + (C) + (E) i.e. ₹ 1,46,017

4. (c) ₹ 2,00,000

Reason: Income from other sources - Difference between the aggregate fair market value of shares of a closely held company and the consideration paid for purchase of such shares is deemed as income in the hands of the purchasing company under section 56(2)(x). Since the difference exceeds ₹ 50,000, the entire sum is taxable.

10,000 shares * (60 - 40) = ₹ 2,00,000

5. (b) (i), (iii), (iv), (v)

Reason: While applying input method, a careful consideration should be given for events that do not depict a direct relationship between entity's inputs and transfer of control of goods or services. For example, when cost-based input method is used, an adjustment may be required when cost incurred is not proportionate to entity's progress in satisfying its performance obligation. In such cases, the best reflection is to adjust the input method to recognise revenue only to the extent of costs incurred. Such recognition of revenue to the extent of costs incurred is appropriate, if at contract inception, all the following conditions exist:

- (i) The goods do not represent a distinct performance obligation;
- (ii) Customer is expected to obtain control of goods significantly before receiving the services;
- (iii) Cost of such goods is significant relative to the total expected costs to complete the performance obligation; and
- (iv) The entity procures the goods from a third party and does not significantly involve in designing/manufacturing the goods (even if the entity is a principal in the arrangement between the entity and end customer).

Answers to the Descriptive Questions

6. Computation of total income of MVS Private Ltd.

Particulars	Amount (₹)
Profits and gains of business or profession	
Net profit for the year as per profit and loss account	75,00,000
Add: Expenses debited to profit and loss account but not allowable	
Contribution to Employees' Welfare Trust disallowed under section 40A(9)	2,00,000
Expenses on course fee and hostel expenses for MBA course of a close relative of a director, who is not in employment of MVS Private Ltd., is not deductible under section 37 [Enkay (India) Rubber Co. Ltd. V CIT] Such expenditure is not incurred wholly and	7,80,000

exclusively for the purposes of business. Hence, it should be added back to compute business income.	
Expenses on installation of traffic signal, to facilitate its employees to overcome traffic jam and be on time, is in the interest of the business so that the work gets completed on time, and is hence, an allowable expense under section 37(1) [Infosys Technologies Ltd. v. CIT (Bangalore)]	
Expenses on distribution of gift items to dealers under sales incentive scheme would promote goodwill and is made in the interest of business. Such gifts are prompted by commercial expediency and hence, the expenditure is allowable under section 37(1) [CIT v. Avery Cycle Industries Ltd. (Punjab & Haryana)]	
Expenses on travelling to Singapore of the wife of Managing Director on the invitation of Trade and Commerce Chamber, Singapore, is an allowable expense on the grounds of commercial expediency and business considerations. [Hero Honda Motors Ltd. v. CIT (Delhi)]	
Increase in liability due to change in currency rate and paid to the suppliers of machinery is to be added to cost of the asset as per section 43A. Hence, it should be added back to compute business income.	3,00,000
Payments to a contractor for repair work in a day by two separate vouchers in cash, is not an allowable expense as per section 40A(3), since the aggregate payments in a day exceeds the limit of ₹ 10,000	27,000
Interest of ₹ 2 lakhs paid in September, 2023, on which tax deducted at source was remitted to the government before the due date of filling of income tax return, is allowable as per section 40(a)(ia).	
Total	88,07,000
Less: Expenditure allowable as deduction but not debited to profit and loss account	
Audit fees paid for the year ended 31.3.2023 for which tax was not deducted in the F.Y. 2022-23 but was deducted and paid in F.Y 2023-24, is allowable as deduction in the A.Y. 2024-25, as per the proviso to section 40(a)(ia)	1,80,000
Depreciation on the amount of ₹ 3 lakhs added in cost of Machinery was put to use for more than 180 days	45,000
Income under the head Profits & Gains of Business or Profession	85,82,000
Income from other sources	
Difference between the aggregate fair market value of shares of a closely held company and the consideration paid for purchase of such shares is deemed as income in the hands of the purchasing company other section 56(2)(x). Since the difference exceeds ₹ 50,000, the entire sum is taxable.	2,00,000
Total Income	87,82,000

Computation of tax liability of MVS Private Ltd.

Particulars	Amount (₹)
Tax on ₹ 87,82,000 @ 25%	21,95,500
Add: Health & Education cess @ 4%	87,820
Total tax payable	22,83,320

7. **Costs to be incurred comprise two major components – elevators and cost of construction service**
- The elevators are part of overall construction project and are not a distinct performance obligation.
 - The cost of elevators is substantial to the overall project and are incurred well in advance.
 - Upon delivery at site, customer acquires control of such elevators.
 - And there is no modification done to the elevators, which the company only procures and delivers at site. Nevertheless, as part of materials used in overall construction project, the company is a principal in the transaction with the customer for such elevators also.

Therefore, applying the guidance on input method as provided under Ind-AS 115, 'Revenue from Contracts with Customers' –

- The measure of progress should be made based on percentage of costs incurred relative to the total budgeted costs.
- The cost of elevators should be excluded when measuring such progress and revenue for such elevators should be recognized to the extent of costs incurred.

The revenue to be recognized is measured as follow

Particulars	Amount (₹)
Transaction price	60,00,000
Costs incurred:	
(a) Cost of elevators	10,00,000
(b) Other costs	7,00,000
Measure of progress:	$7,00,000 / 35,00,000 = 20\%$
Revenue to be recognised:	
(a) For costs incurred (other than elevators)	Total attributable revenue = 50,00,000 % of work completed = 20% Revenue to be recognised = 10,00,000
(b) Revenue for elevators	10,00,000 (equal to costs incurred)
Total revenue to be recognised	$10,00,000 + 10,00,000 = 20,00,000$

Therefore, for the year ended 31st March, 2024, the company shall recognize revenue of ₹ 20,00,000 on the project.

NEW COURSE DIGEST

Case Study 9

Subjects	Topics Covered	Marks
FR	Ind AS 103, Ind AS 115	14
DT	PGBP (Basics), IFOS (Deemed Dividend)	4
Law	Companies Act (Section 161, 185)	7

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

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

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

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

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

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

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

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

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

(A) Shyam is a director on the Board of Directors and holds 12% equity shares of the Company. As Shyam had some financial emergency, Tanu and Manu wanted to support him by giving loan of ₹ 5 Lakhs from the Company. CFO mentioned that the Company had an accumulated profit of ₹ 7.5 Lakhs as on the date of loan to Shyam. It is pertinent to note that Shyam is also a Partner in Shyamlal & Co, with a 30% profit sharing therein. During the current year, the Company made an advance of ₹ 2 Lakhs to Shyamlal & Co. towards procurement of materials.

(B) The Company also purchases goods from entities registered under Micro, Small and Medium Enterprises Act, 2006. The CFO of the Company provides the following information of trade payable to Micro and Small Enterprises:

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

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

(C) M&A Private Ltd acquired 100% of the shares of another company P&T Private Ltd. The negotiations for this acquisition commenced on 1st January 2023 and the agreement was finalised on 1st March 2023. While M&A Private Ltd obtained the power to control P&T Private Ltd.'s operations on 1st March 2023, the agreement states that the acquisition is effective from 1st January 2023 and that M&A Private Ltd is entitled to all profits after that date. In addition, the purchase price is based on P&T Private Ltd.'s net assets as at 1st January 2023. The final settlement of consideration was made on 1st May 2023.

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

(E) Anu is also a director of M&A Private Ltd, who was going on world tour for a period of 5 months. In his absence, he wishes to appoint his friend Kumar, as an alternate director of M&A Private Ltd on his behalf. The Articles of Association of the Company allows the appointment of alternate director.

(F) M&A Private Ltd enters into a seven-year service contract with a customer NP Ltd for an amount of ₹ 21 Lakhs i.e. ₹ 3 Lakhs per year. The standalone selling price for one year contract at inception of the contract is ₹ 3 Lakhs per year. M&A Private Ltd. accounts for the contract as a series of distinct services. At the beginning of the Seventh year, the parties agree to modify the contract as follows:

- the fees for the seventh year is reduced to ₹ 2.7 Lakhs and
- NP Ltd agrees to extend the contract for another seven years for ₹ 16.80 Lakhs i.e. ₹ 2.40 Lakhs per year.

The standalone selling price for one year of service at the time of modification is ₹ 2.10 Lakhs

Multiple Choice Questions

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

Descriptive Questions

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

ANSWERS TO THE CASE STUDY 9

Answers to the Multiple Choice Questions

1. (d) As per Section 2(22)(e) of the Income-tax Act, 1961, dividend includes - any payment by a company, not being a company in which the public are substantially interested, of any sum (whether as representing a part of the assets of the company or otherwise) made after the 31st day of May, 1987, by way of advance or loan to a shareholder, being a person who is the beneficial owner of shares (not being shares entitled to a fixed rate of dividend whether with or without a right to participate in profits) holding not less than ten percent of the voting power, or to any concern in which such shareholder is a member or a partner and in which he has a substantial interest (hereafter in this clause referred to as the said concern) or any payment by any such company on behalf, or for the individual benefit, of any such shareholder, to the extent to which the company in either case possesses accumulated profits.
Hence, loan to director will be treated as deemed dividend and advance to firm will not be considered as deemed dividend, as it is a business advance.
2. (c) Section 23 of the MSMED Act lays down that an interest payable or paid by the buyer, under or in accordance with the provisions of this Act, shall not for the purposes of the computation of income under the Income-tax Act, 1961 be allowed as a deduction.
3. (b) Paragraph 8 of Ind AS 103 provides that acquisition date is the date on which the acquirer obtains control of the acquiree.
4. (a)

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

5. (b) Section 161 of the Companies Act, 2013 vests the Board of Directors to appoint any person as an alternate director and not to the director during whose absence he is to act.

Answers to the Descriptive Questions

6. (i) **Determination of Acquisition Date:** Paragraph 8 of Ind AS 103 provides the acquisition date as the date on which the acquirer obtains control of the acquiree. Further, Paragraph 9 of Ind AS 103, clarifies that the date on which the acquirer obtains the control of the acquiree is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree — the closing date.

However, the acquirer might obtain control on a date that is either earlier or later than the closing date. For example, the acquisition date precedes the closing date if a written agreement provides that the acquirer obtains control of the acquiree on a date before the closing date.

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

- (ii) **Ascertainment of Control:**

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

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

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

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

Analysis and Conclusion

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

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

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

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

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

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

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

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

Accounting for the modification

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

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

- (1) increases the scope of the work promised under the original contract by adding new promised goods or services that are considered distinct, and**
- (2) the increase in the contract price reflects the stand-alone selling price of the additional goods or services.**

If a modification adds a distinct good or service to a series of distinct goods or services that is accounted for as a single performance obligation, the modification is accounted for as a separate contract as long as the transaction price increases by the stand-alone selling price for those added goods or services.

NEW COURSE DIGEST

Case Study 10

Subjects	Topics Covered	Marks
FR	Ind AS 36	8
DT	PGBP (Depreciation), TDS (Section 195)	4
IDT	ITC (Basics)	3
Law	Companies Act (Section 149, 161, 177, 190)	10

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

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

Sahana explains the following open issues to Madan:

Issue 1

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

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

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

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

Issue 2

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

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

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

Issue 3

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

Issue 4

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

Issue 5

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

Multiple Choice Questions

- Is the maximum depreciation allowable under Income-tax Act, 1961 calculated by Murari correct? If not, what is the maximum allowable depreciation as per details given in Issue 1?
 - No, depreciation calculated is wrong and correct maximum depreciation should be ₹ 14.3 Lakhs
 - No, depreciation calculated is wrong and correct maximum depreciation should be ₹ 14.9 Lakhs
 - No, depreciation calculated is wrong and correct maximum depreciation should be ₹ 13.5 Lakhs
 - No, depreciation calculated is wrong and correct maximum depreciation should be ₹ 12.9 Lakhs
- What is the amount of impairment loss which Sah Fashions Ltd is required to transfer to Statement of profit and Loss and how the same should be allocated?
 - Impairment loss is ₹ 1.98 Lakhs and the same should be allocated to goodwill and other assets proportionately.

- (b) Impairment loss is ₹ 1.38 Lakhs and the same should be allocated to goodwill and other assets proportionately.
- (c) Impairment loss is ₹ 1.68 Lakhs and the same should be allocated first to goodwill and then the balance to all other assets.
- (d) Impairment loss is ₹ 1.38 Lakhs and the same should be allocated first to goodwill and then the balance to all other assets.
3. Regarding the request of Mr. Baman to inspect the contract of service entered by company with Mr. Geet, MD, identify the incorrect statement out of followings;
- Such contract of service shall be kept at registered office of the company.
 - Member may inspect the contract of service only after payment of prescribed fee
 - Member can inspect the contract of service with MD or WTD only if authorised by Article.
- (a) i, ii, and iii
- (b) i and ii
- (c) i and iii
- (d) ii and iii
4. Considering the facts in Issue 4, is appointment of Hero as a director of the Company valid?
- (a) Appointment of Hero by Board of Directors is not valid as it is against the provisions of the Companies Act, 2013 and he should have been appointed by the members in extra ordinary general meeting.
- (b) Appointment of Hero by Board of Directors is valid but should be approved by members in general meeting held on 29th October 2021.
- (c) Appointment of Hero by Board of Directors is valid, as the approval of shareholders is not required for appointment of directors.
- (d) Appointment of Hero by Board of Directors is not valid as a director cannot be immediately appointed in place of director who expires.
5. Is Sahana not required to comply with any provisions under Income-tax Act, 1961, considering her individual tax returns are not subject to audit under the provisions of Income-tax Act, 1961?
- (a) TDS is required to be deducted u/s 194-IA on purchase of property, but no TDS is required to be deducted on contract work of renovation as individuals are not required to deduct TDS.
- (b) TDS is required to be deducted u/s 195 on purchase of property and also TDS is required to be deducted on contract work of renovation as the contract value is ₹ 60 Lakhs.
- (c) TDS is not required to be deducted u/s 195, as the amount of purchase consideration is less than ₹ 50 Lakhs but TDS is required to be deducted on contract work of renovation as the contract value is ₹ 60 Lakhs.
- (d) TDS is not required to be deducted u/s 194-IA as the amount of purchase consideration is less than ₹ 50 Lakhs and no TDS is required to be deducted on contract work of renovation as individuals are not required to deduct TDS.

Descriptive Questions

6. Sahana is intrigued by the concept of impairment and wants to understand, if an asset once impaired, can it be reversed. In this context:

- (i) Explain in brief the accounting for reversal of impairment.
- (ii) Source of information which indicates reversal of impairment loss
7. Sahana wants to know if her Company missed some invoices while claiming GST ITC, till what time that ITC can be claimed. She believes the same may be taken till filing GSTR 3B return for the month of March of the concerned financial year. Is her view appropriate?
8. "The executive and non-executive directors have different roles and responsibilities. The responsibility of independent directors with reference to financial reporting and approval, as part of an Audit Committee requires a special mention." Explain with examples.

ANSWERS TO THE CASE STUDY 10

Answers to the Multiple Choice Questions

- 1 (c) Maximum Depreciation as follows

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

The answer is ₹ 13.5 lakhs

- 2 (d) Calculation of Impairment loss

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

Revised Carrying Amount

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

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

- 3 (d) The contract of service, register of directors and key managerial personnel shall be kept open for inspection during business hours. The members shall have the right to take extracts therefrom and copies thereof on request and the same will be provided to them within 30 days free of cost. [Section 171(1)(a) and 190 of the Companies Act, 2013]

- 4 (b) Casual Vacancy [Section 161(4)]: According to this section:
- (i) if the office of any director appointed by the company in general meeting is vacated before his term of office expires in the normal course, the resulting casual vacancy may, in default of and subject to any regulations in the articles of the company, be filled by the Board of Directors at a meeting of the Board which shall be subsequently approved by members in the immediate next general meeting.
 - (ii) Any person so appointed shall hold office only up to the date up to which the director in whose place he is appointed would have held office if it had not been vacated.
- 5 (b) Section 194-IA read with section 195 requires every transferee responsible for paying any sum as consideration for transfer of immovable property (land, other than agricultural land, or building or part of building) to deduct tax, at the rate of 1% of higher of consideration and stamp duty value, at the time of credit of such sum to the account of the resident transferor or at the time of payment of such consideration to the resident transferor, whichever is earlier. However, no tax is required to be deducted where the consideration for transfer of an immovable property and stamp duty value of such property, both are less than ₹ 50 lakhs.
- TDS is required to be deducted u/s 195 on purchase of property as payment is to be made to a NRI and also TDS is required to be deducted on contract work of renovation as the contract value is ₹ 60.00 Lacs.

Answers to the Descriptive Questions

6. (i) **Accounting for reversal of impairment (Paragraphs 110-116 of Ind AS 36)**
- The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years. Any increase in excess of this amount would be a revaluation and would be accounted for under the appropriate Standard (e.g. Ind AS 16 Property, Plant and Equipment).
- A reversal of an impairment loss for an asset other than goodwill is recognized immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another Ind AS. Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with that other Ind AS.
- A reversal of an impairment loss on a revalued asset is recognized in other comprehensive income and increases the revaluation surplus for that asset. However, to the extent that an impairment loss on the same revalued asset was previously recognised in profit or loss, a reversal of that impairment loss is also recognised in profit or loss. After a reversal of an impairment loss is recognised, the depreciation (amortization) charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.
- (ii) **Indications of reversals of impairment loss (Paragraph 111 of Ind AS 36)**
- In assessing whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased, an entity shall consider, as a minimum, the following indications:
- External sources of information**
- (a) there is observable indication that asset's value has increased significantly during period;

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

Internal sources of information

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

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

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

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

8. Different Roles of Executive and Non-Executive Directors

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

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

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

The Independent Director (ID) is a person of integrity and possesses relevant expertise and experience in one or more fields of finance, law, management, sales, marketing, administration,

research, corporate governance, technical operations or other disciplines related to the company's business. Majority of members, being an independent directors in the Audit Committee leads to promote the principles of corporate governance by enabling disclosures, transparency, and accountability of the Company.

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

NEW COURSE DIGEST

Case Study 11

Subjects	Topics Covered	Marks
Audit	SA 706, CARO 2020, Professional Ethics	9
DT	Capital Gains, TCS	4
Law	CSR, FEMA (Schedule III (LRS))	7
SCPM	Decision Making	5

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

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

- I. Greenly Ltd is one of the leading laundry in Delhi. For cleaning of suits, it charges ₹ 625 per suit set. The price has been derived by the laundry as under:
 - a. Cleaning Materials ₹ 37
 - b. Labour ₹ 180 (3 hours @ ₹ 60/-)
 - c. Variable overheads ₹ 80
 - d. Fixed Overheads ₹ 60 (3 hours @ ₹ 20 per hour) plus mark up 75% on total cost

The Company is known for timely delivery and quality service and hence, it charges premium for its services. The labour charges have been derived by dividing the total salary paid by the total number of hours available. Variable overheads depend on the number of suits cleaned while fixed overhead rate is derived at by dividing the total cost of all related expenses by the number of labour hours available. Fixed Overhead generally includes office rent and administrative salary. A conference is being held in Delhi on account of T20 and a hotel is also required to provide premium laundry services for which the Company has been approached for its lowest quotes. There is possibility of 150 suits being given for laundry on priority basis. The Company has sufficient material of cleaning in stock even for this additional special order. It is believed that 55% of the additional work can be done in normal working hours and for rest of the work, overtime by some of the employees will be required. Overtime hours are paid at one and one half of the normal hourly rate.

- II. Greenly Ltd is having 3 years average profit of ₹ 10 Crores and during the financial year 2023-24, it is required to spend on account of Corporate Social Responsibility (CSR). It wants to incur this expenditure through an NGO named Green Foundation.
- III. The Company purchased a land in city outskirts on 1st August 2018 for a consideration of ₹ 1.25 Crores to construct a factory, for which the Stamp duty valuation on that date was ₹ 1.75 Crores. Later, management decided to sell that land to fund the business diversification objectives. On 1st August 2023, the land on city outskirts was sold for ₹ 5.00 Crores. The stamp duty valuation was ₹ 5.40 Crores. Cost inflation index for FY 2010-11 and FY 2023-24 is 167 and 348, respectively.

- IV. ABC LLP, the Statutory auditors of Greenly Ltd resigned due to personal reasons and Aparaj Sampad & Co. was proposed to be appointed as the subsequent auditor of the Company by the Board of Directors. This was a great opportunity for both Aparaj and Sampad, as they were trying to get some business from Greenly Ltd.
- V. After the meeting was completed, Ramnik met Sampad and had a casual discussion with him. He told that his daughter, Sweetie, was pursuing post-graduation from Stanford University, USA for which he had remitted USD 50,000 i.e., ₹ 40 Lakhs for her maintenance abroad under Liberalised Remittance Scheme. Thankfully, he did not have to do any other remittance during the year.
- VI. While Sampad was busy in a discussion with Ramnik, CA. Mani, the internal auditor of Greenly Ltd and a close friend of Aparaj approached her for a quick chat. Mani informed Aparaj that his practice was going good and he was appointed as statutory auditor of a listed entity. Lately, he has been busy finalising the audit letter communicating key points of audit to those charged with Governance and audit committee.

Multiple Choice Questions

1. From remittance of ₹ 40 Lakhs by Ramnik, the authorised dealer is:
 - (a) Not required to make any collection of tax at source.
 - (b) Required to make collection of tax at source of ₹ 1.65 Lakhs.
 - (c) Required to make collection of tax at source of ₹ 2 Lakhs.
 - (d) Required to make collection of tax at source of ₹ 0.165 Lakhs.
2. The capital gain arising on sale of land at city outskirts by the Company would be:
 - (a) ₹ 2.80 Crores
 - (b) ₹ 1.35 Crores
 - (c) ₹ 1.75 Crores
 - (d) ₹ 2.40 Crores
3. While drafting audit letter communicating the key points of audit to those charged with Governance and audit committee, Mani was thinking if he needs to generate a Unique Document Identification Number (UDIN):
 - (a) Yes, separate UDINs are to be generated for the Statutory audit report and Letter to those charged with governance.
 - (b) No, UDIN is required only for all Certificates, all Audit Reports and all other Audit, Assurance and Attestation functions and not for any letters etc. making communications.
 - (c) Yes, one single UDIN can be generated for all documents of one client. UDINs are required to be generated client wise instead of document wise.
 - (d) No, one single UDIN can be generated for the whole year for one engagement which may include various communications by auditor to management and those charged with Governance.
4. Which of following statement is likely to be correct regarding compliances to be made by Greenly Limited?
 - (a) It is required to file CSR-1 as an independent form on MCA portal.
 - (b) It is required to file CSR-2 as an independent form on MCA portal.
 - (c) It is required to file CSR-1 as an addendum to AOC-4 on MCA portal.
 - (d) It is required to file CSR-2 as an addendum to AOC-4 on MCA portal.

5. During the conclusion of the audit, Aparna was thinking if she is required to report the fact of the resignation by the previous auditor?
- Yes. As per Companies (Auditors Report) Order, 2020 Aparna Sampad & Co. should report the resignation of ABC LLP and state if the Firm has taken into consideration the issues or objections raised by ABC LLP.
 - No. Since the resignation of ABC LLP is due to personal reasons, the same need not be reported in the Auditors Report.
 - Yes. As per provisions of Section 143(3) of the Companies Act, 2013, the fact of previous auditor's resignation should be reported.
 - Yes. The fact of previous auditors resignation should be reported as per Companies (Audit and Auditors) Rules, 2014.

Descriptive Questions

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

ANSWERS TO THE CASE STUDY 11

Answers to the Multiple Choice Questions

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

Total consideration	₹5.00
Indexed cost	₹3.46 (Stamp duty value at the time of purchase ₹ 1.75 Crores x 331/167)
Capital Gain	₹1.53 crores
As the variation at the time of sale is less than 110%, the actual consideration will be taken	
- (b) UDIN is required only for all Certificates, all Audit Reports and all other Audit, Assurance and Attestation functions and not for any letters etc. making communications.
- (b) CSR-2 form is mandatory for CSR reporting. It is an independent form. CSR-1 relates to registration of entities/NGOs who wish to undertake CSR activities and want to get funding from companies on this account.

5. (a) As per clause (xviii) of para 3 of Companies (Auditor's Report) Order 2020 Aparaj Sampad & Co. should report the resignation of ABC LLP and state if he has taken into consideration the issues or objections raised by ABC LLP.

Answers to the Descriptive Questions

6. **Emphasis of Matter paragraph** is a paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, **in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.**

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

These circumstances include:

- (i) When a financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation.
- (ii) To alert users that the financial statements are prepared in accordance with a special purpose framework.
- (iii) When facts become known to the auditor after the date of the auditor's report and the auditor provides a new or amended auditor's report (i.e., subsequent events).
- (iv) An uncertainty relating to the future outcome of exceptional litigation or regulatory action.
- (v) A significant subsequent event that occurs between the date of the financial statements and the date of the auditor's report.
- (vi) **Early application (where permitted) of a new accounting standard** that has a material effect on the financial statements.
- (vii) A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.

In view of above, contention of Aparaj, to draw the attention of the readers of the financial statements by way of an Emphasis of Matter (EOM) paragraph in the Audit Report issued by them indicating the fact of their appointment due to resignation of the existing auditor, is **not correct**.

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

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

Liberalized Remittance Scheme (LRS)

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

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

8. (i) 'Greenly Ltd' can use the incremental cost numbers for pricing the 'rush order'. The minimum price that firm would charge is ₹238.50 per suit ($=₹35,775/150$). This price is well below normal price of ₹ 625.

Particulars	Amount (₹)
Cleaning materials ($150 \times ₹37$)	5,550
Labour ($150 \times 3 \times 45\% \times ₹60 \times 1.5$)	18,225
Variable overheads ($150 \text{ Suits} \times 80$)	12,000
Incremental cost	35,775
Quote per Suit	238.5

- (ii) Aspects to be considered for quoting lowest price

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

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

NEW COURSE DIGEST

Case Study 12

Subjects	Topics Covered	Marks
FR	Ind AS 103	10
DT	Tax Audit	2
IDT	RCM, Value of Supply, Customs Valuation	9
Law	Companies Act (Section 149), LODR (Regulation 17A, 18)	4

Wanton Terun Limited (WTL) is a fast growing listed company focussing on innovation in the Textile and Garments Industry. The Company has grown in last one decade from Punjab (India) to the homes of millions of customers across 50 countries and is aiming the target of becoming the most trusted brand that takes conscious care of its customers, employees and all stakeholders, and treats them 'the best.' Company also has 5 subsidiaries operating outside India in the same business line of garments and trading of some special types of yarns. Financial Statements of the Company for the financial year 2023-24 have already been prepared and audit was completed as per all regulatory requirements.

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

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

Issue 1

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

During the last overseas visit of Senior Vice President (Marketing), the Company received export order for specified types of garments for which yarn was required to be imported. Company imported special yam from Germany for manufacture of garments. There was no transaction value available for such yarn. Consequently, transaction value of identical goods under customs was considered.

Issue 2

One of the overseas subsidiaries SSS Inc. has provided financial assistance to WTL. The said financial assistance

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

Issue 3

Company has to comply with listing obligations and disclosure requirements relating to corporate governance and for this, independent and a qualified audit committee is already formed and functioning. The audit committee consisted of six directors (having wide experience in corporate matters) with four of them being independent directors. One of the directors P (an independent director) has resigned as a director of the Company. WTL proposes to appoint Q as an independent director who is already serving as managing director in one company and independent director in three other listed entities.

Issue 4

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

Issue 5

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

Multiple Choice Questions.

1. In respect of purchase of foreign currency from authorized dealer, whether the GST will be applicable and if yes, what will be the value of services on which GST will be charged under rule 32(2)(a)? Also calculate the GST amount assuming tax rate @ 18%.
 - (a) GST will be applicable on these services and the value of services will be ₹ 7,450. GST amount will be ₹ 1,341
 - (b) GST will be applicable on these services and the value of services will be ₹ 7,400. GST amount will be ₹ 1,332
 - (c) GST will be applicable on these services and the value of services will be ₹ 5,200. GST amount will be ₹ 936
 - (d) GST on transactions below US \$ 10,000 is specifically exempted, so GST will not be applicable.
2. With respect to facts given in Issue 2 above, the interest to be reported by tax auditor under the form 3CD of Income-tax Act, 1961 would be:
 - (a) ₹ 30 Crores and ₹ 2 Crores under clause 30B
 - (b) ₹ 32 Crores and ₹ 2 Crores under clause 30B
 - (c) ₹ 32 Crores and ₹ 34.50 Crores under clause 30A
 - (d) ₹ 32 Crores under clause 30A

3. In the background of circumstances described in Issue 3, the Company Secretary contends that the Audit Committee should be reconstituted, even if Q is appointed as an independent director. Is the Company Secretary's contention appropriate?
 - (a) Contention of Company Secretary is correct and the Audit Committee should be reconstituted, as it should have atleast 2/3rd majority of members as independent directors.
 - (b) Contention of Company Secretary is not correct and the existing Audit Committee can continue as independent directors constitute more than two third of the total number of directors of audit committee.
 - (c) Contention of Company Secretary is correct and the Audit Committee shall be reconstituted, as it should have only independent directors as members.
 - (d) Contention of Company Secretary is not correct and the Audit Committee is not required to be reconstituted due to change in its members.
4. WTL shall appoint another woman director on the Board of the Company on or before:
 - (a) 1st June 2024
 - (b) 20th May 2024
 - (c) 15th June 2024
 - (d) 15th May 2024
5. Which of the following statements is correct in relation to import of yarn for which transaction value of identical goods was considered under Customs?
 - (a) The transaction value of identical goods in a sale at any commercial level and in substantially the same quantity as the goods being valued shall be used to determine the value of imported goods.
 - (b) The transaction value of identical goods in a sale at same commercial level and in any quantity as the goods being valued shall be used to determine the value of imported goods.
 - (c) The transaction value of identical goods in a sale at same commercial level and in substantially the same quantity as the goods being valued shall be used to determine the value of imported goods.
 - (d) The transaction value of identical goods in a sale at any commercial level and in any quantity as the goods being valued shall be used to determine the value of imported goods.

Descriptive Questions

6. Mr Q, before accepting the appointment as a director, discussed with the Company about the implications of GST on his appointment and emoluments. Explain if the services provided by the directors are under the ambit of Goods and Service Tax Act.
7. In the background of facts stated in issue 5, compute the value of option under the share based payment as per Ind AS.

ANSWERS TO THE CASE STUDY 12

Answers to the Multiple Choice Questions

1. (b) GST will be applicable on these services and the value of services will be ₹ 7,400
Rule 32 — Determination of value in respect of certain supplies

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

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

Currency purchased	= ₹ 7.4 Lakhs/\$9,900	74.74
Less: Bank exchange rate		74
Difference		0.74
Value of Services	= 0.74*9,900	7,400
18% GST thereon		1,332

2. (b) Clause 30B requires reporting for the purposes of examining allow ability of expenditure by way of interest in respect of debt issued by non-resident associated enterprise under section 94B, while computing income under the head 'Profits and Gains of Business or Profession.'
The excess interest to be computed as lower of:
 - (i) Total interest paid or payable in excess of 30% of earnings before interest, taxes, depreciation and amortization (EBITDA) of the borrower in the previous year or
 - (ii) Interest paid or payable to the associated enterprise for that previous year
3. (a) Every listed entity shall constitute a qualified and independent audit committee in accordance with the terms of reference, subject to the following:
 - (i) The audit committee shall have minimum three directors as members.
 - (ii) At least two-thirds of the members of audit committee shall be independent directors and in case of a listed entity having outstanding SR equity shares, the audit committee shall only comprise of independent directors.
4. (a) Proviso to Rule 3 of Companies (Appointment of Directors) Rules, 2014 provides any intermittent vacancy of a woman director shall be filled up by the Board at the earliest but not later than immediate next board meeting or three months from the date of such vacancy whichever is later.
5. (c) In applying rule 4 of the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007, i.e. transaction value of identical goods, the transaction value of identical goods in a sale at the same commercial level and in substantially the same quantity as the goods being valued shall be used to determine the value of imported goods.

Answers to the Descriptive Questions

6. **Services provided by the independent directors who are not employees of the said company to such company, in lieu of remuneration as the consideration for the said services, are clearly outside the scope of Schedule III of the CGST Act and are therefore taxable.**

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

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

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

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

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

ALTERNATE ANSWER

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

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

NEW COURSE DIGEST

Case Study 13

Subjects	Topics Covered	Marks
FR	Ind AS 103	12
DT	Residential Status, Scope of Total Income, Section 115BBA	11
Law	Companies Act (Section 149)	2

Para 1

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

Para 2

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

Para 3

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

Para 4

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

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

Para 5

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

- (i) Rental Income from the flat situated in London which was deposited in a bank there. The flat was given on rent by him after his return to India since July, 2023.
- (ii) Dividends on the shares of three German companies which are being collected in a bank account in

London. He proposes to keep the dividend on shares in London with the permission of Reserve Bank of India.

- (iii) He has got two sons, one of whom is of 12 years and other son is major. Both his sons are staying in London and not returning to India with him. Each of his sons is having income of ₹ 75,000 in U.K. (not received in India) and of ₹ 20,000 in India.
- (iv) During the preceding accounting year when he was a non-resident, he had sold 1,000 shares which were acquired by him in British Pound Sterling and the sale proceeds were repatriated. The profit in term of British Pound Sterling on sale of these 1,000 shares was 175% of the cost at ₹ 37,500 while in term of Indian Rupees it was ₹ 50,000

Para 6

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

Para 7

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

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

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

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

Multiple Choice Questions

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

In the above context, which of the following is correct combination:

- (a) (i), (iii), (iv), (vi)
 - (b) (ii), (iii), (iv), (vi)
 - (c) (ii), (iii), (iv), (vii)
 - (d) (i), (iii), (iv), (vi)
5. With reference to information given in Para 6, x & y equals to-
- (a) 2, 12
 - (b) 2, 15
 - (c) 3, 15
 - (d) 3, 12

Descriptive Questions

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

ANSWERS TO THE CASE STUDY 13

Answers to the Multiple Choice Questions

1. (b) ₹ 1,30,000

Reason: Computation of tax liability of Mr. John

Particulars	(₹)	(₹)
Income taxable under the section 115BBA		
Income from the participation in matches in India	5,00,000	
Advertisement of product on TV	1,00,000	
Contribution of articles in newspaper	10,000	6,10,000
Income from Horse racing		10,000
Total Income		6,20,000
Tax @ 20% under section 115 BBA on ₹ 6,10,000		1,22,000
Tax @ 30% under section 115 BB on income of ₹ 10,000 from Horse races		3,000
Total		1,25,000
Add Health & Education cess @ 4%		5,000
Total Tax Liability for Mr John		1,30,000

2. (a) 20%, 0%

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

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

3. (c) Resident but not ordinarily Resident.

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

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

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

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

5. (c) 3, 15

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

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

Answers to the Descriptive Questions

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

- (i) **Rental income from a flat in London which was deposited in a bank there shall not be taxable in the case of a resident but not ordinarily resident, since both the accrual and receipt of income are outside India.**

(ii) Dividends from shares of three German companies, collected in a bank account in London, would also not be taxable in the case of a resident but not ordinarily resident since both the accrual and receipt of income are outside India.

(iii) As per section 64 (1A), all income accruing or arising to a minor child is includible in the hands of the parent, after providing for deduction of ₹ 1,500 per child under section 10 (32).

Accordingly, income of ₹ 20,000 accruing to his minor son, aged 12 years, in India is includible in the income of Pardeep, after providing a deduction of ₹ 1,500. Therefore, ₹ 18,500 is includible in the income of Pardeep. Income accruing to the minor child outside India (which is also received outside India) is not includible in the income of Mr Pardeep.

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

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

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

7.

Journal of Technologies Ltd.

(₹ in crores)

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

Note:

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

Technologies Ltd.

Balance sheet after reconstruction

(₹ in crores)

ASSETS	Note No.	Amount
Non-current assets		
Property, Plant and Equipment		50
Current assets		
Other current assets		400

EQUITY AND LIABILITIES		450
Equity		
Equity share capital (of face value of ₹ 10 each)		50
Other equity (Surplus)	1	350
Liabilities		
Current liabilities		
Current liabilities		50
		450

Notes to Accounts

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

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

Balance Sheet of Mobize Ltd.

(₹ in crores)

ASSETS	Note No.	Amount
Non-current assets		
Property, Plant and Equipment		200
Current assets		
Other current assets		1000
		1200
EQUITY AND LIABILITIES		
Equity		
Equity share capital (of face value of Rs 10 each)	1	20
Other equity	2	(220)
Liabilities		
Non-current liabilities		
Financial liabilities		
Borrowings		600
Current liabilities		
Current liabilities		800
		1200

Notes to Accounts

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

(2) Working Note:

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

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

NEW COURSE DIGEST

Case Study 14

Subjects	Topics Covered	Marks
Audit	SQC 1, Internal Audit	9
DT	TDS (Section 194C), Section 94	5
IDT	RCM, Time of Supply, ITC (Blocked Credit)	6
Law	FCRA (Section 3)	5

BASP & Co. Chartered Accountants is a firm of Chartered Accountants, having offices across major towns of south India. They provide consultancy in the field of GST, income-tax and corporate law consultancy. ABC Private Ltd is a one of the major clients of the firm having a dynamic and professional Finance team. Tan & Kan, the Partners of BASP & Co, had regular meetings with Jay, the Director (Finance) of ABC Private Ltd and his team. During one of the meetings, Jay seemed to have quite some points for discussion with Tan & Kan. Having seen new members in the audit team, Jay gave a quick overview about the Company and its operations for their understanding. He explained that the Company manufactures and supplies air conditioners (AC), refrigerators, and other products.

He went on to explain the following points:

- (A) The Company is expanding its business and establishing a new unit with an estimated budget of ₹ 250 Lakhs. The break-up of this expenditure is as follows:

Civil construction ₹ 120 Lakhs (excluding GST)

Plant and Machinery ₹ 130 Lakhs (excluding GST)

The civil construction cost of ₹ 120 Lakhs above includes construction of foundation for installation of Plant and Machinery. The cost of construction of foundation is ₹ 20 Lakhs. CGST and SGST for both civil construction and Plant and Machinery is 9% each i.e. 18% in aggregate. The details of expenditure are as under:

Date	Details	Amount ₹ Lakhs
1 st April 2023	Advance given for Plant & Machinery	40
	Advance to contractor for civil construction	10
15 th April 2023	Work of construction begins	
30 th April 2023	Civil construction work expenses	25
31 st July 2023	Civil construction work expenses	25
1 st October 2023	Payment made to suppliers of Plant and Machinery and delivery received	90
31 st December 2023	Construction work expenses	20
31 st March 2024	Final payment made (including outstanding GST)	40

- (B) During financial year 2023-24, in one of the Board meetings, management sought an approval from the Board, for investing in equity shares of other Companies as per provisions of the Companies Act, 2013. The Board approved the management's proposal, after due deliberations and discussions. The Company purchased 10,000 shares of Milaan Ltd. on 1st January 2023 at a price of ₹ 20 per share. Milaan Ltd. declared bonus of one share for every 2 shares held on 31st March 2023 as record date for issue of bonus. The Company sold 10,000 shares purchased on 1st January 2023 on 31st August 2023 at ₹ 15 per share.

- (C) In addition to manufacture and supply of ACs, the Company also does installation for the same. It had received advance of ₹ 5 Lakhs for supply of 5 split air-conditioners to Bavana Ltd. for installation at their factory in Haryana on 15th February 2024. The Company supplied the ACs and installed them on 28th February 2024 and issued the invoice on the same date i.e. 28th February 2024. The supply was chargeable to tax @ 18% but was reduced to 12% from 25th February 2024. The Company charged GST @ 18% while the buyer Bavana Ltd. contended that GST should have been charged @ 12% as the supply was made after the change of rate.
- (D) The Company had entered into an agreement with Hum log Enterprises, a proprietorship concern not registered under GST for providing transport services by road for carriage of air-conditioners to various parts of country. The said concern has a fleet of 50 vehicles for meeting requirements of its customers. During the year, company has made payment of around ₹ 50.00 lakhs to Hum log Enterprises on account of above said services availed.
- (E) Jay was happy to inform that the Company's operations were going on smoothly and they were on a growth trajectory. During the financial year 2022-23, the Company had a turnover of ₹ 100 Crores and there was Loan outstanding from a bank of ₹ 75 Crores and deposits of ₹ 30 Crores.
- (F) After the audit discussions were over, Jay and Kan had a general discussion. During the conversation he mentions that Shahi, a shareholder and non-executive director of the Company has become the present Member of Parliament. His son, Abhir is studying abroad in US. As the present term of Parliament is coming to an end next year and his term also will come to an end. Shahi is willing to contest next election as an independent candidate. He has many friends and relatives in US and he asked his son to contact them, to collect fund for his election. Jay also told Ranga, Shahi's friend who is a contractor working for Ministry of Transport, Shipping and National Highways also accompanied Shahi on the US trip as part of government delegation.
- (G) Jay asked Tan and Kan, if they could help his friend Merun, Partner Mahim & Co, Chartered Accountants. Jay and Merun were close friends and they often used to have professional and academic discussions. Tan and Kan gladly agreed to provide clarifications to Merun, if he had any technical query. Jay set up a zoom call between Merun and them. During the call, Merun said he would be more comfortable and confident, if some other Chartered Accountant reviews the financial statements and audit reports he is signing.

Multiple Choice Questions

1. Is ABC Private Ltd required to appoint an internal auditor during the financial year 2023-24 for complying with the provisions of Companies Act, 2013?
 - (a) The Company is required to appoint internal auditor as one of limits of appointment of internal auditor is met by the company.
 - (b) The Company being a private company is not required to appoint internal auditors.
 - (c) The Company is not required to appoint the internal auditors, as the appointment of internal auditor is a matter of Board's decision.
 - (d) The Company is not required to appoint internal auditor because the thresholds prescribed under the Act, have not been met.
2. The Company will treat the loss on sale of shares as:
 - (a) Loss of ₹ 50,000 on sale of 10,000 shares will be claimed as a loss.
 - (b) There will be gain of ₹ 16,666.67 as the cost of shares will be spread across total 15,000 shares.

- (c) The Company cannot claim the loss of ₹ 50,000. However, this loss of ₹ 50,000 will become cost of acquisition of remaining 5000 shares received as bonus.
 - (d) Loss of ₹ 50,000 cannot be claimed as loss and the cost of acquisition of bonus shares will be 'nil'.
3. In the background of the facts given above, the amount which ABC Private Ltd. is entitled to take credit for Input tax (ITC) of ₹
- (a) ₹ 45 Lakhs
 - (b) ₹ 27 Lakhs
 - (c) ₹ 23.40 Lakhs
 - (d) ₹ 21.60 Lakhs
4. Advise ABC Private Ltd, what is the correct position of law in the facts given in case study:
- (a) Since payment was received prior to change of rate of tax, old rate will be applicable.
 - (b) Since provision of supply and issue of invoice is after the change in rate of tax, and only payment has been received before the change in rate, new rate shall be applicable.
 - (c) Since the time of supply shall be earlier of date of receipt of payment and date of issue of invoice, old rate shall be applicable.
 - (d) Since provision of service is after the change in rate of tax, new rate shall be applicable. Date of invoice is not relevant.
5. As regards discussion of Tan and Kan with Merun arranged by Jay, which of the following is most appropriate description of Engagement Quality Control Reviewer (EQCR) in accordance with professional standards?
- (a) He can be a partner or other person in the firm (member of ICAI) or partner or employee of another firm (member of ICAI) with appropriate experience.
 - (b) He can be a partner of the firm or partner of another firm with appropriate experience.
 - (c) He can be partner or employee of another firm (member of ICAI) with appropriate experience.
 - (d) He can be partner of another firm with appropriate experience.

Descriptive Questions

6. Discuss implications, if any, in its hands, of payments made by ABC Private Limited to Hum log Enterprises under Income tax law and GST law.
7. Jay feels it is not appropriate for Shahi to seek funds for election in such a manner. With reference to the Foreign Contribution (Regulation) Act, 2010, explain who are prohibited from taking any contributions from a foreign source.
8. In background of Merun's discussion with Tan and Kan, answer the following:
 - (i) Can the financial statements and audit report signed by Merun be reviewed by some other Chartered Accountant for quality control? Which issues should be addressed by Merun for appointment of such a person?
 - (ii) What should be likely contents of such quality control review policy and procedures, if Merun's firm is required to establish such policy?

ANSWERS TO THE CASE STUDY 14

Answers to the Multiple Choice Questions

1. (d) Rule 13 of the Companies (Accounts) Rules 2014

The condition of deposit does not apply to a Private Company.

2. (c) According to section 94(8), where (a) any person buys or acquires any securities or units within a period of three months prior to the record date; (b) such person is allotted additional securities or units without any payment on the basis of holding such securities or units on such date; (c) such person sells or transfers all or any of the securities or units referred to in (a) above within a period of nine months after such date, while continuing to hold all or any of the additional securities or units referred to in (b), then –

- (i) the loss on sale of original securities or units sold within a period of 9 months after the record date will be ignored for the purpose of computing his income chargeable to tax and
- (ii) the amount of such loss so ignored will be deemed to be the cost of purchase or acquisition of the bonus securities or units referred to in (b) above, held by him on the date of such sale or transfer

The Company cannot claim the loss of ₹ 50,000. However, this loss of ₹ 50,000 will become cost of acquisition of remaining 5000 shares received as bonus.

3. (b) On Foundation work = ₹ 20 Lakhs + Plant and Machinery ₹ 130 Lakhs = 150 Lakhs @ 18% = 27 Lakhs

4. (b) Section 14(b)(iii) of the CGST Act

5. (a) In accordance with SQC 1, Engagement Quality Control Reviewer is a partner, other person in the firm, suitably qualified external person, or a team made up of such individuals, with sufficient and appropriate experience and authority to objectively evaluate, before report is issued, significant judgments the engagement team made and the conclusions they reached in formulating the report.

Further, suitably qualified external person means an individual outside the firm with the capabilities and competence to act as an engagement partner, for example a partner or an employee (with appropriate experience) of another firm.

In view of above, option (a) is appropriate description of EQCR.

Answers to the Descriptive Questions

6. **Implications under Income tax law:** Under Section 194C of Income Tax Act, any person responsible for paying any sum to any resident for carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract between the contractor and a specified person shall, at the time of credit of such sum to the account of the contractor or at the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, whichever is earlier, deduct an amount equal to one per cent where the payment is being made or credit is being given to an individual or a HUF.

In the given scenario, ABC Private Limited has paid a sum of Rs.50.00 lacs on account of transport services under an agreement to Hum log Enterprises, a proprietorship concern. Section 194C also states that meaning of work includes carriage of goods by any mode of transport other than by railways. The payment is beyond threshold limit for deduction of tax u/s 194C. Further, Hum log Enterprises has a fleet of 50 vehicles. Therefore, exemption from deduction under section 194(6) does not apply.

Keeping in view above, there is an obligation for ABC Private Limited to deduct tax at source @ 1% on payments made during the year. The deduction has to be made at time of crediting such sum to account of Hum log Enterprises or at time of payment whichever is earlier.

Implications under GST law

Hum log Enterprises is unregistered tax payer. However, for carriage of goods by road, recipient of service has to pay GST @ 5% in terms of notification numbers 10/2017-IT (rates) and 13/2017-CT (rates) both dated 28.6.17.

Therefore, keeping in view above, ABC Private Limited has to pay GST on services availed from transporter @ 5% on bills of Rs.50.00 lacs raised by transporter during the year. Further, it is also entitled to claim ITC of such tax paid on reverse charge basis.

7. As per Section 3 of the Foreign Contribution (Regulation) Act (FCRA), 2010, certain prohibitions are imposed on acceptance of foreign contribution.

Following are the categories of persons on whom directly/indirectly prohibitions are imposed on acceptance of foreign contribution:

- (1) **No foreign contribution shall be accepted by any:**
 - (a) candidate for election;
 - (b) correspondent, columnist, cartoonist, editor, owner, printer or publisher of a registered newspaper;
 - (c) public servant, Judge, Government servant or employee of any corporation or any other body controlled or owned by the Government;
 - (d) member of any Legislature;
 - (e) political party or office-bearer thereof;
 - (f) organization of a political nature as may be specified u/s 5(1) by the Central Government;
 - (g) association or company engaged in the production or broadcast of audio news or audio visual news or current affairs programmes through any mode of mass communication
 - (h) correspondent or columnist, cartoonist, editor, owner of the association or Company referred to in clause (g).
- (2) **The Act also prohibits acceptance of foreign contribution by the following persons:**
 - (a) Person, resident in India, and citizen of India resident outside India shall not accept any foreign contribution, or acquire or agree to acquire any currency from a foreign source, on behalf of any political party, or any person referred to in (1) above, or both.
 - (b) Person, resident in India shall not deliver any currency, whether Indian or foreign, which has been accepted from any foreign source, to any person if he knows or has reasonable cause to believe that such other person intends, or is likely, to deliver such currency to any political party or any person referred to in (1) above, or both.
 - (c) Citizen of India resident outside India shall not deliver any currency, whether Indian or foreign, which has been accepted from any foreign source, to —
 - (i) any political party or any person referred to in (1) above, or both; or
 - (ii) any other person, if he knows or has reasonable cause to believe that such other person intends, or is likely, to deliver such currency to a political party or to any person referred to (1) above, or both.

In the give case study, Shahi, who is Member of Parliament and willing to contest next election as an independent candidate. He is seeking funds for his election. He asked his son, Abhir to contact his friends and relatives in US to collect funds.

According to Section 3(1)(a) of the Foreign Contribution (Regulation) Act, 2010 provides that no foreign contribution shall be accepted by any candidate for election.

Therefore, Jay was correct that it is not appropriate for Shahi to seek funds for election in such stated manner.

8. (i) As per SQC 1, some sole practitioners or small firms may wish to use other firms to facilitate engagement quality control reviews. Accordingly, **financial statements and audit report signed by Merun can be reviewed by some other Chartered Accountant.**

The firm's policies and procedures should address the appointment of engagement quality control reviewers and establish their eligibility through:

- (a) The **technical qualifications** required to perform the role, including the necessary experience and authority; and
- (b) The **degree to which** an engagement quality control reviewer can be consulted on the engagement without compromising the reviewer's objectivity.

- (ii) **Engagement Quality Control Review:** The firm should establish policies and procedures requiring, for appropriate engagements, an engagement quality control review that provides an objective evaluation of the significant judgments made by the engagement team and the **conclusions reached in formulating the report.** Such policies and procedures should:

- (a) **Require an engagement quality control review for all audits of financial statements of listed entities;**
- (b) **Set out criteria** against which all other audits and reviews of historical financial information, and other assurance and related services engagements should be evaluated to determine whether an engagement quality control review should be performed; and
- (c) **Require an engagement quality control review for all engagements meeting the criteria established in compliance with subparagraph (b).**

The firm's policies and procedures should **require the completion of the engagement quality control review before the report is issued.**

The firm should establish policies and procedures setting out:

- (a) **The nature, timing and extent** of an engagement quality control review;
- (b) **Criteria for the eligibility** of engagement quality control reviewers; and
- (c) **Documentation requirements** for an engagement quality control review.

NEW COURSE DIGEST

Case Study 15

Subjects	Topics Covered	Marks
DT	PGBP (Actual Cost and Depreciation), TDS (Section 194C)	9
IDT	ITC (Basics & Blocked Credit)	7
Law	Companies Act (Section 149, 151)	9

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

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

One of such valuable clients is Vallabh Cotton Limited which is a listed company. Vallabh Cotton Limited is leading manufacturer of Cotton. There are some issues going on in the Company in respect of appointment of Small Shareholders' director. The Company gets its all the finance related work done from CA Gaurav Satija. When the management discussed this matter with CA Gaurav Satija, he praised work of his partner CA Rajesh Dhamija who is expert in company law matters & has been practicing in this area since 15 years. Hence, the management of Vallabh Cotton Limited approached CA Rajesh Dhamija for seeking advise on appointment of Small Shareholders' Director and appointment of woman director in the Company. Company has 10,00,000 equity shares of ₹ 10 each. Company has 500 small shareholders. Majority (400) of the small shareholders want to appoint Mr. Brijesh as a director as their representative on the Board of directors of the said company. Mr. Brijesh already holds 1,000 equity shares in the said company.

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

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

Contract no.	Date of payment	Amount (₹)
1	15.05.2023	22,000
2	04.06.2023	15,000

BY CA ATUL AGARWAL (AIR-1)
AIR1CA Career Institute (ACI)

3	08.07.2023	23,000
4	09.09.2023	25,000
5	26.01.2024	18,000

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

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

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

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

Multiple Choice Questions

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

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

Descriptive Questions

6. Describe in the light of provisions contained in the Companies Act, 2013, whether the proposal to appoint

Mr. Brijesh as a Small Shareholders' Director can be adopted by the company and also brief the law relating to appointment of small shareholders' director. What would be your answer if Mr. Brijesh is already holding a position of Small Shareholders' Director in two companies.

7. Advise Aggarsain Spinners Private Ltd. on the treatment of interest payment made on the loan and depreciation allowable for the Assessment Year 2024-25. Assume that this machine is the only machine in the related block of assets. Aggarsain Spinners Private Ltd. is not opting for the concessional rate of tax u/s 115BAA.
8. Compute the Input Tax credit admissible under GST law to IGT Private Ltd. in respect to various inputs purchased during the month of February, 2024.

ANSWERS TO THE CASE STUDY 15

Answers to the Multiple Choice Questions

1. (c) TDS is required to be deducted on the whole amount i.e. ₹ 1,03,000
Reason: As per Section 194C(5) of the Income Tax Act, 1961, tax has to be deducted at source where amount credited or paid or likely to be credited or paid to contractor or sub-contractor exceeds ₹ 30,000 in a single payment or ₹ 1,00,000 in aggregate during the financial year.
 Therefore, in the given case, even though the value of each individual contract does not exceed ₹ 30,000, the aggregate amount exceeds ₹ 1,00,000. Hence, tax is required to be deducted at source on the whole amount ₹ 1,03,000 from the last payment of ₹ 18000 on account of which the aggregate amount exceeded ₹ 1,00,000.
2. (c) Confectionery items for consumption of Employees working in the factory under statutory obligation.
Reason: As per Section 17(5)(b) of CGST Act, ITC on food or beverages is specifically disallowed unless the same is used for making outward taxable supply of the same category or as an element of the taxable composite or mixed supply or where it is obligatory for an employer to provide the same to its employees under any law for the time being in force. Hence the input tax credit is available on Confectionery items for consumption of employees working in the factory, since same is provided under statutory obligation. Sec 17(5) also restricts the input tax credit on motor vehicles for transportation of persons having approved seating capacity of not more than 13 persons (including driver). Goods lost, stolen, destroyed, written off or given off by way of gift or free samples also covered under Sec 17(5) (h).
3. (a) Yes, the notice may be given by at least 1,000 small shareholders or 1/10th of the total number of small shareholders whichever is lower.
Reason: As per Rule 7 of the Companies (Appointment and Qualification of Directors) Rules, 2014, the small shareholders are entitled to give a notice to the company requiring the company to make appointment of a Small Shareholders' Director. The notice shall be given by at least –
 1000 small shareholders; or
 1/10th of the total number of small shareholders, whichever is lower.
4. (d) ₹ 14,00,000
Reason: As per proviso to section 36(1)(iii), interest paid in respect of capital borrowed for acquisition of an asset for the period beginning from the date of borrowing of loan for acquiring

the asset till the date on which such asset is first put to use is not allowable as deduction. Therefore, interest @ 12% p.a. for a period of 2 months from 1st February, 2024 to 31st March, 2024 on ₹ 7 crores is allowable as deduction under Income Tax Act.

5. (b) That every listed company or every other public company having paid up share capital equal to or more than ₹ 100 crores or turnover equal to or more than ₹ 300 crores.

Reason: Rule 3 of the Companies (Appointment and Qualification of Directors) Rules, 2014 provides the following classes of companies shall appoint at least one woman director:

- 1) every listed company,
- 2) every other public company having-
 - a. paid up share capital of ₹ 100 crores rupees or more or
 - b. turnover of ₹ 300 crore rupees or more.

Answers to the Descriptive Questions

6. **Small Shareholders' Director:** The provisions relating to appointment of directors by small shareholders are contained in section 151 of the Companies Act, 2013 read with Rule 7 of the Companies (Appointment and Qualification of Directors) Rules, 2014.

The legal position

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

Facts of the case and analysis

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

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

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

whichever is lower.

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

Conclusions

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

Neither section 151 nor Rule 7 state any eligibility criteria for appointment of a person as a Small

Shareholders' Director to be a small shareholder himself or not. Thus, Mr. Brijesh may be appointed as a Small Shareholders' Director i.e. even he has 1,000 equity shares in the company, it does not affect his appointment.

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

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

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

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

Particulars	Amount (₹)
Cost of machinery	10,00,00,000
Add: Interest $[12\% \times 10/12 \times ₹ 7,00,00,000]$	70,00,000
Actual Cost of machinery	10,70,00,000

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

(ii) Depreciation

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

However, balance additional depreciation of ₹ 1,07,00,000 shall be allowed under section 32(1)(iia) in the immediately succeeding Previous year 2024-25.

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

S.N.	Particulars	ITC (₹)
1	Goods purchased without invoice (working note 1)	nil
2	Purchase of Goods not to be used for business purpose (working note 2)	nil
3	Purchase of Goods from Sethi Lal & Son's (Invoice of Sethi Lal & Son's received in the month of February, 2024 but goods were received in the month of March, 2024) (working note 3)	nil
4	Pollution control Equipment used in the factory (working note 4)	1,50,000
5	Motor Lorries used for transportation of goods (working note 6)	2,50,000

6	Electrical Transformers used in the factory (working note 4)	2,25,000
7	Capital goods used as parts purchased from supplier who paid tax under the composition scheme and the composite tax has not been collected from IGT Private Limited (working note 5)	nil
8	Moulds and dies used in the factory (working note 4)	65,000
9	The company buys cement, tiles and avail the services of an architect for the construction of its office building (working note 7)	nil
	Eligible ITC	6,90,000

Working Notes-

- 1) No Input tax credit will be available since IGT Private Limited is not in possession of valid tax paying document.
- 2) A registered person shall be entitled to take the input tax credit on goods which are used or intended to be used in the course or furtherance of his business. Since the company has purchased the goods for non-business purpose, hence no credit will be available on such purchases.
- 3) Input tax credit is admissible only when registered person has received such goods. Hence, when goods received in the month of March, 2024 input tax credit cannot be taken in the month of February, 2024.
- 4) As per section 2(19), "Capital goods" means goods, the value of which is capitalized in the books of accounts of the person claiming input tax credit and which are used or intended to be used in the course or furtherance of business. Hence:
 - a) Electrical Transformers
 - b) Moulds and dies
 - c) Pollution control Equipment

which are used or intended to be used in the course or furtherance of business are eligible for ITC as capital goods.

However, where tax element is added to the cost of plant and machinery and depreciation is claimed thereon, no input tax credit is available.
- 5) As per Section 17(5)(e), input tax credit shall not be available in respect of goods or services or both which tax has been paid under sec 10. Thus, no ITC shall be allowed of tax paid under composition scheme by the supplier.
- 6) In respect of motor vehicle used for the purpose of transportation of goods, the same is not covered under the ambit of blocked credit, hence ITC shall be admissible in respect of motor vehicles.
- 7) As per Section 17(5)(c), ITC is blocked on input or input service relating to construction activity like construction of office building, factory building etc.

NEW COURSE DIGEST

Case Study 16

Subjects	Topics Covered	Marks
FR	Ind AS 41	5
Audit	SA 540	5
SCPM	Porter's Five Forces, Horizontal Integration, Mendelow's Matrix, Value Proposition, Theory of Constraints, Transfer Pricing	15

Refresh Tea Ltd. (RTL) was established in 1935 and head quartered in Kolkata. The company owns several plantations in North-East India (Assam and West Bengal) and South India (Kerala, Tamil Nadu, and Karnataka). It started out as a producer of tea leaves. They have their own processing centre within their plantation estates (or tea gardens) to dry, ferment, and cut the tea leaves. The company would then auction the leaves to traders, who in turn would sell them to tea companies (downstream supply chain) in order to be blended, packed, and resold to the customer. RTL continued to be a producer of tea leaves until the mid-1980s, until which time it only auctioned the tea leaves to the traders.

Over the decades, the popularity of tea as a beverage increased manifold due to clever and attractive marketing campaigns. Marketed as a health drink that could provide relief for ailments like cold, flu or body ache, tea as a beverage slowly became popular across the country. Tea has both an organized branded (pre-packaged) market as well as unorganized unbranded market (loose lot sale). Different versions of brewing and making tea were practiced, and this concocted a success story of exponential proportion.

Increasing popularity of the beverage prompted RTL to expand the scope of its business. It wanted to continue its plantation business, but now it also wanted to expand its business to include the blending, packaging, and marketing of tea. RTL would increase the production of tea leaves in its plantations using both its existing estates as well by acquiring newer tea estates to increase production capability. All tea leaves will be processed further (dried, fermented, and cut) at the processing centres within its plantations. The management of RTL decided that it would from this point, also start blending, packaging, and marketing its own tea. For this, it built and gained ownership of the necessary factory resources and infrastructure for blending, packaging, and marketing its tea. Production resources and infrastructure were owned and controlled by RTL. This packaged tea will be sold directly to wholesalers and retailer dealers who would in turn sell it to the final customer.

When RTL decided to become a full-fledged tea company by the mid-1980s, the market was saturated with many sellers. Most of them bought tea leaves from traders at various auctions, blended, packaged, and marketed the tea. For these other suppliers, it took approximately 80 days from the time the tea leaf was plucked to the time the consumer purchased it. They catered to consumers from all strata of society. Premium tea dominated the branded market, while people who could not afford it were satisfied with the unbranded loose tea that could be bought as per their individual requirements. RTL decided to establish itself in the branded market. Unbranded loose tea was perceived to be of lesser quality as compared to branded pre-packaged tea and therefore could not command much price in the market.

RTL conducted detailed market research and found that consumers from different regions had different taste preferences. For example, consumers in Bihar and Jharkhand preferred tea leaf while consumers in Maharashtra and Gujarat preferred tea dust. RTL therefore created different brands that catered to different markets (in terms of taste preference - leaf or dust tea) as well as different price bands (economy or premium). The quality of RTL's pre-packaged branded tea was kept higher than the unbranded tea sold in loose lots, and at the same time, the price of its packaged tea was kept slightly lower than the other premium varieties.

available in the market. Thus, RTL decided to place itself in the middle of this market spectrum in terms of quality and cost. So, it sold premium brand leaf tea as well as economy brand leaf tea in Bihar and Jharkhand, while it sold premium dust tea and economy dust tea in Maharashtra and Gujarat. As part of its marketing strategy, it created a separate brand for each target customer audience so that the quality and price could be easily recognized by the end user. RTL further aimed to deliver the tea to the final customer within 20 days from the time the tea leaf was plucked from its gardens.

The new vision statement of RTL was then reframed as "to be the most admired tea company across the globe." The new mission statement of RTL was then reframed as "to enhance customer experience by making tea a global beverage of choice. Understand and influence tastes and preferences by bringing unique, quality, affordable tea to the discerning palate of customers."

Today, in 2023, the total Indian tea market is estimated to be ₹ 34,400 crore, with branded businesses constituting approximately 74% of the total market value. The global tea market is estimated to be \$45-50 billion, with the main demand coming from the black tea segment. RTL has emerged as the market leader, commanding 60% of the domestic Indian tea market. It is now a listed company at BSE and NSE stock exchanges. Demand in other segments like green tea, fruit & herbal, decaf, and speciality tea among others is also picking up. Taking note of this new trend, RTL conducted market research and a survey done of the entire beverage industry to gather market intelligence and emerging customer choices. The findings reveal that consumers are becoming more health conscious in their choices. In the past 2 years, demand for fruit juices, coconut water, almond milk, and milk shakes has increased. According to the study, the shift towards healthier beverage choices like fruit juices, coconut water, almond milk, and milkshakes is projected to grow and encompass at least 8% of the beverage market within the next three years.

Tea King Plc. (TKP) is a UK based company that produces tea bags. Small sachets of tea (tea bags) are dipped into hot water in order to brew conveniently within a cup. The sachets can be conveniently disposed of after use. Tea bags are hugely popular across the globe, primarily due to the convenience of use and disposal. "Anywhere-Anytime" is a highly recognized tagline for TKP's tea bags. The company has a net worth almost three times that of RTL. TKP has a deep market presence in the United Kingdom and the United States of America, as well as a few other European countries where tea is relished as a beverage. Despite its huge global presence and scale, the ownership of TKP has changed hands frequently every few years. This is because the profitability of the business is constantly under pressure due to the high input costs of tea, driven by inflationary conditions. TKP imports tea leaves (its raw material) from various countries, and the cost of imports has become more expensive over the years.

RTL has recently gained the opportunity to own a controlling stake in TKP. This is a prestigious development for RTL, as it has been trying to increase its global footprint, particularly in the UK and USA. The advantage the company has that most of the previous owners of TKP did not have, is that RTL has better control over supply of raw materials. India is one of the major tea producing countries. RTL has been in plantation business since its inception. Hence, RTL is much better positioned to scale up tea leaf production to meet TKP's raw material requirements in a cost-effective way, thereby countering any inflationary pressure. However, since the size of the deal is much bigger than even RTL's net worth, it has to resort to taking significant amount of debt to finance the deal. The deal has the approval of the majority shareholders, and other regulatory approvals are in place.

In the dynamic field of tea production, external factors such as unpredictable weather conditions can severely affect operations. Recognizing the importance of proactive risk management, RTL has implemented a comprehensive strategy to mitigate potential disruptions and protect its plantations specifically in northeastern region. This includes ensuring adequate insurance coverage, positioning RTL to effectively navigate the uncertainties associated with cyclones and adverse weather events. RTL's financial statements are prepared in accordance with Indian Accounting Standards (Ind AS) notified under Companies Act, 2013.

Multiple Choice Questions

1. Which of the following statement is true regarding the current expansion plan of RTL (acquisition of TKP) and the expansion of RTL in the mid-1980s?
- Current expansion plan of RTL (acquisition of TKP) is horizontal integration, while expansion in the mid-1980s is vertical integration
 - Current expansion plan of RTL (acquisition of TKP) is vertical integration, while expansion in the mid-1980s is horizontal integration
 - Current expansion plan of RTL (acquisition of TKP) and the expansion in the mid-1980s are both vertical integration
 - Current expansion plan of RTL (acquisition of TKP) and the expansion in the mid-1980s are both horizontal integration
2. The regulatory authorities in India have to assess whether there is any breach of the anti-competition laws. Which type of stakeholder will the regulatory authorities be classified as using Mendelow's Matrix?
- The regulatory authority is a marginal player with low interest and low power
 - The regulatory authority is a key player with high interest and high power
 - The regulatory authority is an influencer with low interest and high power
 - The regulatory authority is an affected player with high interest and low power
3. TKP has used the tag line "Anywhere-Anytime" to market its tea bags. With reference to the value proposition map, please match the following:

Particulars	Element of the value proposition map
a. Brewing tea	i. Customer Profile: Gain
b. Customer health	ii. Value Map: Gain Creator
c. Green tea	iii. Value Map: Pain Reliever
d. Tea bag	iv. Customer Profile: Pain

- a- i, b- ii, c- iii, and d- iv
 - a- i, b- iv, c- iii, and d- ii
 - a- iv, b- i, c- iii, and d- ii
 - a- iv, b- i, c- ii, and d- iii
4. The blending machine at Nagaon (Assam) Factory blends tea leaf varieties produced in the plantations of RTL. Due to increased seasonal demand during the monsoon, the production of tea increases in this factory for the months of May, June, and July. Due to this, the availability of time on the blending machine is limited during these months. There is no immediate plan to increase the blending machine capacity since this is a seasonal variation in demand, and hence the constraint is short term in nature. At the same time, the production manager at Nagaon Factory wants to determine the order and quantity of tea blend to produce in order to maximize profits. The selling price and cost per kg, as well as bottleneck production details are as below:

Particulars	Blend 1	Blend 2	Blend 3
Selling price (in ₹)	500	600	800
Material and other variable cost (in ₹)	300	400	500

Time required at the blending machine (minutes);	20	30	40
Bottleneck resource time			

The factory cost is ₹ 5 per minute. The manager wants to rank the blends based on the throughput accounting ratio. This will be used to plan the production schedule for the months when blending time is a bottleneck constraint.

Which of the following statements is true?

- (a) Ranking based on throughput accounting: Rank 1 – Blend 1, Rank 2 – Blend 2, & Rank 3 – Blend 3
 - (b) Ranking based on throughput accounting: Rank 1 – Blend 1, Rank 2 – Blend 3, & Rank 3 – Blend 2
 - (c) Ranking based on throughput accounting: Rank 1 – Blend 2, Rank 2 – Blend 1, & Rank 3 – Blend 2
 - (d) Ranking based on throughput accounting: Rank 1 – Blend 3, Rank 2 – Blend 2, & Rank 3 – Blend 1
5. RTL has divisions like plantation, processing, blending, packaging, etc. The popularity of tea has increased the demand for tea leaves in the market. Many tea companies do not own any plantations of their own. They purchase the tea leaf directly from the tea auctions. RTL uses only the tea leaf produced within its own plantations in order to have control over the quality and price of different tea blends. The tea leaves, once plucked, are transferred to the processing units within the plantations. The company has a transfer pricing policy for any internal transfer within the divisions. Plantations are producing at their full capacity. Brokers from the external market are offering the plantation division a price of ₹ 200 per kg. of plucked tea leaves, while the marginal cost of production has been determined at ₹ 170 per kg. The net marginal price (selling price – marginal cost) at the processing division is ₹ 210 per kg., while the price at which the processing centre can purchase tea leaves (procurement price of similar quality) from other plantation suppliers is ₹ 205 per kg. Note, selling price for the processing division is actually the transfer price it charges the blending division for each kg. of processed tea.
- The managers of each unit have their performance assessed based on the surplus each division generates. Which of the following transfer pricing range will bring goal congruence between the plantation division and the processing division?
- (a) Minimum ₹ 170 per kg. – maximum ₹ 210 per kg. of tea leaves
 - (b) Minimum ₹ 200 per kg. – maximum ₹ 210 per kg. of tea leaves
 - (c) Minimum ₹ 200 per kg. – maximum ₹ 205 per kg. of tea leaves
 - (d) Minimum ₹ 170 per kg. – maximum ₹ 205 per kg. of tea leaves
6. In August 2023, RTL's tea estate in Jellalnagar, Karimganj district, received ₹ 10,00,000/- as compensation from an insurance company for severe damage to green leaves caused by a hailstorm. A trainee accountant (tax) at the Head Office believes that the entire receipt under the insurance policy, pertaining to damage caused by the hailstorm to tea leaves, will be assessable as income from other sources. Evaluate this view.
- (a) The accountant's view is correct; entire compensation is assessable as income from other sources.
 - (b) The accountant's view is incorrect; no part of the compensation consists of manufacturing income, and it cannot be apportioned under rule 8 between manufacturing income and agricultural income. Therefore, income will be agricultural income.
 - (c) The accountant's view is incorrect; only portion of compensation is assessable as business income.
 - (d) The accountant's view is incorrect; the entire income would be treated as business income

Descriptive Questions

7. The induction program for new hires is underway. They are being introduced to the history of tea in India as well as how RTL grew to be a leading player in this market. One of the new inductees asks: "What is the rationale behind RTL's decision in the mid-1980s to expand its operations into a saturated market? It could have maintained the status quo as a plantation company producing tea leaves. Why did it have to get into the blending, packaging, and marketing business as well? Also, how did RTL manage to become a market leader despite the competition?"

Required

You are being the Deputy Manager (Finance & Strategy) at RTL, have been requested to provide your explanation behind the rationale behind this business decision taken in the mid-1980s. Also, based on the information in the case study, ASSESS the company's success in a competitive market.

8. At RTL's Darjeeling plantation site, manufacturing process commences with the plucking of tea leaves from the plantation. Once the tea leaves are harvested, they are transported to the internal processing centres to continue the manufacturing process.

The local accountant at the site is currently preparing site's financials in accordance with Indian Accounting Standards (Ind AS) under your supervision.

Required

She has raised the following questions –

- (i) Whether these plucked tea leaves are agriculture produce as per Ind AS 41 or not?
 - (ii) How should such plucked tea leaves be initially measured?
 - (iii) What will be subsequent measurement of such tea leaves in line with Ind AS 41 and Ind AS 2?
9. In the process of preparing the financial statements for the financial year ending on 31.03.2023, the management of RTL has made several accounting estimates and affirmed to the auditor that all necessary accounting estimates have been recognised, measured, and disclosed in the financial statements are in accordance with the applicable financial reporting framework. However, in the course of the audit, auditor has observed some changed circumstances giving rise to the need for an accounting estimate.

Required

ENUMERATE some circumstances, change of which would prompt inquiries from the management of RTL.

ANSWERS TO THE CASE STUDY 16

Answers to the Multiple Choice Questions

1. (a) Current expansion plan of RTL (acquisition of TKP) is horizontal integration, while expansion in the mid-1980s is vertical integration.

Reason

TKP is in the same business as RTL. There is a difference, TKP produces tea bags while RTL produces tea packages. However, both belong to the same industry, catering to different requirements within the tea market. The acquisition of TKP will help RTL grow in size and revenue by diversifying into new markets with newer products of tea. Therefore, this is a horizontal integration.

The expansion of RTL in the mid-1980s to include other processes in the value chain like blending,

packing, and marketing is a vertical integration. RTL, at that point in time, was only in the plantation business. As expanded into other activities in order to get better control of the supply chain, RTL gained control over additional processes in the production of tea as well as the cycle time to deliver to customers. This helped to penetrate the existing tea market in India. This is vertical integration.

2. (c) the regulatory authority is an influencer with low interest and high power.

Reason

The authorities have a low interest in whether the acquisition is successful or not. However, they have a high power since if there is any indication that this acquisition can give RTL unfair advantage to stifle competition, they can refuse to approve the acquisition deal or may take action against the business. Hence, enough information should be provided to keep them satisfied in order to not face any adverse action.

3. (d) a- iv, b- i, c- ii, and d- iii.

Reason

Brewing tea is a pain that the customer faces; Customer Profile: Pain.

Customer Health is a gain or aspiration for the customer; Customer Profile: Gain.

Green tea addresses the customer's aspiration for good health; Value Map: Gain Creator.

Tea Bag brings the convenience of brewing tea anywhere at anytime; Value Map: Pain Reliever.

4. (b) Ranking based on throughput accounting: Rank 1 - Blend 1, Rank 2 - Blend 3, & Rank 3 - Blend 2.

Reason

The calculation is as below:

Particulars	Blend 1	Blend 2	Blend 3
Selling Price (in ₹)	500	600	800
Less: Material and Other Variable Cost (in ₹)	300	400	500
Throughput Contribution (in ₹)	200	200	300
Time Required at the blending machine (minutes)	20	30	40
Contribution per minute (in ₹)	10.00	6.66	7.50
Factory Cost per minute (in ₹)	5	5	5
Throughput Accounting Ratio (TA Ratio = Contribution per minute/Factory Cost per minute)	2.00	1.33	1.50
Ranking as per TA ratio	I	III	II

5. (c) Transfer price range for tea leaves should be minimum ₹200 per kg. – maximum ₹205 per kg. of tea leaves.

Reason

The plantation division is operating at full capacity, with an external demand for its tea leaves at ₹200 per kg. Hence, although its marginal cost is only ₹170 per kg., it should charge the opportunity cost of ₹30 per kg. that it would have earned had it otherwise sold in the external market. For the processing division, tea leaves can be bought externally at ₹205 per kg. Hence, although its net marginal revenue is ₹210 per kg., that it can afford to pay upto ₹210 per kg. and still remain profitable, the division will be unwilling to pay beyond ₹205 per kg. (external procurement price).

Hence, the transfer price range that can promote goal congruence will be minimum ₹200 per kg. – maximum ₹205 per kg. of tea leaves.

The ideal transfer price should be ₹200 per kg. which will give the plantation division the normal profit it would have otherwise earned from external sales, while the processing unit can procure it at a much lower cost than the external buy-in price. The transfer price will be negotiated by the managers of the respective division; hence, the final price within the above range will depend on the bargaining skills of each manager.

6. (b) The accountant's view is incorrect; no part of the compensation consists of manufacturing income, and it cannot be apportioned under rule 8 between manufacturing income and agricultural income. Therefore, income will be agricultural income.

Reason

Compensation received from an insurance company for damage caused by hailstorm to the green leaf is fully agricultural income and no part of such compensation consists of manufacturing income. Therefore, cannot be apportioned under rule 8 between manufacturing income and agricultural income.

Answers to the Descriptive Questions

7. In a competitive environment, a business must craft its strategies not just to survive but also to sustain itself. RTL started out as a tea leaf producer, owning plantation tea estates to grow tea. While it had control over the production, it did not have as much control over the price at the auction. If you refer to scheme of Supply Chain for Tea, it is the brokers who had more influence over the auction price as they had more complete information about both the supply and demand for tea. Hence, the revenue generation flexibility for RTL was being limited by the influence of brokers, who acted as the middlemen for the plantation owners (tea growers) and the tea companies (tea blenders and marketers). Over the decades, the popularity of tea as a beverage increased the competition. Recognizing this change, the management of RTL had to study the external environment and understand how it could determine its strategy in order to survive and thrive within this competitive business. RTL became agile and responsive to change. This resilience made it competitive and became the primary reason for its success in the competitive market.

Porter's five forces helped RTL to identify where power lied in business situation. This was useful both in understanding the strength of RTL's current competitive position and the strength of a position that RTL might consider entering.

The five forces that were enumerated by this model are given below:

Threat of new entrants: Tea as a beverage was gaining popularity, so demand growth was increasing at an exponential pace. In turn, this made the industry attractive for new players to enter. This meant that competition in the market was likely to increase across the value segments (including the production of tea leaves) within the tea industry. RTL was an incumbent in this sector, as it already owned many plantations for producing tea leaves.

To Counter Competition, the management expanded its scale of operations. It increased the production of tea leaves (the raw material source) and branched out into allied processes within the industry value chain like blending, packaging, and marketing. It also owned and controlled its resources. This increase in scale of operations gave it a competitive advantage that not many new entrants may have had.

Bargaining power of suppliers: As mentioned in the case, many of the sellers in the saturated tea market bought tea leaves from traders at various auctions, blended, packaged, and marketed the tea.

These brokers at auctions could influence the price of tea since they had information on both the demand and supply sides of the business. RTL was already a supplier of tea leaves (the raw material) and had wanted to branch out further in the industry value chain by expanding its operations. Moreover, it wanted to reduce the operating cycle by delivering good quality tea to the customers within 20 days. As part of its brand strategy, RTL also wanted to bring variety to its product offerings in terms of both quality (premium vs. economy) and type (leaf vs. dust). Uninterrupted supply of appropriate quality tea leaves is a critical requirement to ensure both a quick operating cycle and ability to produce a variety of tea catering to different brand requirements.

Therefore, it increased the scale of its production of tea leaves (raw materials) by increasing production in existing plantations as well as acquiring newer plantations. Ownership of these plantations gave the company better control over the supply of tea leaves. Unlike other sellers in the market, it did not depend on auctions to procure tea leaves. All this helped it to gain control over the supply of its tea leaf requirements. Reduced dependency on auctions or other suppliers also contributed to its success.

Bargaining power of buyers: RTL entered a market that was both saturated and highly competitive. When RTL entered the market, there was a premium segment and an economy segment. The presence of many suppliers indicates that buyers had a choice to switch between different tea offerings; therefore, there was no preference for a specific brand. In order to build a loyal customer base, RTL had to differentiate itself from other tea offerings.

RTL redefined itself with as a customer centric business model. The quality of tea was kept higher than in the unbranded category by reducing the operating cycle and ensuring that the tea reaches the customer in its freshest form. At the same time, the price of its tea was kept lower as compared to other premium tea in the market. Its multi brand strategy, based on different quality and price expectations, helped it to connect with the different sets of customers, each with unique tastes and preferences. Each brand had a unique identity that the customer could easily understand and know what to expect from the product. This multi brand strategy established an important connection with the end user, helping it build a loyal customer base.

Threat of substitutes: Until the recent year, there was no immediate threat of substitute.

Note - The recent market research and study of the beverage industry reveal that RTL needs to consider healthier options like fruit juice, coconut water, almond milk and milk shakes as possible substitutes for tea. These healthy drinks may constitute approximately 8% of the total beverage market in 3 years. RTL has to consider this as a rising threat of substitutes and strategize accordingly.

Rivalry among existing firms: Rivalry was addressed by RTL by changing its scope and scale of business operations so that it could exercise better control over different processes in the value chain. Having better control over supply side of business while having the resources to remain agile to the requirements of the demand side of business helped RTL become a leader in the market despite the competition.

Overall, RTL used its multi brand strategy, based on different quality and price expectations, to help build a product differentiation strategy. By expanding its operations into other processes in the value chain like blending, packing, and marketing, the company could study about the variety and change in taste and preferences of customers. This gave the company more credible information about the demand side of the business. The company could segment the market based on certain criteria so that customer demand could be catered to by addressing their unique needs. This customer centric business model for RTL helped it identify differentiating factors that can help it beat competition.

8. (i) Paragraph 3 of Ind AS 41, Agriculture states that:

Ind AS 41 is applied to agricultural produce, which is the 'harvested produce of the entity's biological assets, at the point of harvest. Thereafter, Ind AS 2, 'Inventories' or another applicable Standard is applied. Accordingly, **Ind AS 41 does not deal with the processing of agricultural produce after harvest**; for example, the processing of grapes into wine by a vintner who has grown the grapes. While such processing may be a logical and natural extension of agricultural activity, and the events taking place may bear some similarity to biological transformation, such processing is not included within the definition of agricultural activity in Ind AS 41.

In the given case, RTL produces tea by processing tea leaves after they are plucked from tea plants, i.e., after they are harvested. **Accordingly, any processing of harvested agricultural produce (processing of tea leaves into tea) will not be within the scope of Ind AS 41 as per aforementioned paragraph 3 of Ind AS 41.**

Paragraph 5 of Ind AS 41, 'Agriculture' defines agricultural produce: As per the standard as the harvested product of the entity's biological assets. **A biological asset is a living animal or plant.**

Based on above definitions, at the point of harvest, the plucked leaves are the harvested product of tea plants which are the biological assets of RTL, **hence such plucked tea leaves are agricultural produce as per Ind AS 41.**

(ii) Paragraph 13 of Ind AS 41 states that:

Agricultural produce harvested from an entity's biological assets shall be measured at its fair value less costs to sell at the point of harvest. Such measurement is the cost at that date when applying Ind AS 2 'Inventories' or another applicable Standard.

Therefore, in line with paragraph 13 of Ind AS 41, **the fair value less costs to sell of the plucked leaves at the point of harvest would be the cost of such plucked leaves at the date of applying Ind AS 2.**

(iii) Subsequently, such plucked tea leaves will be measured as inventory as per the accounting principles of Ind AS 2, 'Inventories'.

9. As per SA 540, "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures", inquiries of management about changes in circumstances may include, for example, inquiries about whether:

- The entity has engaged in new types of transactions that may give rise to accounting estimates.
- Terms of transactions that gave rise to accounting estimates have changed.
- Accounting policies relating to accounting estimates have changed, as a result of changes to the requirements of the applicable financial reporting framework or otherwise.
- Regulatory or other changes outside the control of management have occurred that may require management to revise, or make new, accounting estimates.
- New conditions or events have occurred that may give rise to the need for new or revised accounting estimates.

During the audit, the auditor may identify transactions, events and conditions that give rise to the need for accounting estimates that management failed to identify. SA 315 deals with circumstances where the auditor identifies risks of material misstatement that management failed to identify, including determining whether there is a significant deficiency in internal control with regard to the entity's risk assessment processes.

NEW COURSE DIGEST

Case Study 17

Subjects	Topics Covered (8 MCQ in this Case Study)	Marks
IDT	GST Basics	4
Law	FEMA (Schedule I)	2
SCPM	JIT, Customer Profitability Analysis, Target Costing, Pricing Strategy	19

Prime Tea Private Limited (PTPL) was established in 1938, headquartered in Kolkata. The company is privately owned by the Triboov and as family members, who have been in the tea business for the past 3 generations. Mr. Bhushan Triboov and as started out as a broker in the Siliguri Auction Centre. In due course, he started a tea blending and packaging company, PTPL in Kolkata. Tea leaves are blended and packed at its production facilities and sold further to tea distributors. Tea distributors in turn sell the packages to other smaller wholesalers or large retail outlets. Retail chains across India stock tea packages blended by PTPL.

In smaller cities and towns, where there is no presence of proper distributors, PTPL has local sales agents that it hires on contract to sell tea to small grocery stores and other local shops. Goods are sent to these local agents on consignment. Tea packages have a long shelf life and can be stored up to a year if stored in appropriate conditions. PTPL commands a moderate 8% market share in terms of sales in the Indian Market.

PTPL has been a profitable business for most of the years of its existence. The past many years have seen significant inflationary trends in the economy. Like many other companies, PTPL too has been enduring the increase in tea leaf price, which is the primary raw material. To combat reducing profit margins due to inflation, it has concocted a uniform blend that it sells under the brand name "A1 Tea". The blend is prepared by mixing few popular tea flavours into one. This concoction was done with the help of an expert tea sommelier a decade back. PTPL has used same composition over the last many years. The tea that PTPL prepares under the "A1 Tea" is of the black tea variety, which is the most popular tea variety consumed in India.

The Indian marketplace is crowded with many tea companies like PTPL. In retail outlets and grocery stores shelves stocking tea beverage have many brands stocked together. There is nothing much to differentiate PTPL's "A1 Tea" brand from the rest. Brands have to fight to gain visibility among customers and this is done using attractive packaging, increasing advertisement spend, etc. Hence, customers are more price sensitive rather than conscious about quality of tea.

Today, in 2023 the total Indian Tea market is estimated to be ₹ 34,400 crore with branded business constituting approximately 74% of the total market value. The global tea market is estimated to be \$45-50 billion with the main demand coming from the Black Tea segment. Demand in other segments like Green Tea, Fruit & Herbal, Decaf, Speciality among others is also picking up. Despite optimistic prospects, the management at PTPL observes stagnation in tea sales rather than growth.

Currently, PTPL supplies tea to 300 distributors across India. An investigation into this revealed that many of the distributors are also distributors for competitors of PTPL. The investigation further revealed that in the past 3 years, many times PTPL has delayed the delivery of orders to these distributors. When distributors run out of "A1 Tea" packages, they place an order with the company for stocking up their inventory. Meanwhile, orders from retail outlets and smaller distributors keep coming in, which need to be met by the distributors on time. Hence, if the packages of "A1 Tea" are not replenished in time, distributors instead sell packages of another rival company to meet the order demand on time. The retail outlets and smaller distributors (who are customers of the distributors) are largely indifferent to which brand of tea. As mentioned in the paragraph above, this is because there is not much to differentiate "A1 Tea" from the rest of the brands of similar variety.

A further investigation for the reason for delays in meeting restocking requests of distributors was undertaken. The delayed sales delivery is costing the company in the form of lost opportunity sales. The study of this problem reveals that PTPL has been following Just in Time (JIT) production in its production facilities. This was implemented around 3 years back by the production manager who had wanted a lean production system. Accordingly, the tea blending process happens only when a distributor places an order for tea packages with PTPL. A typical order size would be 50,000 packages a month from each distributor. In a month at least 200 distributors place orders with PTPL.

The raw material in the form of tea leaves is stocked in advance by buying tea from various auctions. Since "A1 Tea" is a blend of popular tea flavours, it requires a mix of tea leaves providing those different flavours. It was found that these different types of tea leaves had different growing, cultivation cycle and were grown in different plantations spread across India. Hence, while stocking up for raw materials, it does happen many times that a particular type of tea leaf is unavailable at that auction centre. In such cases, the tea leaf has to be sourced from some other auction centre or sometimes directly from the plantation. These delays increase the lead time for procurement for tea leaves. The purchase manager at PTPL has not taken any initiative to resolve the problem and reduce the lead time for procurement. Hence, because the entire raw material of the required varieties of tea leaves are always not readily available, it has many times happened that there have been delays in the production of the blended tea. Since the production is JIT system based, PTPL does not have buffer stock of blended tea (finished product) from which it could try to meet the order requirements at least partially. This is the primary reason for delays in sales delivery, which has resulted in the distributors preferring to sell rival tea brands.

Mr. Kumar, son of Bhushan Triboovandas is the CEO of PTPL. Last month, he called the senior management of the company to understand the reason for stagnating sales. This month, there was a follow up meeting where the findings of the investigations detailed above, were presented to him. On presentation of the findings, an argument ensued between the sales, production and procurement managers defending their department and function.

Sally, the sales manager: "I am facing the brunt of this problem. It is already very difficult to sell "A1 Tea" as it does not enjoy very high visibility due to which the end user customer is indifferent to the brand and its quality. Distributors also do not get any additional incentive to sell "A1 Tea" since the profit margin they derive is just the same from any other brand. While I am trying my best to promote and sell our tea, I am not given sufficient support by Pam from our production department. Others too need to do their job well in order to sustain sales. Is that not the least I can expect?"

Pam, the production manager: "My hands are tied, we have best in class blending machines that can blend tea in huge quantities on very short notice. The short turnaround time for sales delivery was considered while implementing the JIT production system 3 years back. This is the reason why we had these high-performance machines installed in the first place. I just need a phone call from Sally and my machines are ready to do the job. My department cannot be blamed for delays if the requisite raw materials are not available. Procurement is Sam's responsibility; she should be made accountable for this."

Sam, the procurement manager: "It is unfair to lay the entire blame on me. I have no information about what the production is going to be during the month. I need at least 1-month advance notice if not more, to ensure that raw material supply is uninterrupted. Perhaps my colleagues here have forgotten that tea leaves are agricultural produce that cannot be grown on the drop of a hat. I need time to get the varieties of leaves from different auction locations across India to our storage facility here in our plant. Certain varieties are available only for few seasons, hence procuring them during off seasonal months is very difficult. While JIT production may work fine for blending, JIT procurement is impossible for tea leaves. I need advance notice of raw material requirements. Without this information, I cannot ensure their supply."

Mr. Kumar says "Right from my father's days, all departments had complete understanding of each other's requirements. We have never felt the need to have information systems in place. All that was required was a phone call between the managers for the business to be done. Of-course, over the years we have grown in scale. However, this has led to gaps in passing on information. How can we resolve this?"

Multiple Choice Questions

1. Which pricing strategy do you think that PTPL is following for its "A1 Tea" brand?

- (a) Cost plus markup pricing
- (b) Target rate of return
- (c) Perceived value pricing
- (d) Going rate pricing

2. Below is the cost structure for producing of 1 kg of "A1 Tea":

Direct material cost	₹ 200
Direct labour cost (20 minutes, costing ₹ 300 per hour)	₹ 100
Overhead cost	₹ 50
Total cost	₹ 350

In addition, 1 kg of "A1 Tea" also requires 0.6 kg of other material which costs ₹ 80 per kg, with 4% substandard quality which cannot be used in production of tea. PTPL sells 1 kg of "A1 Tea" for ₹400. PTPL wishes to earn 10% profit margin on the same. Is the target cost being met?

- (a) No, the total estimated cost is ₹ 400 per kg while target cost is ₹ 360 per kg.
 - (b) Yes, the total estimated cost is ₹ 350 per kg while target cost is ₹ 400 per kg.
 - (c) Yes, the total estimated cost is ₹ 350 per kg while target cost is ₹ 360 per kg.
 - (d) Yes, the total estimated cost is ₹ 400 per kg while target cost is also ₹ 400 per kg.
3. Rani is a tea sommelier who has recently graduated from university and holds a professional certified tea sommelier degree. Few months back, she started 2 outlets by the name "Queen Tea" in Kolkata which serves gourmet tea specially crafted by her. Business has been profitable and has gained traction in terms of revenue and customers. Rani envisions that she can revolutionize the tea industry by influencing the taste preference of tea consumers.
- Her specially crafted tea is authentic, unique in flavour that can be appreciated by real tea enthusiasts. India's economy has space even for niche tea enthusiast who are willing to pay a premium for a good cup of tea beverage. However, Rani is facing many issues running the business-like access to extra finance, networking, how to market her product etc. Whom should she approach to find proper guidance, finance, and support?
- (a) An incubator
 - (b) An accelerator
 - (c) A start up
 - (d) An intrapreneur
4. In order to drive up sales, PTPL started offering a teacup free for every 1 kg of "A1 Tea" bought per order. This would be an example of:
- (a) Awareness

- (b) Promotion
- (c) Subscription
- (d) Cross subsidization

5. An employee of PTPL visited Guwahati to purchase tea leaves from an auction at Guwahati Tea Auction Centre and had stayed in hotel located in Guwahati, Assam. At the time of checkout from hotel, invoice was issued for an amount equivalent to ₹ 1,00,000. The hotel issued invoice in the name of PTPL and GST was charged at the rate of 14% CGST and 14% SGST on total invoice amount of ₹ 1,00,000. Out of such amount, the amount recoverable from the employee towards non-official stay by PTPL was ₹ 50,000.

Whether input tax credit is available on the GST paid by PTPL on the invoice amounting to ₹ 1,00,000 to the hotel located in Guwahati, Assam, for stay of the employee? If yes, please specify the amount of input tax credit available.

- (a) Yes, ₹ 14,000 as CGST and ₹ 14,000 as SGST
- (b) Yes, ₹ 28,000 as IGST
- (c) No input tax credit is available
- (d) Yes, ₹ 7,000 as CGST and ₹ 7,000 as SGST

6. PTPL entered into a contract with Nayan Distributors, Siliguri for supply of 1 tonne of "A1 Tea". It sent the said consignment to the distributor and paid loading and unloading charges of ₹ 20,000.

Which of the following statements is correct under the GST law?

- (a) "A1 Tea" is an agricultural produce. Loading and unloading of "A1 Tea" is exempt from GST.
- (b) "A1 Tea" is an agricultural produce. Loading and unloading of "A1 Tea" is liable to GST.
- (c) "A1 Tea" is not an agricultural produce. Loading and unloading of "A1 Tea" is liable to GST.
- (d) "A1 Tea" is not an agricultural produce. Loading and unloading of "A1 Tea" is exempt from GST.

7. PTPL recently came across a new export opportunity, involving the export of tea to Country 'N' via the Rupee State Credit Route. However, the person who will execute the trade is based out of Country 'N' and would charge a commission of 20%. The CFO informed the CEO that we cannot enter into this trade as the remittance of commission on the Rupee State Credit Route is not allowed.

Considering the given legal position of the execution of the trade through the payment of commission on export under Rupee State Credit Route, comment on correctness of advice of CFO on such remittance of commission in the light of the Foreign Exchange Management Act, 1999.

- (a) Yes, the CFO is correct. No commission can be paid on exports through the Rupee State Credit Route. Hence, we cannot export the tea.
- (b) No, the CFO is incorrect. Commission up to 20% can be paid on exports through the Rupee State Credit Route. Hence, we can export the tea and remit the commission to the agent.
- (c) No, the CFO is incorrect. Although commission cannot be paid on exports through the Rupee State Credit Route, however commission up to 10% of invoice value of export can be paid on tea and tobacco. Here, still cannot export the tea because commission only up to 10% is allowed.
- (d) No, the CFO is incorrect. Although commission cannot be paid on exports through the Rupee State Credit Route, up to 20% commission can be paid on tea and tobacco. Hence, we can export the tea and remit the commission to the agent.

8. The management of PTPL has developed a strong internal control in its accounting system in such a way that the work of one person is reviewed by another. Since no individual employee is allowed to handle a

task alone from the beginning to the end, the chances of early detection of frauds and errors are high. To facilitate the accumulation of the information necessary for the proper review and evaluation of internal controls, PTPL's auditor framed an internal control questionnaire to obtain an understanding of internal financial control relevant to the audit in order to design audit procedures that are appropriate. Which of the following questions relates to the procurement of tea leaves.

- i. Is there a procedure in place to match received tea leaves with corresponding invoices?
 - ii. Is there a procedure of monitoring broad customer preferences worldwide?
 - iii. Are provisions for bad debts made based on a systematic assessment of the collectability of outstanding receivables?
 - iv. Is there a designated authority responsible for approving tea leaf procurements?
 - v. Is there a confirmation process, such as signed delivery receipts, to validate successful deliveries?
- (a) Only (i)
 - (b) (i) and (iv)
 - (c) (i), (ii) and (iv)
 - (d) (ii), (iii) and (v)

Descriptive Questions

9. Anticipating heated arguments, Mr. Kumar on behalf of PTPL, has hired you as a management consultant to guide the company on ways to improve its sales and increase its market share. Your priority is to resolve the issue of delayed sales delivery to the tea distributors. Reduction in instances of lost sales opportunities will dramatically improve the sales for PTPL and grow its market share.

Required

Write a brief note addressed to the senior management, ADVISE critical points that need to be attended to in order to resolve this issue.

10. PTPL extends a "net 30" day credit to its distributors (customers). The 30-day credit period begins from the time of dispatch of goods from PTPL's warehouse. Invoices are generated and posted to the distributors. On an average it takes 3 days after dispatch to generate the invoice and a further 3 days for the post to reach the distributors. So, totally the distributor gets the invoice 6 days after dispatch. There have also been instances of the invoice being misplaced or not being received at all. In such cases, PTPL resends the invoice, which again requires few more days to reach the distributor.

Only 30% of the accounts receivable is collected within 30 days. On an average, the accounts receivable collection period is 50 days. PTPL does not charge any interest for this delay since it wanted to maintain good relations with the distributors. Bad debts account for almost 10% of the accounts receivable.

Required

You have been requested to ADVISE ways to reduce the collection period from the current average of 50 days to 30 days without creating any acrimony with distributors.

11. 'If we recoup the entire accounts receivable, that is there are no bad debts, it also means that we are profitable. It also means that each and every customer contributes towards this profit'. – Mr. Kumar

Required

Critically ANALYZE this statement and ILLUSTRATE whether it is always true

ANSWERS TO THE CASE STUDY 17

Answers to the Multiple Choice Questions

1. (d) going rate pricing.

Reason

Going rate pricing is a competition-based pricing where the company sets the price based on the market price for the product. The market is highly competitive. Hence, it is given that customers are more price sensitive and indifferent between different brands. So, going rate price would be the best pricing for PTPL to follow.

2. (a) No, the total estimated cost is ₹ 400 per kg while target cost is ₹ 360 per kg.

Reason

The total estimated cost is:

Direct material cost	₹ 200
Direct labour cost (20 minutes, costing ₹300 per hour)	₹ 100
Overhead cost	₹ 50
Other material (0.6 kg./96% × ₹80 per kg.)	₹ 50
Total estimated cost (per kg.)	₹ 400

The target cost if the company wishes to earn 10% of revenue as profit is ₹360 per kg. Selling price ₹400 per kg less profit margin ₹40 per kg = ₹360 per kg.

3. (b) an accelerator.

Reason

Accelerators can accelerate growth by removing some of the risk and uncertainty involved; through a short-term program usually for start-ups that already have a Market Viable Product (MVP), which in Rani's case is her specially crafted gourmet tea. She can get guidance on how to scale up business, have access to business mentorship and guidance that can improve profitability, get industry connections etc. An accelerator generally gets an equity stake in the startup that joins its program. This gives proper motivation to provide proper guidance to the startup founder.

4. (b) Promotion.

Reason

A low-cost product, teacup in this case, is offered for free in for the purchase of 1 kg of "A1 Tea".

5. (c) no input tax credit is available.

Reason

ITC of GST paid on hotel accommodation is not available as CGST/SGST of one State cannot be utilized for discharging of CGST/SGST liability of another State.

6. (c) "A1 Tea" is not an agricultural produce. Loading and unloading of "A1 Tea" is liable to GST.

Reason

Item (e) of Entry 54 of Notification No. 12/2017 CT(R) dated 28.06.2017 exempts loading, unloading, packing, storage or warehousing of agricultural produce. In this regard, it may be noted that "A1 Tea" is a blended tea prepared by mixing popular tea flavours into one. Different tea flavours are processed products - dried, fermented, and cut tea leaves. Thus, "A1 Tea" is not an

- "agricultural produce" and thus, loading of the same is not eligible for exemption under entry 54.
7. (c) No, the CFO is incorrect. Although commission cannot be paid on exports through the Rupee State Credit Route, however commission up to 10% of invoice value of export can be paid on tea and tobacco. Here, still cannot export the tea because commission only up to 10% is allowed.

Reason

In accordance with Foreign Exchange Management Act, 1999, Schedule 1, transactions for which drawal of foreign exchange is prohibited includes payment of commission on exports under Rupee State Credit Route, except commission up to 10% of invoice value of exports of tea and tobacco.

8. (b) (i) and (iv).

Reason

In the internal control questionnaire developed by PTPL's auditor, it is noted that question (ii) is primarily focused on study of consumer behaviour or demand pattern rather than directly addressing internal control measures. Meanwhile, question (iii) pertains to internal controls associated with receivables, and question (v) specifically addresses internal control aspects related to the dispatch of tea.

Answers to the Descriptive Questions

9. Let me begin with Mr. Kumar's observation that there are no information systems in place despite the company growing in scale over the years. As correctly pointed out, there are gaps in passing on information which has resulted in delays and thereby lost sales opportunities.

JIT production system works well only when PTPL can anticipate the demand patterns of distributors for "A1 Tea". It is of paramount importance therefore, that the sales forecast be as accurate as possible. This role will primarily be driven by Sally, the sales manager. She has to study the demand patterns, interact with distributors to understand the market and customer needs. Once, the sales order trend is understood, Sally has to prepare a monthly plan for expected sales. This can be drawn in anticipation for the entire year. This plan will then give the company an idea about the output required to be produced to meet the distributor's demand in its entirety and on time.

The production manager, Pam has implemented the JIT production system 3 years back. The problem of delays in meeting sales orders also began around that same period. This provides a reasonable ground to conclude that the lost sales opportunities could be linked to the type of production system followed at the production centre. If production has to happen seamlessly, the raw material should be available on demand. Hence, there is a requirement for information to flow from sales to production and to procurement departments. Sally has to share the sales plan with both Pam and Sam, the production and procurement managers respectively. When the expected annual output needed is known, production and purchasing can align their functions accordingly.

Pam, the production manager has to then co-ordinate with Sam the procurement manager and discuss the production schedule. Any specific requirements have to be discussed, for example the requisite grade of tea leaves, any other technical aspect that needs attention. If a JIT production system is to be followed, there may not be much time for quality check of the raw material input or to look into certain technical specifications at the last moment. Any misunderstanding or lack of information will lead to delays in production and the system will not be Just in Time at all.

Coming to raw material procurement, the raw material tea leaves have to be adequately stocked up. Being an agricultural produce, a JIT procurement system may not always be feasible. Moreover, different varieties of tea have to be procured from different auctions in different geographical locations.

All this increases the lead time for procurement of tea leaves (the raw material for blended tea). However, the sales, production and purchase manager have to co-ordinate to ensure that there are no delays in availability of raw material for immediate production. Tea leaves are procured at auctions from across India. Sam has to ensure that there is always adequate stock of the required varieties of tea leaves based on the likely production schedule shared by Pam. **Sam can even consider the possibility of having buffer stock in order to meet any rush requirements. These off-course would be subject to the available storage space, cost of storage and any resultant loss or waste on storage.**

Further the production manager can consider the possibility of “making to stock” instead of using “JIT which is making to order”. It is mentioned that packaged tea has a long shelf life, if stored in appropriate conditions. Also, procurement of tea leaves requires lead time and co-ordination between the company and brokers at auctions or sometimes even with tea plantations when the variety is unavailable. Company can explore the possibility of having long term contracts with brokers or plantations for its tea leaf requirements. Due to long lead times required for procurement, it makes sense to stock up the raw material. At the same time, since the finished product has a long shelf life, it may make sense to stock up the finished product as well. This can give company a buffer to provide for any rush orders from distributors or even provide for errors in its sales forecasting. This can be the support that Sally is looking from both Pam and Sam.

As a final remark, there must have been a rationale for implementing the JIT production system 3 years back. It is definitely useful as cost savings can be achieved from lower storage space requirements, improving labour efficiency, reduction of wastage etc. Hence, before management take a decision on whether to continue JIT production or revert back to “make to stock” production system, it is necessary to understand why the production system was changed to the current JIT system in the first place. Depending on the nature of business, the cost effectiveness, management may choose the system that will have least disruptions in order to meet demand within the tea industry.

10. PTPL is using a manual method for dispatching invoices to its distributors (customers). The distributor is made aware of the amount payable 6 days after dispatch of goods. This is almost 20% of the credit period (6 days out of 30 days). So, the distributor gets 24 days to arrange for the payment on the due date. **The following steps can help to improve the collection of accounts receivable on due date and help to reduce bad debts:**

- (i) **Revisit the credit period extended:** If only 30% of the accounts receivable is collected within 30 days, it implies that the balance 70% delay the payment/settlement. PTPL has to assess whether the credit period of 30 days is reasonable and in line with industry standards. If the credit period is longer than 30 days, then PTPL may need to at least temporarily adjust to the industry norm for settlement with distributors. If the credit period is 30 days or lesser, then PTPL should develop an understanding with the distributors that emphasises that the payment has to be made within due date of 30 days.
- (ii) **Better distributor relations:** For PTPL to be able to dictate terms to distributors, it must first ensure that distributor's requirements are met on time. Hence, PTPL has to ensure that it delivers the goods on time, it has the capability of restocking whenever requested by the distributor. The other improvement can be by automating the invoicing, it can be generated and sent electronically as soon as the goods are dispatched to the distributor. This way there is sufficient information about the amount to be settled, giving distributor ample time to arrange for funds.
- (iii) **Credit analysis of distributors:** PTPL has to analyze which distributors cause delay in payments or default in payments. Credit should be extended only to credit worthy distributors.

- (iv) **Ensure multiple channels of settlement:** PTPL should provide various channels through which settlements can be conducted, including electronic transfers, and other banking channels such as cheques or drafts. Electronic mode of settlement ensures that the funds are received instantaneously. At times when the distributor is constrained by one method, PTPL should be in a position to offer alternate settlement methods.
- (v) **Offer discounts on early settlements:** To encourage early receipt of funds, PTPL can offer a small discount if the funds are remitted before due date. For example, PTPL can offer 1/10 net 30 deal. If a distributor settles the entire amount due within 10 days, a discount of 1% can be availed. Beyond 10 days until 30 days, no discount can be availed but there will be no penalty or interest either. Beyond 30 days, there can be an interest or penalty charged.

11. **Recouping entire accounts receivable, with zero bad debts is indeed an ideal situation.** Simply put, the company has managed to recover the entire sales that it has made to its distributors. However, it does not imply that the company is profitable. A quick example would be a case where 1 kg. tea package costs ₹ 300 to manufacture while due to intense competition, the company is forced to sell it at ₹ 250. The net loss incurred in this sale is ₹ 50, this would be so despite the entire amount outstanding of ₹ 250 is received. This refutes the first statement that 'If we recoup the entire accounts receivable, that is there are no bad debts, it also means that we are profitable.' The above example shows that this need not always be true.

Coming to the second assertion that 'if the bad debts are nil, it also means that each and every customer contributes towards profitability'. Again, this need not always be true.

Note: Let us take the example below for the purpose of better understanding.

Let us say PTPL has only 2 customers (here distributors). Details of sales and cost of generating these sales are given below –

Particulars	Distributor A (₹)	Distributor B (₹)	Total (₹)
Sales	10,000	30,000	40,000
Less: Cost of Goods Sold	5,000	15,000	20,000
Cost of sales visits (specifically traced to customer based on actual sales visits) A: 1 visit × ₹ 500 per visit B: 10 visits × ₹ 500 per visit	500	5,000	5,500
Sales order processing cost (allocated based on number of orders) A: 1 order × ₹ 500 per order B: 10 orders × ₹ 500 per order	500	5,000	5,500
General administrative cost (based on number of hours of support lent to each customer)	1,000	2,000	3,000
Profitability	3,000	3,000	6,000

From the above example, it can be seen that each distributor contributes the same profit of ₹3,000 each to PTPL. However, Distributor A is lot more profitable (profit margin is 30% of sales) as compared to Distributor B (profit margin is 10% of sales). Hence, the profitability of each customer is not the same. It could very well be that there may be loss making customers, the loss is absorbed by the profits generated from other customers. Hence, even if the entire outstanding amount is recouped, it does not mean that each and every customer contributes towards profitability.

The type of detailed customer wise profit analysis done above is called **Customer Account Profitability**. By attributing revenue and costs to each of the customers, their individual contribution towards the profit margin of the company can be calculated. Costs will vary since the amount of support each customer needs from the company may be different. In the above example, **Distributor B** needed more sales visits as compared to **Distributor A**. The number of sales visits were 10 times more, but that yielded revenue only 3 times more than **Distributor A**. Reasons for this have to be understood. There may be underlying problems with the sales arrangement with the customer or PTPL can perhaps improve some business process that can reduce the number of sale visits.

PTPL should analyze its customer base and identify the profitable customers and the unprofitable ones. Expand business with profitable ones. Either turn around the unprofitable ones by reducing costs or increasing sales else cease to do business with them.

NEW COURSE DIGEST

Case Study 18

Subjects	Topics Covered	Marks
AFM	IRRM (Interest Rate Swap), FOREX (Leading & Lagging)	7
Law	FEMA (Schedule I of OI Rules)	2
SCPM	Forward Integration, Distribution Channel, Customer Profitability	16

Prime Tea Private Limited (PTPL) was established in 1938, headquartered in Kolkata. The company is privately owned by the Triboovandas family members, who have been in the tea business for the past 3 generations. Shri Bhushan Triboovandas started out as a broker in the Siliguri Auction centre. In due course, he started a tea blending and packaging company, PTPL in Kolkata. Tea leaves are blended and packed at its production facilities and sold further to tea distributors. Tea distributors in turn sell the packages to other smaller wholesalers or large retail outlets. Retail chains across India stock tea packages blended by PTPL.

In smaller cities and towns, where there is no presence of proper distributors, PTPL has local sales agents that it hires on contract to sell tea to small grocery stores and other local shops (SGSs). Goods are sent to these local agents on consignment. Tea packages have a long shelf life and can be stored up to a year if stored in appropriate conditions. PTPL commands a moderate 8% market share in terms of sales in the Indian Market.

PTPL has been a profitable business for most of the years of its existence. The past many years have seen significant inflationary trends in the economy. Like many other companies, PTPL too has been enduring the increase in tea leaf price, which is the primary raw material. To combat reducing profit margins due to inflation, it has concocted a uniform blend that it sells under the brand name "A1 Tea". The blend is prepared by mixing few popular tea flavours into one. This concoction was done with the help of an expert tea sommelier a decade back. PTPL has used this same composition over the last many years. The tea that PTPL prepares under the "A1 Tea" is of the black tea variety, which is the most popular tea variety consumed in India.

The Indian marketplace is crowded with many tea companies like PTPL. In retail outlets and grocery stores shelves stocking tea beverage have many brands stocked together. There is nothing much to differentiate PTPL's "A1 Tea" brand from the rest. Brands have to fight to gain visibility among customers and this is done using attractive packaging, increasing advertisement spend etc. Hence, customers are more price sensitive rather than conscious about quality of tea.

Today, in 2023 the total Indian Tea market is estimated to be ₹ 34,400 crore with branded business constituting approximately 74% of the total market value. The global tea market is estimated to range between \$45-50 billion, with primary demand stemming from the Black Tea segment. There is a growing interest in other segments such as Green Tea, Fruit & Herbal, Decaf, Speciality, among others. Despite optimistic prospects, the management at PTPL observes stagnation in tea sales rather than growth.

Mr. Kumar, son of Bhushan Triboovandas is the CEO of PTPL. Last month, he called the senior management of the company to understand the reason for stagnating sales. This month, there was a follow up meeting where the findings of the investigations detailed above, were presented to him. Anticipating heated arguments, Mr. Kumar on behalf of PTPL, has hired you as a consultant to guide the company on ways to improve its sales and increase its market share. He wants to focus on the smaller market segment, which is the sales in smaller towns and cities that are handled by contract based local sales agents. Local agents need to travel on an average 60 kms a day meeting SGSs who are willing to stock tea. It was found that local sales agents were doing business with only 25% of the SGSs within their area of operation.

When you along with Sally, the sales manager, met the local sales agents here is what they had to say: "A1 Tea"

has a good taste and has reasonable preference among customers. There are not too many companies selling tea in our areas, hence choice is lesser, therefore competition is also lesser. PTPL can establish a good market presence here. However, we need to travel on an average 60 kms just to make a sales call. PTPL pays us 2% commission for each package of "A1 Tea" sold to the local grocer. This hardly covers the expenses we incur on travel. Instead, we call up once a month to check if the store needs fresh supplies. This will at least save the travel cost. Only then it is viable to sell "A1 Tea" here. Otherwise, the company has to increase the commission rate to at least 8% to make it worth the travel we need to undertake."

Multiple Choice Questions

1. PTPL has given another consulting assignment to you to have an in-depth industry analysis to understand PTPL's current position within the industry, understanding the value chain, identifying prospects for growth, future scenario etc. This would give the company a correct and fair view about the feasibility of its future acquisition plans. This study is being undertaken independently of the expansion plans mentioned in above in the case study, which also includes capital assets acquisition project of ~₹ 1 crore mentioned in previous section.

The study lasted a minimum of four months, and its findings were presented to the senior management. To summarize the findings of the study, it concluded that "muted prices plus rising cost spells a stale brew for tea companies. The domestic market has saturated with penetration as high as 80% of the tea drinking population. There are few fragments like small town markets where there is potential for some growth. However, apart from this, there is limited growth potential for almost all companies within the industry including PTPL. The wages of workers have been revised in every three years. This is pertinent because tea industry is very cost intensive, with labour cost accounting for at least 60% of the cost of production. Industry margins are under pressure. PTPL's overall performance to remain a sustainable business will depend on its ability to sell at remunerative prices and manage costs efficiently."

Given this bleak outlook, PTPL has reached a conclusion that it has reached a stage of maturity in this business, which of the following actions by management will not be in the overall interests of company?

- (a) Open company owned stores in major metros in order to sell "A1 Tea" to customers directly (Forward integration)
 - (b) Introduce product lines selling economy, popular and premium grade tea by promoting tea in as an aspirational beverage for health or lifestyle choice
 - (c) Acquire tea plantation estates if available at attractive rates (Backward Integration)
 - (d) After appropriate due diligence in terms of business feasibility, acquire promising start ups which have the potential to disrupt the tea ecosystem
2. PTPL chooses to pursue vertical integration by acquiring the tea plantation of a neighbouring country, 'SL'. Due to the recent economic crisis in 'SL', it is straddled with high unemployment rates. The famed tea industry in 'SL' is also reeling under the crisis. Many plantation companies are going bankrupt. PTPL decides to explore acquisitions in this market, where acquisitions of tea estates producing high quality tea leaves may be available at reasonable rates. It opts to invest in SL's 200-acre plantation. CFO has identified an investment opportunity and feels confident that it will be approved by the board. The board generally favours acquiring distressed assets if any in neighbouring countries, as this provides supply chain benefits. Approximately a year ago, PTPL acquired a Testing & Research Laboratory in a neighbouring country 'NP' exclusively for tea-related research.

Chief Legal Officer cautions against moving forward with fresh investment, emphasizing its non-Indian company nature. Nevertheless, CFO argues that the investment is viable, citing laboratory acquisition in

country 'NP' where no approval required. Chief Legal Officer, however, presents following information:

Particulars	Amount ₹ Crore
PTPL's Equity Investment - >51% in Testing & Research Laboratory	1,100
Bank Guarantee provided to NP's Banks on behalf of Testing & Research Laboratory	1,600
SL's Based Company Proposed Investment Value	750
Net Worth of PTPL	1,100
Bonus Shares capitalised through Retained Earnings	250

Assess CFO's assertion regarding PTPL's ability to proceed with the investment in SL's 200-acre plantation.

- (a) The CFO is correct, that PTPL can make this investment as there are no restrictions imposed by the Indian Government
 - (b) The CFO is incorrect. However, if the investment value is reduced by ₹ 50 Crore, then PTPL can proceed with the proposed investment.
 - (c) CFO is correct as Chief Law Officer is not aware of recent amendments of FEMA which advocates ease of foreign investments by the Indian Companies.
 - (d) The CFO is correct, and PTPL can proceed with the proposed investment. Even after this investment, PTPL still have a remaining foreign investment limit of ₹ 1,550 Crore.
3. To fund the investment of ~\$85 million in SL's 200-acre plantation, PTPL plans to raise \$30 million through debt. With the intention of maintaining certainty in future interest payments, PTPL aims to secure a fixed interest rate. PTPL can borrow for one year at a fixed rate of 6% or at a floating rate of 2% above SOFR. Management of PTPL decides to enter into a swap arrangement with Company Tima. Company Tima also wishes to raise \$30 Million. To take advantage of any fall in interest rates Tima is interested in borrowing funds at Floating Rate. However, it can only borrow funds at fixed rate of 7% p.a. or at SOFR+4%, because of lower credit rating in comparison of PTPL.
- What effective rate will each end up paying if both have agreed to enter into a Swap agreement and split the resultant gain equally.
- (a) PTPL: 7% and Tima: SOFR +2%
 - (b) PTPL: 5.5% and Tima: SOFR +3.5%
 - (c) PTPL: SOFR +2% and Tima: 7%
 - (d) PTPL: SOFR +3.5% and Tima: 5.5%
4. As understood from the case study, that industry margins are under pressure due to prolonged high inflation. Survival of companies and future prospects of tea industry's overall performance to remain a sustainable business will depend on its ability to sell at remunerative prices and manage costs efficiently. Supply chain highlights interdependency of each part of chain. When managing a supply chain, a business may wish to ensure that the entire industry ecosystem (other entities) also remain sustainable. Entities should have sufficient cash and/or profits. Which of the following reasons explains the reason for this?
- (a) Sustainable business ensure that business has sufficient information on all parts of its supply chain
 - (b) Sustainable business ensures quality throughout the supply chain
 - (c) Sustainable business ensures ongoing demand for the business's products for which continuous supply is also needed
 - (d) Sustainable business ensures maximum collaboration throughout the supply chain

5. PTPL is using Porter's Five Model to examine key aspects of tea industry and the impact that some of its strategic decisions can have on various forces. One of the points being considered is the decision to adopt the new distribution channel of directly reaching out to SGSs. This is a novel distribution system in the industry. Which of the following statements are true?
- (a) Risk of competitive rivalry has been lowered
 - (b) Threat of substitute has been lowered
 - (c) Threat of new entrants has been lowered
 - (d) Bargaining power of suppliers has been lowered

Descriptive Questions

6. It has now been two weeks since you have started working on the assignment. Various discussions have been made with different levels of management and operational staff. Various business models have been discussed with Mr. Kumar. Eventually, after many iterations, the senior management agrees that distribution channel will be changed. The current system of consignment sales will be discontinued. The proposal is explained below:

PTPL wishes to adopt a new distribution channel, that will be to deliver "A1 Tea" directly to the SGSs in smaller towns. Each SGS can login to the specially designed portal and place an order for "A1 Tea" directly with PTPL. Depending on the average demand by the end user PTPL has decided to offer its tea packages in 1/2 kg. pack, 1 kg. pack and 2 kgs. pack. Against each type of package, the local store (SGS) can choose the quantity required. Once received, PTPL will then process the order, bundle the entire order into one package that will be delivered to the local store within 3 days of order. The local store has to settle the entire amount due electronically through bank transfer or digital payment systems like UPI, digital wallet etc. while placing the order. In order to increase the popularity of "A1 Tea" among the end use consumers, it is suggested to offer teacups along with the tea packages. Advertising and promotional activities like free tea tasting stalls in popular spots where people get together (like parks, shopping centres, railways stations, bus stops) will be undertaken.

By increasing its market reach, sales from this expansion plan are expected to contribute up to 15% of PTPL's total revenue. This is substantially more than the current contribution of 1% of total revenue.

PTPL has a policy agreement with the grocers (SGSs), that "A1 Tea" packages cannot be opened and sold in loose. This is so in order to maintain the quality of tea. Quality of loose tea will not be the same as that sold in airtight packages. Lower quality will affect customer perception of "A1 Tea". This can negatively impact PTPL's brand value.

SGSs can provide feedback and register complaints with PTPL either through the portal or by calling up the service department that is going to be set up for this purpose.

A meeting has been set up to discuss this proposed plan. As the management consultant, you are the lead presenter of plan. The question answer session is now open. Below is a sample of few questions that you had to answer during meeting. You are requested to provide your detailed comments & answers to these.

Required: What is the rationale behind adopting the new distribution channel of doing business directly with SGSs? ANALYSE.

One of the suggestions given was that packaging tea into smaller packets increases the cost. Packaging is not really adding value to the company. Instead of having smaller packages, why not have one large 5 kg "A1 Tea" package? EVALUATE.

7. PTPL has successfully adopted and executed the plan in a phased manner. The company can now directly

sell its tea to the SGSs based on their online orders. A significant increase in the volume of sales through this revenue channel is anticipated. The company now wants to develop an MIS report that gives detailed information about sales order volume and profitability. The MIS aims to have the information captured at state level, regional level right down to customer level. The company policies under this plan include:

- (1) Discount of 5% is given on selling price if each order size is cumulatively more than 50 kgs. The order can comprise of any combination of $\frac{1}{2}$ kg. pack, 1 kg. pack and 2 kgs. pack.
- (2) PTPL delivers the order to the SGS. At the same time, it offers flexibility to the SGSs to arrange for their own transport. In case the SGS arranges for its transport, further discount of 8% is given on the selling price of each tea pack.
- (3) Selling price of tea is ₹ 300 per kg. Therefore, 1 kg. package sells at ₹ 300 each, 2 kgs. package sells at ₹ 600 each and $\frac{1}{2}$ kg. package sells at ₹ 150 each.
- (4) Variable cost per kg. is ₹ 200 per kg.
- (5) Order processing costs are ₹ 2,000 per order.
- (6) Delivery costs, where PTPL is arranging for delivery ₹ 3,000 per delivery.
- (7) Delivery will be within 3 days of placing the order. If there is a rush order, typically delivery within a single day, the cost of delivery would be ₹ 5,000 per delivery.

Below is an extract of the MIS for the town of Palani, Tamil Nadu. It has 3 SGSs: Customer A, Customer B and Customer C.

Particulars	Customer A	Customer B	Customer C
Total sales in a month (kgs.)	250	400	1,020
Number of orders	2	2	15
Number of deliveries – normal	2	-	10
Number of deliveries – rush	-	-	5

Order quantity is the same for each order placed by each customer.

Required: Provide a critical ANALYSIS of the difference in profitability of each customer.

8. Work is underway to adopt the new distribution channel of doing business directly with SGSs. It might take upto 2 years to completely implement this plan. The Board of Directors of PTPL have been working on expanding the plant capacity to meet the requirements of the current expansion plan. A set of 10 machines need to be bought for this project. The gestation period would be 2 years, whereas the machines have to be ordered and imported from USA. After this period, the cash flow will start increasing gradually over 15 years. Overall, the expansion project is expected to generate positive cash flows. For this, PTPL will have to settle an import bill for \$1,30,000. There are two options:

- (i) Pay immediately by availing overdraft facility. Currently it has clean overdraft limit and bank charges 14 percent per annum for availing the same facility.
- (ii) Pay after three months with interest @ 7 percent per annum and cover position in forward market.

The exchange rates in the market are as follows:

Spot rate (₹/\$): 82.19/ 82.21

3-Months forward rate (₹/\$): 82.98/ 83.01

Required: PTPL seeks your ADVISE on the option to be chosen to hedge the foreign exchange risk.

ANSWERS TO THE CASE STUDY 18

Answers to the Multiple Choice Questions

1. (a) Open company owned stores in major metros in order to sell A1 Tea to customers directly (Forward integration).

Reason

PTPL has reached a stage of maturity in the business. The industry study mentions that the market is already saturated with penetration levels as high as 80%. Only limited scope for market growth exists like that in small towns and cities. Hence, opening company owned stores in major metros in order to sell "A1 Tea" directly to customers will not be in the overall interests of the company.

2. (b) The CFO is incorrect. However, if the investment value is reduced by ₹ 50 Crore, then PTPL can proceed with the proposed investment.

Reason

As per Schedule I, Part 3 of the Foreign Exchange Management (Overseas Investment) Rules 2022, (1) the total financial commitment made by an Indian entity in all the foreign entities taken together at the time of undertaking such commitment shall not exceed 400 percent of its net worth as on the date of the last audited balance sheet or as directed by the Reserve Bank, (2) The total financial commitment referred to in sub-paragraph (1) shall not include capitalisation of retained earnings for reckoning such limit but shall include –

- (i) utilisation of the amount raised by the issue of American Depository Receipts or Global Depository Receipts and stock- swap of such receipts; and
- (ii) utilisation of the proceeds from External Commercial Borrowings to the extent the corresponding pledge or creation of charge on assets to raise such borrowings has not already been reckoned towards the above limit.

Financial Commitment includes amount of Investment made by a Person Resident in India by way of Overseas Direct Investment, Debts other than Overseas Portfolio Investments and Non-Fund Based Liabilities. Bank Guarantee is one of the Non-Fund Based Liabilities.

Overseas Direct Investments includes investment by way of –

- (i) Acquisition of unlisted equity capital of a foreign entity or
- (ii) Subscription as a part of Memorandum of Association of foreign entity,
- (iii) Investment in $\geq 10\%$ of the paid-up equity share capital or
- (iv) Investment with control where investment is $<10\%$ of the paid- up equity share capital of listed foreign entity

The computations are as follows:

Particulars	Amount ₹ Crore
A. PTPL's Equity Investment - $>51\%$ in Testing & Research Laboratory	1,100
B. Bank Guarantee provided to NP's Banks on behalf of Testing & Research Laboratory	1,600
(i) Total Current Foreign Direct Investment (A+B)	2,700
C. Net Worth of PTPL	1,100
D. Bonus Component in the Net Worth of Company	250

(ii) Total Financial Commitment Allowed (C- D) × 400%	3,400
E. Possible Further Investment (ii) - (i)	700
F. SL's Based Company Proposed Investment Value	750
Reduction required in Investment Value (F-E)	50

3. (b) PTPL: 5.5% and Tima: SOFR +3.5%.

Reason

There is bigger difference in the variable rate so to take advantage of this, Tima will borrow fixed and PTPL then has to borrow at a variable rate. Swap arrangement shall be carried out as follows:

	Tima	PTPL	Difference
Fixed	7%	6%	1%
Floating	S + 4%	S + 2%	2%
Absolute Difference			1%
Split of gain equally	+0.5%	+0.5%	-1%
Net Interest	S + 3.5%	5.5%	

4. (c) sustainable business ensures ongoing demand for the business's products for which continuous supply is also needed.

Reason

Unless there is a demand for the product, the need for suppliers won't be required. Therefore, in order to survive, companies like PTPL need to earn money by charging remunerative prices. This means that need to recoup their costs and earn regular profits. At same time, if the prices charged are very high, demand for the product will reduce. This will not sustain PTPL or companies like it. Other way of improving margins is to cut costs. This is done by procuring material at low prices, paying low wages, using cheaper resources etc. However, unless the supplier finds it remunerative to sell, PTPL cannot procure its raw material. So, the supplier should also benefit from sale to PTPL. Similarly, very low wages will lead to attrition among workers, very cheap resources will lead to quality issues. Everyone does business to make profits and customers derive value at reasonable prices. Each link in the supply chain should ensure that the ecosystem benefits allowing for normal profits, sufficient cash resources to be earned. Otherwise, the industry will not sustain.

5. (a) risk of competitive rivalry has been lowered.

Reason

Since this is a novel distribution system in the industry, PTPL has a first mover advantage over its rivals. This lowers the risk of competitive rivalry. Sustaining this advantage however depends on whether the rivals are able to replicate and better this new distribution channel.

Answers to the Descriptive Questions

6. Doing business directly with SGSs through the new distribution channel brings PTPL much closer to SGSs. These stores are potential point of sale of tea to the end user. PTPL has so far relied on local sales agents to connect with these SGSs. However, the agents are not motivated enough to drive sales. It was found that local sales agents were doing business with only 25% of the SGSs within their area of operation. The margins of the company are already squeezed due to inflationary pressures. In this background, agents are already demanding a fourfold increase in commission from 2% to 8%. However, given their current performance, it might not be in PTPL's interest to use their services since it's not at all effective. There is no assurance of better service by paying this extra cost. By directly interacting with

the stores/ shops, PTPL will have a direct channel of communication and can get complete and proper feedback directly from them. It is far more effective to use the specially designed portal as a channel (way) to reach out to them since the target segment is geographically spread out over a larger area. The dedicated customer service department can gather information that will help the company improve its operations and resolve customer complaints in a much quicker and more effective manner. Hence, given the geographical spread of the target customer segment, lack of effective support from consignment agents, inflationary cost trends that hike up costs, better connect with the market etc., it makes good business sense to follow the newer distribution channel of directly selling to SGSs

A business should eliminate non-value-added activities in order to improve margins. This is especially true in times of inflation. However, while eliminating these activities, company has to make sure that it is not disrupting any other area or impacting value. As per suggestion, with the view to reduce packaging material cost, if it decides to sell "A1 Tea" in 5 kg packets instead of smaller quantities packets, this will have repercussions on value that PTPL wishes to offer. Its value proposition is to "Increase availability of "A1 Tea" in small cities and towns where the choice of tea is limited". The eventual market segment that is going to benefit from this value is the retail customers, primarily households in smaller towns. Their requirements will be for smaller quantities of tea rather than bulk requirements of 5 kg at one go.

In this case, increasing package size to save on packaging cost will adversely impact sales since SGSs can sell tea only in small quantities to their end-user retail customers. Big packets selling bulky 5 kg tea will rather hurt sales and harm the value that PTPL wants to deliver. So, care should be taken while eliminating non-value-added services.

This suggestion can be considered only if the grocers agree that there will be equal, if not more, demand for 5kg bulk packages by the end user. SGSs are a link that helps PTPL to understand the pulse of the market. An end user will be attracted to bulk purchases only if substantial discounts are provided. Hence, while saving on packaging costs, the net sales revenue per kg of tea reduces. If this is at all a plausible proposition, these points must be kept in mind as they impact profitability.

Note- PTPL has an agreement with the grocers that tea packages cannot be opened, and that tea cannot be sold in open loose lots. Hence, end users can buy "A1 Tea" only in packages.

7. Each of the customers places an order above 50 kgs. per order. Customer A's order size is 125 kgs. per order (250 kgs./2 orders), Customer B's order size is 200 kgs. (400 kgs./2 orders) and Customer C's order size is approximately 68 kgs. (1,020 kgs./15 orders). Therefore, all of them can avail the 5% quantity discount. This amounts to ₹ 15 per kg. (5% of ₹ 300 per kg.). Delivery discount of 8% further reduction can be given only to Customer B, since this is the only customer that arranges for its own delivery. This amounts to further reduction of ₹ 24 per kg. (8% of ₹ 300 per kg.). The individual customer profitability can be calculated as below:

Particulars	Customer A	Customer B	Customer C
Selling Price per kg.	300	300	300
Less: Quantity Discount - 5% of selling price	15	15	15
Less: Delivery Discount - 8% of selling price	---	24	---
Net Selling Price (₹)	285	261	285
Less: Variable Cost per kg. (₹)	200	200	200
Contribution per kg. (₹)	85	61	85
Total Sales in a month (kgs.)	250	400	1,020
Total Contribution (₹)	21,250	24,400	86,700

Less: Overheads (₹)			
Delivery Cost	6,000	---	30,000
Ordering Cost	4,000	4,000	30,000
Extra Cost - rush delivery	---	---	25,000
Profit per Customer (₹)	11,250	20,400	1,700

Analysis

It can be seen that Customer B is the most profitable, followed by Customer A. Customer C is the least profitable. In terms of quantum, Customer A buys the least, however the number of orders are just 2. Hence, the fixed order cost of ₹ 2,000 per order is absorbed over a larger order size. This is true with regards to Customer B also since a larger order size absorbs the fixed order cost of ₹ 2,000 per order. It can be noticed that out of the 15 orders relating to Customer C, 5 orders are rush orders requiring delivery within a single day. The cost of these rush order delivery is much higher at ₹ 5,000 per delivery. Therefore, despite being the largest customer among the three, Customer C is the least profitable. PTPL can seek to pass on the rush delivery cost to the customer instead of bearing it entirely. Since rush order deliveries are 1/3 of the total orders placed by Customer C, PTPL can seek to have an understanding with the customer and try to find a way to reduce this. Charging for rush deliveries will deter the customers from placing unnecessary and unreasonable requests. This will help to improve profitability derived from the customer.

Customer B is extended an additional discount of ₹ 24 per kg. (8% of selling price) since the customer arranges for their own delivery. Normal delivery cost to Palani is ₹ 3,000 per delivery. Customer B orders 400 kgs. in a month by placing 2 orders. Hence, if PTPL had shipped goods, it could have done it at ₹ 15 per kg. ($₹ 3,000 \times 2 \text{ orders} = ₹ 6,000$ spread over 400 kgs.). Instead, due its pricing policy it is incurring an extra cost of ₹ 9 per kg. for orders by Customer B. Here, PTPL can either reduce discount to 5% of selling price ($₹ 15/₹ 300$) or discontinue this policy and arrange for delivery of goods to Customer B.

It can be concluded that volume of sales alone does not guarantee higher profits as in case of Customer C. Similarly, faulty pricing policies can also hurt profitability, as in case of Customer B.

8. If PTPL pays now, it will have to buy US\$ in Spot Market by availing overdraft facility. Accordingly, the outflow under this option will be:

	₹
Amount required to purchase \$1,30,000 [$\$1,30,000 \times ₹ 82.21$]	1,06,87,300
Add: Overdraft Interest for 3 months @14% p.a.	3,74,056
	1,10,61,356

If PTPL makes payment after 3 months, then, it will have to pay interest for 3 months @7% p.a. and then to buy \$ in forward market. The outflow under this option will be as follows:

	\$
Amount of Bill	1,30,000
Add: Interest for 3 months @7% p.a.	2,275
	1,32,275

Amount to be paid in Indian Rupee after 3 months under the forward purchase contract - ₹ 1,09,80,148 ($\text{US\$}1,32,275 \times ₹ 83.01$).

Advise: Since outflow of cash is least in (ii) option, hence, it should be opted for.

Section - II

OLD COURSE DIGEST

(34 Case Studies)

OLD COURSE DIGEST

Case Study 1

Subjects	Topics Covered	Marks
FR	Ind AS 103	4
Audit	SA 330, Group Audit	5
DT	PGBP (Actual Cost of Asset), IFOS & Setoff (Section 56(2)(viib)) & 79)	4
Law	Companies Act (Section 144, 192, 203)	12

Para 1

Amiysam Ltd. is an unlisted public company, registered under GST, incorporated since 2011, with seven directors on its board, and is engaged in the manufacturing and selling of chemical products through its several units across the country. It also exports its chemical products to certain European & Middle East countries.

Visam (P) Ltd. (VPL) is another company engaged in manufacturing and selling of only one chemical product named, 'KOH'. Its 55% equity shares were recently acquired by Amiysam Ltd. during F.Y. 2023-24, due to which the paid-up capital of VPL increased from ₹ 8 crore to ₹ 12 crore.

For acquiring such shares, Amiysam Ltd. paid a cash consideration of ₹ 10 crore to VPL and the fair value of non-controlling interest on the date of acquisition of such shares of VPL was ₹ 3 crores. VPL had incurred a loss of ₹ 4 lakhs during F.Y. 2022-23 as per its Income Tax Return (ITR) which was brought forward by it.

Para 2

Thereafter, VPL appointed Mr. Divarkar, as its whole-time company secretary and Mr. Devraj as its managing director, respectively, which are also serving on the same positions in its holding company, Amiysam Ltd.

After being appointed as managing director in VPL, Mr. Devraj acquired its 1000 shares with face value of ₹ 100/share at issue price of ₹ 130/share whereas the fair market value of such shares was ₹ 115/ share.

On 25th August, 2023, VPL sold its two machineries to Mr. Devraj, wherein one machinery was sold in exchange of a vehicle of Mr. Devraj and the other machinery was sold for ₹ 1,20,000, respectively, the WDV of which at the time of sale was ₹ 90,000. However, such other machinery was reacquired by VPL on 10th September, 2023, at a cost of ₹ 1,40,000.

Para 3

The CFO of Amiysam Ltd., Mr. Digpal, told Mr. Devraj that from F.Y. 2023-24 onwards, the financial statements of Amiysam Ltd. would be required to be prepared on consolidation basis as the company has acquired its first subsidiary, VPL, during F.Y. 2023-24.

However, Mr. Devraj told him that he is of the view that, there would be no requirement to do so as Amiysam Ltd. is an unlisted company and also all the members of the company would be intimated in writing that for F.Y. 2023-24, the company will not be preparing consolidated financial statements and will only issue standalone financial statements for the said year.

Para 4

Mr. Praveen has been appointed as the engagement partner for conducting the audit of Amiysam Ltd. for F.Y. 2023-24 on behalf of Ved & Co. for the 3rd consecutive year.

For the current year's audit, Mr. Praveen planned to use the audit evidence from previous year's audit about the operating effectiveness of specific controls.

For that purpose, he decided to obtain audit evidence for the significant changes that may have occurred in

those controls subsequent to the previous audit. After obtaining audit evidence on the same, Mr. Praveen concluded that there were certain factors that indicated there have been changes in the controls that would require retesting the controls during the current year's audit and reliance cannot be made on the audit evidence obtained in the previous audit about such controls.

Para 5

Mr. Devraj consulted Mr. Praveen on the issue of standalone financial statements by Amiysam Ltd. to which Mr. Praveen explained him the statutory requirements applicable in the case and accordingly, Mr. Devraj was compelled to change his decision.

Rao & Co. is another firm of Chartered Accountants, in which Mr. Praveen is having 22% profit sharing ratio. The management of VPL proposed Rao & Co. to provide internal audit services to VPL from F.Y. 2023-24 onwards. However, Mr. Praveen told the management that due to certain legal restrictions, Rao & Co. would not be able to provide internal audit services to VPL.

Multiple Choice Questions

1. With reference to the information given under Para 2, whether there was any statutory requirement for VPL to appoint a whole time Company Secretary (CS) and whether Mr. Divarkar was eligible to be appointed as its whole time Company Secretary?
 - (a) There is no requirement to appoint a Whole time CS in a Private limited company and also Mr. Divarkar was not eligible as he was already holding office as a whole time CS in one other company i.e. Amiysam Ltd.
 - (b) Yes, as its paid up capital had exceeded the prescribed limit and also Mr. Divarkar was eligible to be appointed as its whole time CS in VPL as it was the subsidiary company of Amiysam Ltd.
 - (c) Yes, as its paid up capital had exceeded the prescribed limit. However, Mr. Divarkar was not eligible to be appointed as its whole time CS as he was already holding office as a whole time CS in one other company i.e. Amiysam Ltd.
 - (d) No, as its paid up capital had not exceeded the prescribed limit. However, Mr. Divarkar was eligible to be appointed as its whole time CS as it was the subsidiary company of Amiysam Ltd.
2. With reference to the information given under Para 1, whether VPL would be allowed to set off the loss of ₹ 4 lakhs for P.Y. 2022-23 and what amount would be chargeable as its income in respect of its shares acquired by Mr. Devraj?
 - (a) No, as there was change in its shareholding and an amount of ₹ 15,000 would be chargeable as its income under 'Income from Other Sources' in respect of shares acquired by Mr. Devraj.
 - (b) Yes, as it became a subsidiary company and so it was exempted even though there was a change in its shareholding and an amount of ₹ 30,000 would be chargeable as its income in respect of shares acquired by Mr. Devraj.
 - (c) Yes, as it became a subsidiary company and so it was exempted even though there was a change in its shareholding and an amount of ₹ 15,000 would be chargeable as its income in respect of shares acquired by Mr. Devraj.
 - (d) No, as there was a change in its shareholding and no amount would be chargeable as its income in respect of shares acquired by Mr. Devraj as the FMV of shares was less than their issue price.
3. With reference to the information given under Para 2, what shall be considered as the cost of machinery reacquired by VPL from Mr. Devraj, for income tax purpose?

- (a) ₹ 1,40,000
 (b) ₹ 1,20,000
 (c) ₹ 90,000
 (d) ₹ 90,000 would be considered as cost and ₹ 50,000 would be allowed to be claimed as an expense under section 37 of the Income Tax Act, 1961.
4. With reference to the information given under Para 1, what shall be the value of goodwill for Amiysam Ltd. on acquisition of 55% shares of VPL as per fair value method if the value of VPL's identifiable net assets as per Ind AS 103 is ₹ 12 crore?
 (a) ₹ 5 crore
 (b) ₹ 1 crore
 (c) There is no goodwill arising but there is a gain on bargain purchase of ₹ 1 crore
 (d) ₹ 2 crore
5. With reference to the information given under Para 1, what shall be the value of goodwill for Amiysam Ltd. on acquisition of 55% shares of VPL as per proportionate share method if the value of VPL's identifiable net assets as per Ind AS 103 is ₹ 12 crore?
 (a) ₹ 7.4 crore
 (b) ₹ 5 crore
 (c) There is no goodwill arising but there is a gain on bargain purchase of ₹ 1 crore
 (d) ₹ 3.4 crore

Descriptive Questions

6. (i) With reference to the information given under Para 2, explain the manner in which VPL would have appointed Mr Divarkar and Mr. Devraj, respectively?
 (ii) With reference to the information given under Para 3, explain what statutory requirements, Mr. Praveen would have explained to Mr. Devraj that would have made him change his contention?
7. With reference to the information given under Para 2, whether there were any restrictions for VPL to sale its machinery to Mr. Devraj in exchange of a vehicle and if yes, then what legal requirements would have been followed by it?
8. (i) With reference to the information given under Para-5, due to what legal restrictions, Rao & Co. would not be able to provide internal audit services to VPL?
 (ii) With reference to the information given under Para 4, what was the responsibility of Mr. Praveen in the given case with respect to his planning to use the audit evidence from the previous audit and whether it can be said that he has adhered to his responsibility?
 (iii) With reference to the information given under Para 4, due to presence of what type of factors, Mr. Praveen might have considered to retest the controls and not to rely upon the audit evidence obtained in the previous audit about such controls?

ANSWERS TO THE CASE STUDY 1

Answers to the Multiple Choice Questions

1. (b) Yes, as its paid up capital had exceeded the prescribed limit and also Mr. Divarkar was eligible to be appointed as its whole time CS in VPL as it was the subsidiary company of Amiysam Ltd.

Reason: Requirement of Company Secretary in certain other companies- Section 203 read with Rule 8 and Rule 8A of Companies (Appointment and Managerial Personnel) Rules 2014, as amended provides that every Listed company or Public company having paid up share capital INR 10 crore or more or every Private company having paid up share capital of INR 10 crore or more shall have a **Whole time Company Secretary**.

Bar on multiple appointments- A whole-time key managerial personnel shall not hold office in more than one company at the same time **except in its subsidiary company**. [Section 203(3)]

2. (a) No, as there was change in its shareholding and an amount of ₹ 15,000 would be chargeable as its income under 'Income from Other Sources' in respect of shares acquired by Mr. Devraj.

Reason: As per Section 79 of the Income Tax Act, 1961, Notwithstanding anything contained in this Chapter, where a change in shareholding has taken place during the previous year in the case of a company, not being a company in which the public are substantially interested, no loss incurred in any year prior to the previous year shall be carried forward and set off against the income of the previous year, unless on the last day of the previous year, the shares of the company carrying not less than fifty-one per cent of the voting power were beneficially held by persons who beneficially held shares of the company carrying not less than fifty-one per cent of the voting power on the last day of the year or years in which the loss was incurred.

During P.Y. 2023-24, there was change in the shareholding of VPL by 51% as 55% of its shares were acquired by Amiysam Ltd. and this situation is not covered in exemption to Section 79, so, VPL would not be allowed to set off loss of ₹ 4 lakhs in P.Y. 2023-24 of P.Y.2022-23.

As per Section 56(2)(viib) of the Income Tax Act, 1961, where a company, not being a company in which the public are substantially interested, receives, in any previous year, from any person being a resident, any consideration for issue of shares that exceeds the face value of such shares, the aggregate consideration received for such shares as exceeds the fair market value of the shares shall be taxable under Income from other sources.

Mr. Devraj acquired 1000 shares of VPL with face value of ₹ 100/share at issue price of ₹ 130/share whereas the fair market value of such shares was ₹ 115/ share. Accordingly, shares were issued at premium at a price greater than its FMV. So, the amount taxable would be 1000 shares * (130-115) = ₹ 15,000 in the hands of VPL under the head income from other sources.

3. (c) ₹ 90,000

Reason: As per Explanation 4 to section 43 of the Income Tax Act, 1961, of the Act-

Where any asset which had once belonged to the assessee and had been used by him for the purposes of his business or profession and thereafter ceased to be his property by reason of transfer or otherwise, is re-acquired by him, the actual cost to the assessee shall be—

- (i) the actual cost to him when he first acquired the asset as reduced by the amount of depreciation that would have been allowable to the assessee.
 - (ii) the actual price for which the asset is re-acquired by him,
- whichever is less.

The other machinery of VPL was sold for ₹ 1,20,000, respectively, the WDV of which at time of sale was ₹ 90,000. However, such other machinery was reacquired by VPL on 10th September, 2023, at a cost of ₹ 1,40,000.

Accordingly, the WDV of such machinery at the time of sale was ₹ 90,000 and reacquisition cost was ₹ 1,40,000.

Thus, ₹ 90,000 shall be considered as the cost of machinery reacquired by VPL from Mr. Devraj, for income tax purpose and ₹ 50,000 would not be allowed to be claimed as expense.

4. (b) ₹ 1 crore

Reason:

Fair value method	(₹) crore
Fair value of consideration transferred	10
Fair value of non-controlling interest	3
	13
Value of subsidiary's identifiable net assets as per Ind AS 103	(12)
Goodwill	1

5. (d) ₹ 3.4 crore

Reason:

Proportionate share method	(₹) crore
Fair value of consideration transferred	10
Proportional share of non-controlling interest in the net identifiable assets of acquiree (12 x 45%)	5.4
	15.4
Value of subsidiary's identifiable net assets as per Ind AS 103	(12)
Goodwill	3.4

Answers to the Descriptive Questions

6. (i) As per Section 203(2) of the Companies Act, 2013,

- Every whole-time key managerial personnel of a company shall be appointed by means of a resolution of the Board. The resolution shall contain the terms and conditions of the appointment including the remuneration.
- A whole-time key managerial personnel shall not hold office in more than one company at the same time except in its subsidiary company.

As per third proviso to Section 203(2) of the Companies Act, 2013, if a person is MD or manager in some other company, it is permissible for a company to appoint him as its managing director. The modus operandi is as under:

- The person so appointed or employed as managing director should be managing director or manager of one, and of not more than one, other company.
- Such appointment or employment is made or approved by Board resolution at a meeting of the Board with the consent of all the directors present at the meeting.
- Further, specific notice of such meeting, and of the resolution to be moved thereat has been given to all the directors then in India.

In the given instance, VPL would have appointed Mr. Divarkar, as its whole time company secretary by passing a board resolution that should have contained the terms and conditions of the

appointment of Mr. Divarkar including his remuneration.

As Mr. Devraj is also holding office as managing director in Amiysam Ltd., Visam Pvt Ltd. would have appointed him by passing a board resolution with the consent of all the directors present at the meeting and a specific notice of such meeting and the of the resolution to be moved would have been given to all the directors then in India.

It is presumed that Mr. Devraj is holding office as managing director/manager of only Amiysam Ltd. apart from VPL.

- (ii) **Section 129(3) of the Companies Act, 2013**, has made the consolidation of financial statements mandatory. It states that where a company has one or more subsidiaries, it shall, in addition to the financial statements provided above (i.e. standalone financial statements), **prepare consolidated financial statements** of the company and of all the subsidiaries in the same form and manner as that of its own which shall also be laid before the annual general meeting of the company along with its financial statements under section 129(2).

Exemptions from preparation of CFS: As per Rule 6 of Companies (Accounts) Amendment Rules, 2016, preparation of CFS by a company is not required if it meets the following conditions:

- (i) it is a wholly-owned subsidiary, or is a partially-owned subsidiary of another company and all its other members, including those not otherwise entitled to vote, having been intimated in writing and for which the proof of delivery of such intimation is available with the company, do not object to company not presenting consolidated financial statements;
- (ii) it is a company whose securities are not listed or are not in the process of listing on any stock exchange, whether in or outside India; and
- (iii) its ultimate or any intermediate holding company files consolidated financial statements with Registrar which are in compliance with applicable Accounting Standards.

In the given instance, Mr. Devraj contended that there would be no requirement to prepare CFS, as Amiysam Ltd. is an unlisted company and all the members of the company would be intimated in writing that the company will not prepare consolidated financial statements and will only issue standalone financial statements for F.Y. 2023-24.

However, Mr. Praveen, the auditor of Amiysam Ltd. would have explained to Mr. Devraj the aforesaid provisions of the Companies Act, 2013, and told him that even though if it is presumed that the first two conditions as aforesaid might be satisfied by Amiysam Ltd. but still it is not having holding company of its own that would be preparing consolidated financial statements and filing the same with the Registrar and thus, the third condition would remain unsatisfied because of which it would be required to prepare consolidated financial statements.

7. According to Section 192(1) of the Companies Act, 2013, no company shall enter into an arrangement by which—
- (a) a director of the company or its holding, subsidiary or associate company or a person connected with him acquires or is to acquire assets for consideration other than cash, from the company; or
 - (b) the company acquires or is to acquire assets for consideration other than cash, from such director or person so connected.

Relaxation of restriction: The above restriction shall be relaxed i.e. the company may enter into an arrangement involving non-cash transactions as stated above, if prior approval for such arrangement is accorded by a resolution of the company in general meeting.

Where the director or connected person is a director of its holding company, approval shall also be required to be obtained by passing a resolution in general meeting of the holding company.

Contents of notice issued for approval of resolution: The notice for approval of the resolution in general meeting issued by the company or holding company shall include the particulars of the arrangement. It shall also include the value of the assets involved in such arrangement duly calculated by a registered valuer.

In the given instance, VPL entered into a non-cash transaction with its managing director, Mr. Devraj by selling its machinery in exchange of a vehicle.

For doing so, VPL would have taken prior approval for such arrangement vide a resolution in its general meeting and also as Mr. Devraj is a director of its holding company, Amiysam Ltd., as well, prior approval would also have been taken by passing a resolution in the general meeting of Amiysam Ltd.

Further, the contents of notice of aforesaid meetings would have included the particulars of such arrangement between VPL and Mr. Devraj and the value of the assets involved in such arrangement duly calculated by a registered valuer.

8. (i) **Section 144 of the Companies Act, 2013, prescribes certain services not to be rendered by the auditor.** An auditor appointed under this Act shall provide to the company only such other services as are approved by the Board of Directors or the audit committee, as the case may be, but which shall not include any of the following services (whether such services are rendered directly or indirectly to the company or its holding company or subsidiary company), namely:
- (i) **accounting and book-keeping services;**
 - (ii) **internal audit;**
 - (iii) **design and implementation of any financial information system;**
 - (iv) **actuarial services;**
 - (v) **investment advisory services;**
 - (vi) **investment banking services;**
 - (vii) **rendering of outsourced financial services;**
 - (viii) **management services; and**
 - (ix) **any other kind of services as may be prescribed.**

Further, in case of auditor being an individual, either himself or through his relative or any other person connected or associated with such individual or through any other entity, whatsoever, in which such individual has significant influence or control, or whose name or trade mark or brand is used by such individual, shall be termed as rendering of services directly or indirectly by the auditor; and in case of auditor being a firm, either itself or through any of its partners or through its parent, subsidiary or associate entity or through any other entity, whatsoever, in which the firm or any partner of the firm has significant influence or control, or whose name or trade mark or brand is used by the firm or any of its partners, shall be termed as rendering of services directly or indirectly by the auditor.

In the given instance, Mr. Praveen is having significant influence in Rao & Co. by having a profit sharing ratio of more than 20% in the said firm and Mr. Praveen is also a partner in Ved & Co. which is the company auditor of Amiysam Ltd., the holding company of VPL.

Now, if Rao & Co. provides internal audit services to VPL, it will amount to indirect provision of a

prohibited service by Ved & Co. to the subsidiary company of a company of which it is an auditor and therefore, Rao & Co. would not be able to provide internal audit services to VPL.

- (ii) As per SA 330, 'The Auditor's Responses to Assessed Risks', if the auditor plans to use audit evidence from a previous audit about the operating effectiveness of specific controls, the auditor shall establish the continuing relevance of that evidence by obtaining audit evidence about whether significant changes in those controls have occurred subsequent to the previous audit. The auditor shall obtain this evidence by performing inquiry combined with observation or inspection, to confirm the understanding of those specific controls, and:
- (a) If there have been changes that affect the continuing relevance of the audit evidence from the previous audit, the auditor shall test the controls in the current audit.
 - (b) If there have not been such changes, the auditor shall test the controls at least once in every third audit, and shall test some controls each audit to avoid the possibility of testing all the controls on which the auditor intends to rely in a single audit period with no testing of controls in the subsequent two audit periods.

In the given instance, for the current year's audit, Mr. Praveen planned to use the audit evidence from the previous year's audit about the operating effectiveness of specific controls and accordingly, as required by SA 330, he obtained audit evidence for the significant changes that may have occurred in those controls subsequent to the previous audit on the basis of which he concluded that there were certain factors that indicated that there have been changes in the controls that would require retesting the controls during the current year's audit and reliance cannot be made on the audit evidence obtained in the previous audit about such controls.

Thus, on the basis of given facts, it appears that Mr. Praveen has adhered to his responsibility with respect to his planning to use the audit evidence from the previous audit about the operating effectiveness of specific controls, as per SA 330, as aforesaid.

- (iii) As per SA 330, 'The Auditor's Responses to Assessed Risks', factors that may decrease the period for retesting a control, or result in not relying on audit evidence obtained in previous audits at all, include the following:
- A deficient control environment.
 - Deficient monitoring of controls.
 - A significant manual element to the relevant controls.
 - Personnel changes that significantly affect the application of the control.
 - Changing circumstances that indicate the need for changes in the control.
 - Deficient general IT-controls.

Thus, due to presence of any of such aforesaid factors, Mr. Praveen might have considered to retest the controls and not to rely upon the audit evidence obtained in the previous audit about such controls.

OLD COURSE DIGEST

Case Study 2

Subjects	Topics Covered	Marks
FR	Basics, Ind AS 1	10
DT	PGBP (Basics, Depreciation)	7
IDT	ITC (Basics & Blocked Credit), E-way bill	8

M/s Parv fabrics, a partnership firm, registered under GST, having partners Mr. Parth and Mr. Aarav, is in business of manufacturing designed and printed fabric and its plant is located on the outskirts of a mofussil town near Varanasi in state of Uttar Pradesh. The main raw material consisting of raw plain fabric is supplied by two companies i.e. Costa Industries Pvt. Ltd. and Zosta Industries Pvt. Ltd. located in UT of Daman on the western coast of India. The firm is a profit-making concern and gist of some of its main financial indicators/information is as under:

Particulars	Financial year ending 31/03/2023	Financial year ending 31/03/2024
Capital	3,25,00,000	5,05,00,000
Machinery term loans from bank	1,50,00,000	1,25,00,000
Overdraft facility from Bank	10,00,00,000	14,19,50,000
Unsecured loans	2,50,00,000	3,25,00,000
Inventories	7,50,00,000	2,00,00,000
Trade Receivables	8,35,00,000	10,50,00,000
Other current assets	40,00,000	10,95,00,000
Trade payables	4,00,00,000	2,00,00,000
WDV of Fixed Assets in Balance Sheet	5,00,00,000	XXXXXXX
Turnover	60,00,00,000	45,00,00,000
PBT	1,80,00,000	XXXXXXX
Gross Margin ratio	10%	10%
WDV of block consisting of Building @10%	1,25,00,000	XXXXXXX
WDV of block consisting of Machinery@15%	3,00,00,000	XXXXXXX

Way back in the year 2012, a fire broke in the night at factory premises which lead to loss of inventory, furniture turning into ashes, building premises covered in smoke. The fire department was informed as soon as the fire was seen by the passer-by, but it was too late to save the loss suffered. Recollecting that day of fire, Mr. Parth, partner in M/s Parv fabrics, understood the need of considering fire insurance policies for their fabric business. He understood, although one may take great caution using latest technologies at the premises, possibility of accidents can't be entirely mitigated. He understands the safety risk a textile company faces and how an insurance policy could help cover their losses. He believes it is better to be safe than sorry. Mr. Parth explains Mr. Aarav the following importance of fire insurance for the business:

- (i) Coverage for damage of stock and premises due to smoke caused by fire and water used to extinguish the fire.
- (ii) Coverage for funds due to financial loss.
- (iii) Fire insurance may also cover natural calamities like lightening, explosion, etc.

- (iv) Business may be started again using claim amount.
- (v) Coverage for building, plant, machinery, furniture along with stock.

Mr. Parth further explained the options/coverage available for investing in different types of fire insurance policies:

- (i) Valued Policy - An agreement is framed for a particular property and the insurer pays in the event of destruction of property by fire.
- (ii) Specific Policy - It insures a risk for a specific amount. The compensation is provided under the limit of determined amount.
- (iii) Average Policy - A policy where property is insured for a smaller value than the value of the property.
- (iv) Floating policy - It covers goods lying at various locations for one amount and one premium.
- (v) Blanket Policy - It covers fixed as well as current assets under one policy.
- (vi) Comprehensive Policy - It covers risks such as riots, strikes, burglary etc., along with fire.
- (vii) Consequential Loss Policy - A policy covering against loss of profit caused by fire- outbreak.
- (viii) Replacement Policy - It covers compensation at market value for the loss of property due to fire.
- (ix) Reinstatement Policy - It is a policy where insurer pays sufficient compensation to reinstate property destroyed.

Considering the benefits and compensation covered in fire insurance policies, Mr. Aarav agrees to go for coverage of risk and have insurance policy for the purpose. They together, in the name of firm, opted a policy covering loss for building, machinery and inventories due to fire and approached a PSU insurer for the same.

Unfortunately, a major fire had occurred on 06/01/2024 in plant of the firm resulting in damages to its building, machinery and inventories. A major part of inventories consisting of raw material comprising raw plain fabric and finished goods comprising designed and printed fabric was affected and damaged in this sudden incident. Stock worth ₹ 8.80 crores was damaged and affected during fire consisting of raw material and other inputs such as dyes & chemicals, etc., costing ₹ 2 crores and finished goods costing ₹ 6.80 crores.

Further, out of above damaged stock of finished goods of ₹ 6.80 crores, stock worth ₹ 0.50 crores was smoke affected only and remaining stock of ₹ 6.30 cores was completely burnt and destroyed. The firm has received ₹ 8 crores as insurance compensation against loss of such stock. It was decided to get smoke cleaned and removed by availing third party services at a cost of ₹ 10 lacs, ITC of the third party services has been availed. The unit is selling finished goods at prescribed GST rate of 5%. Besides, certain information regarding ITC availment and output liability of GST, for the month of January, 2023, is as under:

ITC availed on raw material and other inputs destroyed during fire	₹ 15.00 lacs
ITC availed on inputs contained in smoke affected stock	₹ 3.00 lacs
ITC availed on inputs contained in destroyed finished stock	₹ 35.00 lacs
Output liability of GST in respect of smoke affected stock	₹ 2.50 lacs
Output liability of GST in respect of normal finished stock	₹ 31.5 lacs

Besides, substantial part of building (WDV as on 31/03/2023 ₹ 0.95 crores) was damaged and needed extensive reconstruction works. It is also provided that ₹ 1.75 crore is needed for extensive reconstruction of damaged building. However, firm has incurred ₹ 15.00 lacs up-to 31/03/2024 for reconstruction works. The firm received ₹ 0.75 crores as insurance compensation against the damages to its building.

Further, main machinery feeding about 75% capacity of plant was also gutted (WDV ₹ 2.10 crore as on 31/03/2023). The cost of new machinery with the same capacity and build up is ₹ 2.50 crore. The orders of

new machinery are yet to be placed. Against loss of machinery, it received insurance compensation of ₹ 1.80 crores.

Further, the firm has purchased plain raw fabric from M/s Costa Industries Pvt. Ltd. vide bill dated 27/03/2024 having quantity of 50,000 metres valuing ₹ 10 lacs. Besides, IGST of ₹ 0.50 lacs is charged in the bill. The said goods were received in plant on 02/04/2024. M/s Costa Industries Pvt. Ltd. has filed its GSTR-1 for the month of March 2024 well before its due date and therefore IGST of ₹ 0.50 lacs is also reflected in GSTR-2A of M/s Parv Fabrics before filing its GSTR-3B of March 2024.

Multiple Choice Questions

1. In light of information provided above pertaining to inventories damaged and affected during fire, which of the following statements is MOST LIKELY to be true regarding GST?
 - (a) The taxpayer firm is required to reverse ITC of ₹ 50.00 lacs in GSTR-3B and also simultaneously reduce output liability of ₹ 31.50 lacs.
 - (b) The taxpayer firm is required to reverse ITC of ₹ 53.00 lacs in GSTR-3B and also simultaneously reduce output liability of ₹ 34.00 lacs.
 - (c) The taxpayer firm is required to reverse ITC of ₹ 50.00 lacs in GSTR-3B and there would no effect on output liability.
 - (d) The taxpayer firm is required to reverse ITC of ₹ 53.00 lacs in GSTR-3B and there would be no effect on output liability.
2. What would be impact on profits of the firm on account of damage of stock due to fire and receipt of insurance compensation towards such loss while computing income under the head "Profits and gains from business or profession" under the Income-tax Act, 1961?
 - (a) The profits of firm would be reduced by ₹ 0.30 crores, being the difference between cost of damaged stock and insurance compensation.
 - (b) The profits of firm would be reduced by ₹ 8.30 crores and insurance compensation would be taxable under the head "Capital Gains".
 - (c) The profits of firm would be reduced by ₹ 0.80 crores, being the difference between cost of damaged stock and insurance compensation.
 - (d) There would be no impact on profits as the firm has received insurance compensation.
3. The firm has sent its smoke affected stocks of ₹ 0.50 crore to third party in Varanasi for cleaning and removal of smoke. In light of provisions of GST and rules made thereunder, consider the following statements:

Statement I – The firm can send goods to third party by raising a proper tax invoice and after performing necessary services, the third party can send goods back to the firm under the cover of proper tax invoice. The firm shall disclose output liability in GSTR-3B and avail ITC on services availed from third party.

Statement-II – The firm can send goods to third party under the cover of delivery challan without charging GST and third party can also return the goods under delivery challan. The third party can, thereafter, raise tax invoice in respect of services performed and the firm can avail ITC on services availed from third party. However, firm has to file form ITC-03 on GST portal for quarter ending March, 2024.

Statement-III – The firm can send goods to third party under the cover of delivery challan without charging GST and third party can also return the goods under delivery challan. The third party can, thereafter, raise tax invoice in respect of services performed and the firm can avail ITC on services

availed from third party. However, firm has to file form ITC- 04 on GST portal for half yearly from October to March, 2024.

Statement-IV- The firm can send goods to third party under the cover of delivery challan without charging GST and third party can also return the goods under delivery challan. The third party can, thereafter, raise tax invoice in respect of services performed and the firm can avail ITC on services availed from third party. The filing of a separate statement is not mandated in such a case as firm has availed ITC on services rendered by third party and third party has also discharged its tax liability.

Which of the above statements is in accordance with provisions of law and rules made thereunder?

- (a) Statement II
 - (b) Statement III
 - (c) Statement IV
 - (d) Statement I
4. While preparing e-way bill for movement of goods to third party for cleaning and removal of smoke, the accountant of the firm is in dilemma regarding its preparation. What would be most likely correct position in this regard?
- (a) Value of goods on e-way bill portal should be reflected as ₹ 0.50 crores.
 - (b) Value of goods on e-way bill portal should be reflected as ₹ 0.40 crores.
 - (c) Value of goods on e-way bill portal should be reflected as ₹ 0.10 crores.
 - (d) Value of goods on e-way bill portal should be reflected as ₹ 0.30 crores.
5. What would be the most likely impact on financial statements and availment of ITC by the firm for year ending 31st March, 2024, in respect of the plain raw fabric purchased from M/s Costa Industries Pvt. Ltd. on 27/03/2024?
- (a) The profits of firm would be reduced by ₹ 10.00 lacs and ITC of ₹ 0.50 lacs can be availed.
 - (b) The profits of firm would be reduced by ₹ 10.00 lacs and ITC of ₹ 0.50 lacs cannot be availed.
 - (c) There would be no impact on profits of firm and ITC of ₹ 0.50 lacs cannot be availed.
 - (d) There would be no impact on profits of firm and ITC of ₹ 0.50 lacs can be availed.

Descriptive Questions

- 6. The firm has lodged its claim with PSU insurer consisting of damages to building, machinery and stocks. Besides, the firm has also included in its claim bill lodged with insurers certain un-incurred estimated expenses for debris removal amounting to ₹ 5.00 lacs as on 31st March, 2024. Kindly suggest how these expenses should be treated in financial statements of the firm for year ending 31st March, 2024 along with reasons therefor.
- 7. In light of provisions of Income-tax Act, compute the amount of depreciation allowable as deduction on building and plant & machinery for the previous year 2023-24.
- 8. Analyse working capital position of the firm vis-à-vis last year by discussing each component of working capital cycle and overall working capital requirements of firm including effect of incident of fire on its working capital requirements. Also dwell upon how working capital requirements are being met as compared to last year.

a) Date of shareholder agreement	1 st June
b) Appointed date as per shareholder agreement	1 st April
c) Date of obtaining control over the Board representation	1 st July
d) Date of transfer of shares	1 st August

Option: 2

Another Company – Kavya Hotels Ltd. from a different state wants to acquire Anupama Hotels Ltd. to take charge of the Resort Property with its Managing Director, Miss Kavya Narula, having confidence of pulling the property out of economic losses using her vast experience in the field of Hospitality industry. To substantiate this, they are asked by the Management of Anupama Hotels Ltd. to put forward the financial details of their performance during the F.Y./P.Y. 2023-24 for Anupama Hotel Ltd.'s consideration regarding striking a deal with them w.r.t. "THE VILLAS". The Head Accountant of Kavya Hotels Ltd. wants to discuss some peculiar transactions w.r.t. the Profit/Loss made by the Group with Miss Kavya and other members of the management as follows, before they finalise their books and submit a report of their Financial Performance to Anupama Hotels Ltd. The Head accountant tells them that their group's Statement of Profit and Loss for the previous year ended 31st March, 2024 shows a profit of ₹ 150 lakhs after debiting or crediting the following items:

- (a) Payment of ₹ 0.35 lakh in cash on 20th December 2023 to a local farmer for purchase of daily use vegetables and ₹ 0.30 lakh to a Confectionary Wholesaler on 26th December 2023 for different products.
- (b) Contribution towards employees' pension scheme notified by the Central Government under section 80CCD for a sum of ₹ 3 lakhs calculated at 12% of aggregate of basic salary and dearness allowance (forming part of retirement benefits) payable to the employees in terms of employment.
- (c) Payment of ₹ 5.50 lakhs towards transportation of various materials procured by the resort to M/s. PQR Transport, a partnership firm, without deduction of tax at source. The firm opts for presumptive taxation under section 44AE and has furnished a declaration to this effect. It also furnished its Permanent Account Number in the tender document.
- (d) Profit of ₹ 12 lakhs on sale of a plot of land to Divya Limited, a domestic company, the entire shares of which are held by assessee company. The plot was acquired by Kavya Hotels Limited on 1st June 2022.
- (e) Contribution of ₹ 0.50 lakhs to Indian Institute of Technology with a specific direction for use of the amount for scientific research programme approved by the prescribed authority.
- (f) Expense of ₹ 5 lakhs on foreign travel of two directors for a collaboration agreement with a foreign company for a brewery project to be set up. The negotiation did not succeed, and project was abandoned.
- (g) Fees of ₹ 1 lakh paid to independent directors for attending Board meeting without deduction of tax at source under section 194J.
- (h) Depreciation charged ₹ 10 lakhs.

After submitting a report on their financial performance, Kavya Group works out on the Acquisition plan of "THE VILLAS" as this - On 1 April 2023, it will acquire 80 percent of the equity interest of Anupama Hotels Ltd. in exchange for cash of ₹ 300. Due to legal compulsion, Anupama Hotels Ltd. will have to dispose-off their investments by a specified date such that they will not have sufficient time to market their property to multiple potential buyers. The management of Kavya Hotels Ltd. initially measures the separately recognizable identifiable assets acquired and the liabilities assumed as of the acquisition date in accordance with the requirement of Ind AS. The identifiable assets are measured at ₹ 600 lakhs and the liabilities assumed are measured at ₹ 200 lakhs. Kavya Ltd. engages an independent consultant who determined that the fair value of 20 percent non-controlling interest in Anupama Hotels Ltd. is ₹ 84 lakhs. Kavya Hotels Ltd. reviewed the procedures it used to identify and measure the assets acquired and liabilities assumed and to measure the fair

value of both the non-controlling interest in Anupama Hotels Ltd. and the consideration transferred. After the review, it decided that the procedures and resulting measures are appropriate and it waited for approval from the end of Anupama Hotels Ltd. to move ahead with this plan if they accept their offer.

Option: 3

The management of Anupama Hotels Ltd. wants you to carry out a special audit of the controls implemented in their Property and suggest them solutions to improve any deficiency in controls or any management incompetencies which might need improvement or replacement to bring back the good old days and the Company could ask its Financers for a Corporate Restructuring based on your Audit report. You suggest them about Risk Based audit and deliberate them about the process of this audit on their request. You tell them that your Audit would be risk-based or focused on areas of greatest risk to the achievement of the audited entity's objectives. Risk-based audit (RBA) is an approach to audit that analyzes audit risks, sets materiality thresholds based on audit risk analysis and develops audit programmes that allocate a larger portion of audit resources to high-risk areas. Risk Based Audit is an essential element of financial audit - both in the attest audit of the financial statements and in the audit of financial systems and transactions including evaluation of internal controls. It focuses primarily on the identification and assessment of the financial statement misstatement risks and provides a framework to reduce the impact to the financial statement of these identified risks to an acceptable level before rendering an opinion on the financial statements. It also provides indicators of risks as a basis of opportunity for improvement of auditee risk management and control processes. This affords an opportunity to the auditee to improve its operations from recommendations on risks that do not have a current impact on the financial statements but impact the audited entity's operational strategies and performance over the longer term. The auditor's objective in a risk-based audit is to obtain reasonable assurance that no material misstatements whether caused by fraud or errors exist in the financial statements. This involves the following three key steps: - Assessing the risks of material misstatement in the financial statements; Designing and performing further audit procedures that respond to assessed risks and reduce the risks of material misstatements in the financial statements to an acceptably low level; and issuing an appropriate audit report based on the audit findings and this work is done in three distinct phases. You have three articles in your team and you delegate them the work as - Komal to check and evaluate the controls in Restaurant & Bar and work on the risks associated while another two articles Sagar & Ritu to help you with the allotted works as follows:

KOMAL: During the process of extracting the exception reports in the Restaurant, she observes numerous purchase entries without valid purchase orders. In terms of percentage, about 30% of purchases were made without valid purchase orders and also few purchase orders were validated after the actual purchase. Also there was no reconciliation between the goods received and the goods ordered. She proceeds ahead to check the validity of purchases at account Balance level and follows some specific audit procedures to achieve her objective. Also, she is told that the Resort has a tie up with Hard Coupons Ltd. which sells coupons to general public that are redeemable against specified luxury food products at selected properties and "THE VILLAS" being one of them. Each coupon is sold for value of ₹ 900 but is redeemable for supplies worth ₹ 1,000. She also notices a Working Capital Block relating to GST ITC utilisation by the Hotel. During the current year, they have been awarded a contract for catering in a marriage to be held at Dehradun. They have further subcontracted it for supply of snacks, to be served in the marriage, to Vanraj & Sons, a local caterer of Dehradun. The Head accountant is of the view that they can't avail ITC on such sub-contract.

SAGAR: Performing client acceptance or continuance procedures; Planning the overall engagement; Performing risk assessment procedures to understand the business and identify inherent and control risks; Identifying relevant internal control procedures and assessing their design and implementation; Assessing the risks of material misstatement in the financial statements, etc.

RITU: Designing and performing further audit procedures that respond to the assessed risks of material

misstatement and will provide the evidence necessary to support the audit opinion.

Finally, you, as the auditor, assess the audit evidence obtained and determine whether it is sufficient and appropriate to reduce the risks of material misstatement in the financial statements to an acceptably low level and hand over your Audit Report to the management of Anupama Hotels Ltd. with all your suggestions and scope for improvements for reviving the economic operations of their Resort.

THE DECISION: Considering all the above options and working out on the feasibility of each, the management of Anupama Ltd. chooses to go further with Option No. 3 of going for Corporate Debt Restructuring and request you to frame a scheme to be discussed with their main financiers XYZ Bank Ltd. in due time.

Multiple Choice Questions

1. Which of the following is an indicator of possible potential misstatement with respect to recording as could be identified by you while carrying out this specific audit of Anupama Hotels Ltd.:
 - (a) Source documents captured inaccurately.
 - (b) Source documents not captured.
 - (c) Source documents overstated.
 - (d) Rejected Source documents are not represented.
2. The Head Accountant's view w.r.t. utilisation of ITC on the contract outsourced to Vanraj & sons is:
 - (a) Correct, as ITC will not be available under GST law.
 - (b) Incorrect, as ITC is available for utilisation as per GST Law.
 - (c) Incorrect, as it has been subcontracted.
 - (d) Correct, as it falls under the category of Blocked ITC.
3. Which two Account Balances are most likely to be affected by the wrong doings found by Komal while auditing the expenses of the Restaurant?
 - (a) Sales invoices and Purchases.
 - (b) Inventory & Account Payables.
 - (c) Opening & Closing Stocks only.
 - (d) Purchases & Account Payables.
4. What is the value of supply of Luxury food coupons as sold by Hard Coupons Ltd. under GST law?
 - (a) ₹ 1000.
 - (b) ₹ 900.
 - (c) ₹ 100.
 - (d) Either (a) or (b) depending upon the time of its redemption.
5. Suppose Anupama Hotels Ltd. strikes a deal with Naman Hotels Ltd. as per the plan of Business combination put forward by the latter:

STATEMENT 1: In this case, the ACQUIRER will be Anupama Hotels Ltd. and not Naman Hotels Ltd.

STATEMENT 2: 1st July will be considered as the ACQUISITION DATE.

 - (a) Both the Statements are Incorrect.
 - (b) Both the Statements are Correct.

- (c) Statement 1 is Incorrect while Statement 2 is Correct.
 (d) Statement 1 is Correct while Statement 2 is Incorrect.

Descriptive Questions

6. Calculate the gain or loss, Kavya Hotels Ltd. will make on acquisition of Anupama Hotels Ltd., if their deal is finalised. Also show the Journal entries for accounting of its acquisition. Also calculate the value of the non-controlling interest in Anupama Hotels Ltd. on the basis of proportionate interest method, if alternatively applied?
7. "Auditors are required to assess the risks of material misstatement at two levels". Briefly explain the same and state the procedures to be followed by Komal regarding validity of account balances relating to the purchases while auditing the controls in the restaurant of Anupama Hotels Ltd.
8. With the help of data provided by the Head Accountant of Kavya Hotels Ltd. and the following additional information, compute profits and gains of business or profession of Kavya Hotels Limited for the Assessment Year 2024-25 indicating the reason for treatment of each item assuming that the company is not eligible for deduction u/s 35AD. Ignore the provisions relating to minimum alternate tax and the provisions of section 115BAA:
- (a) As a corporate debt restructuring arrangement, their bank has converted unpaid interest of ₹ 10 lakhs upto 31st March 2023 into a new loan account repayable in five equal annual installments. The first installment of ₹ 2 lakhs was paid in March 2024 by debiting new loan account.
- (b) Depreciation as per Income-tax Act, 1961 is ₹ 15 lakhs.
- (c) The company received a bill for ₹ 3 lakhs on 31st March 2024 from a supplier of vegetables for supply made in March 2024. The bill was omitted to be recorded in the books in March 2024. The bill was paid in April 2024 and the necessary entry was made in the books then.

ANSWERS TO THE CASE STUDY 3

Answers to the Multiple Choice Questions

1. (a) Source documents captured inaccurately.

Reason:

Possible potential misstatements - Indicators	
Completeness	• Transactions not identified. • Source documents not prepared. • Source documents not captured. • Rejected source documents not represented
Existence	• Fictitious or unauthorised transactions entered on source documents. • Source documents overstated. • Transactions duplicated on source documents. • Capture of source documents duplicated. • Invalid source documents captured on subsidiary ledgers.
Recording	• Source documents captured inaccurately. • Processing of transactions is inaccurate.

	• Inaccurate adjustments made in subsidiary ledgers.
Cut-Off Procedures	• Transactions that occur in one period are recorded in another period.

2. (b) Incorrect, as ITC is available for utilisation as per GST Law.

Reason: ITC on such goods and/or services is allowed in the case of sub-contracting, i.e. when such goods and/or services are used by the taxpayer who is in the same line of business, e.g. outdoor catering service availed by another outdoor caterer.

3. (d) Purchases & Account Payables

Reason: Assertions relating to validity of Purchases is being checked.

4. (a) ₹ 1000

Reason: In terms of rule 32(6) relating to valuation, the value of a coupon is the money value of the goods redeemable against it. Therefore, though the coupon is sold for ₹ 900, its value is ₹ 1000.

5. (c) Statement 1 is Incorrect while Statement 2 is Correct.

Reason: STATEMENT 1: As per para B15 of Ind AS 103, in a business combination effected primarily by exchanging equity interests, the acquirer is usually the entity that issues its equity interests. However, in some business combinations, commonly called 'reverse acquisitions', the issuing entity is the acquiree. Other pertinent facts and circumstances shall also be considered in identifying the acquirer in a business combination effected by exchanging equity interests, including: The relative voting rights in the combined entity after the business combination - The acquirer is usually the combining entity whose owners as a group retain or receive the largest portion of the voting rights in the combined entity. In above mentioned para, acquirer shall be the either of the combining entities (i.e. Naman Hotels Limited or Anupama Hotels Limited) whose owners as a Group retain or receive the largest portion of the voting rights in the combined entity. Hence in the above scenario Naman Hotels Limited shareholder gets 67% Share $[(100/150) \times 100]$ and Anupama Hotels Limited shareholder gets 33% share in the Namupama Villas Limited. Hence Naman Limited is acquirer as per the principles of Ind AS 103.

STATEMENT 2: In this case, as the control over financial and operating policies are acquired through obtaining board representation on 1st July, it is this date that is considered as acquisition date. It may be noted that appointed date as per the agreement is not considered as the acquisition date, as Naman Hotels Ltd. did not have control over Anupama Hotels Ltd. as at that date.

Answers to the Descriptive Questions

6. The amount of Anupama Hotels Ltd. identifiable net assets [₹ 400, calculated as ₹ 600 - ₹ 200] exceeds the fair value of the consideration transferred plus the fair value of the non controlling interest in Anupama Hotels Ltd. [₹ 384 calculated as 300 + 84]. Kavya Hotels Ltd. measures the gain on its purchase of the 80 per cent interest as follows:

		₹ in lakh
Amount of the identifiable net assets acquired (₹ 600 - ₹ 200)		400
Less: Fair value of the consideration transferred for Kavya Hotels Ltd. 80 per cent interest in Anupama Hotels Ltd.	300	
Add: Fair value of non controlling interest in Anupama Hotels Ltd.	84	(384)
Gain on bargain purchase of 80 per cent interest		16

Journal Entry

		₹ in lakhs	₹ in lakhs
Identifiable assets acquired	Dr.	600	
To Cash			300
To Liabilities assumed			200
To OCI/Equity-Gain on the bargain purchase			16
To Equity-non controlling interest in Anupama Hotels Ltd.			84

If the acquirer chooses to measure the non-controlling interest in Anupama Hotels Ltd. on the basis of its proportionate interest in the identifiable net assets of the acquire, the recognized amount of the non-controlling interest would be ₹ 80 Lakhs ($₹ 400 \times 0.20$). The gain on the bargain purchase then would be ₹ 20 lakhs ($₹ 400 - (₹ 300 + ₹ 80)$)

7. (a) Auditors are required to assess the risks of material misstatement at two levels:

- The first is at the overall financial statement level, which refers to risks of material misstatement that relate pervasively to the financial statements as a whole and potentially affect many assertions.
- The second relates to risks identifiable with specific assertions at the class of transactions, account balance, or disclosure level. This means that for each account balance, class of transactions and disclosure, an assessment of risk (such as high, moderate, or low) should be made for each individual assertion being addressed.

(b) Audit Procedures: The following procedures by Komal may address validity of account balance:

- Make a selection of the purchases, review correspondence with the vendors, purchase requisitions (internal document) and reconciliations of their accounts.
- Review Vendor listing along with the ageing details. Follow up the material amounts paid before the normal credit period and analyse the reasons for exceptions.
- Meet with the company's Purchase officer and obtain responses to our inquiries regarding the purchases made without purchase orders.
- Discuss the summary of such issues with the client.

8. Computation of Profits and Gains of Business or Profession of Kavya Hotels Ltd. for A.Y. 2024-25

Particulars	Amount (₹)	
Profit as per Statement of profit and loss		1,50,00,000
Add: Items debited but to be considered separately or to be disallowed		
(a) Payment to middleman for purchase of vegetables, etc. in an amount exceeding ₹ 10,000 [Under section 40A(3), disallowance is attracted in respect of expenditure for which cash payment exceeding ₹ 10,000 is made on a day to a person. Payment of ₹ 35,000 to farmer for purchase of vegetables is covered by exception under Rule 6DD. However, payment of ₹ 30,000 to confectionery wholesaler is not covered under the exception - CBDT Circular 27/2017 dated 3/11/2017].	30,000	
(b) Contribution towards employees' pension scheme in excess of 10% of salary disallowed under section 40A(9) (3 lacs x 2/12)	50,000	

	[Contribution to the extent of 10% of salary (basic salary + dearness allowance, if it forms part of pay for retirement benefits) is allowable as deduction u/s 36(1)(iva). In this case, it is presumed that dearness allowance forms part of pay for retirement benefits]		
(c)	Payment to transport contractor without deduction of tax at source [Since the contractor opts for presumptive taxation under section 44AE and furnished a declaration to this effect, tax is not required to be deducted at source under section 194C in respect of payment to transport contractor].		
(f)	Expenses on foreign travel of two directors for a collaboration agreement which failed to materialize [Where expenditure is incurred for a project not related to the existing business and the project was abandoned without creating a new asset, the expenses are capital in nature as per Mc Gaw-Ravindra Laboratories (India) Ltd. v. CIT (1994) 210 ITR 1002 (Guj.). Brewery project is not related to the existing business of running three - star hotels]	5,00,000	
(g)	Fees paid to directors without deducting tax at source [30% of ₹ 1 lakh] [Disallowance @ 30% would be attracted under section 40(a)(ia) for non-deduction of tax at source from director's remuneration on which tax is deductible under section 194]	30,000	6,10,000
			1,56,10,000
	Less: Items credited but to be considered separately/ Expenditure to be allowed		
(d)	Profit on sale of plot of land to 100% subsidiary [Short-term capital gains arise on sale of plot of land held for less than 24 months. However, in this case, since the transfer is to a 100% subsidiary company and the subsidiary company is an Indian company, the same would not constitute a transfer for levy of capital gains tax as per section 47(iv). Since this amount has been credited to the statement of profit and loss, the same has to be deducted for computing business income].	12,00,000	
(e)	Contribution to IIT for scientific research [Contribution to IIT for scientific research programme approved by the prescribed authority qualifies for deduction @100% under section 35(2AA). Since the amount of contribution has already been debited to the statement of profit and loss, there is no further adjustment required]		
(h)	Depreciation [Depreciation allowable under Income-tax Act, 1961 is ₹ 15 lakhs whereas depreciation as per books of account debited to statement of profit and loss is ₹ 10 lakhs. Hence, the additional amount of ₹ 5 lakhs has to be deducted while computing business income]	5,00,000	

(i) Interest paid during the year [Conversion of unpaid interest into loan shall not be construed as payment of interest for the purpose section 43B. The amount of unpaid interest converted into a new loan will be allowable as deduction only in the year in which such converted loan is actually paid. Since ₹ 2 lakhs has been paid in the P.Y. 2023-24, the same is allowable as deduction]	2,00,000	
(iii) Purchases omitted to be recorded in the books [Since the purchase is made in March, 2024 (i.e., P.Y.2023-24), in respect of which bill of ₹ 3 lakhs received on 31.3.2024 has been omitted to be recorded in books in that year, it has to be deducted to compute the business income [Kedarnath Jute Manufacturing Company Ltd. v. CIT (1971) 82 ITR 363 (SC)]. It is logical to assume that the company is following mercantile system of accounting.]	<u>3,00,000</u>	(22,00,000)
Income under the head "Profits and Gains of Business or Profession"		1,34,10,000

OLD COURSE DIGEST

Case Study 4

Subjects	Topics Covered	Marks
FR	Ind AS 21	9
DT	Residential Status and POEM	7
Law	FEMA (Residential Status, Schedule I & II, Import of Goods & Services)	9

CA Parminder Kaur is qualified as a Chartered Accountant 3 years back and has set up her own Practice in Jalandhar, Punjab. Her major expertise is in the field of consultancy to her clients regarding Global Accounting, Foreign Exchange related Legal matters, International taxation & promoting Financial Literacy. Through reference of an NRI relative, she recently bagged a contract of providing her services to the corporate house "SIMRAJ", a venture of Raj Arora & Simran Arora, husband & wife, based at Frankfurt, Germany. Raj & Simran met each other during their post-graduation days in London School of Economics and became best friends there. While Simran was simultaneously involved in the construction business of her father in London, Raj was always a kind of creative person who would like to promote innovations in the field of Healthcare and Pharmaceuticals. At present, Simran is successfully running her construction business by the name of Simran Constructions GmbH in Germany, while Raj has set up his venture by the name of Raj Pharma AG, incorporated in Germany and 63% of its shares are held by Simraj (P) Ltd., an Indian company. Raj Pharma AG has its presence in India also.

Simran's one of the biggest construction project was being executed in India at Amritsar through Sim Contractors Pvt. Ltd., another company based in India, shortly known as "SIMCO", which is a foreign operation of Simran Constructions GmbH, primarily set up to execute construction projects in India. The functional currency of Simran Constructions GmbH is Euros. 78% of SIMCO's finances have been raised in USD by way of contribution from Simran Constructions GmbH. SIMCO's bank accounts are maintained in USD as well as in INR. Cash flows generated by it are transferred to the German Company on a monthly basis in USD in respect of repayment of finance received from the German Company. Revenues of SIMCO are in USD. Its competitors are globally based. Tendering for the construction project happened in USD. SIMCO incurs 80% of the cost in INR and remaining 20% costs in USD.

While carrying out this construction project in Amritsar, SIMCO was in need of a heavy excavation machinery "XALTI" which was not available in India. CA Parminder arranges a meeting of SIMCO's Manager in India with one of her clients, Mr. Amit Juneja, at the request of Simran to enter into a contract of importing this machinery from out of India. Mr. Juneja has been in the business of trading in heavy machineries used in construction business since the past 5 years and had been planning since long to start importing highly technical machines from outside India to include in his trade segment. He felt it to be the right time and opportunity to enter into the Global market. He imported "XALTI" from Malta Machineries based in France. CA Parminder guides and helps Mr. Juneja to execute this import transaction following all the general guidelines as laid under the domestic laws of India. Alongwith this transaction, Mr. Juneja requires to transfer U.S. \$ 15,000 for remittance towards hiring charges of transponders to be paid to Ross and U.S. \$ 20,000 to be paid to Chandler for payment related to call back services of telephones, both being foreign nationals.

Raj Arora is very curious to know about the compliances to be made by Raj Pharma AG. He provides the following details to CA Parminder Kaur relating to Raj Pharma AG for the P.Y. 2023-24:

Particulars	India	Germany
Fixed assets at depreciated values for tax purposes (₹ in crores)	100	60

Intangible assets (₹ in crores)	50	100
Other assets (value as per books of account) (₹ in crores)	40	120
Income from trading operations (₹ in crores)	50	75
The above figure includes:		
(i) Income from transactions, where purchases are from associated enterprises and sales are to unrelated parties	2	4
(ii) Income from transactions, where sales are to associated enterprises and purchases are from unrelated parties	3	5
(iii) Income from transactions, where both purchases and sales are from/to associated enterprises	5	10
Interest and dividend from investments (₹ in crores)	30	20
Number of employees (Residents in respective countries)	60	90
Payroll expenses on employees (₹ in crores)	10	15

During F.Y.2023-24, eight board meetings of Raj Pharma AG were held – 3 in India and 5 in Germany.

Raj Pharma AG's Indian counterpart – Simraj (P) Ltd. required a high tech machinery "Medifix" to be purchased from Cambridge, UK. For importing such machinery, Raj contacted one of his friends in Cambridge, who runs a company by the name of "Medico Inc.", a London based company, having several business units all over the world. It has a unit for manufacturing pharma machineries with its Headquarters in New Delhi. It has a branch in Dubai which is controlled by the Headquarters in New Delhi. However, "Medifix", being not available with 'Medico Inc.', Raj's friend in Cambridge helped him to procure the machinery from another company in Frankfurt, Germany known to him. This foreign currency asset amounting to Euro 1,00,000 is recorded by Simraj (P) Ltd. as a non-monetary item at the date of purchase when the exchange rate was ₹ 52 at ₹ 52 lakhs. The recoverable amount of the asset on the reporting date is calculated as Euro 85,000. The exchange rate on the date of valuation was ₹ 60 to a Euro and the carrying amount of Medifix recorded accordingly, as per the relevant Ind- AS, in the books of Simraj (P) Ltd. is ₹ 51 lakhs.

Raj and Simran, both made several trips to India during the previous year and they are quite skeptical about the taxation of their income in both the countries – Germany & India. One day, over dinner table, they discussed all these aspects. Raj, having an experience in International tax matters and having discussed the same with CA Parminder tells Simran that in the case of income arising to an assessee in countries with which India does not have any double taxation agreement, relief would be granted under the Indian Income tax law subject to fulfilment of certain conditions. Simran tells him that one of her friends told her in a Kitty party that the double taxation avoidance treaties entered into by Government of India with other countries can never ever override the domestic law of India. Further, Simran is curious to tell Raj about her father's business in the same segment and how her father is doing so good with the finances of the business that inspires her as well. She tells Raj that one of her father's business set-ups in India by the name of Entity "P" whose functional currency is '₹', has a foreign operation, Entity "Q" with Euro as its functional currency and Entity Q issued to Entity P, a perpetual debt denominated in Euros with an annual interest rate of 6%. The perpetual debt has no issuer call option or holder put option. Thus, contractually it is just an infinite stream of interest payments in Euros. Further, being highly impressed with CA Parminder's work and quality of, they both decide to offer her the role of CFO in their German Group "SIMRAJ" and wanted her to get migrated to Germany to which CA Parminder heartily agreed. As per the offer letter, Parminder should join the company at any time between 1st September, 2023 and 31st October, 2023. She has maintained a joint account with her father in UCO Bank, Jalandhar, in India.

Multiple Choice Questions

- Referring to the provisions of Foreign Exchange Management Act, 1999, state kind of approval required

for the transactions to be carried out by Mr. Amit Juneja for payment to Ross and Chandler respectively:

- (a) Ross :- Central Government ; Chandler :- Reserve Bank of India
- (b) Ross :- Reserve Bank of India; Chandler :- Central Government
- (c) Ross :- Prohibited Transaction ; Chandler :- Reserve Bank of India
- (d) Ross :- Central Government ; Chandler :- Prohibited Transaction

2. What would be the residential status under the FEMA, 1999, of Pharma unit of "Medico Inc." in New Delhi and that of Dubai branch?

- (a) Both are persons resident outside India.
- (b) New Delhi Headquarters – Resident person & Dubai Branch – Non-resident person
- (c) Both are persons resident in India.
- (d) New Delhi Headquarters – Non-resident person & Dubai Branch – Resident- person

3. Determine the value of Impairment loss in foreign currency with respect to "Medifix" and whether it should be recognised in books by Simraj (P) Ltd.?

- (a) Euro 15,000 and such loss should be recognised:
- (b) ₹ 1 lakh and such loss should be recognised.
- (c) ₹ 1 lakh and such loss should not be recognised
- (d) Euro 15,000 and such loss should not be recognised.

4. In Entity P's consolidated financial statements, can the perpetual debt be considered, in accordance with Indian Accounting Standards, a monetary item "for which settlement is neither planned nor likely to occur in the foreseeable future" (i.e. part of P's net investment in Q), with the exchange gains and losses on the perpetual debt therefore being recorded in equity? Entity "P's" functional currency is INR, and Entity "Q's" functional currency is Euro.

- (a) Yes, the Perpetual Debt can be considered as a monetary item and the related exchange gains and losses should not be recognised.
- (b) No, the Perpetual Debt should not be considered as a monetary item and the related exchange gains and losses should not be recognised accordingly.
- (c) Yes, the Perpetual Debt can be considered as a monetary item and the related exchange gains and losses should be recorded in equity at the consolidated level.
- (d) No, the Perpetual Debt should not be considered as a monetary item and the related exchange gains and losses should be recognised in consolidation of accounts.

5. By what date maximum, should CA Parminder leave India and how should she receive her salary to minimize her tax liabilities in India, if her total income during P.Y. 2023-24 was ₹ 14 lakhs?

- (a) She should leave India on or before 28 September, 2023 and get her salary credited to a Bank account in Germany only, to be remitted, later on, to her Joint account in India.
- (b) She should leave India on or before 27 September, 2023 and get her salary credited directly to her Joint account in India.
- (c) She should leave India on or before 27 September, 2023 and get her salary credited to a Bank account in Germany only, to be remitted, later on, to her Joint account in India
- (d) She should leave India on or before 28 September, 2023 and get her salary credited directly to her Joint account in India.

Descriptive Questions

6. Mr. Amit Juneja wants to know from CA Parminder, the various modes of payment he can use, to make payment to Malta Constructions for importing "XALTI". Also, he requests her to guide on the time-limit for making settlement of such payment as laid under the Domestic law.
7. Can INR be presumed as the Functional Currency for SIMCO, since it is located in India?
8. Determine the residential status of Raj Pharma AG for A.Y.2024-25, as per the Indian Income tax law.

ANSWERS TO THE CASE STUDY 4

Answers to the Multiple Choice Questions

1. (d) Ross :- Central Government ; Chandler :- Prohibited Transaction
Reason: Under section 5 of the Foreign Exchange Management Act, 1999, and Rules relating thereto, some current account transactions require prior approval of the Central Government, some others require the prior approval of the Reserve Bank of India, some are freely permitted transactions and some others are prohibited transactions. Accordingly,
 - (i) It is a current account transaction, where Amit is required to take approval of the Central Government for drawal of foreign exchange for remittance of hire charges of transponders.
 - (ii) Withdrawal of foreign exchange for payment related to call back services of telephone is a prohibited transaction. Hence, Amit cannot obtain US \$ 20,000 for the said purpose.
2. (c) Both are persons resident in India.
Reason: Medico Inc. being a UK based company would be person resident outside India [(Section 2(w)). Section 2 (u) defines 'person' under clause (viii) thereof, as person would include any agency, office or branch owned or controlled by such person. The term such person appears to refer to a person who is included in clause (i) to (vi). Accordingly, the Headquarters in New Delhi, being a branch of a company would be a 'person'.
 Section 2(v) defines a person resident in India. Under clause (iii) thereof person resident in India would include an office, branch or agency in India owned or controlled by a person resident outside India. Headquarters Unit in New Delhi is owned or controlled by a person resident outside India, and hence it, would be a 'person resident in India.'
 However, Dubai Branch though not owned is controlled by the Headquarters in New Delhi which is a person resident in India. Hence, the Dubai Branch is also a person resident in India.
3. (d) Euro 15,000 and such loss should not be recognised.
Reason: The carrying value of the foreign currency asset will be determined based on the recoverable amount of the asset converted into functional currency at the exchange rate on valuation date which is ₹ 51 lakhs. However, the impairment loss is of Euro 15,000 in foreign currency which is not to be recognised.
4. (c) Yes, the Perpetual Debt can be considered as a monetary item and the related exchange gains and losses should be recorded in equity at the consolidated level.
Reason: Yes, as per Ind AS 21, net investment in a foreign operation is the amount of the reporting entity's interest in the net assets of that operation.
 As per para 15 of Ind AS 21, an entity may have a monetary item that is receivable from or payable

to a foreign operation. An item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the entity's net investment in that foreign operation. Such monetary items may include long-term receivables or loans. They do not include trade receivables or trade payables.

Analysis on the basis of above mentioned guidance

Through the origination of the perpetual debt, P has made a permanent investment in Q. The interest payments are treated as interest receivable by P and interest payable by Q, not as repayment of the principal debt. Hence, the fact that the interest payments are perpetual does not mean that settlement is planned or likely to occur. The perpetual debt can be considered part of P's net investment in Q.

As per para 15 of Ind-AS 21, foreign exchange gains and losses should be recorded in equity at the consolidated level because settlement of that perpetual debt is neither planned nor likely to occur.

5. (a) She should leave India on or before 28 September, 2023 and get her salary credited to a Bank account in Germany only, to be remitted, later on, to her Joint account in India

Reason: In this case, since Parminder is an Indian citizen and leaving India during P.Y. 2023-24 for the purpose of employment outside India, she will be treated as resident only if the period of her stay during the previous year amounts to 182 days or more. Therefore, Parminder should leave India on or before 28th September, 2023, in which case, her stay in India during the previous year would be less than 182 days and she would become non-resident for the purpose of taxability in India. In such a case, only the income which accrues or arises in India or which is deemed to accrue or arise in India or received or deemed to be received in India shall be taxable.

The income earned by her in Germany would not be chargeable to tax in India for A.Y. 2024-25, if she leaves India on or before 28th September, 2023.

If any part of Parminder's salary will be credited directly to her bank account in Jalandhar, then, that part of her salary would be considered as income received in India during the previous year under section 5 and would be chargeable to tax under Income-tax Act, 1961, even if she is a non-resident. Therefore, Parminder should receive her entire salary in Germany and then remit the required amount to her bank account in Jalandhar in which case, the salary earned by her in Germany would not be subject to tax in India.

Answers to the Descriptive Questions

6. As per Master Direction No. 17 on Import of Goods and Services issued by the RBI, the general Guidelines for Imports are as follows:

- (i) **Mode of payment:** A person resident in India may make payment for import of goods in foreign exchange through-

- an international card held by him/in rupees from international credit card/debit card through the credit/debit card servicing bank in India against charge slip signed by importer, or
- as prescribed by Reserve Bank from time to time,

provided that the transaction is in conformity with the extant provisions and the import is in conformity with the Foreign Trade Policy in force.

In essence, payment has to be made through banking channels.

Other modes:

For following transactions, a person resident in India may also make payment as under:

- (a) In rupees towards meeting expenses on account of boarding, lodging and services related thereto or travel to and from and within India of a person resident outside India who is on a visit to India;
- (b) By means of a crossed cheque or a draft as consideration for purchase of gold or silver in any form imported by such person in accordance with the terms and conditions imposed under any order issued by Central Government under the Foreign Trade (Development and Regulations) Act, 1992 or under any other law, rules or regulations for time being in force;
- (c) A company or resident in India may make payment in rupees to its non-whole time director who is resident outside India and is on a visit to India for the company's work and is entitled to payment of sitting fees or commission or remuneration, and travel expenses to and from and within India, in accordance with the provisions contained in company's Memorandum of Association or Articles of Association or in any agreement entered into it or in any resolution passed by company in general meeting or by its Board of Directors. This is also subject to compliance with requirement of any law, rules, regulations, directions applicable for making such payments.

(ii) **Time Limit for Settlement of Import Payments:**

(a) **Time limit for Normal Imports:**

- In terms of the extant regulations, remittances against imports should be completed **not later than six months from the date of shipment**, except in cases where amounts are withheld towards guarantee of performance, etc.
- AD may permit settlement of import dues delayed due to disputes, financial difficulties, etc. However, interest if any, on such delayed payments, usance bills (a bill of exchange which allows the drawee to have period of credit or term) or overdue interest is payable **only for a period of up to three years from the date of shipment at the rate prescribed for trade credit from time to time.**

(b) **Time Limit for Deferred Payment Arrangements:**

Any deferred payment arrangements (including suppliers' and buyers' credit) entered into, for up to **three years** in case of import of **capital goods** and up to **one year or the operating cycle whichever is less**, in case of import of **non-capital goods**, shall be treated as trade credits for which the procedural guidelines as laid down in the Master Direction on External Commercial Borrowings, Trade Credits and Structured Obligations may be followed."

(iii) **Extension of Time:**

- (a) **limit of extension:** AD Category – I banks can consider granting extension of time for settlement of import dues up to a **period of six months at a time (maximum up to the period of three years)** irrespective of the invoice value for delays on account of disputes about quantity or quality or non-fulfilment of terms of contract; financial difficulties and cases where importer has filed suit against the seller. In cases where sector specific guidelines have been issued by Reserve Bank of India for extension of time (i.e. rough, cut and polished diamonds), the same will be applicable.
- (b) **Circumstances:** While granting extension of time, AD must ensure that:
 - The import transactions covered by invoices are not under investigation by Directorate of Enforcement/Central Bureau of Investigation or other investigating agencies;

- While considering extension beyond one year from the date of shipment, the total outstanding of the importer does not exceed USD one million or 10 per cent of the average import remittances during the preceding two financial years, whichever is lower; and
- Where extension of time has been granted by the AD, the date up to which extension has been granted may be indicated in the 'Remarks' column.

7. No, SIMCO cannot presume INR to be its functional currency on the basis of its location. It needs to consider various factors listed in Ind AS 21 for determination of functional currency.

Primary indicators:

(i) The currency that mainly influences:

- (a) sales prices for its goods and services. This will often be the currency in which sales prices are denominated and settled; and of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services.
- (b) labour, material and other costs of providing goods and services. This will often be the currency in which these costs are denominated and settled.

(ii) Other factors that may provide supporting evidence to determine an entity's functional currency are (Secondary indicators):

- (a) the currency in which funds from financing activities (i.e. issuing debt and equity instruments) are generated; and
- (b) the currency in which receipts from operating activities are usually retained.

(iii) If an entity is a foreign operation, additional factors set out in Ind AS 21 should be considered to determine whether its functional currency is the same as that of the reporting entity of which it is a subsidiary, branch, associate or joint venture:

- (c) Whether the activities of foreign operations are carried out as an extension of that reporting entity, rather than being carried out with a significant degree of autonomy;
- (d) Whether the transactions with the reporting entity are a high or a low proportion of the foreign operation's activities;
- (e) Whether cash flows from the activities of the foreign operations directly affect the cash flows of the reporting entity and are readily available for remittance to it.
- (f) Whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligation without funds being made available by the reporting entity.

On the basis of additional factors mentioned in point 3 above, SIMCO cannot be said to have functional currency same as that of Simran Constructions GmbH.

Hence primary and secondary indicators should be used for the determination of its functional currency giving priority to primary indicators. The analysis is given below:

- Its significant revenues and competitive forces are in USD.
- Its significant portion of cost is incurred in INR. Only 20% costs are in USD.
- 78% of its finances have been raised in USD.
- It retains its operating cash flows partially in USD and partially in INR.

Keeping these factors in view, USD should be considered as the functional currency of Sim Contractors Pvt. Ltd.

8. The residential status of a foreign company is determined on the basis of place of effective management (POEM) of the company.

For determining the POEM of a foreign company, the important criteria is whether the company is engaged in active business outside India or not.

A company shall be said to be engaged in "Active Business Outside India" (ABOI) for POEM, if

- the passive income is not more than 50% of its total income; and
- less than 50% of its total assets are situated in India; and
- less than 50% of total number of employees are situated in India or are resident in India; and
- the payroll expenses incurred on such employees is less than 50% of its total payroll expenditure.

Raj Pharma AG shall be regarded as a company engaged in active business outside India for POEM purpose only if it satisfies all the four conditions cumulatively:

Condition 1: The passive income of Raj Pharma AG should not be more than 50% of its total income

Total income of Raj Pharma AG is ₹ 175 crores [(₹ 50 crores + ₹ 75 crores) + (₹ 30 crores + ₹ 20 crores)]

Passive income is the aggregate of, -

- (i) income from the transactions where both the purchase and sale of goods is from/to its associated enterprises; and
- (ii) income by way of royalty, dividend, capital gains, interest or rental income;

Passive Income of Raj Pharma AG is ₹ 65 crores, being sum total of:

- (i) ₹ 15 crores, income from transactions where both purchases and sales are from/to associated enterprises (₹ 5 crores in India and ₹ 10 crores in Germany)
- (ii) ₹ 50 crores, being interest and dividend from investment (₹ 30 crores in India and ₹ 20 crores in Germany)

Percentage of passive income to total income = ₹ 65 crore/₹ 175 crore x 100 = 37.14%

Since passive income of Raj Pharma AG is 37.14%, which is not more than 50% of its total income, the first condition is satisfied.

Condition 2: Raj Pharma AG should have less than 50% of its total assets situated in India

- Value of total assets of Raj Pharma AG is ₹ 470 crores [₹ 190 crores, in India + ₹ 280 crores, in Germany]
- Value of total assets of Raj Pharma AG in India is ₹ 190 crores
- Percentage of asset situated in India to total assets = ₹ 190 crores/₹ 470 crores x 100 = 40.43%.

Since the value of assets of Raj Pharma AG situated in India is less than 50% of its total assets, the second condition for ABOI test is satisfied.

Condition 3: Less than 50% of the total number of employees of Raj Pharma AG should be situated in India or should be resident in India

- Number of employees situated in India or are resident in India is 60
- Total Number of employees of Raj Pharma AG is 150 [60 + 90]
- Percentage of employees situated in India or are resident in India to total number of employees is 60/150 x 100 = 40%

Since employees situated in India or are residents in India of Raj Pharma AG are less than 50% of its total employees, the third condition for ABOI test is satisfied.

Condition 4: The payroll expenses incurred on employees situated in India or resident in India should be less than 50% of its total payroll expenditure

- Payroll expenses on employees employed in and resident of India = ₹ 10 crores.
- Total payroll expenses = ₹ 25 crores (₹ 10 crores + ₹ 15 crores)
- Percentage of payroll expenses of employees situated in India or are resident in India to the total payroll expenses = $10 \times 100 / 25 = 40\%$

Since the payroll expenses incurred on employees situated in India or resident in India is less than 50% of its total payroll expenditure, the fourth condition for ABOI test is also satisfied.

Thus, since Raj Pharma AG has satisfied all the four conditions, the company would be said to be engaged in "active business outside India" during the P.Y. 2023-24.

POEM of a company engaged in active business outside India shall be presumed to be outside India, if the majority of the board meetings are held outside India.

Since Raj Pharma AG is engaged in active business outside India and majority of its board meetings i.e., 5 out of 8, were held outside India, POEM of Raj Pharma AG would be outside India.

Therefore, Raj Pharma AG would be non-resident in India for the P.Y. 2023-24.

OLD COURSE DIGEST

Case Study 5

Subjects	Topics Covered	Marks
Audit	Professional Ethics	4
DT	Slump Sales	10
IDT	E-way bill, GST Refund	11

- (1) CA Ashish Kulkarni & CA Nita Goswami were best friends since childhood. They were also neighbors and had same aspirations and almost all their hobbies were similar at that time. While kids, they spent much of their time with each other and in fact they initially prepared for the CA Foundation test together and after clearing the said test, Ashish moved to Delhi for better internship opportunities and better coaching facilities but Nita decided to do the preparation of exams by remaining at her hometown at Ludhiana in Punjab. After 5 years of becoming CA, they both met in the marriage of one of their common friends although they were well connected over phone in this period of 5 years.
- (2) CA Ashish was trying to convince CA Nita to start their own practice being partners in Delhi considering the opportunities in Delhi. But Nita wanted to remain in her hometown. She said to Ashish that they both can be partners by remaining at different places as well. Moreover, they would be able to capture two different markets as Punjab is also a hub of many industries. Now a days, video conferencing has dramatically changed the way to communicate, and one can communicate easily with other by remaining at different places as well. They decided to form a partnership firm of Chartered Accountants by staying & working at their respective places
- (3) They initially started their small practice in both the cities with the name "KG & Co." The firm also created its own website, 'www.kgco.com'. The website besides containing details of the firm and bio-data of the partners, also contained the passport size photographs of CA Ashish & CA Nita. But in the earlier days of the partnership, the firm did not get enough work, as it takes time to settle a new business. So, to cover the operating expenses of branch, CA Nita Goswami started private tutorship to students doing CA course for 3 days in a week for 2 hours in a day, but she forgot to take special permission for private tutorship from the Council. But CA Ashish Kulkarni informed her that the council has passed resolution granting general permission for private tutorship, and part time tutorship under coaching organization of the Institute and specific permission is required in case of part-time or full time tutorship under any educational institute other than coaching organization of the institute. Such general & specific permission granted is subject to condition that direct teaching hours devoted to such activities taken together should not exceed certain hours in order to be able to undertake attest functions
- (4) With the passage of time & their strong dedication and quality services, they have achieved what they desired. The firm has now been connected with various prestigious clients of the market. The growth of the firm is directly attributable to transparency and mutual discussions between both partners, as both the partners spare their time in the evening for discussing the prevailing issues of the client which helps them to arrive at a valuable conclusion. Hence, it results in effective solution of the problem which ultimately leads to customer satisfaction.
- (5) One fine evening, CA Nita Goswami was discussing the case of one of their valuable clients, Creations Ltd. Creations Ltd. has two industrial undertakings – one engaged in production of Ladies Hand Bags and the other engaged in production of Luggage Bags. As a restructuring drive, the company has decided to sell its undertaking producing Luggage bags as a going concern by way of slump sale for ₹ 225 lakh to a new company called Rockstar Bags Ltd. in which it holds 75% equity shares. The balance sheet of Creations

Ltd., as on March 31, 2024 reads as follows.

	(₹ in lakhs) Hand Bags unit	(₹ in lakhs) Luggage Bags unit
Fixed assets	75.00	112.50
Debtors	75.00	56.25
Inventories	37.50	18.75
Liabilities (Current & Ascertained)	21.00	37.50
Paid-up shares capital		₹ 189 lakh
General reserve		₹ 111 lakh
Shares premium		₹16.5 lakh

- (6) The company set up the Luggage Bags unit on April 1, 2006. The written down value of the block of assets for tax purposes as on March 31, 2024 is ₹ 100 lakh of which ₹ 42.5 lakh are attributable to Luggage Bags unit. There is not any immovable property included in the fixed assets of Luggage Bags unit. CA Nita wanted to discuss with her partner about the taxation liability which would arise to Creations Ltd. from slump sale and any other advise, firm can give to client to make it more tax efficient
- (7) While they were discussing the issue of Creations Ltd., CA Ashish got a call from a client Ram Electricals, registered under GST in Delhi, is registered supplier of air conditioners. He has provided the following information of consignment which needs to be supplied to Punjab:
- Taxable value of supplies indicated on tax invoice: ₹ 32,500/- (Applicable GST rate 18 %)
 - Value of Exempted Goods: ₹ 5,500/-
 - Value of goods to be sent to job worker on delivery challan: ₹ 15,500/

The accountant of Ram Electricals called CA Ashish Kulkarni, being their GST consultant, to seek advise on issuance of e-way bill in respect of the above consignment.

- (8) After the discussion of above parties, Ashish brought into the knowledge of Nita the case of one of their new clients, "Sai Kripa International Ltd.", the accounting manager of which approached their firm for determination of refund admissible under GST Law. The company supplies various goods in domestic and international markets. The company manufactures the product in in-house as well does the business of trading. The company is registered under GST in Uttar Pradesh. The company exports goods without payment of tax under LUT in accordance with the provisions of GST Act. The company has made the following supplies during a tax period:

S.N.	Particulars	Amount (₹)
1)	Export of Product "X" for \$ 12,500. Assessable value under customs in India Rupees. Export Duty is levied on above product at the time of exports. (Value of like goods domestically supplied by the similarly placed supplier is ₹ 6,00,000)	9,00,000
2)	Domestic supplies of taxable product "Y"* during the period (excluding GST rate @ 5%) (Inputs used in manufacturing of such goods are taxable @ 18%) *not notified as a product, in respect of which refund of unutilised ITC shall not be allowed under section 54(3)(ii)	15,00,000
3)	Export of exempt supplies of goods (Value of like goods domestically supplied by the similarly placed supplier is ₹ 5,00,000)	6,00,000

The ITC available for the above tax period is as follows:		
1)	On inputs	2,50,000
2)	On capital goods	1,25,000
3)	On input services (including ₹ 30,000 on outdoor catering)	1,80,000

When CA Ashish Kulkarni filed refund application of "Sai Kripa International Ltd." on GST Portal, there were some deficiencies noticed by GST department and such deficiencies were communicated to applicant in a FORM through the common portal electronically, requiring him to file a fresh refund application after rectification of such deficiencies. When the accountant of the company had logged in the portal, he noticed a Form displayed on the portal & communicated to CA Ashish Kulkarni. Then CA Ashish Kulkarni was approached to resolved the above issue.

Multiple Choice Questions

1. Whether the creation of website in aforesaid manner amounts to violation of provisions of Chartered Accountants Act, 1949 and its relevant rules & regulations?
 - (a) Yes, as creation of website itself is not allowed as the provisions of Chartered Accountants Act, 1949 and its relevant rules & regulations.
 - (b) Yes, as the bio-data of partners and photographs posted on website amounts to soliciting of clients and professional work
 - (c) No, as the guidelines of ICAI allows a firm to put up the details of firm, bio-data of partners & display of passport size photograph.
 - (d) No, as it is permissible that the firm can advertise their professional work through its website.
2. With reference to the information given in para (7), what would be the consignment value sent by Ram Electricals Ltd. for the purpose of generating E-way bill for inter-state supply of goods?
 - (a) ₹ 38,350
 - (b) ₹ 53,850
 - (c) ₹ 59,350
 - (d) ₹ 48,000
3. Direct teaching hours devoted to tutorship activities taken together by a CA in Practice should:
 - (a) Not exceed 20 hours a week.
 - (b) Not exceed 25 hours a week.
 - (c) Not exceed 25 hours a month.
 - (d) Not exceed 20 hours a month.
4. With reference to the information given in para (8), accountant of the company, Sai Kripa International Ltd., may have noticed..... Form of GST on GST-Portal.
 - (a) GST RFD-01
 - (b) GST RFD-02
 - (c) GST RFD-03
 - (d) GST RFD-04
5. With reference to the information given in para (5), the income arising on above transaction shall be chargeable to income tax under the head:

- (a) Profit and gains from Business or Profession.
- (b) Other Sources.
- (c) House Property.
- (d) Capital Gain.

Descriptive Questions

6. Determine the maximum amount of Refund admissible to Sai Kripa International Ltd. for the given tax period.
7. (a) Determine the tax liability, which would arise to Creations Ltd. from slump sale assuming it does not opt for section 115BAA.
(b) Suggest modification of the restructuring plan of Creations Ltd., without changing the amount of sales consideration, so as to make it more tax efficient.

ANSWERS TO THE CASE STUDY 5

Answers to the Multiple Choice Questions

1. (c) No, as the guidelines of ICAI allows a firm to put up the details of firm, bio-data of partners & display of passport size photograph.

Reason: In the above case, it does not appears to be violation of Chartered Accountants Act, 1949 as the guidelines of ICAI allow a firm to put up the details of the firm, bio-data of the partners and display of a passport size photograph. However, the website should be so designed that it does not solicit clients or professional work and should not amount to direct or indirect advertisement.

2. (b) ₹ 53,850

Reason: The consignment value will be as follows:

S.N.	Particulars	Consignment Value (₹)	
1	Taxable value of supplies indicated on tax invoice	32,500	
	Add: GST 18%	5,850	38,350
2	Value of exempt Goods (The same shall not be included)		-----
3	Value of goods to be sent to job-worker on delivery challan		15,500
4	Consignment Value for the purpose of generating of E-way bill		53,850

3. (b) Not exceed 25 hours a week.

Reason: Regulation 190A of Chartered Accountants Regulations, 1988 provides that a Chartered Accountant in practice shall not engage in any business or occupation other than the profession of accountancy except with the permission granted in accordance with a resolution of the council. The council has passed resolution granting general permission (for private tutorship, and part time tutorship under Coaching organization of the institute) and specific permission (for part-time or full time tutorship under any educational institute other than Coaching organization of the institute). Such general & specific permission granted is subject to condition that direct teaching hours devoted to such activities taken together should not exceed 25 hours a week in order to be able to undertake attest functions.

4. (c) GST RFD-03

Reason: Where any deficiencies are noticed in refund application, the proper officer shall communicate the deficiencies to the applicant in FORM RFD-03 through the common portal electronically, requiring to file a fresh refund application after rectification of such deficiencies.

5. (d) Capital Gain.

Reason: Any Profit or Gains arising from the slump sale of one or more undertakings shall be chargeable to income tax under the head Capital Gain.

Answers to the Descriptive Questions

6. Calculation of maximum amount of refund admissible to Sai Kripa International Ltd.

S.N.	Particulars	Note	Amount (₹)
1)	Export of product "X"	1	Nil
2)	Domestic Supplies of taxable product "Y" during the period	2	78,125
3)	Export of exempt supplies of goods	3	80,000
	Total refund claim admissible		1,58,125

Working Notes:

(1) Export of goods is a zero rated supply in terms of Sec 16(1)(a) of IGST Act, 2017. Further, Sai Kripa International Ltd. exports goods without payment of tax under letter of undertaking in accordance with the provisions of Section 16(3)(a) of IGST Act, 2017. Therefore as per clause (i) of first proviso of Sec 54(3) of CGST Act, 2017 a registered person may claim refund of any unutilized ITC in case of zero rated supply at the end of any tax period. However, second proviso to Sec 54(3) lays down that the refund of unutilized ITC is not allowed if the goods exported out of India are subject to export duty.

(2) Refund of unutilised ITC is allowed in case of inverted duty structure, i.e. where the credit has accumulated on account of rate of tax on inputs being higher than the rate of tax on output supplies (other than nil rated or fully exempt supplies) except supplies of goods or services or both as may be notified by the Government on the recommendations of the GST Council.

Rule 89(5) stipulates that in the case of refund on account of inverted duty structure, refund of ITC is granted as per the following formula –

$$\text{Maximum Refund Amount} = \frac{\text{Turnover of inverted rated supply of goods and services} \times \text{Net ITC}}{\text{Adjusted Total Turnover}} - \frac{\text{Tax payable on such inverted rated supply of goods and services} \times \text{Net ITC}}{\text{ITC availed on inputs and input services}}$$

where-

"Net ITC" means ITC availed on inputs during the relevant period other than the ITC availed for which refund is claimed under sub-rules (4A) or (4B) or both.

"Adjusted total turnover" means the sum total of the value of:

- (a) turnover in a State/Union territory, as defined u/s 2(112), excluding turnover of services; &
- (b) turnover of zero-rated supply of services determined in terms of specified manner and non-zero-rated supply of services,

excluding:

- (i) the value of exempt supplies other than zero-rated supplies; and
- (ii) the turnover of supplies in respect of which refund is claimed under sub-rule (4A) or sub-rule (4B) or both, if any, during the relevant period.

Maximum Amount of refund admissible on account of inverted duty structure

S.N.	Particulars	(₹)
1)	Net ITC i.e. input tax credit availed on inputs during the relevant period	2,50,000
2)	Turnover of inverted rated supply of Goods	15,00,000
3)	Adjusted Total Turnover i.e. (6,00,000 + 15,00,000 + 9,00,000)	30,00,000
4)	Tax payable on such inverted rated supply of Goods (15,00,000*5%)	75,000
5)	ITC availed on inputs and input services	4,00,000
6)	Maximum Refund $\{[(\text{Item (2)}/\text{Item (3)}) \times \text{item (1)}] - [\text{Item (4)} \times (\text{Item (1)}/\text{Item (5)})]\}$	78,125

- (3) Section 16(2) of IGST Act, 2017 stipulates that subject to provisions of Sec 17(5) of CGST Act, ITC may be availed for making zero rated supplies, notwithstanding that such supply may be an exempt supply. Section 54(3) of CGST Act, 2017 allows refund of ITC in the case of zero rated supply made without payment of tax.

Rule 89(4) of CGST Rules, 2017 stipulates that in the case of zero rated supply of goods or services or both without payment of tax under bond /LUT in accordance with the provisions of Section 16(3) of the IGST Act, 2017, refund of ITC shall be granted as per the following formula

Refund amount =

(Turnover of zero rated supply of goods + Turnover of zero rated supply of services)

Net ITC/Adjusted Total Turnover

Where,

"Net ITC" means ITC availed on inputs & inputs services during the relevant period other than ITC availed for which refund is claimed under sub-rules (4A) or (4B) or both of rule 89.

"Turnover of zero rated supply of Goods" means the value of zero- rated supply of goods made during the relevant period without payment of tax under bond or LUT or the value which is 1.5 times the value of like goods domestically supplied by the same or, similarly placed, supplier, as declared by the supplier, whichever is less, other than the turnover of supplies in respect of which refund is claimed under section 89(4A) or (4B) or both.

Maximum Amount of refund admissible on account of Zero rated supply

		(₹)
1)	Net ITC i.e input tax credit availed on inputs and inputs services during the relevant period (₹ 2,50,0,00 + ₹ 1,80,000 – ₹ 30,000)	4,00,000
2)	Turnover of zero rated supply of goods i.e value of zero rated supply of goods made during the relevant period without payment of tax under Bond or LUT) (Lower of ₹ 6,00,000 or 1.5 times of ₹ 5,00,000 i.e. 7,50,000, whichever is lower)	6,00,000
3)	Adjusted Total Turnover i.e. (₹ 6,00,000 + ₹ 15,00,000 + ₹ 9,00,000)	30,00,000
5)	Maximum Refund (Item (2)/Item (3))*item (1)	80,000

7. (a) As per section 50B of the Income Tax Act, 1961, any profits and gains arising from the slump sale effected in the previous year shall be chargeable to income-tax as capital gains arising from the transfer of capital assets and shall be deemed to be the income of the previous year in which the transfer took place.

If the assessee owned and held the undertaking transferred under slump sale for more than 36 months before slump sale, the capital gain shall be deemed to be long-term capital gain. Indexation benefit is not available in case of slump sale as per section 50B(2) of the said Act.

Computation of tax liability of creations Ltd. from slump sale

Particulars	(₹)
Full value of consideration for slump sale	2,25,00,000
Less: cost of acquisition (Net Worth – See Note 2)	<u>80,00,000</u>
Long- term capital gain	<u>1,45,00,000</u>
Tax on long term capital gain @ 20%	29,00,000
Add: Surcharge (7% of ₹ 29,00,000)	2,03,000
Tax and surcharge	31,03,000
Add: Health & Education cess (4% of ₹ 31,03,000)	<u>1,24,120</u>
Tax liability	<u>32,27,120</u>

Note:

(1) Computation of Full value of consideration

Particulars	(₹ in lakhs)
Fair market value of the capital assets transferred by way of slump sale	
Fixed assets [Book value as appearing in the books of accounts] [A]	112.5
Debtors [Book value as appearing in the books of accounts]. [B]	56.25
Inventories [Book value as appearing in the books of accounts] [C]	18.75
	<u>187.5</u>
Less: Liabilities [L]	37.5
Fair market value of the capital assets transferred by way of slump sale [A+B+C- L] [FMV1]	<u>150</u>
Fair market value of the consideration received or accruing as a result of transfer by way of slump sale [value of the monetary consideration received] [FMV2]	<u>225</u>
Full value of consideration [Higher of FMV1 or FMV2]	<u>225</u>

(2) Computation of net worth

Particulars	(₹)
WDV of block of assets	42,50,000
Debtors	56,25,000
Inventories	18,75,000
Total Assets	1,17,50,000
Less: Liabilities	37,50,000
Net worth	<u>80,00,000</u>

Note: For computing net worth, the aggregate value of total assets in the case of depreciable assets shall be the written down value of the block of assets as per section 43(6).

- (b) As an alternative to slump sale, Creations Ltd., should acquire 100% shareholding in Rockstar Bags Ltd. so that Rockstar Ltd. becomes a 100% Indian subsidiary company of Creations Ltd. and,

consequently, capital gain arising on transfer of Luggage unit to Rockstar Bags Ltd. shall not be chargeable to tax by virtue of provision of section 47(iv).

Also, the company may go for demerger. In demerger the tax impact is neutral. Therefore, in the present case, the company should not have effected slump sale. It could either:

- (i) Go for demerger where tax impact is neutral or
- (ii) **Make Rockstar Bags Ltd. as its 100% subsidiary company and claim exemption u/s 47.**

OLD COURSE DIGEST

Case Study 6

Subjects	Topics Covered	Marks
DT	PGBP (Basics)	9
IDT	Supply (Negative List), RCM, Value of Supply, Customs Basics	9
Law	LODR (Risk Management Committee), Companies Act (Section 144)	7

Whirlsonic Ltd. is a large sized listed Indian company having two business segments, namely light and electrical consumer durables. It is one of the oldest brands in the country and has a rich legacy associated with reliability and superior engineering quality. In the last few years, the company has launched some breakthrough products like India's first anti dust fan and anti-bacterial LED bulbs. The company is a leading Indian brand with significant global presence. The company operates with its philosophy to carve out a niche in global industry and to evolve into a premier lifestyle home solution provider. With operations spanning in over 20 countries, the company has earned trust of millions of customers by providing cutting edge lifestyle electrical products.

Whirlsonic Ltd. has received many prestigious awards and accolades to date for its commitment to manufacture quality lifestyle electrical solutions that benchmark against the best in industry. The company is proud to be the recipient of the New Product Innovation Award in the antibacterial LED bulbs industry in India and has been recognised as the New Product Innovation leader in the Indian LED bulbs industry.

The company works towards getting the right products to market faster and developing long term product strategies and coherent roadmaps. During the FY 2023-24, the company decided to manufacture the LED lights and bulbs with a unique feature which will enable the users of such products to operate them from any distance, with the help of their mobiles. Such technology requires the use of an electronic chip which is to be imported from Indonesia. So far, LED lights and bulbs with such unique feature have been developed by two more companies. According to market survey done by the marketing team of Whirlsonic Ltd., the demand of these new products is increasing day by day. Further, the management of the company has decided to offer a discount of 20% on the list price of such product to its distributors. The list price of the LED light and LED bulb is ₹ 150/- and ₹ 200/- respectively. In the invoice, the list price of the product will be mentioned on which a discount of 20% will be given to arrive at the final price.

During the year, Whirlsonic Ltd. sponsored a sports event organised by Ballika City Club in Jaipur. Ballika City Club was established in the year 1986 for the protection of the rights of the girl child. The company has paid an amount of ₹ 5,00,000/- for such sponsorship of the sports event. Consequently, the said event was named after the brand name of Whirlsonic Ltd.

M/s S.M. Mehta & Associates are the statutory auditors as well as the tax auditors of the company for the F.Y. 2023-24. CA Mehta, the Managing Partner of the said Chartered Accountant firm had set up the practice soon after becoming member of Institute of Chartered Accountant of India in the year 1990. Today the firm has its Head Office in Delhi with branches in 6 different states of the country. The firm has expertise in Audit including Statutory, Management and Internal Audit, due diligence and taxation matters including international taxation.

During the course of audit, CA Mehta, the engagement partner, asked one of his team members, Mr. Rudra to analyse the taxability/ allowability of various receipts and expenditures under the provisions of the Income Tax Act, 1961. While analysing the same, Mr. Rudra was sceptical with respect to the following two points:

- (i) The company paid dollars equivalent to ₹ 40 lakhs as sales commission for the year ended 31.03.2024, without deducting tax at source, to Mr. Meril, a citizen of UK and non-resident who acted as agent for booking orders, from various customers who are outside India.

(ii) An amount on account of secret commission was paid during the previous year 2023-24.

Further, Mr. Rudra had certain confusion with respect to the allowance or disallowance of the following expenditure under the provisions of the Income Tax Act 1961, incurred by the company:

- Interest amounting to ₹ 55,000 payable to Goods and Services Tax Department which was paid after the due date of filing income tax return.
- ₹ 10,00,000 was paid as salary to a resident individual without deduction of tax at source.

He asked CA Mehta to clear his confusion on the above points.

During year under audit, company has entered into a high sea sales transaction with Lavish Ltd. for its products. The management of Whirlsonic Ltd. is of the view that GST on such high sea sales transaction is payable at the time of such sale and basic custom duty is payable at the time of filing the bill of entry for import of goods.

While discussing about the status of the audit work with CA Mehta, one of the directors of the company, Mr. Somesh, discussed about the various corporate governance compliance requirements for their company. He asked CA Mehta to brief him about compliance requirements with respect to the Risk Management Committee. Accordingly, CA Mehta briefed him about Risk Management Committee in terms of relevant SEBI Regulation.

Also Mr. Somesh was very impressed with the quality of services and the effectiveness and efficiency of the audit work done by the team of CA Mehta. He, accordingly, requested CA Mehta to provide services for F.Y. 2023-24, of actuarial, investment advisory and investment banking to Whirlsonic Ltd., after the same is duly approved by the Board of Directors of the company.

Multiple Choice Questions

1. With respect to the payment made by Whirlsonic Ltd. for sponsorship of the sports event, which of the following is the correct statement regarding the GST liability?
 - (a) GST shall be payable by Whirlsonic Ltd., being the recipient of the sponsorship service, under the reverse charge mechanism.
 - (b) GST shall be payable by Ballika City Club, being the supplier of the sponsorship service.
 - (c) GST liability is not leviable on the sponsorship service of the sports event.
 - (d) GST liability with respect to sponsorship service is payable by the recipient of such service provided the recipient is not a body corporate. So, in the present case, GST liability is payable by the service provider which is Ballika City Club.
2. What should be the value of supply of the LED bulb with unique feature to be manufactured by Whirlsonic Ltd.?
 - (a) ₹ 200
 - (b) ₹ 160
 - (c) ₹ 120
 - (d) ₹ 150
3. Whether ₹ 10,00,000 was paid by company as salary to a resident individual without deduction of tax at source will be disallowed?
 - (a) No
 - (b) 50% Disallowed
 - (c) 100% Disallowed
 - (d) 30% Disallowed

4. What is the correct course of action for CA Mehta with respect to the request made by Mr. Somesh for providing services other than statutory audit and tax audit?
 - (a) CA Mehta should not accept the appointment unless he takes the approval from the ICAI.
 - (b) CA Mehta can accept the appointment for other services as the same will be duly approved by the Board of Directors.
 - (c) CA Mehta can accept the appointment after the same is approved by the shareholders as well as the Board of Directors.
 - (d) CA Mehta should not accept the offer for other services.
5. Whether the interest payable by the company to the GST department which is not paid before the due date specified u/s 139(1), will be disallowed?
 - (a) No, such interest will not be disallowed as such interest is separate from the GST i.e. the tax payable but not paid is only disallowed under the provisions of the Income Tax Act, 1961.
 - (b) Yes, the interest payable to GST department which is not paid before due date of filing of return of income would attract disallowance under the provisions of the Income Tax Act, 1961.
 - (c) Such interest will be disallowed as the same is not allowed under the Income Tax Act, 1961, even if it is paid within the due date of filing of return of income.
 - (d) 50% of the interest payable by the company to the GST department shall be disallowed if the same is not paid before the due date of filing return of income.

Descriptive Questions

6. Explain how GST would be levied and what would be the nature of supply in case of import of the electronic chip to be made by Whirlsonic Ltd.
Also examine, whether the view of the management of the company is correct with regard to the high sea sale transaction entered by the company with Lavish Ltd.?
7. Explain what CA Mehta would have briefed to Mr. Somesh relating to the Risk Management Committee in terms of the LODR (Listing Obligations and Disclosure Requirements) Regulations?
8. Examine the allowability of the two expenditures incurred by Whirlsonic Ltd., under the relevant provisions of the Income Tax Act, 1961, related to payment of sales commission and secret commission with respect to which Mr. Rudra has certain confusions?

ANSWERS TO THE CASE STUDY 6

Answers to the Multiple Choice Questions

1. (a) GST shall be payable by Whirlsonic Ltd., being the recipient of the sponsorship service, under the reverse charge mechanism.

Reason: Notification no 13/2017 CT (R) (referred to as reverse charge notification), provides that sponsorship services provided by any person to a body corporate or partnership firm located in taxable territory, shall be liable to GST under reverse charge in the hands of recipient. In present case, Ballika City Club is the supplier of sponsorship services which is receiving the consideration in form of sponsorship fee of ₹ 5,00,000 from Whirlsonic Ltd., against the provision of sponsorship service. Since the recipient of sponsorship services - Whirlsonic Ltd. is a body corporate, the tax on said services is payable by the recipient - Whirlsonic Ltd., under reverse charge.

2. (b) ₹ 160

Reason: The value is ₹ 160, as discount is allowed at the time of supply and shown in the invoice.

3. (d) 30% Disallowed

Reason: The disallowance of 30% of the sums payable under section 40(a)(ia) would be attracted in respect of all sums on which tax is deductible under Chapter XVII-B. Section 192, which requires deduction of tax at source from salary paid, is covered under Chapter XVII-B.

4. (d) CA Mehta should not accept the offer for other services.

Reason: Services not to be Rendered by the Auditor - Section 144 of the Companies Act, 2013 prescribes certain services not to be rendered by the auditor. An auditor appointed under the Act shall provide to the company only such other services as are approved by the Board of Directors or the audit committee, as the case may be, but which shall not include any of the following services (whether such services are rendered directly or indirectly to the company or its holding company or subsidiary company), namely:

- a) accounting and book keeping services;
- b) internal audit;
- c) design and implementation of any financial information system;
- d) actuarial services;
- e) investment advisory services;
- f) investment banking services;
- g) rendering of outsourced financial services;
- h) management services; and
- i) any other kind of services as may be prescribed.

CA Mehta should not accept the services as these services are specifically notified in the services not to be rendered by him or his firm as an auditor as per section 144 of the Act.

5. (b) Yes, the interest payable to GST department which is not paid before due date of filing of return of income would attract disallowance under the provisions of the Income Tax Act, 1961.

Reason: Interest payable to Goods and Services Tax department is part of Goods and Services Tax. Therefore, interest payable to Goods and Services Tax department, which is not paid before the "due date" of filing of return of income, would attract disallowance under section 43B.

Answers to the Descriptive Questions

6. (i) **Goods imported into India:** All imports are deemed as inter-State supplies and accordingly IGST shall be levied on imported goods in addition to the applicable custom duties.

The integrated tax on goods imported into India shall be levied and collected in accordance with the provisions of the Customs Tariff Act, 1975 on the value as determined under the said Act at the point when duties of customs are levied on said goods under Customs Act, 1962. The integrated tax on goods shall be in addition to applicable Basic Customs Duty (BCD) which is levied as per Customs Tariff Act. In addition, GST compensation cess, may also be leviable on certain luxury and demerit goods under Goods and Services Tax (Compensation to States) Cess Act, 2017.

Thus, the above GST implications would be there with respect to the import of the electronic chip by Whirlsonic Ltd.

- (ii) **The view of the management of company about high sea sale transaction is partially correct.**
Supply of goods by the consignee to any other person, by endorsement of documents of title to the goods, after the goods have been dispatched from the port of origin located outside India but before clearance for home consumption (high sea sale) is **neither treated as supply of goods nor supply of services** in terms of paragraph 8(b) of Schedule III to the CGST Act. Thus, **GST is not leviable on high sea sales**. Therefore, the management's view that GST is payable on a high sea sale transaction at the time of sale, is **not correct**.

As per section 14 of the Customs Act, 1962, the value for the purpose of charging customs duty on imported goods is the **value at the time of importation, i.e. at the time of filing of bill of entry**. Further, IGST on imported goods is also levied at the time of filing of bill of entry. Therefore, in case of high sea sales, the assessable value of imported goods for levying customs duty and IGST is determined on the basis of the price paid by the last high sea sales buyer who files the bill of entry for home consumption. Therefore, the **management's view that basic customs duty is payable at the time of filing the bill of entry for import of goods is correct**.

7. CA Mehta should have briefed the following to Mr. Somesh with respect to the composition of the Risk Management Committee as per Regulation 21 of the LODR (Listing Obligations and Disclosure Requirements) Regulations:

- (a) **The Board of Directors shall constitute a Risk Management Committee.**
- (b) **The Risk Management Committee shall have minimum three members with majority of them being members of the board of directors, including at least one independent director and in case of a listed entity having outstanding SR equity shares, at least two thirds of the Risk Management Committee shall comprise independent directors.**
- (c) **The Chairperson of the Risk Management Committee shall be a member of the Board of Directors and senior executives of the listed entity may be members of the committee.**
- (d) **The risk management committee shall meet at least twice in a year.**
- (e) **The quorum for a meeting of the Risk Management Committee shall be either two members or one third of the members of the committee, whichever is higher, including at least one member of the board of directors in attendance.**
- (f) **The meetings of the risk management committee shall be conducted in such a manner that on a continuous basis not more than one hundred and eighty days shall elapse between any two consecutive meetings.**
- (g) **The Board of Directors shall define the role and responsibility of the Risk Management Committee and may delegate monitoring and reviewing of risk management plan to the committee and such other functions as it may deem fit and such function shall specifically cover cyber security.**
- (h) **It may be noted that the role and responsibilities of the Risk Management Committee shall mandatorily include the performance of functions specified in Part D of Schedule II.**
- (i) **The provisions of this regulation shall be applicable to top 1000 listed entities, determined on the basis of market capitalisation, as at the end of the immediate previous financial year and a high value debt listed entity.**
- (j) **The Risk Management Committee shall have powers to seek information from any employee, obtain outside legal or other professional advice and secure attendance of outsiders with relevant expertise, if it considers necessary.**

These procedures shall be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework. A majority of this Committee will be the members of the Board of Directors. Senior executives of the company may also be members of the Committee, but the Chairperson of the Committee shall be a member of the Board of Directors.

8. The allowability of the expenditures related to sales commission and secret commission paid by Whirlsonic Ltd. is as under:

- (1) A foreign agent of an Indian exporter operates in his own country and no part of his income accrues or arises in India. His commission is usually remitted directly to him and is, therefore, not received by him or on his behalf in India. **The commission paid to the non-resident agent for services rendered outside India is, thus, not chargeable to tax in India.**

Since commission income for booking orders by non-resident who remains outside India is not subject to tax in India, **disallowance u/s 40(a)(i) is not attracted** in respect of payment of commission to such non-resident outside India even though tax has not been deducted at source.

Thus, amount of ₹ 40 lakhs remitted to Mr. Merlin outside India in foreign currency towards commission would not attract disallowance u/s 40(a)(i) for non-deduction of tax at source.

- (2) Secret commission is one of the forms of commission payment generally made by business organizations. **Secret commission is a payment for obtaining business orders or contracts from parties and/or customers and paid to employees and/or officials of those parties and/or customers or companies from whom business orders are obtained by the assessee.**

Explanation 1 below section 37(1) of Income-tax Act, 1961 provides that any expenditure incurred by an assessee for any purpose which is an offence or which is prohibited by law, shall not be deemed to have been incurred for the purpose of business and no deduction or allowance shall be made in respect of such expenditure. In view of Explanation, any expenditure incurred for a purpose which is an offence and prohibited by law cannot be allowed as expenditure.

Therefore, if secret commission payment could be established as a payment for an offence prohibited by law, the same cannot be allowed as deduction.

OLD COURSE DIGEST

Case Study 7

Subjects	Topics Covered	Marks
Audit	Internal Control, CARO 2020	6
DT	PGBP, Deduction (Section 80G), Tax Audit	6
IDT	Tax Invoice, Computation of GST Liability	13

Lakshya has been recently appointed as Chartered Accountant, with effect from 1st April, 2023 in a company namely, Lotus Private Limited which was incorporated 6 years ago with the paid-up capital of ₹ 1.5 crores. Lotus private limited is a maintenance company and is operating in a commercial complex, a state-of-the-art mall located in Delhi. The mall has been developed by another company, hereinafter referred as 'mall developer', but after the commencement of operations, the maintenance services in respect of mall have been outsourced to Lotus Private Limited.

Since Lakshya wants to ascertain the GST liability to be paid for the month of April 2023, he needs to do reconciliation of the data fed in the books of accounts for cross verification to remove discrepancy, if any. For this purpose, Lakshya has gathered the following facts and information for doing the reconciliation exercise and to compute the exact GST liability.

All the units which have been sold by mall developer are occupied by owner themselves. Some units of mall which have not been sold have been provided on lease by the mall developer to tenants. Lotus private limited does billing of each charge to only those units which are either occupied or which are taken on rent; that is either it should have been purchased by the respective unit owner or it should have been rented by the person from company which has constructed the mall i.e. mall developer.

Assume that GST rate wherever, applicable is 18%.

The description of nature of revenue which the Lotus private Limited collects from its customers is mentioned as follows:

Common area maintenance charges: Common Area Maintenance (CAM) charges are fees paid by unit owners/tenants to Lotus private limited to help cover costs associated with overhead and operating expenses for common areas. Common areas are spaces used for or benefited by all unit owners/tenants and include, but are not limited to, elevators, parking lots, lobbies, public bathrooms and building security. Lotus private limited charges common area maintenance charges from the customers at the rate of ₹ 10 per square feet. The charges are to be paid on the basis of super built-up area allotted to the landlord or the tenant, as the case may be.

Electricity charges: It collects the electricity charges from its customers on reimbursement basis; a separate billing is done in this regard wherein the goods & service tax is not levied thereon. There are separate meter connections attached to the shop, from where Lotus private limited on the basis of meter reading collects charges from the customers, in the form of reimbursement. The state government which supplies electricity to the mall and its units thereon does not charge any good & services tax along with the bill amount. For the limited purpose of this case, assume that billing of electricity charges is exempt from tax, on the contention that the supplier is acting as a pure agent and covered under the provisions of Rule 33 of CGST Rules, 2017.

DG backup/DG unit charges: Due to vague interpretation of power outages in the region, electricity through Gensets (DG) is provided. Lotus private limited has its own DG set to provide electricity supply in such a case. DG Fix charges Per KW = ₹ 500 and unit charges on the basis of main meter (DG) consumption is ₹ 12 per unit.

Interest: Customers who fail to make the payment within the due stipulated time, they are required to deposit

the interest amount for late payment of outstanding dues to Lotus private limited at the rate of 15 percent per annum after the past due.

Vending charges: Lotus private limited on each bill prepared of common area maintenance charges levy vending charges from each customer at the rate of ₹ 25/-.

Interest-Free Maintenance Security (IFMS): IFMS is a lump sum amount which the mall developer charges in lieu of maintaining the mall. As per the agreement made between mall developer and Lotus private limited, IFMS amount is to be credited in the account of Lotus private limited at the time of registry by the concerned person. The amount so collected is refundable and transferable to concerned persons/landlords, after certain duration as per the terms of agreement.

During the month of April, 2023, Lotus private limited has incurred certain expenses, the details of which are as follows:

Particulars	Amount (₹)
Total expenses incurred	15,00,000
CGST receivable on expenses as per total invoicing (as per MIS report prepared by data operator in MS excel for each & every Invoice received)	70,000
SGST receivable on expenses as per total invoicing (as per MIS report prepared by data operator in MS excel for each & every Invoice received)	70,000
IGST receivable on expenses as per total invoicing (as per MIS report prepared by data operator in MS excel for each & every Invoice received)	25,000
CGST receivable on expenses which is considered as eligible input (as per entries done by accountant in the books of accounts after every voucher approval by Indirect taxes manager)	60,000
SGST receivable on expenses which is considered as eligible input (as per entries done by accountant in the books of accounts after every voucher approval by Indirect taxes manager)	60,000
IGST receivable on expenses which is considered as eligible input. (as per entries done by accountant in the books of accounts after every voucher approval by Indirect taxes manager)	20,000

Other relevant data for the month of April 2023, is as follows:

Particulars	Amount (₹)
Common area maintenance charges (Includes billing done for common area maintenance charges against advance received in earlier months)	(Refer note 1)
Electricity charges	₹ 5,50,000
DG backup fix charges	(Refer note 1)
Gross Interest received from customers, as reflected in bank statement	₹ 3,18,600
DG unit charges	(Refer note 1)
Credit notes with respect to common area maintenance charges issued to customers within the same month of billing i.e. April month	₹ 80,000
Gross Advance received from customers for common area maintenance charges, as reflected in bank statement	₹ 3,54,000
Billion done to customers for common area maintenance charges, from whom Gross advance,	₹ 70,800

as reflected in bank statement (amount as in corresponding column) was received in February, 2023	
Vending charges	(Refer note 1)
Receipt of Interest free security deposit	(Refer note 2)

Note 1:

There are 500 units in the mall, additional information of respective units for April month is as follows:

Particulars	Owner occupied units	Let-out units	Units held in Inventory
Number of units	300	100	100
Carpet area (in square feet)	1,20,000	40,000	30,000
Super built-up area (in square feet)	1,50,000	50,000	40,000
KW taken for DG back up	750 KW	250 KW	Nil
DG units consumption	4000	1000	Nil

Note 2:

Number of registries done during the month of April, 2023	25
Amount of IFMS receivable from each customer, excluding GST	₹ 30,000

Meanwhile, the accounts department has received a request from a unit owner Mukesh who runs his own business at Noida, Uttar Pradesh. He wants to receive the bill as per his business address situated in Noida since he will be able to take the benefit of GST input accordingly at his Noida address,

During the year, Lotus private limited in the month of October 2023 took a loan of ₹ 1,00,00,000 from another corporate Humara Limited which is related to Lotus Private Limited. Loan was taken with a purpose to deposit statutory dues of GST which was pending for a long period of time. The loan taken was repaid by Lotus private limited to Humara Limited in the month of February 2024. Hence the closing balance of loan in the books of Lotus private limited as on 31st March, 2024 is Nil. Lakshya believes since the closing balance of loan is Nil, it does not need to be reported anywhere in the financials or in the report of auditors.

Further, Lotus private limited has defaulted in payment of service tax amount of ₹ 30,00,000 for the long time (6 years), as per notice received from service tax department and this liability is pending even at 31st March, 2024. The said amount could not be deposited even after 31st March, 2024 at any point of time during the year. The disputed matter is still pending at CESTAT for litigation, after going through appropriate levels of adjudicating authorities at various forums.

According to the Association of Certified Fraud Examiners' 2020 Report to the Nations, expense reimbursement frauds account for 21 percent of fraud in small businesses (those with less than 100 employees), and 11 percent in large businesses (those with 100 or more employees.)

Company's internal controls are not up-to mark so Lakshya has been told by the management to implement the policies which make the system robust. Especially the company's policy with respect to expense reimbursement has always been weak and has been exploited accordingly by the employees.

Lotus Private Limited has the policy of expense reimbursement wherein the person who is claiming the reimbursement has to follow the set procedure to claim the expenses incurred by him. However, there have many instances in the past wherein it has been reported that the false claims are being taken by the employees by creating fake vouchers. The employees have been billing for travel and expenses that never materialized (cancelled airline tickets, seminar or convention registration fees, tuition reimbursement and professional

dues payments). It may also happen that concerned employees who are authorised persons may also be the part of this practice. Company wants to fix this problem to ensure there is no siphonage of funds. At present, only bill along with voucher needs to be provided to accounts department for claiming an expense. Thereafter it gets approved by the accounts department without any further questioning.

Lotus private limited during the year has donated the amount of ₹ 8,000 in cash to one of the NGO – 'UTHO' in the area which is working for the upliftment of weaker sections of the society. 'UTHO' is registered with the Income tax authorities as per the rules framed there under and the donations so made to NGO get eligible for section 80G deductions. Lotus private limited has shown it as an expense in the books of accounts.

Lotus Private Limited reported profit before tax of ₹ 5,40,000 for the financial year 2023-24. Other particulars for relevant assessment year are as follows:

	Amount (₹)
Wages to casual workers	15,00,000
Interest on late payment of TDS	1,00,000
Depreciation as per Companies Act, 2013	12,00,000
Depreciation as per Income tax Act, 1961	18,00,000
Interest on fixed deposits	2,50,000

Multiple Choice Questions

- Suggest how the issue can be resolved for the request received from a unit owner, Mukesh to send his Invoice with corresponding GST to his Noida address.
 - Invoice can be prepared of Noida (UP) address and IGST would be levied in that case.
 - Invoice cannot be prepared of Noida (UP) address since IGST would be levied in that case.
 - Invoice can be prepared of Noida (UP) address and corresponding CGST and SGST would be levied in that case.
 - None of the above.
- Lotus private limited does the billing of those services separately which are subject to exemption from goods and services tax like electricity in this case. What should be the terminology for such kind of document as per provisions mentioned in GST Act?
 - Tax Invoice
 - Bill of Supply
 - Refund Voucher
 - Exempt Invoice
- Calculate the taxable amount under the head 'Profits and gains from business and profession' of Lotus Private Limited for Assessment Year 2024-25.
 - ₹ 2,90,000
 - ₹ 8,90,000
 - ₹ (2,02,000)
 - ₹ 15,40,000
- How much deduction, Lotus Private Limited can claim under section 80G for donations contributed to NGO 'UTHO'?

- (a) ₹ 4,000
 (b) ₹ 8,000
 (c) ₹ 2,000
 (d) None of the above.
5. Whether the loan obtained from Humara Limited needs to be reported in Form 3CD by the auditors?
- (a) Loan need not be reported since the closing balance of loan is Nil.
 (b) It is optional for the auditor to check whether loan should be reported or not as per his professional judgment.
 (c) Loan should be reported even though it has been squared off during the year.
 (d) Reporting of loan is not needed if loan is taken for the purpose of depositing statutory dues from the related party.

Descriptive Questions

6. Analyze the issue of Lotus Private Limited for the billing done to customers and accordingly compute the net GST liability to be paid for the month of April 2023. Support your answer with detailed workings and explanations, wherever necessary.
7. Being Lakshya, how you would strengthen the Company's internal controls as suggested by the management to make the system robust by framing the company's policy with respect to expense reimbursement? What should be the procedure or minimum steps to claim expense reimbursement so that the loopholes if any can be avoided to the maximum extent.
8. What would be the implications in company's audit report as a reporting by the company's auditor, for default committed by Lotus private limited in non-deposit of service tax dues amounting to ₹ 30,00,000 for 6 years, as demanded by department. Show required disclosures, if any.

ANSWERS TO THE CASE STUDY 7

Answers to the Multiple Choice Questions

1. (b) Invoice cannot be prepared of Noida (UP) address since IGST would be levied in that case.
Reason: Place of supply of services provided in relation to an immovable property is the location of the immovable property which means GST payable by Lotus Private Limited will be CGST and SGST. Since Lotus private limited is located in Delhi and providing services at Delhi only (mall); hence a bill with corresponding IGST of another state cannot be made.
2. (b) Bill of Supply
Reason: Bill of Supply is a document to be issued by a registered person supplying exempted goods or services or both or paying tax under the provisions of section 10 instead of a tax invoice.
 A bill of supply needs to be issued when:
- A Bill of Supply is issued in case where a registered person is a supplier of exempted goods; or
 - If a registered person opts for composition scheme
- In these cases, as the registered person cannot issue tax invoice, so he has to issue a Bill of Supply.

3. (c) ₹ (2,02,000)

Reason:

Particulars	Amount (₹)
Profit before taxation	5,40,000
Add: Interest on late payment of TDS	1,00,000
Add: Depreciation as per Companies Act, 2013	12,00,000
Add: Donation	8,000
Less: Depreciation as per Income Tax Act, 1961	18,00,000
Less: Interest on Fixed Deposit	2,50,000
Loss under the head 'Profits and gains from business and profession'	(2,02,000)

4. (d) None of the above.

Reason: Donations made in cash exceeding ₹ 2,000 are not allowed as deduction under section 80G.

5. (c) Loan should be reported even though it has been squared off during the year.

Reason: As per clause 31 of Form 3CD, particulars of each loan or deposit in an amount exceeding the limit specified in section 269SS/269ST taken or accepted or repaid respectively, during the previous year need to be reported against corresponding: Name, address and PAN of the lender or depositor, Amount of loan or deposit taken or accepted, whether the same was squared up during the year, maximum amount outstanding at any time during the previous year, whether the same was taken or accepted by cheque or bank draft (specify if account payee) or use of ECS through a bank account, etc.

Answers to the Descriptive Questions

6. Calculation of Taxable supplies:

Particulars	Amount (₹)	Remarks
Common area maintenance charges	20,00,000	Refer Note-1
Electricity charges	-	Refer Note-2
DG backup fix charges	5,00,000	Refer Note-3
Interest received, excluding GST	2,70,000	[3,18,600/1.18]; since GST is included in the value of supply, gross up done
DG unit charges	60,000	Refer Note-4
Credit notes with respect to common area maintenance charges issued to customers within the same month of billing i.e.; April 2023	(80,000)	Refer Note-5
Advance received from customers for common area maintenance charges	3,00,000	Refer Note-6
Billing done to customers for common area maintenance charges, from whom stated advance excluding GST amount was received in February, 2023	(60,000)	Refer Note-7
Vending charges	10,000	Refer Note-8

Receipt of Interest free security deposit	-	Non-taxable, since the deposit is refundable
Total Taxable Supplies	30,00,000	

Calculation of GST Payable and GST Receivable

	Amount (₹)	Remarks
CGST payable @9% on taxable supplies	2,70,000	(₹ 30,00,000 x 9%)
SGST payable @9% on taxable supplies	2,70,000	(₹ 30,00,000 x 9%)
Total GST payable	5,40,000	
CGST Input receivable	60,000	Eligible input only considered
SGST receivable	60,000	Eligible input only considered
IGST receivable	20,000	Eligible input only considered
Total GST Input	1,40,000	

Calculation of Net GST liability to be paid:

Particulars	CGST payable @ 9%	SGST payable @ 9%	Total
GST payable (A)	2,70,000	2,70,000	5,40,000
CGST Input receivable (B)	(60,000)	-	(60,000)
SGST Input receivable (C)	-	(60,000)	(60,000)
IGST Input receivable (D)	(20,000)	-	(20,000)
Net GST payable (A)-(B)-(C)-(D)	1,90,000	2,10,000	4,00,000

Note-1: Calculation of Common area maintenance charges:

Super built-up area of owner occupied units	1,50,000 sq. ft.	
Super built-up area of let-out units	50,000 sq. ft.	
Total billable super built-up area	2,00,000 sq. ft.	
Rate per square feet	₹ 10/-	
Billable Common area maintenance charges	₹ 20,00,000	(2,00,000 sq.ft. x ₹ 10/-)

Note-2: Electricity charges:

Electricity charges are exempt from tax, on the contention that the supplier is acting as a pure agent and covered under the provisions of Rule 33 of CGST Rules, 2017. Further, the requirement of question specifically excludes electricity as taxable supply for the limited purpose of calculations.

Note-3: Calculation of DG backup fix charges:

Particulars	Owner occupied units	Let-out units	Total billable
Number of units	300	100	400
KW taken for DG back up	750 KW	250 KW	1000KW
DG backup fix charges per KW			₹ 500
Billing of charges	₹ 5,00,000= (1000 KW x ₹ 500/KW)		

Note-4: Calculation of DG unit charges:

Particulars	Owner occupied units	Let-out units	Total billable
Number of units	300	100	400
DG units consumption	4000	1000	5000
DG unit charges per unit consumption	₹ 12		
Billing of charges	₹ 60,000 = (5000 units x ₹ 12/unit)		

Note-5: As per 34(1) where a tax invoice has been issued for supply of any goods or services or both and the taxable value or tax charged in that tax invoice is found to exceed the taxable value or tax payable in respect of such supply, or where the goods supplied are returned by the recipient, or where goods or services or both supplied are found to be deficient, the registered person, who has supplied such goods or services or both, may issue to recipient a credit note containing such particulars as may be prescribed.

As per 34(2) any registered person who issues a credit note in relation to a supply of goods or services or both shall declare the details of such credit note in the return for the month during which such credit note has been issued but not later than September following the end of the financial year in which such supply was made, or the date of furnishing of the relevant annual return, whichever is earlier.

Hence, Tax liability of the supplier gets reduced in this case when the credit notes are issued.

Note-6: The time of supply is the base to determine the time of payment of tax and as per provisions of section 12 (2) of Central Goods and Service Tax Act, 2017 time of supply shall be earliest of following –

- Date of issuance of the invoice or the last date on which invoice should have been issued; and
- Date of receipt of the payment;

Hence if the advance is received before the issue of the invoice the time of supply would be the date of receipt of advance.

Thus taxpayer receiving advance must pay GST on the money received.

The advance received should be grossed up. This means that advance received is considered inclusive of GST. Hence, GST on advance received comes to ₹ $[3,54,000 - (3,54,000/1.18)] = ₹ 54,000$ and advance received excluding GST is ₹ 3,00,000

Note-7: The taxpayer has to declare the advance that has to be adjusted in the tax period in which advance is received. Subsequently when invoice is issued, then taxpayer can adjust the tax liability of the invoice issued of that tax period, in the GSTR-1 of that period. This can be shown in the advance adjustment table of GSTR-1.

Since ₹ 70,800 advance was received in February, 2023; advance received would have been grossed up to make the GST taxable supply at that time to ₹ 60,000 $(70,800/1.18)$.

Note-8: Calculation of Vending charges:

Particulars	Owner occupied units	Let-out units	Total billable
Number of units	300	100	400
Vending charges per unit	₹ 25		
Billing of charges	₹ 10,000 = (400 units x ₹ 25/unit)		

7. Following steps and minimum procedures may be implemented for expense reimbursement policy in the organisation to check any fraud and to strengthen internal controls:

- It should be duly submitted in a standard application form (as a voucher) whose format is common for all class of employees.

- Application form must be **signed by the claimant**.
- Application date cannot be earlier than that of Invoice date.
- Application form should be **supported by original invoices of expense** for claim reimbursement.
- Frame and **maintain a strong reimbursement policy** or guidelines so as to process the reimbursements within the given framework.
- The **nature and purpose** for which expense was done needs to be ascertained.
- Check that **particulars mentioned in invoice are correct and is complete** in all respects
- The invoice particulars should correspond to the particulars mentioned in application form filed by the employee.
- Application form must be **approved by competent authority** as decided by management. If the claim amount exceeds a specified limit, it should be approved by higher competent authority.
- The person who is filling the application form and the one who is approving it, cannot be same.
- Competent authority must ensure that claims being approved are valid and eligible as per the company's policies and incurred within the framework of company's guidelines.
- There must be approved rate for each nature of expense with terms and condition along with eligible criteria like Conveyance rate per kilometre, Daily allowance etc.
- Claim Application forms which have not been properly made or supported or with other reason, should not be processed. The claimant should be provided reasons for rejecting the claim.
- If any advance was provided to the employee and is still outstanding for a long time, ensure that loan amount to be received has been deducted unless the company's policy provide otherwise.
- There should be **deadline for timely submission of claims**. Thereafter, claims should not be processed further except with the approval of higher authority.
- Reimbursement in the form of cash should be prohibited.

8. Following Private Companies are exempt from the requirements of CARO, 2020:

- Not a holding or subsidiary of a public company.
- Paid up Capital plus Reserves less than or equal to ₹ 1 crore as at the reporting date
- Borrowings less than or equal to ₹ 1 crore at any time during the year
- Revenue less than or equal to ₹ 10 crores in the financial year

Accordingly, **CARO 2020 is applicable to Lotus Private Limited, since company's paid-up capital is ₹ 1.5 crores.**

The auditors of such companies to whom CARO 2020 is applicable, are required to report on the matters specified in this order.

The auditor shall report under CARO, 2020 with respect to Statutory Dues that whether company:

- **Is regular in deposit of statutory dues;**
- And if it is not regular, then **statutory dues outstanding for more than 6 months** need to be disclosed/reported
- If any taxes have not been deposited because of any **dispute, the amount of dispute and the forum where the litigation is pending** should also be disclosed

The auditor should disclose following in its CARO report:

According to the information and explanation given to us and on the basis of our examination of the records of the company, details of dues of service tax which has not been deposited as on 31st March, 2024 on account of dispute is given below:

Name of Statute	Nature of the Dues	(₹)	Forum where dispute is pending
Finance Act, 1994 (Service Tax)	Service Tax and Penalties	30,00,000	CESTAT

OLD COURSE DIGEST

Case Study 8

Subjects	Topics Covered	Marks
FR	Ind AS 12, Ind AS 20, Ind AS 40	11
Audit	SA 701	2
DT	PGBP, Advance Tax, Penalty	12

Shanaya Limited owns a Building A which is specifically used for the purpose of earning rentals and had been classified as 'Property, Plant and Equipment' in the financial statements, before the applicability of financial reporting framework as per the principles of Indian accounting standards. The Company has not been using building A or any of its facilities for its own use for a long time. The company is also exploring opportunities to sell the building if it gets the reasonable amount in consideration.

Following information is relevant for the Building A for the year ending 31st March, 2024:

Building A was purchased 5 years ago at the cost of ₹ 10 crore and building life is estimated to be 20 years. The company follows straight line method for depreciation.

During the year, the company has invested in another Building B, with the purpose to hold it for capital appreciation. The property was purchased on 1st April, 2023 at the cost of ₹ 2 crore. Expected life of the building is 40 years. As usual, the company follows straight line method of depreciation.

Further, during the year company earned/incurred following direct operating expenditure relating to Building A and Building B, however accountant instead of capitalising same, has directly debited it to Profit and Loss:

Rental income from Building A	=	₹ 75 lakhs
Rental income from Building B	=	₹ 25 lakhs
Sales promotion expenses	=	₹ 5 lakhs
Fees & Taxes	=	₹ 1 lakh
Ground rent	=	₹ 2.5 lakhs
Repairs & Maintenance	=	₹ 1.5 lakhs
Legal & Professional	=	₹ 2 lakhs
Commission and brokerage	=	₹ 1 lakh

The company does not have any restrictions and contractual obligations against Property - A and B. For complying with requirements of Ind AS, the management sought an independent report from the specialists so as to ascertain the fair value of Buildings A and B. The independent valuer has valued the fair value of property as per the valuation model recommended by international valuation standards committee. Fair value has been computed by method by streamlining present value of future cash flows namely, discounted cash flow method.

The other key inputs for valuation are as follows:

The estimated rent per month per square feet for the period is expected to be in the range of ₹ 50 – ₹ 60. And it is further expected to grow at the rate of 10 percent per annum for each of 3 years. The weighted discount rate used is 12% to 13%.

Assume that the fair value of properties based on discounted cash flow method is measured at ₹ 10.50 crores. The treatment of fair value of properties is to be given in the financials as per the requirements of Indian accounting standards.

One of the Shanaya Limited's manufacturing units is situated at one of the remotest areas of India. Being the

company, whose main objective is also concerned with the welfare of masses, it has been specifically told by the Government of India to take part in initiatives such as 'Swachh Bharat Abhiyaan'. Its main objective would be to create awareness amongst the rural people to be more cautious towards cleanliness and thereby also constructing toilets and imparting training programs. With the passage of time, the costs are expected to be increased. The campaign would run for 4 years and the expected costs to be incurred by company from year to year are expected as follows:

Year 1	=	₹20 crore
Year 2	=	₹ 40 crore
Year 3	=	₹ 70 crore
Year 4	=	₹ 120 crore

The company has also received the grant of ₹ 35 crore from Government of India to compensate for the costs which it is going to incur over a period of 4 years.

Meanwhile assume that the financial statements have been prepared for the year ending March 2024; the auditor of Shanaya Limited has noted following observation in its audit report, said observation has been documented after discussions with 'Those charged with governance':

"The Holding Company also owns various immovable properties that have been let out to Group Companies/ third parties for varied lease periods. Ind AS 40 'Investment Property' requires assets to be classified as Investment Property in case certain conditions are met. This involves significant judgment and estimation with respect to the lease term, management intention etc., basis which the assets are classified either a property, plant and equipment or investment property in the Balance sheet."

Corresponding to above observation, issue has been addressed in the audit report by auditors as follows:

"We obtained an understanding of financial statement closure process, including the process of assessment and classification of immovable properties and preparation of relevant disclosures. We also understood design and implementation of controls, tested the operating effectiveness of these controls, including validation of management review controls.

We assessed various lease agreements entered into by with group Companies/third parties and evaluated terms of agreements, along with requirements of Ind AS. We read the judgements and assumptions made by the management with respect to classification of investment properties. We assessed the disclosure of investment property made in the consolidated Ind AS financial statements."

Shanaya Limited's turnover during the P.Y. 2021-22 and 2022-23 was ₹ 500 crore and ₹ 600 crores respectively. The company's turnover for the P.Y. 2023-24 is ₹ 800 crores. Net profit as per the Statement of Profit and Loss Account for the previous year 2023-24 is ₹ 500 crores. Details of the expenses debited to the Statement of Profit and Loss A/c for the year ended 31.3.2024:

Particulars	(₹ crores)
Depreciation as per the Companies Act, 2013	80.00
Interest on borrowings from banks not paid up to tax return filing	2.75
Provision for bad and doubtful debts	6.20
Corporate social responsibility expenses	2.50
Expenses incurred for services taken from Saurashtra Pvt. Ltd., a company registered in Maharashtra region, on which corresponding TDS under section 194C has not been deducted	7.00
Bonus paid on April 30 th , 2024	3.00
Expenses incurred on voluntary retirement scheme	2.40

During the previous year 2022-23, company has not deducted tax at source on the amount of expenditure of ₹ 15.73 crores incurred and paid to PQR Private Limited. Company has collectively deducted tax at source on the further payment made to PQR Limited and deposited the same to the credit of Central Government in the financial year 2023-24 along with interest.

Following information relates to Block of assets for financial year 2023-24 as per Income-tax Act, 1961:

Block of assets	Written down value on the first day of previous year	Purchase of new asset	Date of purchase	Date of ready to use	Date of put to use
Land	Nil	50	01/04/2023	-	-
Plant and Machinery	480	Nil	-	-	-
Office Building	200	75	08/02/2024	15/02/2024	
Furniture and fittings	65	35	10/09/2023	13/09/2023	25/09/2023
Intangible assets	-	40	25/05/2023	25/05/2023	25/05/2023

The brought forward business loss as per Income-tax return for A.Y. 2023-24 is ₹ 35 crores and the company's retained earnings balance for FY 2022-23 is ₹ 1,200 crores.

The company is doing well for some time as the company has witnessed rise in its revenue due to its aggressive marketing campaigns. Although the revenue has increased since past, but the debtors are also accumulating over a period of time. Most of its clients are related to Government sector which takes reasonably long period of time to get the payment cleared. The company is facing liquidity problems due to non-availability of cash; hence it has not been able to pay the statutory dues within the time. As a consequence, company filed the return of income on 31st December, 2024 and paid the due taxes accordingly.

The tax audit of the company started in the month of November 2024 due to delay on the part of the management. It was finally signed by auditor on 20th January, 2025. It may be noted that the transfer pricing audit is not applicable to the company for assessment year 2024-25.

Multiple Choice Questions

- What appropriate term of the following would be used for auditor's observation on the analysis of issue regarding Investment property in the audit report as per relevant standard on auditing?
 - Emphasis of matter
 - Other matter
 - Key audit matter
 - Opinion Para
- If Income tax provision at the year beginning was ₹ 150 crores as per books and Income tax paid during the year is ₹ 126.09 crores, then the closing balance of Income tax provision as per books of accounts is:
 - ₹ 129.20 crores
 - ₹ 177.66 crores
 - ₹ 102.45 crores
 - ₹ 146.89 crores
- There are certain carve-outs and significant differences between IFRS and Ind AS. Which of the following statements is correct in reference to Ind AS 40 vis-à-vis- IAS 40?

- (a) Ind AS 40 permits both cost model and fair value model for measurement of investments after initial recognition.
 - (b) IAS 40 permits only cost model for measurement of investments after initial recognition.
 - (c) Ind AS 40 permits only fair value model for measurement of investments after initial recognition.
 - (d) IAS 40 permits both cost model and fair value model for measurement of investments after initial recognition.
4. Calculate the amount, Shanaya Limited would recognise in its books of accounts in first year, for the grant received from Government of India amounting to ₹ 35 crores.
- (a) ₹ 8.40 crores
 - (b) ₹ 8.75 crores
 - (c) ₹ 35 crores
 - (d) ₹ 2.80 crores
5. Whether Shanaya Limited is liable to pay any penalty for failure to furnish tax audit report in accordance with the relevant provisions of Income-tax Act, 1961 and if yes, then what would be amount of penalty leviable?
- (a) Yes, Shanaya Limited is liable to pay penalty of ₹ 1,50,000.
 - (b) Yes, Shanaya Limited it is liable to pay penalty of ₹ 4 crores.
 - (c) Yes, Shanaya Limited is liable to pay penalty of ₹ 8 crores.
 - (d) No, Shanaya Limited is not liable to pay penalty, since the company has filed the tax audit report before the end of relevant assessment year.

Descriptive Questions

6. What would be the treatment of Building A and Building B in the Balance Sheet of Shanaya Limited? Provide detailed disclosures and computations in line with relevant Indian accounting standards. Treat it as if you are preparing a separate note or schedule, of the given assets in the Balance Sheet.
7. Compute total income and tax liability of Shanaya Limited for the assessment year 2024-25, as per provisions of Income-tax Act, 1961. Ignore the provisions of Minimum Alternate Tax.
8. Compute the amount of advance tax payable along with due date for payment of instalments of advance tax during the previous year 2023-24 as per the provisions of Income-tax Act, 1961.

ANSWERS TO THE CASE STUDY 8

Answers to the Multiple Choice Questions

1. (c) Key audit matter
Reason: As per SA 701, 'Communicating Key Audit Matters in the Independent Auditor's Report', Key audit matters are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance.
2. (b) ₹ 177.66 crores
Reason:

Particulars	Amount (₹)
Opening Provision of Income tax	150.00 crores
Provision made during the year	153.75 crores
Tax paid during the year	(126.09 crores)
Closing Provision of Income tax	177.66 crores

3. (d) IAS 40 permits both cost model and fair value model for measurement of investments after initial recognition.

Reason: This is due to difference between Ind AS 40 and IAS 40 not resulting into carve out. IAS 40 permits both cost model and fair value model (except in some situations) for measurement of investment properties after initial recognition. Ind AS 40 permits only the cost model.

4. (d) ₹ 2.80 crores

Reason: As per Ind AS 20, Government grants shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.

Accordingly, amount to be recognised in Year 1 = $(20/250) \times 35 = ₹ 2.80$ crores

5. (a) Yes, Shanaya Limited is liable to pay penalty of ₹ 1,50,000

Reason: If a taxpayer who is required to obtain the tax audit report under section 44AB or to furnish auditor's report with income tax return but if it fails to do so, then it is penalized accordingly. The defaulters of tax audit report are penalised under section 271B of Income-tax Act.

Penalty is lower of ₹ 1,50,000 or 0.5% of total sales/turnover (₹ 4 crores in this case)

Answers to the Descriptive Questions

6. Investment property is held to earn rentals or for capital appreciation or both. Ind AS 40 shall be applied in the recognition, measurement and disclosure of investment property. An investment property shall be measured initially at its cost. After initial recognition, an entity shall measure all of its investment properties in accordance with Ind AS 16's requirements for cost model.

The measurement and disclosure of Investment property as per Ind AS 40 in the Balance Sheet would be depicted as follows:

INVESTMENT PROPERTIES:	
Particulars	Period ended 31 st March (₹ in crores)
Gross Amount:	
Opening balance (A)	10.00
Additions during the year (B)	2.00
Closing balance (C) = (A) + (B)	12.00
Depreciation:	
Opening balance (D)	2.50
Depreciation during the year (E) $(0.5 + 0.05)$	0.55
Closing balance (F) = (D) + (E)	3.05
Net balance (C) - (F)	8.95

The changes in the carrying value of investment properties for year ended 31st March, 2024 are as follows
Amount recognised in Profit and Loss with respect to Investment Properties

Particulars	Period ending 31 st March (₹ in crores)
Rental income from investment properties (0.75 + 0.25)	1.00
Less: Direct operating expenses generating rental income (5+1+2.5+1.5+2+1)	(0.13)
Profit from investment properties before depreciation and indirect expenses	0.87
Less: Depreciation	(0.55)
Profit from earnings from investment properties before indirect expenses	0.32

Disclosure Note on Investment Properties acquired by the entity

The investment properties consist Property A and Property B. As at March 31st, 2024, the fair value of the properties is ₹ 10.50 crores. The valuation is performed by independent valuers, who are specialists in valuing investment properties. A valuation model as recommended by International Valuation Standards Committee has been applied. The Company considers factors like management intention, terms of rental agreements, area leased out, life of the assets etc. to determine classification of assets as investment properties.

The Company has no restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

Description of valuation techniques used and key inputs to valuation on investment properties:

Valuation technique	Significant unobservable inputs	Range (Weighted average)
Discounted cash flow (DCF) method	-Estimated rental value per sq. ft. per month -Rent growth per annum -Discount rate	-₹ 50 to ₹ 60 -10% every 3 years -12% to 13%

7. Computation of Total Income and Tax Liability of Shanaya Limited for Assessment year 2024-25

Particulars	₹ in crores	₹ in crores
Profit as per the Statement of Profit & Loss A/c		500.00
Add: Items debited but to be considered separately or to be disallowed		
- Depreciation as per the Companies Act, 2013 [Disallowed, since depreciation as per Income-tax Act is allowed]	80.00	
- Interest on borrowings from banks [Disallowed as per section 43B, since interest payable to banks not paid on or before due date for filing return of income under section 139(1)]	2.75	
- Provision for bad and doubtful debts [Provision for doubtful debts is allowable as deduction u/s 36(1)(vii) only in case of banks, public financial institutions, state financial corporations, state industrial investment corporations and non-banking financial corporations. Such provision is not allowable as deduction in case of other person. Since the same has been debited to Statement of profit and loss, it has to be added back for computing business income]	6.20	
- Corporate social responsibility expenses	2.50	

[CSR expenditure incurred under the Companies Act, 2013 is not allowable as deduction by virtue of section 37(1)]		
- Expenses payable to Saurashtra Pvt. Ltd.	2.10	
[30% of ₹ 7 lakhs, being payment to Saurashtra Pvt. Ltd., would have been disallowed under section 40(a)(ia) while computing business income, since tax has not been deducted during the previous year 2023-24]		
Expenses incurred on voluntary retirement scheme		
[As per section 35DDA, where an Indian company incurs expenditure in connection with voluntary retirement, one-fifth of the amount so paid shall be deducted in computing the profits and gains of the business for that previous year, and balance shall be deducted in equal installments for each of the four immediately succeeding previous years. Since whole amount debited to profit and loss account, 4/5 th would be added back]	1.92	95.47
Less: Permissible expenditure and allowances		
- 30% of the amount of ₹ 15.73 crores, being payment to PQR Limited was disallowed during the previous year 2022-23 due non-deduction of tax at source would be allowed during the current previous year, since TDS has been deducted and deposited this year.	4.72	
- Depreciation as per Income-tax Act, 1961	115.75	120.47
Income from business or profession		475.00
Less: Brought forward business loss		35.00
Gross Total Income		440.00
Less: Deduction under Chapter VI-A		Nil
Total Income		440.00
Tax @ 30% on the above total income		132.00
Add: Surcharge @ 12% (since total income exceeds ₹ 10 crore)		15.84
		147.84
Add: Health and Education Cess @ 4%		5.91
Total Tax Liability		153.75

Working Note: Computation of Depreciation as per Income-tax Act, 1961

Block of assets	Opening WDV (A)	Depreciation rate (B)	Additions (put to use for 180 days or more) (C)	Additions (less than 180 days) (D)	Total (E) = (A) + (C) + (D)	Depreciation (F)
Land	Nil	-	50	-	50	-
Plant and Machinery	480	15%	-	-	480	72 (480 x 15%)
Office Building	200	10%	-	75	275	23.75 [200 x 0% + 75 x 5% (50% of 10%)]
Furniture & fittings	65	10%	35	-	100	10 (100 x 10%)
Intangible assets	-	25%	40	-	40	10 (40 x 25%)
TOTAL	745		125	75	945	115.75

8. Computation of advance tax liability and due date for payment of advance tax:

Particulars			(₹' crores)
Total tax liability of the company for the assessment year 2024-25 payable as advance tax			153.75
Due date of installment	Advance tax payable till date (%)	Amount payable (₹ in crore)	Net amount payable
On or before 15.06.2023	15%	23.06 (153.75 x 15%)	23.06
On or before 15.09.2023	45%	69.18 (153.75 x 45%)	46.13 (69.18 - 23.06)
On or before 15.12.2023	75%	115.31 (153.75 x 75%)	46.13 (115.31 - 69.18)
On or before 15.03.2024	100%	153.75	38.43 (153.75 - 115.31)

OLD COURSE DIGEST

Case Study 9

Subjects	Topics Covered	Marks
FR	Ind AS 1 & 8, Ind AS 19, Ind AS 109	12
Audit	SA 600	5
DT	Total Income of Individual, Return Filing	6
Law	Companies Act (Section 180)	2

Shivani is a newly qualified chartered accountant. After qualification, her interest was in consultancy and so she decided to first gain exposure in consultancy firms and thereafter start own practice. She has been approached by one of the consultancy firms, M/s ABC, to work for it. The consultancy firm M/s ABC has also provided flexibility to Shivani by allowing her to do her own independent assignments if she is able to grab it over a period of time. M/s ABC is showing Shivani as consultant of firm instead of being an employee. Initially, the consultancy firm ABC is paying ₹ 40,000 per month to Shivani and issuing Form 16A to her on regular basis.

After gaining exposure across varied areas, Shivani was assigned a statutory audit in another assignment. The company to be audited is UBA Private Limited which is subsidiary of its parent company, namely MAR Limited. MAR Limited is listed on the stock exchange. The statutory auditors of MAR Limited are M/s XYZ which is one of the top-rated firms of region.

As the finance team of UBA Private limited is unaware of the changes and latest developments in the field of accounting standards, they seek guidance from Shivani for few matters for the preparation of financials of UBA Private Limited as per the applicable financial reporting framework.

The registered office of UBA Private Limited has been shifted to a complex at the beginning of year which is taken on rent from complex owner at ₹ 80,000 per month. As per the rent agreement, the company is also required to deposit amount of ₹ 1,00,000 as security to Landlord. However, the landlord would not pay any interest on the said amount of security. This clause has also been added in the rent agreement. The duration for which the agreement has been entered into between the company and landlord is for 3 years. The repayment of principal amount as well would be at the end of 3rd year. The interest rate for a similar deposit in market is 12%. The accountant of company initially recognised the security amount of ₹ 1,00,000 as deposit in the liabilities. At the end of year also, its carrying value is standing at ₹ 1,00,000.

The UBA Private Limited has following information about Employee benefits:

Contribution by employers during the year	₹ 75,000
Benefits paid during the year from designated fund	₹ 80,000
Fair value of Plan assets at the beginning of year	₹ 2,00,000
Return expected on plan assets	₹ 20,000
Fair value of plan assets at the end of year	₹ 2,50,000

UBA Private Limited has presented certain material liabilities as non-current in its financial statements for periods up to 31st March, 2023. While preparing annual financial statements for the year ended 31st March, 2024, management discovers that these liabilities should have been classified as current. The management intends to restate the comparative amounts for the prior period presented (i.e., as at 31st March, 2023). Management thinks that this reclassification of liabilities from non-current to current in the comparative amounts will not be considered to be correction of an error and thereby the entity does not need to present a third balance sheet.

After the completion of audit, M/s XYZ has asked M/s ABC to bring to the principal's auditor immediate attention any significant findings requiring to be dealt with at entity level and further M/s XYZ has asked for a detailed questionnaire from M/s ABC for the information on those matters which require special attention from M/s XYZ as an auditor for discharging their duties effectively.

After completing assignment of UBA Private Limited, Shivani has assumed her role back in office. Meanwhile, one of the paid assistants of the consultancy firm has sought the help of Shivani for the firm's clients to complete the draft notice to be presented before annual general meeting/board meeting, as the case may be:

NOTICE:

"That pursuant to the provisions of, and in supersession of the passed by the members in General Meeting held on 30th September, 2023 the company hereby accords its consent to the Board of directors borrowing from time to time all such sums of monies as it may deem requisite or proper for the purpose of the business of the Company notwithstanding that monies to be borrowed together with the monies already borrowed by the Company (apart from Cash Credit and temporary loans obtained from the Company's bankers in the ordinary course of business) exceed the aggregate of the paid-up capital of the company and its free reserves, that is to say, reserves not set apart for any specific purpose provided that the total amount up to which monies may be borrowed by the Boards of directors (apart from Cash Credit and temporary loan obtained from the company's bankers in the ordinary course of business) shall not exceed the sum of ₹ 30,00,00,000 (Rupees Thirty crore only)".

The Chairman will put the motion for discussion and thereafter to vote and after taking count of the votes "for" and "against" separately on a show of hands by members personally present, Chairman will declare the result.

After the end of financial year 2023-24, Shivani has to file her return of Income. Since she has not filed her own return of income in the past, she wants to corroborate it from her firm's partner regarding the selection of appropriate return of income to file, for her income received from the consultancy firm M/s ABC, as she is not interested in presumptive income scheme. Assume that in the FY 2023-24, Shivani has not been able to receive any other source of income.

Shivani files the return of Income of her sister each year. This year too, as the deadline to file the income tax return approaches, Shivani was called by Reena to file it within the due time. The particulars regarding the income and other relevant information of her married sister, who is 35 years old is as follows:

Reena has given one of her owned houses on rent in Lucknow from where she belongs. She has been getting the annual rent of ₹ 3,60,000 for 3 years from that house. Municipal taxes annually amount to ₹ 24,000 for her owned house in Lucknow. She has taken the loan of ₹ 10,00,000 for that particular house against which the annual interest of ₹ 90,000 is to be payable annually. During the year, she repaid the principal instalment of loan amounting to ₹ 50,000.

Reena has invested in public provident fund for ₹ 50,000 in the October, 2023. In it, interest is compounded on an annual basis and the maturity period of the scheme is 15 years.

Reena has further invested in a fixed deposit of ₹ 2,00,000 which is due to be repaid after 2 years along with interest. As per the agreement of fixed deposit policy, Reena can withdraw her fixed deposit balance within 2 years whenever she wants it to be.

The interest from her bank savings account and interest from fixed deposits for FY 2023-24 is ₹ 9,000 & ₹ 15,800 respectively and closing balance of her savings account at the year-end 31st March, 2024 is ₹ 1,25,000.

During the year, Reena took the medical insurance for herself and her 2 children amounting to ₹ 35,000. Reena has also donated the amount of ₹ 20,000 in cash to the local religious group for organising Jagrata in the area where she lives. Reena has also given the private tuition fees of ₹ 75,000 during the year for her 2 children.

Reena has also received a gift of ₹ 50,000 during the year from her father as a token gift for her affection and care towards the family over the years.

Reena has asked her sister Shivani to help her ascertain the income for FY 2023-24 and file the return thereon.

Multiple Choice Questions

1. What will be the amount of deduction under Chapter VI-A of Income Tax Act, 1961 available to Reena assuming that she has exercised the option to shift out of the default tax regime?
 - (a) ₹ 1,25,000
 - (b) ₹ 1,00,000
 - (c) ₹ 1,34,000
 - (d) ₹ 1,09,000
2. What will be the taxable income of Reena to be shown in her income tax return as per the information mentioned in question assuming that she has exercised the option to shift out of the default tax regime?
 - (a) ₹ 1,70,000
 - (b) ₹ 1,45,200
 - (c) ₹ 24,800
 - (d) ₹ 36,000
3. Under which section of the Companies Act, 2013, the members are required to pass a resolution in its general meeting held on 30th September, 2023, for the nature of business/agenda mentioned in Notice of the question?
 - (a) Section 186
 - (b) Section 180
 - (c) Section 179
 - (d) Section 185
4. Which form of Income tax return, Shivani is required to file of herself, for the relevant assessment year?
 - (a) ITR-4
 - (b) ITR-3
 - (c) ITR-2
 - (d) ITR-1
5. How much amount of expenses/income for employee benefits, UBA Private Limited is required to recognise in the 'Other Comprehensive Income' section of its financials? Ignore deferred tax, if any.
 - (a) Actuarial gain – ₹ 35,000
 - (b) Actuarial gain – ₹ 55,000
 - (c) Actuarial loss – ₹ 35,000
 - (d) Nil, since all expense/income related to employee benefits are recognised in profit before taxation

Descriptive Questions

6. Would the reclassification of liabilities from non-current to current in the comparative amounts be considered to be correction of an error? Would the entity, UBA Private Limited need to present a third balance sheet? Support your answer with reference to relevant Ind AS.

7. How UBA Private Limited is required to account for the security deposit in its books of accounts, for the rent agreement made between it and the complex owner. Pass journal entries for the entire duration of security deposit since its inception.
8. How should M/s XYZ, Chartered Accountants indicate in its report for responsibilities of their work and M/s ABC, Chartered accountants work in the course of audit, so that the concerned stakeholders could clearly differentiate for their respective defined roles. Provide your answer with the relevant lines of standard on auditing, which M/s XYZ has to consider while drafting the report for aforementioned matter.

ANSWERS TO THE CASE STUDY 9

Answers to the Multiple Choice Questions

1. (c) ₹ 1,34,000.

Reason: Deduction under Chapter VI-A:

Particulars	Amount (₹)
Deductions under section 80C:	
Investment in PPF	50,000
House loan principal payment	50,000
Total [A]	1,00,000
Deductions under section 80D:	
Medical insurance premium	25,000
Total [B]	25,000
Deductions under section 80TTA:	
Interest from savings account in bank [C]	9,000
Grand Total [A] + [B] + [C]	1,34,000

Note: 80C deductions are not available in the cases of: Investment in non-tax saver FD, private tuition fees and donations in cash to local religious groups, which are not registered as a charitable institution under the provisions of income tax act.

2. (d) ₹ 36,000

Reason: Computation of Taxable Income of Reena

Particulars	Amount (₹)
Income From House Property (Note-1)	1,45,200
Income From Other Sources (Note-2)	24,800
Gross Total Income [A]	1,70,000
Deductions (as per MCQ 1) [B]	1,34,000
Net Taxable Income [C] = [A] - [B]	36,000

Note 1 - Income from Let out House Property:

Particulars	Amount (₹)
Annual lettable value or rent received or receivable	3,60,000
Less: Municipal Taxes Paid During the Year	24,000

Net annual value	3,36,000
Less: Standard Deduction @ 30% of Net Annual Value	1,00,800
Less: Interest on Housing Loan	90,000
Income from Let-out House Property	1,45,200

Note 2 – Income from Other Sources:

Particulars	Amount (₹)
Interest on savings bank account	9,000
Interest on fixed deposits	15,800
Gift from father (Gift received from relative is exempt from income tax)	-
Income from Other Sources	24,800

3. (b) Section 180

Reason: Section 180(1)(c) of the Companies Act, 2013 states that the Board of Directors of a company shall exercise the following power only with the consent of the company by a special resolution to borrow money, where the money to be borrowed, together with the money already borrowed by the company will exceed aggregate of its paid-up share capital and free reserves, apart from temporary loans obtained from the company's bankers in the ordinary course of business.

4. (b) ITR-3

Reason: The status of Shivani in the given case is not that of an employee as firm is deducting her TDS under section 194J (TDS on Professionals/consultants), hence the manner of tax computation would also differ. As there is no employer-employee relationship in this case, income won't be taxed under 'Salaries' while furnishing her Income tax return.

Professional/Contract based employees are required to disclose their income (net off expenses) under the head 'Profit and gains from business or profession'. Accordingly, ITR-3 would be furnished by Shivani (as she is not interested in presumptive income scheme to file ITR-4).

5. (a) ₹ 35,000

Reason:

Particulars	Amount (₹)
Fair value of Plan assets at the beginning of year	2,00,000
Employer contribution	75,000
Expected return on plan assets	20,000
Benefits paid during the year	(80,000)
Actuarial gains (balancing figure)	35,000
Fair value of plan assets at the end of year	2,50,000

Answers to the Descriptive Questions

6. Paragraph 41 of Ind AS 8 states as follows: "Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Ind ASs if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements

are approved for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period."

In accordance with the above, the reclassification of liabilities from non-current to current would be considered as correction of an error under Ind AS 8. Accordingly, in the financial statements for the year ended March 31st, 2024, the comparative amounts as at 31st March, 2023 would be restated to reflect the correct classification.

Ind AS 1 requires an entity to present a third balance sheet as at the beginning of the preceding period in addition to the minimum comparative financial statements, if, inter alia, it makes a retrospective restatement of items in its financial statements and the restatement has a material effect on the information in the balance sheet at the beginning of the preceding period. Accordingly, the entity should present a third balance sheet as at the beginning of the preceding period, i.e., as at 1st April 2022 in addition to the comparatives for the financial year 2022-23.

7. Treatment of Security Deposit as per Ind AS 109

Deposit details:	
Initial Security Deposit amount	₹ 1,00,000
Amount to be repaid at each year end	Nil
Interest receivable annually	Nil
Maturity period	3 years
Market interest rate for a similar deposit	12%

Initial measurement of Security deposit (as per fair value):

Fair value of deposit = ₹ 71,178 $[1,00,000 / (1.12)(1.12)(1.12)]$

Accounting entry at the time of deposit

	Debit (₹)	Credit (₹)
Security Deposit (Balance sheet)	71,178	
Deferred Rent Expense (Balance sheet)	28,822	
To Bank A/c		1,00,000
(Being the security deposit made with the landlord)		

Subsequent measurement (Amortized cost at each year end):

Accounting entry at the end of Year 1:

	Debit (₹)	Credit (₹)
Security Deposit (Balance sheet)	8,541	
To Interest Income A/c (Profit & Loss A/c) $(71,178 \times 12\%)$		8,541
(Being the interest income on deposit booked as per effective interest rate)		

	Debit (₹)	Credit (₹)
Finance Expenses (Profit & Loss A/c)	9,607	
To Deferred Rent Expense (Balance sheet) $(28,822/3)$		9,607
(Being deferred rent expenses amortized)		

Accounting entry at the end of Year 2:

	Debit (₹)	Credit (₹)
Security Deposit (Balance sheet)	9,566	
To Interest Income A/c (Profit & Loss A/c) (79,719 x 12%)		9,566
(Being the interest income on deposit booked as per effective interest rate)		
	Debit (₹)	Credit (₹)
Finance Expenses (Profit & Loss A/c)	9,607	
To Deferred Rent Expense (Balance sheet)		9,607
(Being deferred rent expenses amortized)		

Accounting entry at the end of Year 3:

	Debit (₹)	Credit (₹)
Security Deposit (Balance sheet)	10,715	
To Interest Income A/c (Profit & Loss A/c) (89,285 x 12%)		10,715
(Being the interest income on deposit booked as per effective interest rate)		

	Debit (₹)	Credit (₹)
Finance Expenses (Profit & Loss A/c)	9,608	
To Deferred Rent Expense (Balance sheet)		9,608
(Being deferred rent expenses amortized)		

	Debit (₹)	Credit (₹)
Bank A/c	1,00,000	
To Security Deposit (Balance sheet)		1,00,000
(Being Security deposit refunded to company)		

8. In the given case, 'SA 600: Using the work of another auditor' is applicable between Principal auditor and other auditor.

The provisions regarding 'Division of Responsibility' between Principal auditor and other auditor as mentioned in SA 600 are as follows, which the principal auditor has to consider while drafting his report on the matter of responsibility.

The principal auditor would not be responsible in respect of the work entrusted to the other auditors, except in circumstances which should have aroused his suspicion about the reliability of the work performed by the other auditors.

When the principal auditor has to base his opinion on the financial information of the entity as a whole relying upon the statements and reports of the other auditors, **his report should state clearly the division of responsibility for the financial information of the entity by indicating the extent to which the financial information of components audited by the other auditors have been included in the financial information of the entity, e.g., the number of divisions/branches/subsidiaries or other components audited by other auditors.**

OLD COURSE DIGEST

Case Study 10

Subjects	Topics Covered	Marks
FR	Ind AS 103	5
IDT	Time & Place of Supply, Value of Supply (Section 15), TDS, E-way bill	11
Law	Companies Act (Section 173, 174, 202, 230, 232)	9

Para 1

Aspan Ltd. is an unlisted public company, located in Chennai, Tamil Nadu, with thirteen directors, engaged in the business of manufacturing and Steel trading. Trulor (P) Ltd., is another company, with five shareholders as its directors, engaged in the business of exploration, mining and processing of Iron Ore. In order to have business synergies, it was proposed to amalgamate Trulor (P) Ltd. ('Transferor Company') with Aspan Ltd. ('Transferee Company').

For approval of the matter relating to such amalgamation, a meeting of board of directors of Aspan Ltd. was held which was attended by seven directors, out of which five directors attended the meeting through physical presence and two directors were able to attend such meeting through video conferencing. Afterwards, an application was made to the Tribunal ('NCLT') for sanctioning such scheme for amalgamation between the aforesaid companies.

Para 2

On receipt of such application, the tribunal ordered a meeting of members of both the companies to be held. The Tribunal dispensed with calling of meeting of creditors of Aspan Ltd. as the creditors with requisite value of debts in aggregate, out of total outstanding debt of ₹ 150 lakhs of the company, agreed and confirmed by way of affidavit to such scheme for amalgamation. A meeting of members of Aspan Ltd. was then convened, as per the orders of the Tribunal, for the purpose of considering the scheme of amalgamation with Trulor (P) Ltd. The meeting was attended by 200 members holding 6,00,000 shares out of which 95 members holding 4,30,000 shares in aggregate voted in favour of the scheme, 80 members holding 1,40,000 shares in aggregate voted against the scheme and 25 members holding 30,000 shares were abstained from voting, respectively.

Para 3

Tribunal made an order dated 20th September, 2023, sanctioning the said scheme for amalgamation, which was received by both the companies on 23rd September, 2023, and then it was filed with the Registrar of Companies ('ROC') on 5th October, 2023, by both of them, by the advocate appointed for such amalgamation procedure by Aspan Ltd. for the two companies. The appointed date indicated in the scheme was 1st October, 2023.

Due to such amalgamation, Mr. Rohit, the whole time director of Aspan Ltd., was removed from his office, with a condition that he will get compensation for his early vacation of office. The office of Mr. Rohit was vacated on 31st May, 2023 and his original tenure of appointment with Aspan Ltd. was up to 31st October, 2025. The remuneration drawn by Mr. Rohit, since the date of his joining the office is as follows:

F.Y.	Remuneration (₹ in lakhs)
2021-22	55
2022-23	62
2023-24 (upto 31 st May, 2023)	13

Para 4

This was considered as the acquisition by Aspan Ltd. of Trulor (P) Ltd. in a business combination as per Ind AS 103. However, there was an existing share-based plan in Trulor (P) Ltd. with a vesting condition for 4 years in which 3 years had already lapsed at the date of such business acquisition. Aspan Ltd. agreed to replace the existing award for the employees of combined entity. The details are as below –

Acquisition date fair value of share-based payment plan	₹ 400
Number of years to vest after acquisition	1 year
Fair Value of award which replaces existing plan	₹ 500

Para 5

Aspan Ltd., GST registered in Tamil Nadu, got a contract from a Public Sector Undertaking, GST registered in Karnataka, for supply of steel TMT bars worth ₹ 22,00,000 (excluding taxes), to its site of construction in Coimbatore, Tamil Nadu. The following details are given below:

Particulars	(₹)
Price of Steel TMT bars	22,00,000
Freight	1,00,000
Insurance on Freight	10,000
Loading and handling charges incurred after removal from factory	70,000
Packing charges	20,000

A cash discount of 5% was allowed on the price of steel TMT bars, as the full payment was received in advance from the PSU on 31st December, 2023 and invoice was raised against the same, dated 6th January, 2024.

It was an over dimensional cargo, removed from the factory in Chennai, on 9th January, 2024, and was delivered at the customer's site in Coimbatore on 6th February, 2024, after travelling a distance of 540 kms. E-way Bill for the same was generated on 12:00 pm on 9th January, 2024. The PSU deducted tax at the time of payment to Aspan Ltd. on 31st December, 2023, which was deposited on 16th February, 2024.

Multiple Choice Questions

- With reference to the information given under Para 1, whether the meeting held by board of directors of Aspan Ltd. with respect to approval of the matter relating to amalgamation can be considered as valid?
 - No, as such a matter cannot be dealt in a meeting through video conference.
 - No, as the requisite quorum for the meeting was not present.
 - No, as approval of Registrar is required to deal such matter in a meeting through video conference.
 - Yes, as the requisite quorum for the meeting was present.
- With reference to the information given under Para 2 and 3, what shall be considered as the effective date for scheme of amalgamation and creditors holding what minimum value of debt would have agreed and confirmed to the scheme for amalgamation?
 - Effective date shall be 1st October, 2023 and creditors with debt of at least ₹ 112.5 lakhs would have agreed and confirmed to the scheme for amalgamation.
 - Effective date shall be 1st October, 2023 and creditors with debt of at least ₹ 135 lakhs would have agreed and confirmed to the scheme for amalgamation.
 - Effective date shall be 20th September, 2023 and creditors with debt of at least ₹ 135 lakhs would have agreed and confirmed to the scheme for amalgamation.

- (d) Effective date shall be 5th October, 2023 and creditors with debt of at least ₹ 112.5 lakhs would have agreed and confirmed to the scheme for amalgamation.
3. With reference to the information given under Para 5, what amount of tax would have been deducted by PSU under GST law and by what date it should have been remitted?
- (a) ₹ 48,000 to be remitted by 10th January, 2024
 (b) ₹ 48,000 to be remitted by 10th February, 2024
 (c) ₹ 44,000 to be remitted by 10th January, 2024
 (d) ₹ 48,000 to be remitted by 5th January, 2024
4. With reference to the information given under Para 5, what shall be the interest liability for late deposit of TDS amount by the PSU under GST law?
- (a) ₹ 876
 (b) ₹ 142
 (c) ₹ 803
 (d) ₹ 584
5. With reference to the information given under Para 5, till what date the E-way Bill generated on 9th January, 2024, would be valid?
- (a) Till 12:00 midnight of 5th February, 2024 – 6th February, 2024
 (b) Till 12:00 midnight of 15th January, 2024 – 16th January, 2024
 (c) Till 12:00 midnight of 6th February, 2024 – 7th February, 2024
 (d) Till the date when the cargo reaches its destination i.e. 6th February, 2024.

Descriptive Questions

6. (i) With reference to the information given under Para 2, examine how the scheme for amalgamation was approved by the required majority of members of Aspan Ltd.?
 (ii) With reference to the information given under Para 3, to what amount of compensation, Mr. Rohit will be eligible to get from Aspan Ltd.?
7. With reference to the information given under Para 4, calculate the share-based payment value as per Ind AS?
8. (i) With reference to the information given under Para 5, what shall be the place of supply and time of supply with respect to supply of steel TMT bars in an over dimensional cargo made by Aspan Ltd. to PSU?
 (ii) With reference to the information given under Para 5, what shall be the value of supply with respect to the supply made by Aspan Ltd. to PSU?

ANSWERS TO THE CASE STUDY 10

Answers to the Multiple Choice Questions

1. (d) Yes, as the requisite quorum for the meeting was present.
 Reason: As per Section 174(1) of Companies Act, 2013 the quorum for the board meeting is complied with. Thus, the correct answer is d.

2. (b) Effective date shall be 1st October, 2023 and creditors with debt of at least ₹ 135 lakhs would have agreed and confirmed to the scheme for amalgamation.

Reason: Refer Section 232 and Section 230 of the Companies Act, 2013, respectively.

The Tribunal may dispense with calling of a meeting of creditor or class of creditors where such creditors or class of creditors; having at least ninety per cent value, agree and confirm, by way of affidavit, to the scheme of compromise or arrangement. [Section 230(9)]

Thus, 90% of creditors having value ₹ 150 lakhs = ₹ 135 lakhs

Effective date specified in scheme [Sub-section 232(6)]: The scheme under this section shall clearly indicate an appointed date from which it shall be effective and the scheme shall be deemed to be effective from such date and not at a date subsequent to the appointed date.

Thus, the effective date for scheme of amalgamation shall be 1st October, 2023.

3. (a) ₹ 48,000 to be remitted by 10th January, 2024

Reason: Section 20 of IGST Act provides that in the case of tax deducted at source, the deductor shall deduct tax at the rate of 2% from the payment made or credited to the supplier.

The amount of tax deducted at source should be deposited to the Government account by deductor by 10th of the succeeding month. -

Value of Supply = ₹ 24,00,000. TDS = 2% of 24,00,000 = ₹ 48,000 and to be remitted by 10th day of the month succeeding the month in which TDS was collected.

TDS was collected on 31st December, 2023 so it should be remitted by 10th January, 2024.

4. (a) ₹ 876

Reason: If the deductor has not remitted the amount deducted as TDS to the Government within the prescribed time limit, he is liable to pay penal interest under Section 50 i.e. @ rate of 18% p.a., in addition to the amount of tax deducted.

TDS was to be remitted by 10th January, 2024 and it is remitted on 16th February, 2024, so there is delay of 37 days.

Therefore, the interest liability for late deposit of TDS amount by the PSU = ₹ 48,000 * 18% * 37 / 365 = ₹ 876.

5. (a) Till 12:00 midnight of 5th February, 2024 – 6th February, 2024

Reason: Relevant date means the date on which the e-way bill has been generated and the period of validity shall be counted from the time at which the e-way bill has been generated and each day shall be counted as the period expiring at midnight of the day immediately following the date of generation of e-way bill.

It was an over dimensional cargo, for which the validity of E-way Bill for a distance of 540 kms, would stay for 27 days (540 kms/20 kms).

E-way Bill was generated on 12:00 pm on 9th January, 2024, so it be valid for 12:00 midnight of 5th February, 2024 – 6th February, 2024.

Answers to the Descriptive Questions

6. (i) Legal Position:

As per Section 230 of the Companies Act, 2013, where, at a meeting held, majority of persons representing three-fourths in value of the creditors, or class of creditors or members or class of

members, as the case may be, voting in person or by proxy or by postal ballot, agree to any compromise or arrangement and if such compromise or arrangement is sanctioned by the Tribunal by an order, the same shall be binding on the company, all the creditors, or class of creditors or members or class of members, as the case may be, or, in case of a company being wound up, on the liquidator [appointed under this Act or under the Insolvency and Bankruptcy Code, 2016, as the case may be,] and the contributories of the company.

Analysis and Conclusion:

Members who attended the meeting	200 members
Shares held by members who attended the meeting	6,00,000
Members who voted in favour of the scheme	95 members
Shares held by members who voted in favour of the scheme	4,30,000
Members who voted against the scheme	80 members
Shares held by members who voted against the scheme	1,40,000
Members who abstained from voting	25 members
Shares held by members who abstained from voting	30,000
Number of members who have voted, in favour or against the scheme	175 members
Shares held by members who have voted, in favour or against the scheme	5,70,000
Number of members who should have voted in favour for approving the scheme	88 members or more
Shares that should have been held by members who have voted in favour for approving the scheme	4,27,500 or more

The scheme has been approved by members holding 4,30,000 shares. Thus, the requirement of approval of scheme by members representing 3/4th in the value of members present and voting at meeting (i.e. members holding 4,27,500 shares or more, in this case) has been satisfied.

The scheme has approved by the required majority (i.e. 88 members or more, in this case) and so this condition has also been satisfied.

Accordingly, due to compliance of aforesaid conditions, the tribunal would have sanctioned the scheme for amalgamation.

(ii) Legal Position:

As per Section 202(1) of the Companies Act, 2013, a company may make payment to a managing or whole-time director or manager, but not to any other director, by way of compensation for loss of office, or as consideration for retirement from office or in connection with such loss or retirement.

As per Sub-section (3), any payment made to a managing or whole-time director or manager in pursuance of sub-section (1) shall not exceed the remuneration which he would have earned if he had been in office for the remainder of his term or for three years, whichever is shorter, calculated on the basis of the average remuneration actually earned by him during a period of three years immediately preceding the date on which he ceased to hold office, or where he held the office for a lesser period than three years, during such period.

Analysis and Conclusion:

Average remuneration drawn by Mr. Rohit during the period immediately preceding the date of cessation of office = $(55L+62L+13L)/26 \text{ months} = ₹ 5 \text{ lakhs per month}$

Unexpired residue term of office of Mr. Rohit was 29 months (from 01.06.2023 to 31.10.2025). Compensation payable shall be lower of unexpired residue term of office i.e. 29 months or 3 years i.e. 36 months. Thus, the maximum amount of compensation to which Mr. Rohit is entitled = ₹ 5 lakhs*29 months = ₹ 1.45 crores.

7. Pre-acquisition period = 3

Post-acquisition period = 1

Total fair value at acquisition date = ₹ 400

Value to be recorded as per business combination under Ind AS 103 = ₹ 400/4 x 3 = ₹ 300

Value to be recorded as per Ind AS 102 (A) = ₹ 400/4 x 1 = ₹ 100

Fair value of the replacement of such award = ₹ 500

Difference from acquisition date fair value (B) = ₹ 500 - ₹ 400 = ₹ 100

Total value to be accounted over vesting period as per Ind AS 102 = A + B = ₹ 100 + ₹ 100 = ₹ 200.

8. (i) (a) As per Section 10(1)(a) of the IGST Act, 2017, where the supply involves movement of goods, whether by the supplier or the recipient or by any other person, the place of supply of such goods shall be the location of the goods at the time at which the movement of goods terminates for delivery to the recipient.

In the given case, goods are supplied from factory of Aspan Ltd. in Chennai to a site of PSU in Coimbatore i.e. the movement of goods terminates for delivery to the recipient i.e. PSU at Coimbatore. Hence, the place of supply is Coimbatore, Tamil Nadu.

- (b) As per Section 31(1)(a) of the CGST Act, 2017, A registered person supplying taxable goods shall, before or at the time of removal of goods for supply to the recipient, where the supply involves movement of goods, issue a tax invoice showing the description, quantity and value of goods, the tax charged thereon and such other particulars as may be prescribed.

As per Section 12(2) of the CGST Act, 2017, the time of supply of goods shall be the earlier of the following dates, namely:

- (a) the date of issue of invoice by the supplier or the last date on which he is required, under section 31, to issue the invoice with respect to the supply; or
(b) the date on which the supplier receives the payment with respect to the supply

Analysis and conclusion:

Date of removal of goods from factory - 9th January, 2024

Date of Invoice - 6th January, 2024

Date of payment - 31st December, 2023

Time of supply shall be considered on 'invoice basis' and not 'payment basis', in case of receipt of advance money as per Notification No. 66/2017- CT dated 15-11-2017.

So, time of supply will be the date of invoice i.e. 6th January, 2024.

(ii) Computation of Value of Supply of Aspan Ltd.:

Particulars	(₹)
Price of Steel TMT bars	22,00,000
Add: Freight	1,00,000

Add: Insurance on Freight	10,000
Add: Loading and handling charges incurred after removal from factory	70,000
Add: Packing charges	20,000
Less: Cash Discount (5% on 22,00,000)	<u>(1,10,000)</u>
Value of Supply	22,90,000

Notes:

As per Section 15(2)(b) of the CGST Act, 2017, any amount that the supplier is liable to pay in relation to such supply but which has been incurred by the recipient of the supply and not included in the price actually paid or payable for the goods or services or both;

As per Section 15(2)(c) of the CGST Act, 2017, incidental expenses, including commission and packing, charged by the supplier to the recipient of a supply and any amount charged for anything done by the supplier in respect of the supply of goods or services or both at the time of, or before delivery of goods or supply of services.

As per Section 15(3) of the CGST Act, 2017, the value of the supply shall not include any discount which is given before or at the time of the supply if such discount has been duly recorded in the invoice issued in respect of such supply.

OLD COURSE DIGEST

Case Study 11

Subjects	Topics Covered	Marks
DT	Tax Audit	10
IDT	GST Basics, Tax Invoice, Place of Supply	11
Law	Companies Act (Section 149, 173)	4

Below is presented the Profit and Loss extract of Surya Limited for FY 2023-24.

Particulars	Amount (₹)
Revenue from operations	2,75,00,00,000
Interest Income	50,54,500
Cost of goods sold	5,15,61,510
Change in inventory	45,84,840
Loss of subsidiary written off	25,25,000
Salary and wages	1,84,98,890
Bonus to employees (not in lieu of profit or dividend)	12,54,120
Penalty for service tax demand	15,75,000
Contribution to employee related funds	19,88,090
Donation in cash to 'Sab ka Sath NGO'	75,000
Other expenses	1,95,14,700

Other Items which are omitted in above extract:

Duty drawback (due from authorities) ₹ 5,50,000

Dividend Income ₹ 1,00,000

Particulars regarding stock information (Metal semis)	Units (ton)
Opening stock	5,150
Quantity manufactured	15,750
Sales during the period	12,900

Surya Limited has sold a land namely, ABC Park at Delhi on 1st December 2023. The said land was purchased by Surya Limited on 7th August 2013 at the cost of ₹ 10,00,00,000. Surya Limited has sold this land for ₹ 15,00,00,000. However, the consideration as assessed by land authority is measured at ₹ 18,00,00,000 as per circle rates. Surya Limited has paid the stamp duty as per circle rates. Surya Limited has accordingly shown the gain of 18,00,00,000 while computing the taxable income as per section 50C of Income-tax Act.

Further, Surya Limited has discarded a part of its plant and machinery at nil value on 31st October 2023 due to its obsolescence. The book value of plant and machinery as on relevant date was ₹ 1,00,00,000.

Following particulars are shown with respect to pending matters relating to TDS for FY 2023-24, which still require the consideration. TDS has not been deducted on the following:

Date of payment	Amount of payment	Nature of payment	Name of the payee	PAN of the payee	Address	Remarks
05/04/2023	1,00,000	Sale of goods	Dharmveer	ABCPD12340	Delhi	-

07/07/2023	20,000	Professional services	PQR Pvt. Ltd.	ABCCD72340	Mumbai	-
11/12/2023	25,000	Contractor services	Chotu Ram	ABCPD12340	Gujarat	-
28/03/2024	90,000	Interest for car financing loan	Ghanshyam HUF	ABCCD19340	Mumbai	According to accountant, no TDS is required to be deducted against interest payment to HUF

Surya Limited has filed the TDS returns of form 24Q and 26Q (containing information of all transactions as are required to be reported) during the year as follows:

Tax deduction and collection Account Number (TAN)	Type of Form	Due date for furnishing	Date of furnishing
DELMXXXXXP	Form 26Q	30/04/2023	27/04/2023
DELMXXXXXP	Form 24Q	30/04/2023	28/04/2023
DELMXXXXXP	Form 26Q	31/10/2023	26/10/2023
DELMXXXXXP	Form 24Q	31/10/2023	02/11/2023
DELMXXXXXP	Form 24Q	31/01/2024	25/01/2024
DELMXXXXXP	Form 26Q	31/01/2024	02/02/2024
DELMXXXXXP	Form 26Q	31/05/2024	30/04/2024
DELMXXXXXP	Form 24Q	31/05/2024	29/05/2024

The tax audit of Surya Limited is due; however, the tax auditor had told his assistant to prepare the draft Form 3CD of company. Instead of having prior discussion with the tax auditor, he directly sent the draft form 3CD to the Direct tax head of Surya Limited. The assistant has filled the following details in Form 3CD.

EXTRACT OF FORM NO. 3CD (DRAFT)

Statement of particulars required to be furnished under section 44AB of the Income-tax Act, 1961

- Name of the assessee : SURYA LIMITED
- Previous year : 01/04/2023 to 31/03/2024
- Assessment year : 2023-2024

Amounts not credited to the profit and loss account, being:

	Description	Amount
a The items falling within the scope of section 28:	Nil	Nil
b The proforma credits, drawbacks: refunds of duty of customs or excise or service tax or refunds of sales tax or value added tax, where such credits, drawbacks or refunds are admitted as due by the authorities concerned	Nil	Nil
d Any other item of income :		
e Capital receipt, if any		

- Where any land or building or both is transferred during the previous year for a consideration less than value

adopted or assessed or assessable by any authority of a State Government referred to in section 43CA or 50C, please furnish:

Details of property	Address	Consideration received or accrued	Value adopted or assessed or assessable
Land	ABC Park, Delhi	15,00,00,000	15,00,00,000

- Particulars of depreciation allowable as per the Income-tax Act, 1961 in respect of each asset or block of assets, as the case may be, in the following Form:

Description of block of assets	Rate of depreciation	Opening WDV	Additions	Deductions	Depreciation allowable	Written down value at end of year
Plant & Machinery	15%	5,00,00,000	3,00,00,000	0	1,20,00,000	6,80,00,000
Building	10%	15,00,00,000	0	0	1,50,00,000	13,50,00,000
Furniture & Fittings	10%	3,00,00,000	1,00,00,000	0	40,00,000	3,60,00,000
Total		23,00,00,000	4,00,00,000	0	3,10,00,000	23,90,00,000

Additions: Furniture & Fittings @ 10%

Date of purchase	Date of put to use	Amount
18/06/2023	18/06/2023	1,00,00,000

Additions: Plant & Machinery @ 15%

Date of purchase	Date of put to use	Amount
02/05/2023	02/05/2023	2,00,00,000
05/06/2023	05/12/2023	1,00,00,000

- Any sum paid to an employee as bonus or commission for services rendered, where such sum was otherwise payable to him as profits or dividend. [section 36(1)(ii)]
- Please furnish the details of amounts debited to the profit and loss account, being in the nature of capital, personal, advertisement expenditure etc.

	Particular	Amount
Capital expenditure		
Personal expenditure		
Expenditure by way of penalty or fine for violation of any law for the time being force		
Expenditure by way of any other penalty or fine not covered above		

- Amounts inadmissible under section 40(a):
ii. as payment referred to in sub-clause (ia)

(A) Details of payment on which tax is not deducted:

Date of payment	Amount of payment	Nature of payment	Name of the payee	PAN of the payee	Address line 1

Nil	Nil	Nil	Nil	Nil	Nil

- (B) Details of payment on which tax has been deducted but has not been paid on or before the due date specified in sub-section (1) of section 139

Date of payment	Amount of payment	Nature of payment	Name of the payee	PAN of the payee	Address line 1	Address line 2	City/Town/District	Pin code	Amount of tax deducted	Amount out of (V) deposited, if any
Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

- Disallowance/deemed income under section 40A(3):

On the basis of the examination of books of account : Yes

and other relevant documents/ evidence, whether the expenditure covered under section 40A(3) read with rule 6DD were made by account payee cheque drawn on a bank or account payee bank draft. If not, please furnish the details

Date of payment	Nature of payment	Amount	Name of the payee	PAN of the payee
Nil	Nil	Nil	Nil	Nil

- Whether the assessee is required to furnish the statement of : Yes
tax deducted or tax collected. If yes, please furnish the details:

Tax deduction and collection Account Number (TAN)	Type of Form	Due date for furnishing	Date of furnishing, if furnished	Whether the statement of tax deducted or collected contains information about all transactions which are required to be reported
DELMXXXXXP	Form 24Q	31/10/2023	02/11/2023	Yes
DELMXXXXXA	Form 26Q	31/01/2024	02/02/2024	Yes

- In the case of manufacturing concern, give quantitative details of the principal items of raw materials, finished products any by-products

Finished products

Item Name	Unit	Opening stock	Purchase during the previous year	quantity manufactured during previous year	Sales during previous year	Closing Stock	Shortage/ Excess, if any
Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

Other Matters:

Surya Limited is based in Delhi and is also registered under GST in Delhi jurisdiction. For the assignments sent on 1 January, 2024, IDT manager has been told by CFO to provide the taxable inter-state and intra-state details on the basis of following information.

Location (where goods	Amount	Remarks

would reach)	(₹)	
Japan	5,51,065	Goods come under the exempt category
Delhi	56,520	Purchaser in Mumbai has instructed Surya Limited to deliver the goods at his residence in Delhi
Madhya Pradesh	1,46,650	Purchaser in Delhi has instructed Surya Limited to deliver the goods at Madhya Pradesh
Delhi	2,98,500	Purchaser will arrange his own transport for goods

Surya Limited sells various products in various segments. One of the popular products of company is product 'Kanti', whose details for the January, 2024 are as under:

	Amount (₹)	Quantity	Rate (₹)
Opening inventory	3,12,500	12,500	25
Goods purchased (all within the state) inc. GST	15,45,750	57,250	27
Closing inventory	5,53,000	19,750	28
Goods sold (all within the state) inc. GST	17,50,000	50,000	35

GST is applicable at the rate of 18%.

A new assistant of IDT manager has been hired. Since the software was not in operation on a particular day due to technical issues, IDT manager told his assistant to prepare the invoice manually for sale of 'Kanti' products to a registered buyer. Following invoice is prepared by the assistant:

Following are the details of supplies made by Surya Limited for one of the segments 'Beauty and Personal care' in February, 2024:

Item	Amount (₹)
Beauty products	15,14,842
Skincare products	6,98,161
Salary and wages	5,64,564
Saloon services	8,48,123
Hair oil products	3,48,564
Reimbursement of conveyance expenses (to employees)	1,98,840
Shaving creams	4,98,516
Services provided to the United Nations for an event	75,650
Interest from debtors for late payment of dues	45,645

INVOICE

Surya Limited

123, Near SBI Building, Karol Bagh, Delhi, 110005

GSTIN: 07ABCCP1234B1AB

PAN NO. ABCCP1234B

Invoice No: Surya/2021-202/XX2 Date: 18-01-2024

Buyer:

Night Limited,

52, Praja colony, Noida, UP – 201301			
Description	Quantity	Rate	Amount (₹)
Supply of Goods	5	10,000	50,000
	Total		50,000
Terms & conditions	CGST @	9%	4,500
• Make payment within 15 days of receipt.	SGST @	9%	4,500
• Interest at 20% will be charged after 15 days of due date.	Grand Total		59,000
Note: GST will also be charged on interest			
Total Amount (In Words): Fifty-nine thousand only			

For:

Surya Limited

Mr. Vaibhav Saxena Manger, F&A

Surya Limited has conducted following board meetings during the year:

S.No.	Date of board meeting
1	02-04-2023
2	26-07-2023
3	27-11-2023
4	15-03-2024

Surya Limited is considering to get itself listed. As per the latest audited financial statements, the paid up share capital of the Surya Limited is ₹ 90 crore and turnover of the Surya Limited is ₹ 275 crore.

The company secretary of Surya Limited is insisting the management to include a woman director in the board of directors as per the requirements of Companies Act, 2013.

You are required to analyse the above scenarios and then answer the following questions on the basis of your understanding.

Multiple Choice Questions

- Whether the concern of company secretary holds good in including a woman director in the board of directors.
 - Yes, as the Surya Limited is thinking to get itself listed.
 - No, as the Surya Limited is not a listed company on the relevant date.
 - Yes, as it is mandatory to appoint women directors in the board.
 - No, as the Surya Limited has not met the prescribed criteria to get the woman director included in board.
- Whether the Surya Limited has defaulted in conducting board meetings as per Companies Act, 2013?
 - There is no default since four board meetings have been conducted in the year.
 - There is default by Surya Limited as not more than 4 board meetings have been conducted in the year.
 - There is no default since Companies Act, 2013 does not prescribe any criteria for board meetings as it is the internal matter of Surya Limited.
 - There is default by Surya Limited since board meetings have not been conducted in the prescribed

frequency.

3. Calculate the net GST liability of 'Kanti' for January, 2024.
 - (a) ₹ 31,158
 - (b) ₹ 67,844
 - (c) ₹ 80,055
 - (d) ₹ 36,765
4. Calculate the amount of taxable supply of 'Beauty and Personal care' segment for February, 2024?
 - (a) ₹ 47,92,905
 - (b) ₹ 40,29,501
 - (c) ₹ 39,53,851
 - (d) ₹ 35,30,180
5. Calculate the amount of taxable inter-state and intra-state supplies with respect to assignments sent on various locations on 1 January, 2024.
 - (a) ₹ 6,07,315; ₹ 4,45,150
 - (b) ₹ 56,250; ₹ 4,45,150
 - (c) ₹ 4,45,150; ₹ 56,250
 - (d) Nil; ₹ 5,01,400

Descriptive Questions

6. Being the direct tax head of Surya Limited, what are your observations in respect of Form 3CD prepared by the assistant of tax auditor. You are required to discuss the points which need the attention of auditor for correction in draft audit report. Also state the correct treatment.
7. Being the IDT manager, what are your observations under the scope of GST rules and regulations for the manual Invoice issued by your assistant.

ANSWERS TO THE CASE STUDY 11

Answers to the Multiple Choice Questions

1. (d) No, as the Surya Limited has not met the prescribed criteria to get the woman director included in board.
Reason: As per second Proviso to Section 149(1) read with Rule 3 of the Companies (Appointment and Qualification of directors) Rules, 2014, following are the Companies which need to appoint women directors:
 - Every listed company
 - Every other public company having : a) paid-up share capital of one hundred crore rupees or more; or b) turnover of three hundred crore rupees or more.
 The paid-up share capital or turnover, as the case may be for this purpose is considered as on the last date of latest audited financial statements.
2. (d) There is default by Surya Limited since board meetings have not been conducted in the prescribed frequency.

Reason: As per section 173(1) of Companies Act, 2013, every company shall hold minimum of 4 meetings every year but the gap between two consecutive board meetings shall not be more than 120 days. However, there is a gap of more than 120 days for the meeting between 26.07.2023 and 27.11.2023.

3. (a) ₹31,158

Reason:

	CGST (₹)	SGST (₹)	Calculation of CGST/SGST
GST on goods purchased	1,17,896	1,17,896	(15,45,750 / 1.18)*.09
GST on goods sold	1,33,475	1,33,475	(17,50,000/1.18)*.09
Net GST Liability	15,579	15,579	

4. (c) ₹ 39,53,851

Reason:

Item	Amount (₹)	Remarks
Beauty products	15,14,842	Taxable supply
Skincare products	6,98,161	Taxable supply
Saloon services	8,48,123	Taxable supply
Hair oil products	3,48,564	Taxable supply
Shaving creams	4,98,516	Taxable supply
Interest from debtors for late payment of dues	45,645	Taxable supply
Total	39,53,851	

5. (b) ₹ 56,250; ₹ 4,45,150

Reason:

Place of Supply	Nature of Supply	IGST supply (₹)	CGST/SGST supply (₹)
Japan	Exempt	-	-
Mumbai	Inter-state	56,520	-
Delhi	Intra-state	-	1,46,650
Delhi	Intra-state	-	2,98,500
		56,520	4,45,150

Answers to the Descriptive Questions

6. **Errors/Observations in Form 3CD:**

- Assessment Year should be 2024-25 instead of 2023-24. Since the given information pertains to FY 2023-24, hence the corresponding assessment year should be 2024-25.
- As per Clause 16; the particulars of those amounts should be provided which are not credited to the profit and loss account, being, -
 - the items falling within the scope of section 28;
 - the proforma credits, drawbacks, refund of duty of customs or excise or service tax, or refund of sales tax or value added tax, where such credits, drawbacks or refunds are admitted as due

by the authorities concerned;

- (c) escalation claims accepted during the previous year;
- (d) any other item of income;
- (e) capital receipt, if any.

The items which were omitted in profit & loss have not been reported in Form 3CD too. Hence, they need to be reported in Form 3CD as per clause 16 as follows:

Clause 16(b) -The proforma credits, drawbacks, refunds of duty of customs or excise or service tax or refunds of sales tax or value added tax, where such credits, drawbacks or refunds are admitted as due by the authorities concerned	Description	Amount
	Duty drawback	5,50,000
Clause 16(d) - Any other item of income	Description	Amount
	Dividend Income	1,00,000

- Although Surya Limited has determined the sale value of land at ₹ 18,00,00,000 for the purpose of Income tax computation but that fact has not been presented as per clause 17. Hence it needs to be reported in Form 3CD as per clause 17 as follows:

Clause 17: Where any land or building or both is transferred during the previous year for a consideration less than value adopted or assessed or assessable by any authority of a State Government referred to in section 43CA or 50C, please furnish:

Details of property	Address	Consideration received or accrued	Value adopted or assessed or assessable
Land	ABC Park, Delhi	15,00,00,000	18,00,00,000

- The particulars of depreciation allowable as per Income-tax Act, 1961 are to be shown as per clause 18 in Form 3CD.

Depreciation on Plant & machinery is incorrectly calculated. Depreciation on Plant & machinery should be at half rate since it is put to use on 05/12/2023, which is less than 180 days.

The correct information as per clause 18 should be shown as follows:

Description of assets	Rate of depreciation	Opening WDV	Additions	Deduction	Depreciation allowable	WDV at end of year
Plant & Machinery	15%	5,00,00,000	3,00,00,000	0	1,62,50,000	6,87,50,000
Building	10%	15,00,00,000	0	0	1,50,00,000	13,50,00,000
Furnitures & Fittings	10%	3,00,00,000	1,00,00,000	0	40,00,000	3,60,00,000
Total		23,00,00,000	4,00,00,000	0	3,52,50,000	23,47,50,000

Note: Calculation of Depreciation as per Income-tax Act, 1961

Asset	Depreciation on opening block (A)	Depreciation on additions at full rate (B)	Depreciation on additions at half rate (C)	Additional Depreciation	Total Depreciation (A) + (B) + (C)

Plant and machinery (15%)	75,00,000	30,00,000	7,50,000	40,00,000 (2,00,00,000*20%) 10,00,000 (1,00,00,000*10%)	1,62,50,000
Building (10%)	1,50,00,000	-	-		1,50,00,000
Furniture & fittings (10%)	30,00,000	10,00,000	-		40,00,000
Total	2,55,00,000	40,00,000	7,50,000		3,52,50,000

Additional depreciation on new plant and machinery will be allowable as per sec32(1)(ia) @20% of actual cost of plant and machinery. If the asset is put to use for less than 180 days, then depreciation will be restricted to 50% of the additional depreciation. Balanced depreciation can be claimed in the next assessment year.

Note: No treatment for sale of plant & machinery (Book value - ₹ 1,00,00,000) at nil value as no consideration is received against sale.

- Under Clause 21(a), the details of those amounts need to be reported which are debited to the profit and loss account, being in the nature of Capital, personal, advertisement expenditure etc.

In accordance with above clause, the following needs to be reported in Form 3CD as per clause 21(a):

Capital expenditure	:	Particulars	Amount (₹)
		Loss of subsidiary written off	25,25,000
Expenditure by way of penalty or fine for violation of any law for the time being force	:	Particulars	Amount (₹)
		Penalty under service tax law	15,75,000

- Under Clause 21(b)(ii)(A), company needs to furnish the details of those payment details on which tax is not deducted.

In accordance with above clause, the following needs to be reported in Form 3CD Details of payment on which tax is not deducted:

Date of payment	Amount of payment	Nature of payment	Name of the payee	PAN of the payee	Address
28/03/2024	90,000	Interest	Ghyanshyam HUF	ABCCD19340	Mumbai

Note: TDS under section 194A needs to be deducted for Ghyanshyam HUF. For other parties, there is no need to deduct the TDS as per relevant provisions of Income-tax Act, 1961.

- There has been a cash payment in respect of donation exceeding ₹ 10,000/- by the assessee during the relevant year. Details of payments should be stated under clause 21(d)(b) as follows:

On the basis of the examination of books of No account and other relevant documents/evidence, whether the payment referred to in section 40A(3A) read with rule 6DD were made by account payee cheque drawn on a bank : or account payee bank draft If not, please furnish

the details of amount deemed to be the profits and gains of business or profession under section 40A(3A)

Date of payment	Nature of payment	Amount	Name of the payee	PAN of the payee
X-X-20XX	Donation in cash	75,000	Sab Ka Saath NGO	XXXXXXXXXX

- As per clause 34(b) of Form 3CD, assessee is required to furnish the statement of tax deducted or tax collected as per following details:

Tax deduction and collection Account Number (TAN)	Type of Form	Due date for furnishing	Date of furnishing	Whether the statement of tax deducted or collected contains information about all transactions which are required to be reported
DELMXXXXXP	Form 26Q	30/04/2023	27/04/2023	Yes
DELMXXXXXP	Form 24Q	30/04/2023	28/04/2023	Yes
DELMXXXXXP	Form 26Q	31/10/2023	26/10/2023	Yes
DELMXXXXXP	Form 24Q	31/10/2023	02/11/2023	Yes
DELMXXXXXP	Form 24Q	31/01/2024	25/01/2024	Yes
DELMXXXXXP	Form 26Q	31/01/2024	02/02/2024	Yes
DELMXXXXXP	Form 26Q	31/05/2024	30/04/2024	Yes
DELMXXXXXP	Form 24Q	31/05/2024	29/05/2024	Yes

- Under clause 35 (b) of Form 3CD, In the case of a manufacturing concern, provide quantitative details of the principal items of raw materials, finished products and by-products as follows:

(B) Finished products

Item Name	Unit	Opening stock	Purchase during the previous year	quantity manufactured during the previous year	Sales during previous year	Closing Stock	Shortage/ Excess, if any
Metal Semis	ton	5,150	0	15,750	12,900	8,000*	0

*Closing stock = 5,150+15,750-12,900 = 8000 ton

7. Observations on Invoice as per GST rules and regulations:

- The type of invoice to be issued depends upon the category of registered person making the supply. If a registered person is making or receiving supplies (from unregistered persons), then a tax invoice needs to be issued by such registered person.

In this case, word 'Invoice' is used in place of 'Tax Invoice', which is incorrect.

- The invoice shall be prepared in triplicate, in case of supply of goods, in the following manner:
 - The original copy being marked as ORIGINAL FOR RECIPIENT.
 - The duplicate copy being marked as DUPLICATE FOR TRANSPORTER.
 - The triplicate copy being marked as TRIPLICATE FOR SUPPLIER.

In this case, original copy to buyer has been marked as DUPLICATE FOR RECIPIENT, which is

incorrect. The original copy to buyer should be marked as ORIGINAL FOR RECIPIENT.

- GST is a destination-based tax. Under GST, IGST is a tax levied on all Inter-State supplies of goods and CGST/SGST is a tax levied on all Intra-State supplies of goods. **Hence there should have been levied IGST by the supplier instead of CGST/SGST since the buyer is located in Noida, UP and supplier is located in another state, Delhi.**
- Name, address and GSTIN of the recipient, if registered is required on mandatory basis. **In this case, the GSTIN of registered recipient is missing.**
- **Description of goods 'Kanti' is missing in the invoice.**
- **Signature or digital signature of the supplier or his authorized representative is missing.**
- **HSN Code of the sold product is missing in the invoice.**
- "I/We hereby declare that though our aggregate turnover in any preceding financial year from 2017-18 onwards is more than the aggregate turnover notified under sub-rule (4) of rule 48, we are not required to prepare an invoice in terms of the provisions of the said sub-rule."

OLD COURSE DIGEST

Case Study 12

Subjects	Topics Covered	Marks
FR	Ind AS 20	7
DT	Section 44AD, TDS (192, 194C, 194H, 194J), Tax Audit	18

SSP & CO. LLP, a Chartered Accountancy Firm has been into Practice since year 2009 at Vadodara, Gujarat. The Senior Partners of the Firm – CA Sagar Shah, CA Simran Kaur & CA Pankaj Bansal started the firm after practicing individually for almost 3 years and now it has grown into a big firm of 7 Partners. Since its inception, this CA Firm has always been in news among the Chartered Accountants and the Articled Trainees for its unique way of working. The 3 Partners have given their best to inculcate a working culture of hard work, learning, training, development and rendering best quality in the service industry it belongs to. Under one of the unique ways of its working, the firm annually holds a one month long and continuous competition among its Articled Trainees to motivate them towards working hard and reward 3 best candidates as the “Winning Articled Assistants” who get incentives in the form of important roles with the Senior Partners in handling crucial work projects of different clients of the firm.

This year, around 25 Articled Trainees, excluding the recently joined ones, were a part of this annual competition & after a one-month continuous assessment of their performance, Pratham, Shivam & Ragini were declared as the winning Articled Trainees for the said year. As a part of the incentive, they were assigned important roles with the 3 Senior Partners as follows:

- 1) Pratham would assist CA Sagar in carrying out the tax-audit work of the 3 major clients of the Firm.
- 2) Shivam would be leading the team headed by CA Simran to carry out the work of accounting for different projects handled by one of their important clients.
- 3) Ragini would be an important part of the team headed by CA Pankaj to conduct “TDS Audit” of the major clients of the Firm to check their TDS compliance and report thereon.

Pratham assisting CA Sagar Shah

CA Sagar briefs his team about the various objectives, guidelines and working involved in carrying out different audits by a Chartered Accountant with special emphasis on Tax Audit. He tells them that for ensuring compliance sometimes audit becomes a necessity. Therefore, various statutes, including legislations governing direct tax provisions have incorporated audit provisions in some or the other form. Under direct taxes, the Central Board of Direct taxes has posed onerous responsibility on the auditor via Income-tax Act, 1961 which has various provisions requiring compulsory audit. The Income-tax Act, 1961 contains several provisions for audit of accounts of public charitable trusts, non-corporate assesses and other assesses to meet the specific objectives of the Act. Under the Act, several sections such as 12A, 35D, 35E, 44AB, 80IA, 80-IAB, 80-IB, 80-IC, 80-ID, 80-IE, 142(2A), etc., require audit of accounts for tax purposes. He deliberates them in detail on the various provisions as entailed in Section 44AB of the Income Tax Act, 1961 and its various clauses and sub clauses on applicability of the Tax audit provisions to any enterprise. He also tells them about the amendments which had been made in the Tax audit Provisions by the Government of India whereby the threshold limit, for a person carrying on business, had been increased from ₹ 5 crore to ₹ 10 crores in case when cash receipts and payments made during the year does not exceed 5% of total receipt or payment, as the case may be. Section 44AB provides for the compulsory audit of accounts of certain persons carrying on business or profession. Now, he delegates his team to work out the tax audit applicability of various client firms for the Financial Year 2023-24 and Pratham gets to work out the Tax audit applicability on various clients as follows:

1. PQR Ltd. is engaged in the business of manufacturing of threads and having 97% of the receipts and payments through account payee cheque. The company has recorded turnover of ₹ 10.50 crores during the financial year 2023-24 before adjusting the following:

Discount allowed in the Sales Invoice	₹	9,50,000
Cash discount (other than allowed in Cash memo/sales invoice)	₹	10,30,000
Trade discount	₹	5,30,000
Commission on Sales	₹	7,80,000
Sales Return (F.Y. 2021-22)	₹	6,60,000
Sale of Investment	₹	15,30,000

2. Mr. Anurag Basu, owning an Agency of Samsung Mobile, has turnover of ₹ 97 lacs during the F.Y. 2023-24.
3. XYZ & Co. (a Partnership firm) engaged in trading of electronic goods is having a turnover of ₹ 175 lacs for the F.Y. 2023-24.

Shivam with CA Simran Kaur

CA Simran and her team would handle the accounting of various complex operations of their client firms and provide consultancy accordingly. This year, CA Simran is dealing with the Grants received from the Government during the COVID-19 Pandemic period and how to deal with them in the accounts of their various clients. She enlightens her team members on this topic and tells them that the government gives grants to entities for various purposes including for industrial, geographic and social development, to facilitate the flow of foreign investments, to promote entrepreneurship, as subsidies to reduce the prices of goods and services offered by these entities. The grant could be in different forms, e.g., monetary or non-monetary government grants. Government grants may be significant for an entity and require appropriate treatment in the books of accounts and disclosures in financial statements to facilitate comparison with other entities and with prior periods. She delegates this work of different clients among her team members and Shivam gets to work on the case of 2 Client companies as follows:

1. Spectra Limited is carrying out various projects for which the company has either received government financial assistance or is in the process of receiving the same. The company has received two grants of ₹ 2,00,000 each, relating to the following ongoing research and development projects:
 - (i) The first grant relates to the "Clean river project" which involves research into the effect of various chemicals waste from the industrial area in Madhya Pradesh. However, no major steps have been completed by Spectra limited to commence this research as at 31st March, 2024.
 - (ii) The second grant relates to the commercial development of a new equipment that can be used to manufacture eco-friendly substitutes for existing plastic products. Spectra Limited is confident about the technical feasibility and financial viability of this new technology which will be available for sale in the market by April 2025.

In September 2023, due to the floods near one of its factories, the entire production was lost and Spectra Limited had to shut down the factory for a period of 3 months. The State Government announced a compensation package for all the manufacturing entities affected due to the floods. As per the scheme, Spectra Limited is entitled to a compensation based on the average of previous three month's sales figure prior to the floods, for which the company is required to submit an application form on or before 30th June, 2023 with necessary figures. The financial statements of Spectra Limited are to be adopted on 31st May, 2023, by which date the claim form would not have been filed with the State Government.

2. BCD Pharmaceuticals Ltd.: Government gives a grant of ₹ 20,00,000 for past research of COVID-19

vaccine to BCD Pharmaceuticals Limited, one of the top clients of SSP & CO., LLP. There is no condition attached to the grant.

Ragini with CA Pankaj Bansal

CA Pankaj lectures his team on various TDS provisions to carry out the below mentioned tasks and also makes them aware of the amendments as well as the relaxations provided by the Government during the COVID-19 Pandemic Period to infuse capital into the economy by way of TDS relaxations during this hard period so that they are able to:

- examine the provisions relating to deduction and collection of tax at source to determine whether tax needs to be deducted/collected at source;
- compute the amount of tax to be deducted/collected at source;
- analyse and apply the provisions relating to deduction and collection of tax at source to address related issues;
- examine the provisions relating to advance tax obligations, the instalments and due dates, and interest and penal consequences of non-payment or delayed payment of advance tax; analyse and apply such provisions to determine the quantum of advance tax payment and interest liability, if any, and address related issues;
- examine the provisions relating to chargeability of interest for defaults in furnishing return of income, for non-payment of advance tax and deferral of advance tax; analyse and apply such provisions to compute interest and address related issues;
- analyse and apply the provisions relating to refunds to compute the refund due and address related issues.

After this, he hands over TDS working & compliance of various client firms to all the team members and Ragini, being a part of the winner trio, gets the following responsibilities of various important clients under the supervision of CA Pankaj:

- (i) On 17.6.2023, a commission of ₹ 60,000 was retained by the consignee 'PQR Packaging Ltd.' and not remitted to the consignor 'ABC Developers Ltd.', the client company of SSP & Co., LLP, while remitting the sale consideration. Ragini had to examine the obligation of the client firm to deduct tax at source.
- (ii) Raj is working with ABC Developers Ltd. He is entitled to a salary of ₹ 60,000 per month w.e.f. 01.04.2023. He has a house property which is self-occupied. He paid an interest of ₹ 90,000 on loan, during the previous year 2023-24. The loan was taken for construction of house. He has notified his employer ABC Developers Ltd. that there will be a loss of ₹ 90,000 in respect of this house property for financial year ended 31.03.2024. Raj is not opting for the provisions of section 115BAC.
- (iii) By virtue of an agreement with ABC Developers Ltd., a catering organisation receives a sum of ₹ 55,000 per month towards supply of food, water, snacks etc. during office hours to the employees of the company.
- (iv) DK, a part time director of ABC Developers Ltd., was paid an amount of ₹ 3,50,000 as fees which was actually in the nature of commission on sales for the period 01.07.2023 to 30.09.2023.
- (v) ACD Ltd., a Pharmaceutical company, credited ₹ 18,000 towards fees for professional services and ₹ 17,000 towards fees for technical services to the account of HG in its books of account on 06.10.2023. The total sum of ₹ 35,000 was paid by cheque to HG on 18.12.2023.
- (vi) XYZ Ltd., a foreign company, pays outside India, salary to its employee, Mr. Raghav, a foreign national and a non-resident, for services rendered in India for 265 days during the Previous Year 2023-24.

You are required to work out the following questions as to how the Winning Articled Assistants would have worked out on the issues given to them w.r.t various important clients and projects of the firm SSP & CO. LLP.

Multiple Choice Questions

1. The Winning Articled Trainee is told that the Partnership firm – XYZ & Co. would not be able to ensure that the aggregate of all amounts received including amount received for sales, turnover or gross receipts during the previous year, in cash, does not exceed five per cent of the said amount and aggregate of all payments made including amount incurred for expenditure, in cash, during the previous year does not exceed five per cent of the said payment. Which of the following statements hold true w.r.t. taxability of business profits of the firm?
 - (a) The Partnership Firm can opt for presumptive scheme under section 44AD.
 - (b) Section 44AB would only be applicable to the Partnership Firm and it can't avail the benefit of Presumptive taxation scheme as the same is available to Individuals & HUF only.
 - (c) If the firm opts for Presumptive income scheme under section 44AD, even then, it has to get its books of accounts audited u/s 44AB of the Act, being a Partnership firm.
 - (d) It can declare the minimum profit @ 6% of the turnover as its turnover during the PY 2023-24 is not expected to exceed ₹ 2 crores.
2. What should be the outcome of the Tax Audit applicability as worked upon by Pratham in the case of Mr. Anurag Basu?
 - (a) He can opt for section 44AD. Hence, he is not liable for tax audit.
 - (b) He needs to get his books of accounts audited u/s 44AB of the Act.
 - (c) He need not get his books of accounts audited u/s 44AB of the Act.
 - (d) He can opt for section 44ADA. Hence, he is not liable for tax audit.
3. XYZ Ltd. is required to deduct tax at source as follows in case of the payment made by it to Mr. Raghav-
 - (a) TDS u/s 192 of the Income tax Act, 1961.
 - (b) TDS u/s 194J of the Income tax Act, 1961.
 - (c) TDS u/s 195 of the Income tax Act, 1961.
 - (d) No liability of TDS as it being a foreign company and the remuneration is paid outside India.
4. What should be the TDS liability on the payment made by ACD Ltd. to the account of HG?
 - (a) TDS u/s 194J is applicable and would be deducted @ 30% w.r.t each kind of payment.
 - (b) TDS u/s 194J is applicable considering the aggregate payment made.
 - (c) TDS u/s 194C would be applicable as it becomes a Contract when two services got clubbed.
 - (d) TDS u/s 194J is applicable on such payments but the threshold limit is w.r.t. each kind of payment and therefore, no TDS liability in this case.
5. Examine how the Government grant be recognised in the books of BCD Pharmaceuticals Limited.
 - (a) To be capitalized in the Books of account.
 - (b) The entire grant should be recognised immediately in profit or loss.
 - (c) To be deferred till the research work proves to be marketable.
 - (d) Credited to a special Research Fund.

Descriptive Questions

6. Help Pratham in working out the applicability of Income tax Audit on PQR Ltd.

7. Explain the accounting treatment of, if any, for the two grants received and flood-related compensation in the books of accounts of Spectra Limited as on 31st March, 2024, to be worked out by Shivam.
8. State all the TDS provisions applicable on ABC Developers Ltd. w.r.t. their transactions as stated in the above case scenario.

ANSWERS TO THE CASE STUDY 12

Answers to the Multiple Choice Questions

1. (a) The Partnership Firm can opt for presumptive scheme under section 44AD.
Reason: Section 44AD of the Income Tax Act, 1961 would be applicable to Partnership Firm. Thus, XYZ & Co. can declare the minimum profit @ 8% of the turnover since its turnover during the P.Y. 2023-24 is not expected to exceed ₹ 2 crores. If the firm does not opt for presumptive income scheme under section 44AD, it has to get its books of account audited u/s 44AB of the said Act.
2. (c) He need not get his books of accounts audited u/s 44AB of the Act.
Reason: Though Section 44AD of the Income Tax Act, 1961 is applicable to an Individual, it is not applicable to person carrying on agency business. In the given case, since, Mr. Anurag is running an agency business, he cannot take the benefit of section 44AD. And since his total turnover during the F.Y. 2023-24 is not expected to exceed ₹ 1 crore, therefore, he need not get his books of accounts audited u/s 44AB of the said Act.
3. (a) TDS u/s 192 of the Income tax Act, 1961.
Reason: Section 195 requires deduction of tax at source by any person responsible for making payment to a non-resident, any interest or any other sum chargeable under the provisions of the Income-tax Act, 1961 (other than income chargeable under the head "Salaries"). Section 192(1) requires "any person" responsible for paying income under the head "Salaries" to deduct tax at source. Therefore, even if the payer is a foreign company, section 192 would be applicable. TDS provisions under section 192 are attracted, if the salary payable to a non-resident is chargeable to tax in India. Under section 9(1)(ii), income which falls under the head "Salaries" shall be deemed to accrue or arise in India, if it is earned in India. Salary payable for service rendered in India shall be regarded as income earned in India. Therefore, salary paid to Mr. Raghav, a non-resident, attracts tax liability in India, as he has rendered services in India.
4. (d) TDS u/s 194J is applicable on such payments but the threshold limit is w.r.t each kind of payment and therefore, no TDS liability in this case.
Reason: The limit of ₹ 30,000 for non-deduction of tax under section 194J would apply separately for fees for professional services and fees for technical services. This means that if a person has rendered services falling under both the categories, tax need not be deducted if the fee for each category does not exceed ₹ 30,000 even though the aggregate of the amounts credited to the account of such person or paid to him for both the categories of services exceed ₹ 30,000. Therefore, ACD Ltd. is not required to deduct tax at source in respect of the fees either at the time of credit or at the time of payment.
5. (b) The entire grant should be recognised immediately in profit or loss.
Reason: Government grants, including non-monetary grants at fair value, should be recognised only when there is reasonable assurance that:

- (a) the entity will comply with the conditions attaching to them; and
- (b) the grants will be received.

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised in profit or loss of the period in which it becomes receivable.

Answers to the Descriptive Questions

6. Applicability of Income tax Audit on PQR Ltd.

The provisions relating to tax audit under section 44AB of the Income Tax Act, 1961 apply to every person carrying on business, if his total sales, turnover or gross receipts in business exceed the prescribed limit of ₹ 1 crore (Provided that in the case of a person whose aggregate of all amounts received including amount received for sales, turnover or gross receipts during previous year, in cash, does not exceed five per cent of said amount and aggregate of all payments made including amount incurred for expenditure, in cash, during the previous year does not exceed five per cent of the said payment, the limit of one crore rupees shall change to ten crore rupees) and to a person carrying on a profession, if his gross receipts from profession exceed the prescribed limit of ₹ 50 lakhs in any previous year. However, term "sales", "turnover" or "gross receipts" are not defined in the Act, and therefore the meaning of the aforesaid terms has to be considered for applicability of the section. Some of the points for merit consideration in this regard as discussed in the Guidance Note issued by ICAI are given below-

- (i) Discount allowed in the sales invoice will reduce the sale price and, therefore, the same can be deducted from the turnover.
- (ii) Cash discount otherwise than that allowed in a cash memo/sales invoice is in the nature of a financing charge and is not related to turnover. Therefore, should not be deducted from turnover.
- (iii) Turnover discount is normally allowed to a customer if the sales made to him exceed a particular quantity. As per trade practice, it is in nature of trade discount and should be deducted from figure.
- (iv) Special rebate allowed to a customer can be deducted from sales if it is in nature of trade discount. If it is in the nature of commission on sales, the same cannot be deducted from figure of turnover.
- (v) Price of goods returned should be deducted from the turnover even if the returns are from the sales made in the earlier years.
- (vi) Sale proceeds of any shares, securities, debentures, etc., held as investment will not form part of turnover. However, if the shares, securities, debentures etc., are held as stock-in-trade, the sale proceeds thereof will form part of turnover.

In the given case, PQR Ltd. is engaged in manufacturing business and also having 97% of the receipts and payments through account payee cheques. Therefore, the tax audit would be applicable if the turnover exceeds ₹ 10 crores during financial year 2023-24. The calculation of effective turnover for the prescribed limit purpose, in accordance with above-mentioned conditions, is given below:

Turnover during the year	₹10,50,00,000
Less: (i) Discount allowed in the Sales Invoice	(₹ 9,50,000)
(ii) Trade Discount	(₹ 5,30,000)
(iii) Sales Return	(₹ 6,60,000)
Effective turnover	₹ 10,28,60,000

The expected effective turnover of PQR Ltd. is ₹ 10,28,60,000 which is over and above the prescribed limit for tax audit under section 44AB of the Income Tax Act, 1961. Thus, the provisions related to tax audit would be applicable to the company and would therefore be liable for tax audit.

7. Accounting treatment for:

First Grant

The first grant for "Clear River Project" involving research into effects of various chemicals waste from the industrial area in Madhya Pradesh, **seems to be unconditional** as no details regarding its refund has been mentioned. Even though the research has not been started nor any major steps have been completed by Spectra Limited to commence research, yet the **grant will be recognised immediately in profit or loss** for the year ended 31st March, 2024.

Alternatively, in case, the grant is conditional as to expenditure on research, the grant will be recognised in the books of Spectra Limited over the year the expenditure is being incurred.

Second Grant

The second grant related to commercial development of a new equipment is a grant related to depreciable asset. As per the information given in the question, the equipment will be available for sale in the market by April, 2025. Hence, by that time, **grant relates to the construction of an asset and should be initially recognised as deferred income**. The deferred income should be recognised as income on a systematic and rational basis over the asset's useful life.

The entity should **recognise a liability on the balance sheet** for the years ending 31st March, 2024 and 31st March, 2025. Once the equipment starts being used in the manufacturing process, the deferred grant income of ₹ 2,00,000 should be recognised over asset's useful life to compensate for depreciation costs.

Alternatively, as per Ind AS 20, Spectra Limited would also be permitted to offset the deferred income of ₹ 2,00,000 against the cost of the equipment as on 1st April, 2025.

For Flood related compensation

Spectra Limited will be able to submit an application form only after 31st May, 2024 i.e. in the year 2024-25. Although flood happened in September, 2023 and loss was incurred due to flood related to the year 2023-24, the entity should **recognise the income from the government grant in the year when the application form related to it is submitted and approved by the government for compensation**.

Since, in the year 2023-24, the application form could not be submitted due to adoption of financials with respect to sales figure before flood occurred, **Spectra Limited should not recognise the grant income as it has not become receivable as on 31st March, 2024**.

8. Various TDS Compliances to be made by ABC Developers Ltd. are as follows:

- (i) **Section 194H** requires deduction of tax at source @ 5% from commission and brokerage payments to a resident. However, no tax is to be deducted at source where the amount of such payment does not exceed ₹ 15,000.

In the given case, 'PQR Packaging Ltd.', the consignee, has not remitted the commission of ₹ 60,000 to the consignor 'ABC Developers Ltd.' while remitting the sale consideration.

Since the retention of commission by the consignee/agent amounts to constructive payment of the same to him by the consignor/principal, deduction of tax at source is required to be made from the amount of commission [CBDT Circular No.619 dated 4/12/1991].

Therefore, ABC Developers Ltd. has to deduct tax at source on ₹ 60,000 at the rate of 5%, amounting to ₹ 3,000.

- (ii) **Section 192** provides that tax is required to be deducted on the payment made as salaries. Tax is to be deducted on the estimated income at the average of income tax computed on the basis of the rates in force for the financial year in which payment is made.

The employee may declare details of his other incomes (including loss under the head "Income from house property" but not any other loss) to his employer. In this case, since Mr. Raj has notified his employer ABC Developers Ltd. of loss from self-occupied house property, the employer has to take the same into consideration for deduction of tax at source.

Therefore, ABC Developers Ltd. is required to deduct tax at source on the salary of ₹ 60,000 per month paid to Mr. Raj, in the following manner:

Income under the head salaries (₹ 60,000 x 12)	7,20,000
Less: Standard deduction under section 16(ia)	<u>50,000</u>
	6,70,000
Income under the head "house property"	<u>(90,000)</u>
Gross total income	5,80,000
Less: Deduction under Chapter VI-A	<u>Nil</u>
Total Income	<u>5,80,000</u>
Tax on ₹ 5,80,000	28,500
Add: Health and Education cess @ 4%	<u>1,140</u>
Tax to be deducted at source	29,640

- (iii) The definition of "work" under Explanation to **section 194C** includes catering services and therefore, TDS provisions under section 194C are attracted in respect of payments to a caterer. As the payment exceeds ₹ 30,000, the Company is required to deduct tax at source at 2% on the payments made to catering organisation. If the catering organization is an individual or HUF, then the tax deduction shall be made @1%.
- (iv) **Section 194J** provides for deduction of tax at source @ 10% on any remuneration or fees or commission, by whatever name called, paid to a director, which is not in the nature of salary in respect of which tax is deductible at source under section 192. Hence, tax is to be deducted at source under section 194J @ 10% by ABC Developers Ltd. on the commission of ₹ 3,50,000 paid to DK, a part-time director. The tax deductible under section 194J would be ₹ 35,000, being 10% of ₹ 3,50,000.

OLD COURSE DIGEST

Case Study 13

Subjects	Topics Covered	Marks
FR	Ind AS 21	2
DT	TCS	9
IDT	E-way bill	7
Law	Companies Act (Section 197, 198, Schedule V)	7

- (1) Ideal Fabrics Ltd. is a Ludhiana based company incorporated in 1996. The company is one of the leading textile manufacturers of India having its presence across a wide spectrum, from manufacturing lowest to highest range of fabrics. The Company expanded its product offerings and entered into strategic alliance with leading global textile players to gain access to state-of-the-art technologies. Ideal Fabrics Ltd. is one of the very few vertically integrated fabric manufacturers in India producing large variety of fabrics in apparel segment serving large retailers across USA, Europe, Asia and other emerging nations.
- (2) In recent board meeting, the following particulars are extracted from statement of profit and loss of the company for the year ended 31.03.2024:

Particulars	Amount (₹)
Gross Profit	90,00,000
Profit on sale of building (Cost ₹ 15,00,000 and written down value ₹ 9,00,000)	7,50,000
Salaries & Wages	3,75,000
Sundry Repairs to Fixed Assets	1,50,000
Compensation for breach of contract	1,50,000
Depreciation as per section 123 of the Companies Act, 2013	2,10,000
Loss on sale of current Investments	3,00,000
Interest on unsecured loans	75,000
Interest on Debentures issued by Company	1,50,000
Repair Expenses to Fixed Assets (Capital in nature)	3,00,000
Net Profit (after giving effect of all the items given above)	19,50,000

The management of the company is asking from Company Secretary of the company regarding the overall managerial remuneration payable as per the provisions of Companies Act, 2013.

- (3) Mr. Rajesh is an independent director of the company. He plays a vital role in the management of the Company and contributes to major decision-making process of organisation. The Company pays sitting fees of ₹ 60,000 to him for every Board meeting he attends. The Articles of Association of the company have fixed the payment of sitting fees for each Meeting of Directors subject to a maximum of ₹ 60,000. In view of increased responsibilities of independent directors of companies, the company proposes to increase the sitting fees to ₹ 1,25,000 per meeting.
- (4) Ideal Fabrics Ltd. is registered under GST in Punjab. The product of the company is making its market worldwide because of its quality and price. One of the customer from Haryana, Mr Raju, is asking for a sample of the company. The company is first time sending its sample in Haryana. The company is generally involved in high value transactions but this time company is sending goods of taxable value of ₹ 48,000. The billing department of the company strongly believes that there is no need to generate e-way bill in respect of this consignment as the value is less than ₹ 50,000. The GST applicable on the above

goods is 18%. Hence the company did not issue the e-way bill in respect of above consignment.

- (5) The company wanted to add a new product in its range of products. In order to achieve this goal, the company has purchased a new machinery from USA for \$ 1,00,000 on 01.01.2024. The exchange rate on the date of transaction is 1 \$ = ₹ 68. The company is not required to pay for this purchase until 30.06.2024. The exchange rate as on 31.03.2024 is 1 \$ = ₹ 65. Mr. Mohan, the CFO of the company feels that the exchange fluctuation would not affect the financial statements of the Company. Hence, he did not make any changes in respect of currency fluctuations as on 31.03.2024.
- (6) The accounts team of the company is not able to understand the new TCS provision under section 206C(1H). So, Mr. Mohan discussed the issue with management of the company. Hence the company called their statutory auditors CA Rakesh Asija for the meeting. CA Rakesh visited the company and gave presentation on the above topic. CA Rakesh discussed the provisions in a brief manner. Mohan also discussed with him about the prestigious customers of the company i.e. Kunal Textiles & Madhu Textiles. The company has made sales to Kunal Textiles of ₹ 85 lakhs from 1st April 2023 to 30th September 2023 out of which payment of ₹ 45 lakhs was received till 30th September and amount received on or after 01.10.2023 is ₹ 40 lakhs. There is another buyer of the company Madhu Textiles to whom the company made sales upto 30.09.2023 ₹ 65 lakhs. Amount received upto 30.09.2023 is ₹ 55 lakhs. Sales made on or after 01.10.2023 is ₹ 30 lakhs. Amount received after 1.10.2023 is ₹ 40 lakhs. Company's turnover for the financial year 2022-23 exceeds ₹ 10 crores. The sales made to Kunal Textiles & Madhu Textiles are inclusive of GST and both the buyers have furnished their PAN.

Multiple Choice Questions

- As per relevant Section of TCS, the amount of TCS collected by seller shall be paid to the credit of Central Government within from the last day of the month in which the collection is made. These transactions are to be reported by the sellers in the Form no.
 - 15 days, 26Q
 - 7 days, 27EQ
 - 7 days, 27Q
 - 15 days, 27EQ
- If Ideal Fabrics Ltd. makes sale to Madhu Textiles of ₹ 18,00,000 (exclusive of GST @ 18%) on 18.02.2024 in addition to the sales data given in the case study, what would be the amount of TCS to be collected by Ideal Fabrics Ltd. on such additional sales, the payment in respect of such sales is made on the same date?
 - ₹ 1,800
 - ₹ 1,350
 - ₹ 1,593
 - ₹ 2,124
- With respect to para no. (4), which of the following statement is not correct in respect of E-way bill?
 - E-way bill is not valid for movement of goods without vehicle number on it.
 - Once E-way bill is generated, it can be edited for any mistake.
 - E-way bill can be cancelled within 24 hours of generation.
 - E-way bill is required to be generated even if movement of goods is by reasons other than supply.
- Calculate the amount of loss/gain as per Ind AS 21 in respect of machinery purchased by Ideal Fabrics Ltd. in foreign currency that needs to be recognised in the statement of profit and loss.

- (a) Gain – ₹ 6 Lakhs
 (b) Loss – ₹ 6 Lakhs
 (c) Gain – ₹ 3 Lakhs
 (d) Loss – ₹ 3 Lakhs
5. With reference to para no. (3), the director may receive remuneration under the Companies Act, 2013 by way of sitting fee for attending meetings of the board which shall not exceed:
- (a) ₹ 75,000
 (b) ₹ 1,00,000
 (c) ₹ 50,000
 (d) ₹ 80,000

Descriptive Questions

6. (a) Whether e-way bill in respect of material sent to Raju in Haryana is required to be generated?
 (b) With reference to last part of para no. (4), what will be the consequence for non-issuance of e-way bill?
7. (a) Compute the amount of TCS which needs to be collected from-
- Kunal Textiles Ltd., &
 - Madhu Textiles Ltd.
- (b) Discuss about the due dates of filing TCS Returns and furnishing of certificates to the buyer.
8. With reference to para no. (2), compute the overall managerial remuneration payable under the provisions of Companies Act, 2013 subject to provisions under Schedule V.

ANSWERS TO THE CASE STUDY 13

Answers to the Multiple Choice Questions

1. (b) 7 days, 27EQ

Reason: The person responsible for collecting tax shall deposit the TCS amount within 7 days from the last day of the month in which the tax was collected. Every tax collector shall submit Statement of TCS in Form 27EQ in respect of the tax collected by him.

2. (d) ₹ 2,124

Reason: The Government of India (GOI) in the Finance Bill, 2020 introduced a new sub section (1H) to section 206C of the Income Tax Act, 1961 (IT Act) that "Every person, being a seller, who receives any amount as consideration for sale of any goods of the value or aggregate of such value exceeding fifty lakh rupees in any previous year, other than the goods being exported out of India or goods covered in sub-section (1) or sub-section (1F) or sub-section (1G) shall, at the time of receipt of such amount, collect from the buyer, a sum equal to 0.1 per cent of the sale consideration exceeding fifty lakh rupees as income-tax." CBDT also clarified that the GST portion included in sale value would attract TCS u/s 206C(1H) of the Act.

Hence amount of TCS would be calculated as follows: Taxable value = 18,00,000

Add: GST = 18,00,000 * 18% = 3,24,000

Total Invoice value = 21,24,000

TCS = 0.1% on 21,24,000 = 2,124

3. (b) Once E-way bill is generated, it can be edited for any mistake.

Reason: Once e-way bill is generated, it cannot be edited for any mistake. However, it can be cancelled within 24 hours of generation.

4. (c) Gain – ₹ 3 Lakhs

Reason: As per Ind AS 21 "The effects of change in foreign Exchange Rates" the asset and liability would initially be recognised at the rate of exchange in force at the transaction date i.e. 01.01.2024. Therefore, amount initially recognised would be ₹ 68,00,000 (\$ 1,00,000 * ₹ 68)

The liability is a monetary item, so it is retranslated using the rate of exchange in force at 31.03.2024. This makes the closing liability of ₹ 65,00,000 (\$ 1,00,000 * ₹ 65)

The exchange gain of ₹ 3,00,000 (₹ 68,00,000 – ₹ 65,00,000) on translation of monetary items is recognised in statement of profit and loss.

5. (b) ₹ 1,00,000

Reason: As per Sec 197(5) of Companies Act, 2013, a director may receive remuneration by way of fee for attending meetings of the board or Committee thereof or for any other purpose whatsoever as may be decided by the Board subject to conditions imposed by Rule 4 of the companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 as under-

- The sitting fees shall not exceed ₹ 1,00,000 per meeting of the Board or Committee thereof
- The sitting fee payable to the independent directors and women directors shall not be less than that payable to other directors. (As per Proviso to Rule 4)

Answers to the Descriptive Questions

6. (a) Rule 138(1) of CGST Rules, 2017 provides that e-way bill is mandatorily required to be generated inter alia if a registered person causes movement of goods of consignment value exceeding ₹ 50,000 in relation to a supply.

Further explanation 2 to Rule 138(1) stipulates that the consignment value of goods shall be value determined in accordance with the provisions of Sec 15, declared in an invoice, a bill of supply or a delivery challan as the case may be, issued in respect of the said consignment and also includes CGST, SGST/UGST, IGST and cess charged, if any, in the document and shall exclude the value of exempt supply of goods where the invoice is issued in respect of both exempt and taxable supply of goods.

Accordingly, in the given case the consignment value will be as follows-

$$= ₹ 48,000 * 1.18 = ₹ 56,640$$

Since the movement of goods is in relation to supply of goods and the consignment value exceeds ₹ 50,000, e-way bill is mandatorily required to be issued in the given case.

- (b) **Consequence of non-issuance of e-way bill:** It is mandatory to generate e-way bill in all cases where the value of consignment being transported is more than ₹ 50,000 and it is not otherwise exempted in terms of Rule 138(14) of CGST Rules, 2017. If e-way bills, wherever required, are not issued in accordance with the provisions contained in rule 138, the same will be considered as contravention of rules. As per Sec 122(1)(xiv) of CGST Act, 2017, a taxable person who transports any taxable goods without the cover of specified documents (e-way bill is one of the specified

documents) shall be liable to penalty of ₹ 10,000 or tax sought to be evaded (wherever applicable) whichever is greater.

Moreover, as per Section 129(1) of CGST Act, 2017, where any person transports any goods or stores any goods while they are in transit in contravention of the provisions of this Act or the Rules made thereunder, all such goods and conveyance used as a means of transport for carrying the said goods and documents relating to such goods and conveyance shall be liable to detention or seizure.

7. (a) Kunal Textiles

S.N.	Particulars	Amount (₹)
(1)	Sales upto 30.09.2023	85 Lakhs
(2)	Amount received upto 30.09.2023	45 Lakhs
(3)	Amount received from 01.10.2023	40 Lakhs
	Amount Liable to TCS u/s 206C(1H)	35 Lakhs (amount exceeding ₹ 50 Lakhs)

Amount of TCS should be ₹ 35 Lakhs x 0.1% = ₹ 3,500

Madhu Textiles

S.N.	Particulars	Amount (₹)
(1)	Sales upto 30.09.2023	65 Lakhs
(2)	Amount received upto 30.09.2023	55 Lakhs
(3)	Sale made on or after 01.10.2023	30 Lakhs
(4)	Amount received from 01.10.2023	40 Lakhs
(5)	Total Amount received as sales consideration from Madhu Textiles	95 Lakhs
	Amount Liable to TCS u/s 206C(1H)	40 Lakhs (amount exceeding ₹ 50 lakhs)

Amount of TCS should be ₹ 40 Lakhs x 0.1% = ₹ 4,000

(b) The due dates for filing of TCS returns are mentioned below:

Quarter	Due Date	Due date of issuance of certificate
Q1. April to June	15 th of July	30 th of July
Q2. July to Sep	15 th of October	30 th of October
Q3. Oct to Dec.	15 th of January	30 th of January
Q4. Jan to Mar	15 th of May	30 th of May

8. The managerial remuneration shall be computed in accordance with the provisions laid down in section 198 of the Companies Act 2013 -

Particulars	Amount (₹)
Net profit	19,50,000
Less: Capital profits on sale of building (Note 1)	1,50,000
Salaries & Wages (Note 2)	-
Sundry repairs to fixed Assets (Note 2)	-
Compensation from breach of contract (Note 2)	-
Depreciation (Note 2)	-

Loss on Sale of Investments (Note 3)	-
Interest on unsecured loans (Note 2)	-
Interest on debentures (Note 2)	-
Add: Repair expenses to fixed assets (Capital in Nature) (Note 4)	3,00,000
Net profits as per section 198	21,00,000

Therefore, the overall maximum managerial remuneration shall be 11% of the Net profits computed in accordance with section 198 i.e. $11\% \times 21,00,000 = ₹ 2,31,000$.

Notes:

- (1) As per section 198(3), credit shall not be given for profits from the sale of any immovable property or fixed assets of a capital nature comprised in the undertaking or any of the undertakings of the company, unless the business of the company consists, whether wholly or partly, of buying and selling any such property or assets; provided that where the amount for which any fixed asset is sold exceeds the written-down value thereof, credit shall be given for so much of the excess as is not higher than the difference between original cost of that fixed asset and its written-down value.

Accordingly, the calculation of capital profit is computed as under:

Profit = Selling Price – Written down value

7,50,000 = Selling Price – 9,00,000. Therefore, Selling Price = 16,50,000.

Capital profit = 16,50,000 – 15,00,000 (original cost) = 1,50,000

- (2) According to section 198 (4), the following sums shall be deducted:
- All the usual working charges – salaries and wages are considered as usual working charges.
 - expenses on repairs, whether to immovable or to movable property, provided the repairs are not of a capital nature.
 - any compensation or damages to be paid in virtue of any legal liability including a liability arising from a breach of contract.
 - interest on debentures issued by the company.
 - interest on unsecured loans and advances.
 - depreciation to the extent specified in section 123.

Since all of the above charges are already deducted while arriving at net profit, no effect will be given.

- (3) According to section 198(5), loss of a capital nature including loss on sale of the undertaking or any of the undertakings of the company or any part thereof shall not be deducted. In the given question, the investments are current in nature and accordingly no effect is given as it is already deducted while arriving at net profit.
- (4) According to section 198(4), expenses on repairs, whether to immovable or to movable property is deducted only for repairs which are not capital in nature. Accordingly, we have added back to the net profit.

OLD COURSE DIGEST

Case Study 14

Subjects	Topics Covered	Marks
FR	Basic Accounting	2
DT	PGBP (Basics)	6
IDT	Value of Supply	2
SCPM	Basics Calculation (Revenue and Commission)	15

Aakash and Vani are close friends who were employed in the city of Delhi, far away from their respective home towns. Aakash is a software engineer while Vani is an MBA by profession. Both of them have spent considerable time in the industry to gain reasonable experience to launch their own startup. Both of them have decided to launch the operations in the area of tourism with effect from 1st April 2023, wherein the customers would be provided the complete package of tourist services in the domestic territories and in the international territories. After the round of discussions with the consultant, it was decided to incorporate a new partnership firm with the proposed name 'AakashVani Universal' (hereinafter referred as 'Aakashvani') with Aakash and Vani being the two partners in newly formed partnership firm.

Salary to partners is to be provided as per the maximum limits allowable as per Income-tax Act, 1961. This clause with sufficient details is also added in the partnership deed.

In the internet of things, travel business must be visible to the potential customers when they type keywords to find similar agencies on the web. This is called search engine optimization of a website. If the site does not appear on the top search results, most customers will not bother to find more sites. They will simply click on the top ranking sites. To improve its search engine optimization to find out the potential customers, the company has subscribed for the services of such kind for the period of 12 months starting from 1st June, 2023 for an agreed amount of ₹ 90,000.-

Aakashvani's revenue model in aggregate collects the following types of charges from the customers for every journey:

- (1) There are minimum fixed charges levied by Aakashvani for the type of package chosen by customer as per location and corresponding package and further the hotel charges are varied as per customer's number of days stay in the hotel as against the corresponding package and location:

Location	Package	Fixed charges (₹)	Per day hotel charges (₹)
India	Platinum	1,00,000	5,000
India	Diamond	75,000	4,000
India	Golden	50,000	3,000
India	Copper	40,000	2,000
India	Silver	25,000	1,000
Asia	Platinum	2,00,000	10,000
Asia	Diamond	1,75,000	9,000
Asia	Golden	1,50,000	8,000
Asia	Copper	1,00,000	7,000
Asia	Silver	75,000	6,000
Overseas*	Platinum	3,00,000	15,000

Overseas	Diamond	2,50,000	14,000
Overseas	Golden	2,00,000	13,000
Overseas	Copper	1,75,000	12,000
Overseas	Silver	1,50,000	11,000

*Note: Overseas hereinafter implies, locations other than India and Asia.

- (2) In addition to charges which are discussed in revenue model's point no.1, Aakashvani also collects charges as per the distance travelled by the customers from the base location, as measured in units of Kilometers.

Journey distance (In KM)	Location	Rate per KM (₹)
1-100	India	50
200-400	India	100
400-600	India	150
600-1000	India	200
Above 1000	India	250
1-100	Asia	500
200-400	Asia	400
400-600	Asia	300
600-1000	Asia	200
Above 1000	Asia	100
1-5000	Overseas	200
5001-7000	Overseas	150
7001-10000	Overseas	100
10001-12000	Overseas	75
Above 12000	Overseas	75

It is to be noted that charges which can be levied from the customers as per distance covered is subject to maximum of below limits:

Location	Maximum charges as per distance, that may be levied from a customer (₹)
India	1,00,000
Asia	1,75,000
Overseas	5,00,000

- (3) The company provides direct subsidy of ₹ 10,000 for all the visits to the specific holy places. The details of those places are as under:

Holy Place	Location
Mecca	Saudi Arabia (India)
Vatican City	Europe
Jerusalem	Israel (Asia)
12 Shiv Jyotirlingam	India
4 Dham	India
Golden Temple	Amritsar (India)
Bodh Gaya	Gaya (India)

Actual packages subscribed by customers during FY 2023-24 with relevant details are as below:

Customer	Location	Journey distance (Kilometers)	Package	Number of days stay in Hotel	Agency through which customer acquired
A	India	700	Platinum	4	Wonder Agent
B	Asia	550	Diamond	8	Universal agent
C	Overseas	6,100	Golden	3	Universal agent
D	India	1,800	Copper	6	Wonder Agent
E	Asia	2,000	Silver	5	Universal agent
F	India	500	Platinum	4	Direct
G	Overseas	7,000	Golden	5	Universal agent
H	Overseas	6,500	Copper	7	Universal agent
I	Overseas	9,500	Silver	4	Wonder Agent
J	India	1,200	Golden	14	Wonder Agent
K	Overseas	8,400	Diamond	2	Universal agent
L	Asia	1,800	Platinum	21	Wonder Agent
M	Asia	950	Copper	4	Wonder Agent
N	Overseas	5,500	Golden	10	Universal agent
O	India	700	Diamond	8	Universal agent
P	Asia	1,600	Platinum	15	Direct
Q	Asia	2,500	Copper	3	Universal agent
R	India	500	Golden	7	Universal agent
S	Overseas	7,000	Diamond	5	Wonder Agent
T	India	1,000	Copper	6	Universal agent

Note: The firm does not pay any commission on direct bookings.

The customers with following details have visited holy places during the year:

Customer	Holy Place
A	12 Shiv Jyotirlingam
H	Mecca
J	Golden Temple
T	Bodh Gaya

It may be noted that at present, Aakashvani has 2 travel agents: Wonder Agents and Universal agents, through which it acquires its business.

The tie ups with travel agents is facilitated by variety of services that include arranging airline tickets, making hotel and resort reservations, creating itineraries for tour or cruise packages and providing information about specific destinations.

The company pays two types of commissions to its agents, categorized and paid as per (1) Flat rate and (2) Passengers' count. The agents are paid respective commissions as per following details:

Flat rate: A flat rate travel agent commission is the simplest type of commission wherein every travel agent gets fixed standard amount on each customer's booking.

Commission rate (India)	Commission rate (Asia)	Commission rate (Overseas)
₹ 10,000	₹ 20,000	₹ 30,000

Passengers' count: In addition to the flat rate commission, the commission level Aakashvani pays an agency is determined by the business that has been acquired under that agency. Aakashvani pays them as per the passenger's volume, as per the rate pattern depicted below, wherein that slab rate of commission would be applied to travel agent for which he has done total number of customer's bookings during the year.

Passenger booking by agency during year	Commission rate per passenger (Domestic)	Commission rate per passenger (Asia)	Commission rate per passenger (Overseas)
1-5 passengers	2.5% of hotel charges & distance charges	5% of hotel charges & distance charges	7.5% of hotel charges & distance charges
6-10 passengers	5% of hotel charges & distance charges	7.5% of hotel charges & distance charges	10% of hotel charges & distance charges
11-20 passengers	7.5% of hotel charges & distance charges	10% of hotel charges & distance charges	12.5% of hotel charges & distance charges
21-50 passengers	10% of hotel charges & distance charges	12.5% of hotel charges & distance charges	15% of hotel charges & distance charges
Above 50 passengers	15% of hotel charges & distance charges	17.5% of hotel charges & distance charges	20% of hotel charges & distance charges

Assets purchased by Aakashvani during the year are:

Asset	Amount (₹)	Date of put to use
Air-conditioner	1,00,000	15/08/2023
Laptop	4,00,00	07/04/2023
Software	1,50,000	30/04/2023
Furniture	2,50,000	15/11/2023

The partnership firm has incurred following income and expenditure for the year ending 31 March 2024: (assume that all the revenue receivable from customers and expenses, which are required to be computed separately hereinabove have been correctly accounted for in the following figures, except depreciation and partners remuneration)

Particulars	Amount (₹)
Revenue from operations (including other income)	1,00,00,000
Advertisement	4,00,000
Salary to staff	8,50,000
Rental expenses	12,00,000
Repairs and Maintenance	3,00,000
Training and Development	4,50,000
Telecommunications cost	5,00,000
Conveyance	3,00,000
Other expenses (including commission to agents)	30,00,000

Multiple Choice Questions

1. How would the firm recognize expenses amounting to ₹ 90,000 related to search engine optimization?
 - (a) ₹ 90,000 is to be treated as an expense for current financial year.
 - (b) ₹ 90,000 is to be treated as prepaid expense for current financial year.
 - (c) ₹ 15,000 is to be treated as expense in current year and ₹ 75,000 as prepaid expense for current financial year.
 - (d) ₹ 75,000 is to be treated as expense in current year and ₹ 15,000 as prepaid expense for current financial year.
2. Air travel agent is a person who is engaged in providing services connected with the booking of passage for travel by air. What the provisions of GST are for air travel agents as the value of supply of service?
 - (a) 5% of the basic fare in case of the domestic booking for travel by air and 10% of the basic fare in case of an international booking for travel by air.
 - (b) 2.5% of the basic fare in case of the domestic booking for travel by air and 5% of the basic fare in case of an international booking for travel by air.
 - (c) 10% of the basic fare in case of the domestic booking for travel by air and 5% of the basic fare in case of an international booking for travel by air.
 - (d) 5% of the basic fare in case of the domestic booking for travel by air and 5% of the basic fare in case of an international booking for travel by air.
3. Calculate depreciation as per Income-tax Act, 1961 in Aakashvani's books for assessment year 2024-25.
 - (a) ₹ 2,60,000
 - (b) ₹ 3,57,500
 - (c) ₹ 1,67,500
 - (d) ₹ 2,47,500
4. Calculate the maximum remuneration allowed to partners as per section 40b of Income- tax Act, 1961 in Aakashvani's books for assessment year 2024-25.
 - (a) ₹ 18,90,000
 - (b) ₹ 17,41,500
 - (c) ₹ 18,00,000
 - (d) ₹ 24,77,250
5. Calculate the tax payable by Aakashvani as per Income-tax Act,1961 for assessment year 2024-25.
 - (a) ₹ 9,36,000
 - (b) ₹ 8,58,780
 - (c) ₹ 3,43,512
 - (d) ₹ 3,15,432

Descriptive Questions

6. Calculate the revenue receivable for FY 2023-24 of Aakashvani, from the packages subscribed by customers as per its revenue model.
7. Calculate the commission to be paid by Aakashvani to its respective travel agents for FY 2023-24.

ANSWERS TO THE CASE STUDY 14

Answers to the Multiple Choice Questions

1. (d) ₹ 75,000 is to be treated as expense in current year and ₹ 15,000 as prepaid expense for current financial year.

Reason: On accrual basis, for the given expenditure of ₹ 90,000; 10 months relate to FY 2023-24 and 2 months relate to FY 2024-25.

Accordingly, expenditure of ₹ 75,000 ($90,000 \times 10/12$) relates to FY 2023-24, it is to be charged as expense and ₹ 15,000 ($90,000 \times 2/12$) would be treated as Prepaid expense as on 31 March, 2024.

2. (a) 5% of the basic fare in case of the domestic booking for travel by air and 10% of the basic fare in case of an international booking for travel by air.

Reason: Rule 32 of the Central Goods and Service Tax Rules, 2017 deals with the value in case of certain supplies and as per rule 32 (3) of the said rules provides that the value of supply of service in case of air travel agent shall be deemed to be following:

- 5% of the basic fare in case of the domestic booking for travel by air; and
- 10% of the basic fare in case of an international booking for travel by air.

'Basic fare' here is the portion of air fare on which commission is paid by airline to air travel agent.

3. (d) ₹ 2,47,500

Reason:

Calculation of Depreciation as per Income-tax Act, 1961

Block of assets	WDV at year beginning	Depreciation rate	Additions (more than 6 months)	Additions (less than 6 months)	Depreciation	WDV at year end
AC	-	15%	1,00,000	-	15,000	85,000
Laptop	-	40%	4,00,000	-	1,60,000	2,40,000
Software	-	40%	1,50,000	-	60,000	90,000
Furniture	-	10%	-	2,50,000	12,500	2,37,500
Total	-		6,50,000	2,50,000	2,47,500	6,52,500

4. (b) ₹ 17,41,500

Reason:

Particulars	Amount (₹)
Revenue from operations (including other income)	1,00,00,000
Less: Sundry expenses	70,00,000
Depreciation	2,47,500
Book profit before partners remuneration	27,52,500

On first ₹ 3,00,000 of the book-profit [A] = ₹ 2,70,000 (₹ 1,50,000 or at the rate of 90 per cent of the book-profit, whichever is more)

On the balance of the book-profit [B] = ₹ 14,71,500 (at the rate of 60 percent of ₹ 24,52,500)

Maximum allowable remuneration [A]+[B] = ₹ 17,41,500

5. (d) ₹ 3,15,432

Reason:

Particulars	Amount (₹)
Net profit before tax (27,52,500 - 17,41,500) (Taxable income)	10,11,000
Income Tax @ 30% (A)	3,03,300
Health & Education cess @ 4% (B)	12,132
Total tax liability (A) + (B)	3,15,432

Answers to the Descriptive Questions

6. Computation of Revenue levied from customers:

(All amounts are in Rupees, unless otherwise specified)

Customer	Location	Package	No. of days stay in Hotel (A)	Fixed charges (B)	Per day Hotel charges (C)	Hotel charges (D) = (A) x (C)	Billable distance charges (note) (E)	Subsidy, if any (F)	Total (B) + (D) + (E) - (F)
A	India	Platinum	4	1,00,000	5,000	20,000	1,00,000	10,000	2,10,000
B	Asia	Diamond	8	1,75,000	9,000	72,000	1,65,000	-	4,12,000
C	Overseas	Golden	3	2,00,000	13,000	39,000	5,00,000	-	7,39,000
D	India	Copper	6	40,000	2,000	12,000	1,00,000	-	1,52,000
E	Asia	Silver	5	75,000	6,000	30,000	1,75,000	-	2,80,000
F	India	Platinum	4	1,00,000	5,000	20,000	75,000	-	1,95,000
G	Overseas	Golden	5	2,00,000	13,000	65,000	5,00,000	-	7,65,000
H	Overseas	Copper	7	1,75,000	12,000	84,000	5,00,000	10,000	7,49,000
I	Overseas	Silver	4	1,50,000	11,000	44,000	5,00,000	-	6,94,000
J	India	Golden	14	50,000	3,000	42,000	1,00,000	10,000	1,82,000
K	Overseas	Diamond	2	2,50,000	14,000	28,000	5,00,000	-	7,78,000
L	Asia	Platinum	21	2,00,000	10,000	2,10,000	1,75,000	-	5,85,000
M	Asia	Copper	4	1,00,000	7,000	28,000	1,75,000	-	3,03,000
N	Overseas	Golden	10	2,00,000	13,000	1,30,000	5,00,000	-	8,30,000
O	India	Diamond	8	75,000	4,000	32,000	1,00,000	-	2,07,000
P	Asia	Platinum	15	2,00,000	10,000	1,50,000	1,60,000	-	5,10,000
Q	Asia	Copper	3	1,00,000	7,000	21,000	1,75,000	-	2,96,000
R	India	Golden	7	50,000	3,000	21,000	75,000	-	1,46,000
S	Overseas	Diamond	5	2,50,000	14,000	70,000	5,00,000	-	8,20,000
T	India	Copper	6	40,000	2,000	12,000	1,00,000	10,000	1,42,000
		Total		27,30,000		11,30,000	51,75,000	40,000	89,95,000

Note: Calculation of Billable distance charges

Customer	Location	Distance taken (Kilometres) (A)	Cost per kilometre (B)	Actual Distance charges (C) = (A) x (B)	Maximum cap of distance charges (D)	Billable distance charges [Lower of (C) & (D)]

A	India	700	200	1,40,000	1,00,000	1,00,000
B	Asia	550	300	1,65,000	1,75,000	1,65,000
C	Overseas	6,100	150	9,15,000	5,00,000	5,00,000
D	India	1,800	250	4,50,000	1,00,000	1,00,000
E	Asia	2,000	100	2,00,000	1,75,000	1,75,000
F	India	500	150	75,000	1,00,000	75,000
G	Overseas	7,000	150	10,50,000	5,00,000	5,00,000
H	Overseas	6,500	150	9,75,000	5,00,000	5,00,000
I	Overseas	9,500	100	9,50,000	5,00,000	5,00,000
J	India	1,200	250	3,00,000	1,00,000	1,00,000
K	Overseas	8,400	100	8,40,000	5,00,000	5,00,000
L	Asia	1,800	100	1,80,000	1,75,000	1,75,000
M	Asia	950	200	1,90,000	1,75,000	1,75,000
N	Overseas	5,500	150	8,25,000	5,00,000	5,00,000
O	India	700	200	1,40,000	1,00,000	1,00,000
P	Asia	1,600	100	1,60,000	1,75,000	1,60,000
Q	Asia	2,500	100	2,50,000	1,75,000	1,75,000
R	India	500	150	75,000	1,00,000	75,000
S	Overseas	7,000	150	10,50,000	5,00,000	5,00,000
T	India	1,000	200	2,00,000	1,00,000	1,00,000
		Total		91,30,000		51,75,000

7. Calculation of commission for Wonder Agent:-----

(All amounts are in Rupees, unless otherwise specified)

Customer	Location	Agency	Fixed commission (A)	Hotel charges levied from customer (B)	Distance charges (C)	Total (D) = (B) + (C)	Commission on Domestic travels (E)	Commission on Asia travels (F)	Commission on Overseas travels (G)	Total commission (A)+(E) + (F)+(G)
A	India	Wonder Agent	10,000	20,000	1,00,000	1,20,000	6,000	-	-	16,000
D	India	Wonder Agent	10,000	12,000	1,00,000	1,12,000	5,600	-	-	15,600
I	Overseas	Wonder Agent	30,000	44,000	5,00,000	5,44,000	-	-	54,400	84,400
J	India	Wonder Agent	10,000	42,000	1,00,000	1,42,000	7,100	-	-	17,100
L	Asia	Wonder Agent	20,000	2,10,000	1,75,000	3,85,000	-	28,875	-	48,875

M	Asia	Wonder Agent	20,000	28,000	1,75,000	2,03,000	-	15,225	-	35,225
S	Overseas	Wonder Agent	30,000	70,000	5,00,000	5,70,000	-	-	57,000	87,000
Total			1,30,000				18,700	44,100	1,11,400	3,04,200

Note: Total 7 bookings are done by Wonder Agent, hence following slab of commission rate would be payable:

Passenger count	Commission rate per passenger (Domestic)	Commission rate per passenger (Asia)	Commission rate per passenger (Overseas-other than Asia)
6-10 passengers	5% of hotel charges & distance charges	7.5% of hotel charges & distance charges	10% of hotel charges & distance charges

Calculation of commission for Universal Agent:

Customer	Location	Agency	Fixed commission (A)	Hotel charges levied from customer (B)	Distance charges	Total (D) = (B) + (C)	Commission on Domestic travels (E)	Commission on Asia travels (F)	Commission on Overseas travels (G)	Total commission (A) + (E) + (F) + (G)
B	Asia	Universal agent	20,000	72,000	1,65,000	2,37,000	-	23,700	-	43,700
C	Overseas	Universal agent	30,000	39,000	5,00,000	5,39,000	-	-	67,375	97,375
E	Asia	Universal agent	20,000	30,000	1,75,000	2,05,000	-	20,500	-	40,500
G	Overseas	Universal agent	30,000	65,000	5,00,000	5,65,000	-	-	70,625	1,00,625
H	Overseas	Universal agent	30,000	84,000	5,00,000	5,84,000	-	-	73,000	1,03,000
K	Overseas	Universal agent	30,000	28,000	5,00,000	5,28,000	-	-	66,000	96,000
N	Overseas	Universal agent	30,000	1,30,000	5,00,000	6,30,000	-	-	78,750	1,08,750
O	India	Universal agent	10,000	32,000	1,00,000	1,32,000	9,900	-	-	19,900
Q	Asia	Universal agent	20,000	21,000	1,75,000	1,96,000	-	19,600	-	39,600
R	India	Universal agent	10,000	21,000	75,000	96,000	7,200	-	-	17,200
T	India	Universal agent	10,000	12,000	1,00,000	1,12,000	8,400	-	-	18,400
Total			2,40,000				25,500	63,800	3,55,750	6,85,050

Note: Total 11 bookings are done by Universal Agent, hence following commission rate would be payable:

Passenger count	Commission rate per passenger (Domestic)	Commission rate per passenger (Asia)	Commission rate per passenger (Overseas- other than Asia)
11-20 passengers	7.5% of hotel charges & distance charges	10% of hotel charges & distance charges	12.5% of hotel charges & distance charges

OLD COURSE DIGEST

Case Study 15

Subjects	Topics Covered	Marks
FR	Ind AS 12	6
DT	Capital Gains, TDS	14
IDT	Bill of Supply, Payment of Tax	5

Akshay is currently working in one of the top multinational companies of the world in Gurugram namely Kishaniti Limited. At present he is residing in a rented flat in Gurugram itself. Akshay is the Vice-President, Finance of the said company for its Asia-Pacific operations. Akshay is paid reasonably well by his company as per his designation. Akshay lives in a rented premium luxury flat in one of the premium colonies of the region. Akshay pays a monthly rent of ₹ 1,00,000 for the said flat. However, there are 2 joint owners of the said property. As per the agreement, Akshay is required to make the payment of ₹ 75,000 to joint owner 1 and ₹ 25,000 to joint owner 2. Akshay has basic understanding that TDS needs to be deducted at the rate of 10% of other party if the aggregate amount of rent credited or paid or likely to be credited or paid during the financial year exceeds ₹ 2,40,000. However, the landlord has shown a reference of website to Akshay that individuals and/or HUFs who are subject to tax audit are only under an obligation to deduct the tax at source. Akshay being a salaried Individual is not required to deduct the TDS of other party. Akshay on the influence of landlord(s) has done the same and is depositing the gross amount of ₹ 1,00,000 in their respective bank accounts.

Recently a new accountant, Rohit has been hired by the company. The company has the following data shown in its books of accounts for the month of March, 2024 (1st March 2024 to 31st March 2024).

Particulars	Amount (₹)
Central goods and service tax payable	2,70,000
Integrated goods and service tax payable	1,80,000
State goods and service tax payable	2,70,000
Central goods and service tax receivable	70,000
State goods and service tax receivable	70,000
Integrated goods and service tax receivable	80,000
TDS receivable	50,000
TDS payable (including earlier carried forward balance)	90,000
TCS payment	10,000

Note: Assume that the figures as shown above are computed correctly after incorporating all adjustments.

According to Rohit, company needs to make the net payment of ₹ 40,000 for TDS i.e. net of TDS payable and TDS receivable. Accountant needs the help of Akshay for the exact final amount of each statutory liability to be paid on net basis for the month of March, 2024.

Accountant has been told by Akshay to show the treatment of entries done for given transactions so that TDS payable for March, 2024 can be ascertained accurately. Before the deposit of TDS, Akshay wants to cross verify data to check discrepancy, if any. The company has following data in its books of accounts for March 2024.

Date	Supplier	Company/ Non company	Invoice amount (₹) (A)	GST (₹) (B)	Gross Invoice (A) + (B)	Nature of Supply	Remarks

03.03.2024	Mohammad Shah & Brothers	Firm	2,00,000	36,000	2,36,000	Labour contractor	
01.03.2024	Madan Lal	Individual	1,20,000	-	1,20,000	Contract for AMC of electrical equipments for 1 year	PAN not available
10.03.2024	Johnsons appliances Pvt. Ltd.	Company	10,00,000	1,20,000	11,20,000	Purchase of Heavy machinery	
10.03.2024	Eagle Watch Security Pvt. Ltd.	Company	80,000	14,400	94,400	Security Services	
13.03.2024	Mariol Limited	Company	5,00,000	25,000	5,25,000	Goods in normal course of business	
18.03.2024	Shah & Thapa HUF	HUF	50,000	-	50,000	Interest on unsecured loans	
20.03.2024	M/s PQR	Firm	1,20,000	21,600	1,41,600	Consultancy fees paid to chartered accountant	
23.03.2024	Divine Decorators Private Limited	Company	1,80,000	32,400	2,12,400	Technical fees for architectural services	Certificate u/s 197 issued by AO for lower deduction at 2.5%
26.03.2024	Good luck Home solutions	Individual	1,75,000	31,500	2,06,500	Brokerage paid for purchase of immovable property	
30.03.2024	Chotu Lal	Individual	15,000	-	15,000	Services for white wash of building	This is his first invoice to company in the given financial year
01.03.2024	Easy-lifts Limited	Company	1,44,000	25,920	1,69,920	AMC for maintenance of lifts for 1 year	
29.03.2024	Lotus Private Limited	Company	2,00,000	36,000	2,36,000	Rent paid for corporate office	Company pays rent of ₹ 2 lakh per month

Assume that all the above transactions have been executed from within the state only.

The company filed the TDS return for the month of March 2024 as on, 10th June 2024.

One of the companies of group promoters, Shivalik Private Limited is separately funded by the promoters of their own equity. Strategically that company's operations do not hold much significance from the director's vision. The directors want to ensure that this company comes under the ambit of composition scheme and

want to pay taxes thereon under tax rates mentioned under the composition levy scheme. The company operates from 2 locations in the same state from where the supplies are executed. Since the commencement of operations in the company, only supplies within the state are made. During the preceding financial year, the company has following relevant information for the respective locations from its books.

Location 1

Particulars	Amount (₹)
Taxable supplies	60,00,000
GST @18% on taxable supplies which could have been levied on taxable supplies	10,80,000
Exports during the year	20,00,000
Exempt supplies	25,00,000
Value of inward supplies on which tax is payable under reverse charge	5,00,000

Location 2

Particulars	Amount (₹)
Taxable supplies	25,00,000
GST @18% on taxable supplies which could have been levied on taxable supplies	5,40,000
Exports during the year	10,00,000
Exempt supplies	5,00,000
Value of inward supplies on which tax is payable under reverse charge	2,00,000

Following particulars relate to property which has been sold by Kishaniti Ltd. during financial year 2023-24.

Particulars	Amount (₹)
Date of sale	01.12.2023
Sale price of the property	40,00,000
Brokerage on sale	1% of sale value
Purchase value	20,00,000
Brokerage on Purchase	1% of Purchase value
Date of Purchase	08.12.2022

Cost Inflation Index for different years:

Financial Year	Cost Inflation Index
2015-2016	254
2016-2017	264
2017-2018	272
2018-2019	280
2019-2020	289
2020-2021	301
2021-2022	317
2022-2023	331
2023-2024	348

Following information as extracted from company's financials is relevant for the year ending 31st March 2024.

Particulars	Amount (₹)

Profit before taxation	1,00,00,000
Depreciation as per Income tax	20,00,000
Depreciation as per Companies Act, 2013	15,00,000
Corporate social responsibility expenses	3,00,000
Closing Written down value of assets as per Income tax	8,00,00,000
Closing Written down value of assets as per Companies Act, 2013	10,00,00,000
Provision for doubtful debts	5,00,000
Donations	4,00,000
Interest on late payment of TDS	1,70,000
Penalty for violation of law	30,000

Assume the income tax rate to be 25%.

After analysis of the stated issues, answer the following questions based on applicable framework.

Multiple Choice Questions

- Calculate the amount of capital gain for sale of property executed on 01.12.2023.
 - ₹ 19,60,000 - Short term capital gain
 - ₹ 19,40,000 - Short term capital gain
 - ₹ 20,00,000 - Short term capital gain
 - ₹ 18,78,715 - Long term capital gain
- Calculate amount of deferred tax liability to be shown in company's balance sheet as at 31st March 2024.
 - Deferred tax liability - ₹ 53,50,000
 - Deferred tax liability - ₹ 51,25,000
 - Deferred tax liability - ₹ 2,50,000
 - Deferred tax liability - ₹ 52,42,500
- What is the name of document which Shivalik Private Limited will have to issue w.r.t. sales made by it _____ if it gets registered under the GST scheme directors are rooting for?
 - Tax Invoice
 - Invoice
 - Bill of supply
 - Bill of composition
- The Payment made to Good Luck Home Solutions requires TDS to be deducted at the rate of?
 - 5%
 - 10%
 - 2.5%
 - 3.75%
- Calculate the fees on late filing of TDS return if any which the company has to pay as per facts mentioned in case study.
 - Nil

- (b) ₹ 2,000
 (c) ₹ 1,000
 (d) ₹ 12,800

Descriptive Questions

6. Pass complete Journal entries at the time of initial recognition of transactions in the books which relate to TDS after the consideration of provisions or rules as the case may be whether of accounting, Income tax or GST. And calculate the total amount of TDS which is required to be paid as liability for the month of March 2024. Also compute the total amount to be paid to suppliers.
7. Being Akshay, help the accountant to find the liability of statutory dues to be paid in the Government treasury for the month of March 2024.

ANSWERS TO THE CASE STUDY 15

Answers to the Multiple Choice Questions

1. (b) ₹ 19,40,000 - Short term capital gain

Reason: Calculation of Short term capital gain:

Particulars	Amount (₹)
Sale price of the property	40,00,000
Less: Transfer expenses on sale-Brokerage	(40,000)
Net Sale Consideration	39,60,000
Less: Purchase Price of property	(20,00,000)
Less: Cost of transfer	(20,000)
Short Term Capital Gain	19,40,000
Less: exemptions under sections 54, etc.	Nil
Net Short Term Capital Gain	19,40,000

2. (b) Deferred tax liability - ₹ 51,25,000

Reason: Calculation of deferred tax liability:

Particulars	Amount (₹)
Closing Written down value of assets as per Income tax	8,00,00,000
Closing Written down value of assets as per Companies Act, 2013	10,00,00,000
Difference in Closing WDV of assets as per Companies Act & Income-tax Act [A]	2,00,00,000
Provision for doubtful debts [B]	5,00,000
Total [A] + [B]; [C]	2,05,00,000
Tax rate [D]	25%
Closing balance of Deferred tax liability [C] x [D] [2,05,00,000 x 25%]	51,25,000

Note: There is no treatment of permanent differences in deferred tax calculation as per Ind AS 12.

3. (c) Bill of Supply.

Reason: Suppliers opting for composition levy are not required to raise any tax invoice, but simply need to issue a Bill of Supply wherein no tax will be charged from the recipient.

4. (a) 5%

Reason: As per Section 194H, any person other than an individual or HUF, who is responsible for paying any income by way of commission (other than insurance commission) or brokerage to a resident shall deduct income tax at the rate of 5%.

5. (b) ₹ 2,000

Reason: As per section 234E, where a person fails to file the TDS/TCS return on or before the due date prescribed in this regard, then he shall be liable to pay, by way of fee, a sum of ₹ 200 for every day during which the failure continues. The amount of late fees shall not exceed the amount of TDS.

The due date for filing return for March 2024 is 31st May 2024; however, the company has filed the TDS return on 10th June 2024. Accordingly, there is delay of 10 days, for which the company has to pay late fees of ₹ 2000 (10 days x ₹ 200/day).

Answers to the Descriptive Questions

6. Statement of TDS deduction of suppliers for the month of March 2024:

Date	Supplier	Company / Non company	Section	Taxable amount (₹) [A]	TDS Rate [B]	TDS amount (₹) [C] = [A]x[B]	Payable to supplier (₹) [Invoice amt. - [C]]	Remarks
03.03.2024	Mohammad shah & brothers	Firm	194C	2,00,000	2%	4,000	2,32,000	Normal Rate of TDS in case of Firm as contractor is 2%.
01.03.2024	Madan Lal	Individual	194C	1,20,000	20%	24,000	96,000	TDS deducted at the higher rate of 1% and 20%
10.03.2024	Johnsons appliances Pvt. Ltd.	Company	-	-	0%	-	11,20,000	TDS is not to be deducted on machinery purchase
10.03.2024	Eagle watch security Pvt. Ltd.	Company	194C	80,000	2%	1,600	92,800	Normal Rate of TDS in the nature of contract services is 2% for company
13.03.2024	Mariol Limited	Company	-	-	0%	-	5,25,000	No TDS
18.03.2024	Shah & Thapa HUF	HUF	194A	50,000	10%	5,000	45,000	
20.03.2024	M/s PQR	Firm	194J	1,20,000	10%	12,000	1,29,600	
23.03.2024	Divine Decorators Pvt. Ltd.	Company	194J	1,80,000	2.5%	4,500	2,07,900	TDS deducted at lower rate due to certificate from AO
26.03.2024	Good luck Home solutions	Individual	194H	1,75,000	5%	8,750	1,97,750	

30.03.2024	Chotu Lal	Individual	-	15,000	-	-	15,000	Limit for section 194C is ₹ 30,000 for single invoice and ₹ 1,00,000 in aggregate
01.03.2024	Easylifts Limited	Company	194C	1,44,000	2%	2,880	1,67,040	
29.03.2024	Lotus Pvt. Ltd.	Company	194I	2,00,000	10%	20,000	2,16,000	
TOTAL						82,730	30,44,090	

Journal Entries

Date	Particulars	Debit (₹)	Credit (₹)
03.03.2024	Labour expenses A/c	2,00,000	
	CGST Receivable	18,000	
	SGST Receivable	18,000	
	To Mohammad Shah & Brothers		2,32,000
	To TDS payable u/s 194C		4,000
(Being bill booked against corresponding deduction of TDS as per invoice no. xxx)			

Date	Particulars	Debit (₹)	Credit (₹)
01.03.2024	Repairs & Maintenance A/c	10,000	
	Prepaid expenses A/c	1,10,000	
	To Madan Lal		96,000
	To TDS payable u/s 194C		24,000
	(Being bill booked as per invoice no. xxx)		

Date	Particulars	Debit (₹)	Credit (₹)
10.03.2024	Property, Plant & Equipment A/c	10,00,000	
	CGST Receivable	60,000	
	SGST Receivable	60,000	
	To Johnsons Appliances Pvt. Ltd.		11,20,000
	(Being bill booked for machinery purchase as per invoice no. xxx)		

Date	Particulars	Debit (₹)	Credit (₹)
10.03.2024	Security expenses A/c	80,000	
	CGST Receivable	7,200	
	SGST Receivable	7,200	
	To Eagle Watch Security Pvt Ltd.		92,800
	To TDS payable u/s 194C		1,600
(Being bill booked against corresponding deduction of TDS as per invoice no. xxx)			

Date	Particulars	Debit (₹)	Credit (₹)
13.03.2024	Purchase of goods A/c	5,00,000	
	CGST Receivable	12,500	
	SGST Receivable	12,500	

	To Mariol Limited		5,25,000
	(Being bill booked for goods purchase as per invoice no. xxx)		
Date	Particulars	Debit (₹)	Credit (₹)
18.03.2024	Interest on unsecured loans	50,000	
	To Shah & Thapa HUF		45,000
	To TDS payable u/s 194A		5,000
	(Being bill booked as per invoice no. xxx)		
Date	Particulars	Debit (₹)	Credit (₹)
20.03.2024	Professional charges A/c	1,20,000	
	CGST Receivable	10,800	
	SGST Receivable	10,800	
	To M/s PQR		1,29,600
	To TDS payable u/s 194J		12,000
	(Being bill booked against corresponding deduction of TDS as per invoice no. xxx)		
Date	Particulars	Debit (₹)	Credit (₹)
23.03.2024	Professional charges A/c	1,80,000	
	CGST Receivable	16,200	
	SGST Receivable	16,200	
	To Divine Decorators Private Limited		2,07,900
	To TDS payable u/s 194J		4,500
	(Being bill booked against corresponding deduction of TDS as per invoice no. xxx)		
Date	Particulars	Debit (₹)	Credit (₹)
26.03.2024	Brokerage charges A/c	1,75,000	
	CGST Receivable	15,750	
	SGST Receivable	15,750	
	To Good Luck Home Solutions		1,97,750
	To TDS payable u/s 194H		8,750
	(Being bill booked against corresponding deduction of TDS as per invoice no. xxx)		
Date	Particulars	Debit (₹)	Credit (₹)
30.03.2024	Repairs & Maintenance A/c	15,000	
	To Chotu Lal		15,000
	(Being bill booked as per invoice no. xxx)		
Date	Particulars	Debit (₹)	Credit (₹)
01.03.2024	Repairs & Maintenance A/c	12,000	
	Prepaid expenses A/c	1,32,000	
	CGST Receivable	12,960	
	SGST Receivable	12,960	

	To Easy Lifts Limited		1,67,040
	To TDS payable u/s 194C		2,880
	(Being bill booked against corresponding deduction of TDS as per invoice no. xxx)		
Date	Particulars	Debit (₹)	Credit (₹)
29.03.2024	Rent A/c	2,00,000	
	CGST Receivable	18,000	
	SGST Receivable	18,000	
	To Lotus Private Limited		2,16,000
	To TDS payable u/s 194I		20,000
	(Being bill booked against corresponding deduction of TDS as per invoice no. xxx) as per invoice no. xxx)		

7. Calculation of Net GST liability to be paid for the month of March 2024:

Particulars	CGST (₹)	SGST (₹)	IGST (₹)	Total (₹)
GST payable (A)	2,70,000	2,70,000	1,80,000	7,20,000
GST Input receivable (B)	70,000	70,000	80,000	2,20,000
Net GST payable (A) - (B)	2,00,000	2,00,000	1,00,000	5,00,000

TDS/TCS liability to be paid for the month of March 2024:

Particulars	Amount (₹)
TDS payable (including earlier carried forward balance)	90,000
TCS payment	10,000
Total	1,00,000

Note: TDS Payable and TDS receivable cannot be set off against each other for the purpose of making monthly payment of TDS dues.

OLD COURSE DIGEST

Case Study 16

Subjects	Topics Covered	Marks
FR	Ind AS 115	4
Audit	Professional Ethics	4
DT	PGBP (Basics)	5
IDT	Value of Supply, Appeals	7
Law	IBC (Section 53)	5

M/s ABCD & Co. is a firm of Chartered Accountants, with its headquarters at Kolkata and branches at many places across the country. Mr. A, Mr. B, Mrs. C and Mr. D are Chartered accountants who are the Partners of this firm and have expertise in different sectors of the economy and render their services accordingly in the firm by forming teams of Audit Staff & articled assistants under their supervision. The Firm has ventured into Tax Audits, Statutory audits, GST, Insolvency Procedures and Financial services. It has a policy of rotating the audit staff among different teams within the Firm itself so that at the end of their article ship training, they would have gained a good knowledge & experience of working as a Chartered Accountant in different sectors and subjects in the economy and their Articles could choose an expertise career accordingly on that basis. Where Mr. A handles all the matters related to accounting and auditing of their clients, Mr. B is responsible for all the GST related matters & Mrs. C takes care of all the Legal matters and their compliances. Mr. D looks after the day to day affairs of the firm, the recruitments, the supervision, the tax matters and the work allotment. Each division in the firm has got some major and important clients for whom the Partners themselves are very particular and take proper care of the quality of work they deliver. Post COVID-19 Pandemic, majority of the firm's clients are stuck with some issues and the Partners are trying their best to resolve them, some major and important issues being discussed are as follows:

ISSUE: 1

Batliwala Pvt. Ltd. is a very old client of M/s ABCD & Co. It is associated with the firm since its inception and the client relations have grown well with time. The General Manager of Batliwala Pvt. Ltd., Mr. Shah, visits Mr. B in the office one day with two particular issues relating to GST and seeks his advice. He tells him that their Company manufactures Industrial products at its unit situated in West Bengal. Cost of production for 500 products is ₹ 10,00,000. These products require further processing before sale, and for this purpose, products are transferred from its Bengal unit to its another unit in Arunachal Pradesh. The value declared on the invoice for such transfer is the cost of production of such products. The Arunachal Pradesh unit, apart from processing its own products, engages in processing of similar products of other persons who supply the products of the same kind and quality. Thereafter, the Arunachal Pradesh unit sells these processed products to wholesalers. There are no other factories in the neighboring area which are engaged in the same business as that of Arunachal Pradesh unit. 1,000 units of the products of same kind and quality are supplied to Arunachal Pradesh unit, by another manufacturer located in Arunachal Pradesh, at the time when goods are sent by Bengal unit as well. The ex-factory price of such goods is ₹ 19,00,000. The Arunachal Pradesh unit of Batliwala Pvt. Ltd. is eligible for full ITC.

ISSUE: 2

Roy LLP, one of their clients have been hiring their services since the past 2 years. Mrs. C has been looking over all their Legal matters & compliances from time to time. The said LLP has committed a default. Being, a partner of the said Corporate Debtor, Mr. Y filed an application on behalf of the Corporate Debtor, as a corporate

applicant, for initiation of Corporate Insolvency Resolution Process. The Corporate Insolvency Resolution Process (CIRP) was initiated which resulted into passing of liquidation order by the Adjudicating Authority.

On the basis of the following information available w.r.t. Roy LLP, Miss C, who has been appointed as the liquidator, lays down the priority order in which the proceeds shall be distributed as per the provisions of the governing Code:

Unsecured Financial Creditors (₹ 2,00,000);

Fee payable to M/s ABCD & Co. for the services rendered by Miss C – the Resolution Professional (₹ 70,000, inclusive of ₹ 20,000 being expenses incurred by Miss C in running the business of Roy (P) Ltd.); Amount realized from sale of liquidation of assets (₹ 10,00,000);

Secured Creditor who has relinquished the security (₹ 2,30,000);

Equity shareholders (₹ 5,00,000);

Income tax payable within a period of 2 years preceding the liquidation commencement date (₹2,25,000);

Cess payable to State Govt. within a period of 1 year preceding the liquidation commencement date (₹ 75,000).

ISSUE: 3

Purva Ltd. is one of their prime clients engaged in the business of Wholesale distribution of Electronical appliances. The Company has applied to Dhanwan Bank for loan facilities. The bank on studying the financial statements of the company notices that M/s ABCD & Co. are the auditors and requests them to call at the bank for a discussion. In course of discussion, bank asks M/s ABCD & CO., its opinion regarding company and also asks for the audit working papers which contain detailed information regarding a few items in the financial statements. Mr. D, who is incharge of all Documentation maintained with firm, responds to Bank accordingly.

Further, the MD of the Company informs Mr. B that pursuant to an audit conducted by the tax authorities under section 65 of the CGST Act, 2017, a show cause notice was issued to the Company, alleging that they had wrongly availed the input tax credit without actual receipt of goods for the month of July. In the absence of a satisfactory reply from them, the Joint Commissioner of Central Tax passed an adjudication order dated 20th August confirming a tax demand of ₹ 60,00,000 (i.e., CGST 30,00,000 and SGST 30,00,000) and imposing a penalty of equal amount under section 122. It was received by them on 22nd August. They do not agree with the order passed by the Joint Commissioner and decide to file an appeal with the Appellate Authority against the said adjudication order. The MD of Purva Ltd. seeks advice from Mr. B with the following queries as raised by the Board of Directors of the company-

- Whether it can file an appeal to Appellate Authority against the adjudication order passed by the Joint Commissioner of Central Tax? If yes, till what date can the appeal be filed?
- Does it need to approach both the Central and State Appellate Authorities for exercising its right of appeal?
- It is of the view that there is no requirement of paying pre-deposit of any kind before filing an appeal with the Appellate Authority.

ISSUE: 4

Mr. D consults Mr. A on 2 particular queries raised by two of their vendors which provide technical services to their firm. He tells Mr. A that the firm has sought modem from a company, Netanet, which provides broadband services along with voice call service. However, they can also get the connection from them and modem from any other vendor. The installation activity requires limited effort and the cost involved is almost insignificant. Netanet has various plans where it provides either broadband services or voice call services or both.

Another vendor, Software Company Hally Ltd. has licensed its software application to their firm. Under the agreement, it will provide updates or upgrades on a when-and-if-available basis; the firm can choose whether

to install them. The firm expects that Hally Ltd. will undertake no other activities that will change the functionality of the software. Mr. D is confused as to the nature of these services to be recorded in the firm's books of accounts accordingly and Mr. A helps him in the same.

Mr. D, while working on finalizing the accounts of their firm M/s ABCD & Co., for the Previous year 2023-24, has gathered all the information from various associates and partners and has found the total miscellaneous receipts of the firm to be ₹ 3.50 crores (excluding the fee billed to the abovementioned Clients). His finalization is pending, subject to some points of discussion with the Partners which may affect the outcome of the Firm for the P.Y. 2023-24. He calls for a meeting for such discussion and at the meeting, he tells them that:

- The Firm imported a Biometrics system based upon Artificial Intelligence from Singapore on 22.03.2024 for installation in the building to record attendance of all Employees and Trainees in the firm. It costed ₹ 2 lakhs and was cleared by customs on payment of duty of ₹ 1 lakh. Such customs duty is neither eligible for credit nor any refund. It was duly installed and put to use on 25.03.2024.
- The Book Profits calculated u/s 40(b) are ₹ 30 lakhs and Payment of Salary to Working Partners was ₹ 10 lakhs. The Clause for payment of salary to Working Partners though appears in the deed since the incorporation of the firm, but the same is silent as to quantum or manner of quantifying such remuneration.
- Salary of ₹ 75,000 p.m. is paid to wife of Mr. A for working as a Manager in the Firm. The normal salary of a Manager working in a CA firm in the town is ₹ 50,000 p.m.
- The firm made a purchase of stationery in cash for ₹ 35,000 on 18.12.2023.
- The firm paid an interest of ₹ 30,000 on an O.D. of ₹ 8 lakhs taken for making payment of Advance Tax of ₹ 10 lakhs.

After a healthy discussion among the Partners of firm, Mr. D finalized the accounts of firm for the P.Y. 2023-24.

Multiple Choice Questions

1. What should be Mr. D's response to Dhanwan Bank's requirement and why?
STATEMENT 1: He should deny Bank request if Purva Ltd. does not permit for sharing such information.
STATEMENT 2: Unless otherwise specified by law or regulation, engagement documentation is the property of auditor. The auditor may, at its discretion, make portions of, or extracts from, engagement documentation available to clients, provided such disclosure does not undermine the validity of the work performed, or, in the case of assurance engagements, the independence of the firm or its personnel.
 (a) Statement 1 is True and Statement 2 supports Statement 1
 (b) Statement 1 is True and Statement 2 does not support Statement 1
 (c) Statement 1 is False while Statement 2 is True.
 (d) Statement 1 is True while Statement 2 is False.
2. Whether the Performance obligations under the Contract with Netanet distinct?
 (a) There are 2 separate Performance obligations.
 (b) There are 3 separate Performance obligations.
 (c) Only 1 Performance obligation is there which encompasses 3 sub contracts.
 (d) It depends on the CA firm's choice as to how they want to treat it.
3. If Mr. D discloses information acquired from Purva Ltd. to Dhanwan Bank's without the consent of Purva Ltd., then he shall:
 (a) Not guilty of professional misconduct

- (b) Guilty of professional misconduct
 - (c) Guilty of other misconduct
 - (d) None of the above
4. Mr. D asks Mr. A as to the nature of License as obtained from Hally Ltd. Mr. A tells him that:
- (a) The Software license doesn't provide a right to use the Intellectual Property as the underlying conditions are not satisfied as per the relevant IND-AS.
 - (b) The Software license doesn't provide a right to use the Intellectual Property as the upgrades will change the functionality of the software.
 - (c) There is no question of Intellectual Property rights over here in this situation.
 - (d) The Software license provides a right to use Intellectual Property that is satisfied at a point in time.
5. Determine the value of 500 products supplied by Batliwala Pvt. Ltd. to its Arunachal Pradesh unit as per the provisions of the GST Law
- (a) ₹ 10,00,000
 - (b) ₹ 9,00,000
 - (c) ₹ 9,50,000
 - (d) ₹ 8,55,000

Descriptive Questions

- 6. Provide the priority order which Mr. C would have laid for distributing the proceeds w.r.t. Roy LLP as per the provisions of the governing Code.
- 7. Purva Ltd. has approached the CA firm for seeking advice regarding the Order passed by the Joint commissioner on 3 queries raised by its Board of Directors. Help Mr. B out by resolving all the queries.
- 8. Mr. D discusses some items to be debited to the Income & Expenditure account of their Firm with all the Partners while finalizing the Books of Accounts for the year F.Y. 2023-24. You are required to comment on the allowability of such items as laid forward by Mr. D.

ANSWERS TO THE CASE STUDY 16

Answers to the Multiple Choice Questions

- 1. (a) Statement 1 is True and Statement 2 supports Statement 1
Reason: As per Clause (1) of Part I of the Second Schedule of the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he discloses information acquired in the course of his professional engagement to any person other than his client, without the consent of the client or otherwise than as required by law for the time being in force. SA 200 on "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing" also reiterates that, "the auditor should respect the confidentiality of information acquired in the course of his work and should not disclose any such information to a third party without specific authority or unless there is a legal or professional duty to disclose". In the instant case, the bank has asked the auditor for the audit working papers which contain detailed information regarding a few items in the financial statements. Having regard to the position stated earlier, the auditor cannot disclose the information in his possession

without specific permission of the client. As far as working papers are concerned, working papers are the property of the auditor. The auditor may at his discretion, make portions of or extracts from his working papers available to his client". Thus, there is no requirement compelling the auditor to divulge information obtained in the course of audit and included in the working papers to any outside agency except as and when required by any law.

2. (b) There are 3 separate Performance obligations.

Reason: Netanet promises the CA firm to provide

- Broadband Service
- Voice Call services
- Modem

Its promise to provide goods and services is distinct if

- the CA firm can benefit from the good or service either on its own or together with other resources that are readily available to the firm, and
- its promise to transfer the good or service to the CA firm is separately identifiable from other promises in the contract

For broadband and voice call services –

- Broadband and voice services are separately identifiable from other promises as company has various plans to provide the two services separately. These two services are not dependant or interrelated. Also the CA firm can benefit on its own from the services received.

For sale of modem -

- The CA firm can either buy product from Netanet or third party. No significant customisation or modification is required for selling product.

Based on the evaluation we can say that there are three separate performance obligations:

- Broadband Service
- Voice Call services
- Modem

3. (b) Guilty of professional misconduct

Reason: Clause (1) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 states that a chartered accountant in practice shall be deemed to be guilty of professional misconduct if he discloses information acquired in the course of his professional engagement to any person other than his client, without the consent of the client or otherwise than as required by law for the time being in force.

4. (d) The Software license provides a right to use the Intellectual Property that is satisfied at a point in time.

Reason: Based on the facts given in question it can be concluded that, although the updates and upgrades will change the functionality of the software, they are not activities considered in determining the nature of the entity's promise in granting the licence. The activities of Hally Ltd. to provide updates or upgrades are not considered because they transfer a promised good or service to the CA firm – i.e. updates or upgrades are distinct from the licence. Therefore, the software licence provides a right to use the IP that is satisfied at a point in time.

5. (a) ₹ 10,00,000

Reason: As per section 25(4), a person who has obtained or is required to obtain more than one registration, whether in one State or Union territory or more than one State or Union territory shall, in respect of each such registration, be treated as distinct persons for the purposes of this Act. Therefore, units of Batliwala Pvt. Ltd. in West Bengal and Arunachal Pradesh are distinct persons under GST. As per rule 28, the value of the supply of goods between distinct persons, other than where the supply is made through an agent, shall –

- (a) be the open market value of such supply;
- (b) if open market value is not available, be the value of supply of goods of like kind and quality;
- (c) if value cannot be determined under the above methods, be cost of the supply plus 10% mark-up or be determined by other reasonable means, in that sequence.

Rule 28 also provides that where the goods are intended for further supply as such by the recipient, the value shall, at the option of the supplier, be an amount equivalent to 90% of the price charged for the supply of goods of like kind and quality by the recipient to his customer not being a related person. Further, rule 28 provides that where the recipient is eligible for full input tax credit, the value declared in the invoice shall be deemed to be the open market value of the goods or services.

In the given case, the option of valuing the goods @ 90% of the price charged by the recipient to his unrelated customer is not available as the goods are not further supplied 'as such' but only after processing at Arunachal Pradesh unit. However, since the Arunachal Pradesh unit is eligible for full ITC, the value declared by the Bengal unit in the invoice for transfer of such products, i.e. ₹ 10,00,000 shall be deemed to be the open market value of the products. Thus, the value of 500 products supplied by Batliwala Pvt. Ltd. to its Arunachal Pradesh unit in terms of rule 28 is the open market value of such products which is ₹ 10,00,000.

Answers to the Descriptive Questions

6. The priority order in which the liquidator shall distribute the proceeds will be as under:

Particulars	Amount (in ₹)	
Amount realised from the sale of liquidation of assets		10,00,000
Less: (i) Fees payable to resolution professional	50,000	
(ii) Expenses incurred by the resolution professional in running the business of M/s Roy (P) Ltd. on going concern	20,000	(70,000)
Balance available		9,30,000
Secured creditors who has relinquished the security	2,30,000	(2,30,000)
Balance available		7,00,000
Less: Unsecured Financial Creditor	2,00,000	(2,00,000)
Balance available		5,00,000
Less: (i) Income tax payable	2,25,000	
(ii) Cess payable to State Government	75,000	(3,00,000)
Balance available		2,00,000
Balance Available for Equity shareholders		2,00,000

7. (1) An appeal against a decision/order passed by any adjudicating authority under the CGST Act or SGST Act/UTGST Act is appealable before the Appellate Authority [Section 107(1)]. Thus, Purva

Ltd. can file an appeal to Appellate Authority against the adjudication order passed by the Joint Commissioner of Central Tax. Further, such appeal can be filed within 3 months from the date of communication of such decision/order [Section 107(1)]. Thus, Purva Ltd. can file the appeal to Appellate Authority on or before 22nd November. Further, the Appellate Authority can also condone the delay in filing of appeal by 1 month if it is satisfied that there was sufficient cause for such delay [Section 107(4)].

- (2) GST law makes provisions for cross empowerment between CGST and SGST/UTGST officers to ensure that a proper officer under the CGST Act is also treated as the proper officer under the SGST/UTGST Act and vice versa. Thus, a proper officer can issue orders with respect to both, the CGST as well as the SGST/UTGST laws. GST law also provides that where a proper officer under one Act (say CGST) has passed an order, any appeal/review/ revision/rectification against the said order will lie only with the proper officers of that Act (CGST Act). Accordingly, if any order is passed by proper officer under SGST Act, any appeal/review/revision/rectification against said order will lie only with proper officer under that SGST Act. Thus, Purva Ltd. is required to file an appeal only with Central Tax Appellate Authority [Section 6 of CGST Act].
- (3) Purva Ltd.'s view is not correct in law. Section 107(6) provides that no appeal shall be filed before the Appellate Authority, unless the appellant has paid—
- full amount of tax, interest, fine, fee and penalty arising from the impugned order, as is admitted by him; and
 - a sum equal to 10% of the remaining amount of tax in dispute arising from the impugned order subject to a maximum of ₹ 25 crore*.

[Provided that no appeal shall be filed against an order under sub-section (3) of section 129, unless a sum equal to twenty-five per cent. of the penalty has been paid by the appellant.]

*Equivalent amount is required to be deposited with respect to SGST liability.

Since in the given case, Purva Ltd. disagrees with the entire tax demanded, it has to make a pre-deposit of 10% of the amount of tax in dispute arising from the impugned order, i.e., 10% of ₹ 60,00,000 which is ₹ 6,00,000 (i.e. CGST ₹ 3,00,000 and SGST ₹ 3,00,000).

8. Allowability of items as laid forward by Mr. D under Income Tax Act, 1961

Nature of Expenditure	Tax Treatment
Depreciation on imported Biometric System	- Actual Cost for the purposes of depreciation: Purchase Price ₹ 2,00,000 + Customs Duty Paid ₹ 1,00,000 = ₹ 3,00,000 - Rate of depreciation: 15%. - Depreciation Amt: ₹ 22,500 (3,00,000 × 15% × 50%) (Since it is put to use for less than 180 days)
Remuneration to Partners	- Payment of Remuneration is authorised by the partnership Deed, and it is paid to the Working Partners - But, since Partnership Deed does not provide for quantum/manner of quantifying of such remuneration, it cannot be allowed as a deduction.
Salary paid to Wife of a Partner – Mrs. A	U/s 40A(2), if a payment for goods or services provided by a relative is considered as excessive and unreasonable as compared with the market value of such goods or services such excess or unreasonable sum is not deductible.

	- For a Partnership Firm, Relative includes Relatives of the Partner. Conclusion: Hence, ₹ 50,000 x 12 = 6,00,000 is allowed as deduction from business income.
Purchases of Stationery in Cash	- U/s 40A(3), where an Assessee incurs any expenditure in respect of which payment or aggregate of payments in excess of ₹ 10,000 is made to a person on a single day, otherwise than by an Account Payee Cheque drawn on a Bank or an Account Payee Bank Draft, whole of such expenditure shall be disallowed. Conclusion: Since the payment is made in cash, the entire amount of ₹ 35,000 shall not be Allowed as a deduction.
Interest on Loan taken for payment of Advance Tax	- Interest paid by any Assessee on any sum borrowed by it for payment of Income Tax (or Interest on overdraft taken for payment of Income Tax) is not deductible from its business Income since it is not an expenditure wholly and exclusively incurred or the business purpose in terms of section 37(1). (Mannalal Ratanlal vs CIT 58 ITR 84 (Cal.)) - Therefore, Interest paid on loan taken for the purpose of making Advance Tax instalment shall not be an admissible expenditure.

OLD COURSE DIGEST

Case Study 17

Subjects	Topics Covered	Marks
FR	Ind AS 8	5
DT	Capital Gains (Basics, Slump Sales)	9
IDT	Value of Supply (Section 15, Rule 27), Place of Supply	11

P.N. Maheshwari & Associates is a firm of Chartered Accountants (herein after referred to as CA firm) having an experience of more than 25 years. At present the firm is one of the Delhi's largest association of Chartered Accountants with its head office in Delhi and branch offices across the country. The firm aims at providing qualitative professional service to its clients in an efficacious, sagacious and innovative manner. The firm is actively engaged in a multidisciplinary practice under four core verticals namely; Direct Taxation, Indirect Taxation, Auditing and Assurance and Financial Reporting. These verticals are headed by the partners namely, CA Preesha, CA Naman, CA Pawan and CA Nysa respectively. All the partners have vast experience in their respective fields.

During the FY 2023-24, the following were the matters of few clients handled by the team of CA Preesha:

- (1) Mr. Saransh, one of the clients of the CA firm, purchased gold in the year 1980 for ₹ 20,000/-. In the previous year 2023-24, he gifted it to his daughter at the time of her marriage. The fair market value of the gold on the day the gift given was ₹1,50,000/-. Mr. Saransh approached the direct tax team of M/s P. N. Maheshwari & Associates for working out the capital gain tax liability in such situation.
- (2) Another client is a proprietorship firm namely, M/s Sunstar Enterprises. It transferred one of its units on 1.4.2023 by way of slump sale for a total consideration of ₹ 14 lakhs. Such unit was started in the year 2010-11. The expenses incurred for this transfer were ₹ 48,000. The assets and liabilities of such unit as on 31.3.2023 is as under:

Particulars	Amount (₹)
Own Capital	1,00,000
Revaluation Reserve (for building of unit)	7,00,000
Bank loan	2,80,000
Trade creditors	87,500
Building	15,00,000
Machinery	3,00,000
Debtors	3,50,000
Other assets	2,00,000

Other information:

- (i) Revaluation reserve is created by revising upward the value of the building of such Unit. The stamp duty value as on 01.04.2023 is ₹ 8,50,000.
- (ii) No individual value of any asset is considered in the transfer deed.
- (iii) Other assets of such unit include patents acquired on 1.7.2021 for ₹ 50,000 on which no depreciation has been charged.

The proprietor of the firm approached the CA firm for the purpose of calculation of the capital gain with respect to such slump sale for the assessment year 2024-25.

CA Naman along with his team also handled various GST matters in a very effective manner. The following are some of such GST matters:

- (1) One of the clients of the CA firm, namely Sarvagya Ltd., provided the following particulars relating to goods sold by it to Maharaja Ltd.

Particulars	Amount (₹)
Price of the goods (exclusive of all taxes/duties and discounts)	70,000
Duty levied by local authority on sale of such goods	7,000
Packing charges	2,500
Freight (arranged by Sarvagya Ltd.)	1900
Total amount billed to Maharaja Ltd. before any discount	81,400
Discount @ 3% of the price of goods recorded in the invoice	-

The client approached the GST team of M/s P.N. Maheshwari & Associates to help them arrive at the taxable value of such supply.

- (2) Ms. Sonam, a consulting engineer based in Faridabad, Haryana renders professional services directly in respect of an immovable property located in UK of Mr. Yusuf who is based in Chennai. The team of CA Naman was approached for confirming the place of supply in such case.
- (3) AAN Consultants (Delhi) impart tally software training to accounts and finance personnel of MMN Steels Ltd., Mumbai, Maharashtra (office registered under GST) at the company's Delhi office which is also registered under GST. The team of CA Naman had to confirm the place of supply in such case.
- (4) Another client of the CA firm, namely, ABC Pvt. Ltd. offers a new mobile phone worth ₹ 30,000/- to Mr. Mahesh (an unrelated party) in exchange of old mobile phone and cash payment of ₹ 26,000/. Exchange value of old phone lowers the price of the new phone. The known market value of the new phone (without exchange of old phone), i.e. the open market value is ₹ 30,000. CA Naman worked out the value of supply in this case.

CA Nysa handled the following Financial Reporting matter of one of the clients during the year.

PRQ Ltd. acquired a building for its administrative purposes and presented the same as property, plant and equipment (PPE) in the financial year 2022-23. During the financial year 2023-24, it relocated its office to a new building and leased the aforesaid acquired building to a third party. Following the change in the usage of the building, the company reclassified it from PPE to investment property in the financial year 2023-24. PQR Ltd. approached CA Nysa to consider whether it amounts to change in accounting policy.

Multiple Choice Questions

- What advice CA Preesha should have given to Mr. Saransh with respect to the capital gain tax liability in case of transfer of gold by the latter?
 - The capital tax liability will be calculated after giving the indexation effect to the cost of the gold.
 - The capital gain tax liability will be calculated without considering indexation.
 - Capital gain tax liability does not arise in terms of section 47(iii) of the Income Tax Act 1961.
 - Capital gain tax liability does not arise in terms of section 47(i) of the Income Tax Act 1961.
- What is the place of supply with respect to the professional service provided by Ms Sonam to Mr. Yusuf?
 - Faridabad
 - Chennai

- (c) UK
- (d) GST is not leviable as the professional services are rendered with respect to a property which is situated outside India. Therefore, the question of place of supply does not arise.
3. With respect to the training imparted by AAN consultants what should be the place of supply?
- (a) Mumbai
- (b) Delhi
- (c) Mumbai or Delhi at the discretion of the consultant.
- (d) In terms of section 12(5), GST is not leviable with respect to training or performance appraisal services. Therefore, the question of place of supply does not arise.
4. CA Naman was asked to work out the value of supply in case of the mobile phone offered by ABC Pvt. Ltd. to Mr. Mahesh. What should be the value of supply?
- (a) ₹ 26,000/-
- (b) ₹ 28,000/-
- (c) ₹ 30,000/-
- (d) ₹ 29,000/-
5. The tax rate on capital gain with respect to the slump sale made by M/s Sunstar Enterprises will be:
- (a) 20%
- (b) 15%
- (c) 10%
- (d) Normal Tax Rate

Descriptive Questions

6. Compute the capital gain with respect to the slump sale made by M/s Sunstar Enterprises.
7. What should be the value of the taxable supply in case of goods sold by Sarvagya Ltd. to Maharaja Ltd.?
8. Should PQR Ltd. consider the reclassification of building from PPE to investment property as a change in the accounting policy?

ANSWERS TO THE CASE STUDY 17

Answers to the Multiple Choice Questions

1. (c) Capital gain tax liability does not arise in terms of section 47(iii) of the Income Tax Act 1961.
Reason: As per the provisions of section 47(iii), transfer of a capital asset under a gift is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.
2. (b) Chennai
Reason: Since immovable property is located outside India, the place of supply of service is the location of recipient, i.e. Chennai and not the place where the immovable property is located (UK).
3. (a) Mumbai
Reason: Since the contract is entered with Mumbai office, and it being a registered recipient, the

place of supply is the location of the registered person, i.e. Mumbai.

4. (c) ₹ 30,000/-

Reason: Rule 27 of the CGST Rules lays down the following methods to value a supply when the consideration thereof is not solely in terms of money:

- (a) The open market value of such supply;
- (b) If open market value of the supply is not known, the consideration in money plus the money equivalent of the non-money consideration, if such amount is known at the time of supply;
- (c) If the value cannot be determined under the previous two clauses, the value of supply of goods and/or services of like kind and quality;
- (d) Finally, if the value is not ascertainable by using the above methods, the consideration in money plus the money equivalent of the non-money consideration, as worked out based on cost of the supply plus 10% mark-up [Rule 30-Cost based valuation] or by other reasonable means [Rule 31-Best Judgement method] in that sequence.

5. (a) 20%

Reason: Since the Unit is held for more than 36 months, capital gain arising would be long-term capital gain. Such long-term capital gain is taxable @20% under section 112.

Answers to the Descriptive Questions

6. Computation of capital gains on slump sale of Unit

Particulars	(₹)
Full value of consideration (FMV as on 01.04.2023)	14,00,000
Less: Expenses on sale	48,000
Net sale consideration	13,52,000
Less: Net worth (See Note 1 below)	12,60,625
Long-term capital gain	91,375

Notes:

- (1) Computation of Full value of consideration

Particulars	(₹)
Fair market value of the capital assets transferred by way of slump sale	
Building, being an immovable property [stamp duty value] [A]	8,50,000
Machinery [Book value as appearing in the books of accounts] [B]	3,00,000
Debtors [Book value as appearing in the books of accounts] [C]	3,50,000
Other assets [Book value as appearing in the books of accounts] [D]	2,00,000
	17,00,000
Less: Liabilities [₹ 87,500 + ₹ 2,80,000] [L]	3,67,500
Fair market value of the capital assets transferred by way of slump sale [A+B+C+D- L] [FMV1]	13,32,500
Fair market value of the consideration received or accruing as a result of transfer by way of slump sale [value of the monetary consideration received] [FMV2]	14,00,000
Full value of consideration [Higher of FMV1 or FMV2]	14,00,000

(2) Computation of net worth of the Unit

Particulars	(₹)	(₹)
Building (excluding ₹ 7 lakhs on account of revaluation)		8,00,000
Machinery		3,00,000
Debtors		3,50,000
Patents (See Note 2 below)		28,125
Other assets (₹ 2,00,000 – ₹ 50,000)		1,50,000
Total assets		16,28,125
Less: Creditors	87,500	
Bank Loan	2,80,000	3,67,500
Net worth		12,60,625

(3) Written down value of patents as on-1.4.2023

Value of patents	(₹)
Cost as on 1.7.2021	50,000
Less: Depreciation @ 25% for Financial Year 2021-22	12,500
WDV as on 1.4.2022	37,500
Less: Depreciation for Financial Year 2022-23	9,375
WDV as on 1.4.2023	28,125

For the purposes of computation of net worth, the written down value determined as per section 43(6) has to be considered in the case of depreciable assets. The problem has been solved assuming that the Balance Sheet values of ₹ 3 lakh and ₹ 8 lakh (₹ 15 lakh – ₹ 7 lakh) represent the written down value of machinery and building, respectively, of the Unit.

- (4) Since the Unit is held for more than 36 months, capital gain arising would be long-term capital gain. However, indexation benefit is not available in case of slump sale.

7. Computation of value of taxable supply

Particulars	(₹)
Price of the goods (exclusive of taxes and discounts)	70,000
Add: Duty levied by local authority [Note 1]	7,000
Packing charges [Note 2]	2,500
Freight [Note 3]	1,900
Less: Discount @ 3% on ₹ 70,000 [Note 4]	(2,100)
Value of taxable supply	79,300

Notes:

- (1) As per section 15(2)(a), any taxes, duties, cesses, fees and charges other than CGST, SGST, UTGST, IGST and GST Compensation Cess, if charged separately by the supplier should be included in the value of supply.
- (2) As per section 15(2)(c), incidental expenses, including commission and packing, charged by the supplier to the recipient of a supply should be included in the value. Thus, packing charges have been added in the value.
- (3) Since transport is arranged by the supplier, the contract of supply becomes a composite supply;

the principal supply being the supply of goods. Therefore, freight becomes part of the value of the composite supply.

- (4) As per section 15(3)(a), the value of the supply does not include any discount which is given before or at the time of the supply if such discount has been duly recorded in the invoice issued in respect of such supply. Therefore, since in this case, discount is known at the time of supply and recorded in the supply, it is deductible from the value.

8. Paragraph 16(a) of Ind AS 8 provides that application of accounting policy for transactions, other events or conditions that differ in substance from those previously occurring are not changes in accounting policies. As per Ind AS 16, property, plant and equipment are tangible items that:

- (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- (b) are expected to be used during more than one period.

As per Ind AS 40, investment property is property (land or a building—or part of a building—or both) held (by the owner or by the lessee as a right-of-use asset) to earn rentals or for capital appreciation or both, rather than for:

- (a) use in the production or supply of goods or services or for administrative purposes; or
- (b) sale in the ordinary course of business.

As per the above definitions, whether a building is an item of property, plant and equipment (PPE) or an investment property for an entity depends on the purpose for which it is held by the entity. It is thus possible that due to a change in the purpose for which it is held, a building that was previously classified as an item of property, plant and equipment may warrant reclassification as an investment property, or vice versa. Whether a building is in the nature of PPE or investment property is determined by applying the definitions of these terms from the perspective of that entity.

Thus, the classification of a building as an item of property, plant and equipment or as an investment property is not a matter of an accounting policy choice.

Accordingly, a change in classification of a building from property, plant and equipment to investment property due to change in the purpose for which it is held by the entity is not a change in an accounting policy.

OLD COURSE DIGEST

Case Study 18

Subjects	Topics Covered	Marks
FR	Ind AS 28	9
DT	PGBP	12
Law	Companies Act (Section 177)	4

- (1) RA Ltd, a listed Company is engaged in the business of manufacturing aerated soft drinks which includes various flavours like cola, orange and lemon. Chandra Suppliers Ltd is engaged in the business of manufacturing carbonated sugar which is the main ingredient for aerated soft drinks. Chandra Suppliers Ltd has been supplying carbonated sugar to RA Ltd since past few years. RA Ltd is the main customer of Chandra Suppliers Ltd and in the last financial year 89.9% of the output of Chandra Suppliers Ltd was procured by RA Ltd.

RA Ltd has invested in the share capital of Chandra Suppliers Ltd on the first day of the financial year at a cost of ₹ 55,00,000 and is holding 12% of Chandra Suppliers Ltd.'s total voting power. The carrying value of the net assets of Chandra Suppliers Ltd on the date of acquisition was ₹ 4,00,00,000 and the fair value was ₹ 4,50,00,000. The excess of fair value over the carrying value was attributable to one of the warehouses owned by Chandra Suppliers Ltd having a remaining useful life of 10 years. At the end of the financial year, Chandra Suppliers Ltd earned a profit of ₹ 6,60,000 and other comprehensive income of ₹ 98,000. Dividend declared by Chandra Suppliers Ltd in the financial year was ₹ 2,00,000.

- (2) RA Ltd has constituted an Audit Committee under section 177 of Companies Act, 2013. A proper manner and procedure for selection and appointment of the statutory auditors for RA Ltd. was undertaken. Finally, ABC & Associates was selected for appointment as statutory auditors of RA Ltd. CA A is the engagement partner for the audit of RA Ltd.

- (3) The wife of the chairman of RA Limited is a renowned painter. She holds various exhibitions in India and around the world and has won several awards as well. Her art gallery is on the fourth floor of the office building of RA Limited. The office building of RA Limited consists of four identical floors and other three floors are used by RA Limited for its business. Total rent paid by RA Limited for the entire office building is ₹ 8 lakhs per month.

A machinery was purchased for ₹ 20 lakhs on July 1 of the financial year and put to use on August 1. Depreciation allowed under the Income Tax Act on the Machinery is 15%. Interest payable for the financial year for purchase of machinery amounted to ₹ 2,40,000.

Municipal elections were held in current year and various representatives from different political parties visited RA Ltd for donations. RA Ltd thus decided to give a full page advertisement in brochure published by a political party (costing ₹ 50,000), which is not registered with Election Commission of India.

RA Ltd supplies soft drinks pan India under name of Too Cool. The goods are supplied to the distributors in all the states of India and eventually to retailers by the distributors. Niraj Transport Co. has been hired by RA Ltd for delivery of its products to all the Indian states. The Company had made a total payment of ₹ 10 lakhs during the year to Niraj Transport for plying its goods from the factory to the distributors. During the year, a payment exceeding 10,000 in cash (i.e. ₹ 25,500) was made to Niraj Transport in a day.

RA Ltd made a provision for gratuity every year of ₹ 40 lakhs in its books of account. During the year, two employees retired from the Company after serving for many years. Payment made to the employees towards the payment of gratuity on their retirement amounted to ₹ 2 lakhs.

RA Ltd had incurred an expenditure of a capital nature (capital asset) of ₹ 7,00,000 on scientific research related to the business carried on by it, three years back, which was deductible in full in that previous year. In addition, land was also acquired to carry out the capital research along with the capital asset. This capital asset was sold in the current year without having been used for other purposes, for ₹ 1,00,000. Profit of the Company before accounting for all the above transactions is ₹ 5 crores.

CA A commenced the audit of RA Ltd. with the audit team consisting of eight members. On examination of records, various observations came into the notice of the audit team. You, a qualified chartered accountant, is also one of the audit team members. You volunteer to answer all the queries of the team since Company Audit has always been your area of interest.

Based on the information given above, assist the audit team.

Multiple Choice Questions

1. In your opinion, does RA Ltd hold significant influence on Chandra Suppliers Ltd.?
 - (a) Yes, if an entity holds (directly or indirectly through a subsidiary) 10% or more of the voting rights of an investee, then it is presumed that the entity has significant influence, unless it can be clearly demonstrated that it is not the case.
 - (b) Yes, since 89.9% of the output of Chandra Suppliers Ltd. is procured by RA Ltd., Chandra Suppliers Ltd. would be dependent on RA Ltd. for the continuation of its business and so RA Ltd. holds significant influence on Chandra Suppliers Ltd.
 - (c) No, since the output of Chandra Suppliers Ltd. procured by RA Ltd., is not 90% or more, RA Ltd does not hold significant influence on Chandra Suppliers Ltd.
 - (d) No, if an entity holds (directly or indirectly through a subsidiary) 20% or more of the voting rights of an investee, only then it is presumed that the entity has significant influence, unless it can be clearly demonstrated that it is not the case.
2. RA Ltd.'s excess of the cost of investment over its share of the net fair value of Chandra Suppliers Ltd.'s identifiable assets and liabilities will be treated as ____ and will be included in carrying amount of ____
 - (a) Capital Reserve, Equity.
 - (b) Goodwill, Investment.
 - (c) Capital Reserve, Other liabilities and Provisions.
 - (d) Goodwill, Fixed Assets.
3. Which of the following companies are required to constitute an Audit Committee u/s 177 of Companies Act, 2013?
 - (a) All listed companies
 - (b) All public companies with a paid-up capital of ₹ 10 crores or more
 - (c) All public companies having turnover of ₹ 100 crores or more
 - (d) All of the above
4. In case of RA Ltd., all appointments, including the filling of a casual vacancy of auditors are made after taking into account the recommendations of:
 - (a) Board of Directors
 - (b) Shareholders
 - (c) Audit Committee

(d) None of the above

5. RA Ltd incurred two different types of capital expenditure on scientific research. Which of the following statements related to such expenditure under section 35 is incorrect?

Statement I: For Capital expenditure incurred prior to commencement of business, the aggregate of the expenditure so incurred within the four years immediately preceding the commencement of the business shall be deemed to have been incurred in the previous year in which the business is commenced and will rank for deduction as expenditure for scientific research incurred during the previous year.

Statement II: No deduction will be allowed in respect of capital expenditure incurred on the acquisition of any land whether the land is acquired as such or as part of any property.

Statement III: Capital expenditure incurred on scientific research which cannot be absorbed by business profits of relevant previous year cannot be carried forward to immediately succeeding previous year.

Statement IV: Section 35(2)(iv) clarifies that no depreciation will be admissible on any capital asset represented by expenditure which has been allowed as a deduction under section 35 whether in the year in which deduction under section 35 was allowed or in any other previous year.

(a) Statement I and II are incorrect.

(b) Statement I and III are incorrect.

(c) Statement III and IV are incorrect.

(d) Only Statement I is incorrect.

Descriptive Questions

6. Calculate the closing value of investment in Chandra Suppliers Ltd. of RA Ltd using the equity method of accounting as per IND AS 28 on the basis of Para (1).
7. Calculate the Net Profit of RA Ltd. chargeable to tax under PGBP after making the adjustments for the transactions given above in Para (3).

ANSWERS TO THE CASE STUDY 18

Answers to the Multiple Choice Questions

1. (b) Yes, since 89.9% of the output of Chandra Suppliers Ltd. is procured by RA Ltd., Chandra Suppliers Ltd. would be dependent on RA Ltd. for the continuation of its business and so RA Ltd holds significant influence on Chandra Suppliers Ltd.

Reason: The assessment of whether investor has significant influence over the investee requires application of judgement. In making such judgement, investor shall consider material transactions between entity and its investee which generally demonstrate the existence of significant influence.

2. (b) Goodwill, Investment.

Reason: Any excess of the cost of the investment over the entity's share of the net fair value of the investee's identifiable assets and liabilities is treated as goodwill. Goodwill is included in the carrying amount of the investment. Amortisation of that goodwill is not permitted.

3. (d) All of the above

Reason: As per Section 177(1) of Companies Act, 2013, following companies are required to constitute an Audit Committee:

- (i) every listed public company;
- (ii) public companies having paid up share capital of 10 crore rupees or more;
- (iii) public companies having turnover of 100 crore rupees or more;
- (iv) public companies which have, in aggregate, outstanding loans, debentures and deposits, exceeding 50 crore rupees.

4. (c) Audit Committee

Reason: In case of the company which is required to constitute an Audit Committee u/s 177 of Companies Act, 2013, all appointments, including the filling of a casual vacancy of auditors are made after taking into account the recommendations of Audit Committee.

5. (b) Statement I and III are incorrect.

Reason: Capital Expenditure - Any expenditure of a capital nature on scientific research related to the business carried on by the assessee would be deductible in full in the previous year in which it is incurred [Section 35(1)(iv)].

(a) Capital expenditure prior to commencement of business

Explanation 1 to section 35(2)(ia) specifically provides that where any capital expenditure has been incurred prior to commencement of business, aggregate of expenditure so incurred within the three years immediately preceding the commencement of the business shall be deemed to have been incurred in the previous year in which the business is commenced and will rank for deduction as expenditure for scientific research incurred during previous year.

(b) Expenditure on land disallowed

No deduction will be allowed in respect of capital expenditure incurred on the acquisition of any land whether the land is acquired as such or as part of any property.

(c) Carry forward of deficiency

Capital expenditure incurred on scientific research which cannot be absorbed by business profits of relevant previous year can be carried forward to immediately succeeding previous year and shall be treated as the allowance for that year. In effect, this means that there is no time bar on the period of carry forward. It shall be accordingly allowable for that previous year.

(d) No depreciation

Section 35(2)(iv) clarifies that no depreciation will be admissible on any capital asset represented by expenditure which has been allowed as a deduction u/s 35 whether in the year in which deduction u/s 35 was allowed or in any other previous year.

Answers to the Descriptive Questions

6. (1) Cost of acquisition of Investment ₹ 55,00,000
- (2) Share in profit and other comprehensive income of Chandra Suppliers Ltd.

Particulars	Amount (₹)
Share in profit of Chandra Suppliers Ltd. (6,60,000 x 12%)	79,200
Adjustment for depreciation based on fair value (50,00,000 ÷ 10) x 12%	(60,000)
Share in profit after adjustment	<u>19,200</u>
Share in other comprehensive income (98,000 x 12%)	11,760
Share in dividend (2,00,000 x 12%)	24,000

(3) Closing balance of Investment at the end of the year.

Particulars	Amount (₹)
Cost of acquisition of investment	55,00,000
Share in profit after adjustments	19,200
Share in other comprehensive income	11,760
Share in dividend	24,000
Closing balance of Investment	55,54,960

7. Computation of Net Profit of RA Ltd. chargeable to tax under PGBP

Particulars	Amount (₹ in lakh)
Profit before any of the adjustments	500.00
Less: Rent expense $(8,00,000/4 \times 3) \times 12$	72.00
Depreciation on Machinery $(20,80,000 \times 15\%)$	3.12
Interest payable for purchase of machinery	1.60
Payment to Niraj Transport	10.00
Actual Payment of gratuity to employees	2.00
Add: Sale of asset representing expenditure of a capital nature on Scientific Research without having been used for other purposes	1.00
Profit after adjustments chargeable to tax	412.28

Notes:

(I) Rent expense allowed to the extent it is used for the Business purposes.

Premises used partly for business and partly for other purposes: Where the premises are used partly for business and partly for other purposes, only a proportionate part of the expenses attributable to that part of the premises used for purposes of business will be allowed as a deduction [Section 38(1)].

(II) Since machinery is put to use on August 1, full year depreciation is allowed on the purchase cost.

Asset used for less than 180 days - Where any asset is acquired by the assessee during the previous year and is put to use for the purposes of business or profession for a period of less than 180 days, depreciation shall be allowed at 50 percent of the allowable depreciation according to the percentage prescribed in respect of the block of assets comprising such asset. It is significant to note that this restriction applies only to the year of acquisition and not for subsequent years.

(III) Interest on purchase of Machinery till the date of put to use is to be capitalized and after the date of put to use, is treated as a revenue expense. So, machinery cost is equal to ₹ 20 lakh and interest capitalized for four months amounting to ₹ 80,000. Total 20,80,000.

Interest on borrowed capital [Section 36(1)(iii)] - Deduction of interest is allowed in respect of capital borrowed for the purposes of Business or profession in the computation of income under the head "Profits and gains of business or profession".

Capital may be borrowed for several purposes like for acquiring a capital asset, or to pay off a trading debt or loss etc. The scope of the expression 'for the purposes of business' is very wide. Capital may be borrowed in the course of the existing business as well as for acquiring assets for extension of existing business.

As per proviso to section 36(1)(iii), deduction in respect of any amount of interest paid, in respect

of capital borrowed for acquisition of new asset (whether capitalised in the books of account or not) for any period beginning from the date on which the capital was borrowed for acquisition of the asset till the date on which such asset was first put to use shall not be allowed.

Explanation 8 to section 43(1) clarifies that interest relatable to a period after the asset is first put to use cannot be capitalised. Interest in respect of capital borrowed for any period from the date of borrowing to the date on which the asset was first put to use should, therefore, be capitalised.

- (IV) Interest on purchase of Machinery from the date of put to use till the end of the financial year is treated as a revenue expense. (₹2,40,000 – ₹ 80,000)

Interest on borrowed capital [Section 36(1)(iii)] - Deduction of interest is allowed in respect of capital borrowed for the purposes of business or profession in the computation of income under the head "Profits and gains of business or profession".

Capital may be borrowed for several purposes like for acquiring a capital asset, or to pay off a trading debt or loss etc. The scope of the expression 'for the purposes of business' is very wide. Capital may be borrowed in the course of the existing business as well as for acquiring assets for extension of existing business.

As per proviso to section 36(1)(iii), deduction in respect of any amount of interest paid, in respect of capital borrowed for acquisition of new asset (whether capitalised in the books of account or not) for any period beginning from the date on which the capital was borrowed for acquisition of the asset till the date on which such asset was first put to use shall not be allowed.

Explanation 8 to section 43(1) clarifies that interest relatable to a period after the asset is first put to use cannot be capitalised. Interest in respect of capital borrowed for any period from the date of borrowing to the date on which the asset was first put to use should, therefore, be capitalised.

- (V) Advertisement expenses in a brochure published by a political party, which is registered or not with the Election Commission of India is disallowable.

Advertisements in souvenirs of political parties: Section 37(2B) disallows any deduction on account of advertisement expenses representing contributions made by any person carrying on business or profession in computing the profits and gains of the business or profession. It has specifically been provided that this provision for disallowance would apply notwithstanding anything to the contrary contained in section 37(1).

In other words, the expenditure representing contribution for political purposes would become disallowable even in those cases where the expenditure is otherwise incurred by assessee in his character as a trader and the amount is wholly and exclusively incurred for purpose of business.

Accordingly, a taxpayer would not be entitled to any deduction in respect of expenses incurred by him on advertisement in any souvenir, brochure, tract or the like published by any political party, whether it is registered with the Election Commission of India or not.

- (VI) Total amount paid to Niraj Transport is allowable since the limit of ₹ 10,000 has been raised to ₹ 35,000 in case of payment made to transport operators for plying, hiring or leasing goods carriages.

Increase in limit of cash payment, where payment made to transport operator: This limit of ₹ 10,000 has been raised to ₹ 35,000 in case of payment made to transport operators for plying, hiring or leasing goods carriages. Therefore, payment or aggregate of payments up to ₹ 35,000 in a day can be made to a transport operator otherwise than by way of account payee cheque or account payee bank draft or use of electronic clearing system through a bank account or through

such other prescribed electronic modes such as credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay. In all other cases, the limit would continue to be ₹ 10,000.

- (VII) Only actual payment of gratuity is allowed, not provision for gratuity.

Disallowance of provision for gratuity

Section 40A(7) provides that no deduction would be allowable to any taxpayer carrying on any business or profession in respect of any provision (whether called as provision or by any other names) made by him towards the payment of gratuity to his employers on their retirement or on the termination of their employment for any reason.

The reason for this disallowance is that, under section 36(1)(v), deduction is allowable in computing the profits and gains of the business or profession in respect of any sum paid by a taxpayer in his capacity as an employer in the form of contributions made by him to an approved gratuity fund created for the exclusive benefit of his employees under an irrevocable trust. Further, section 37(1) provides that any expenditure other than the expenditure of the nature described in sections 30 to 36 laid out or expended, wholly and exclusively for the purpose of the business or profession must be allowed as a deduction in computing the taxable income from business.

A reading of these two provisions clearly indicates that the intention of the legislature has always been that the deduction in respect of gratuity be allowable to the employer either in the year in which the gratuity is actually paid or in the year in which contributions to an approved gratuity fund are actually made by employer.

This provision, therefore, makes it clear that any amount claimed by the assessee towards provision for gratuity, by whatever name called would be disallowable in the assessment of employer even if the assessee follows the mercantile system of accounting.

However, no disallowance would be made as per section 40A(7) in the case where any provision is made by the employer for the purpose of payment of sum by way of contribution to an approved gratuity fund during the previous year or for the purpose of making payment of any gratuity that has become payable during the previous year by virtue of the employee's retirement, death, termination of service etc.

- (VIII) Where the asset representing expenditure of a capital nature on Scientific Research is sold without having been used for other purposes - This case would come under section 41(3) and if the proceeds of sale together with the total amount of the deductions made under section 35 exceed the amount of capital expenditure, the excess or the amount of deduction so made, whichever is less, will be charged to tax as income of business of previous year in which the sale took place.

Where the asset representing expenditure of a capital nature on Scientific Research is sold without having been used for other purposes - This case would come under section 41(3) and if the proceeds of sale together with the total amount of the deductions made under section 35 exceed the amount of capital expenditure, the excess or the amount of deduction so made, whichever is less, will be charged to tax as income of the business of previous year in which the sale took place.

In simple words, if (sale proceeds + deduction under section 35) > amount of capital expenditure, then amount of sale proceeds + deduction under section 35 – amount of capital expenditure OR deduction under section 35, whichever is less, will be the charged to tax as income of the business in the previous year in which the asset is sold.

OLD COURSE DIGEST

Case Study 19

Subjects	Topics Covered	Marks
FR	Ind AS 23	5
Audit	Due Diligence	5
DT	Residential Status and POEM, Transfer Pricing	15

Mr. Hari Mehta is an Indian citizen who is based in Thailand for past 20 years. His father had their Family business in India when he graduated but he chose to do something different and migrated outside India to start a different business abroad and successfully took this challenge. At present, he has his business spread all over Thailand and now he wants to take his business on a global scale. Being a true Indian he is, by heart, the first destination for overseas investment he has chosen is India. Being a hardcore & experienced businessman, he understands that to successfully venture out of a country with a new business or diversification, one needs to carry out proper research work and get acquainted with the knowledge of laws and practical working of business at such Target countries where one is willing to invest. He himself started studying various laws applicable in India relating to the nature of his business and further consults CA Vani Mehta, one of his friend's daughter in India who is an expert consultant in handling International Business matters.

Through a Video conference, they both discussed how in the present age of commercial globalisation, it is a universal phenomena that Multinational Companies (MNCs) have branches/subsidiaries/divisions operating in more than one country. In such a situation, it is a common event for MNCs to transfer goods produced by a branch in one tax jurisdiction to an associate branch operating in another tax jurisdiction. While doing so, the MNC concerned has in mind the goal of minimizing tax burden and maximizing profits but the two tax jurisdictions/countries have also the consideration of maximizing their revenue while making laws that govern such transactions. It is an internationally accepted practice that such 'transfer pricing' should be governed by an Arm's Length Principle (ALP) and the transfer price should be the price applicable in case of a transaction of arm's length. In other words, the transaction between associates should be priced in the same way as a transaction between independent enterprises. The principles governing the taxation of MNCs are embodied in the OECD Model Tax Convention on Income and Capital (OECD Model Convention), which serves as the basis for the bilateral income-tax treaties between OECD member countries and between OECD member and non-OECD member countries. According to these guidelines, "Transfer prices" are the prices at which an enterprise transfers physical goods and intangible property or provides services to associated enterprises. Two enterprises are "associated enterprises" if one of the enterprises participates directly or indirectly in the management, control or capital of the other or if both enterprises are under common control. Since international transfer pricing involves more than one tax jurisdiction, any adjustment to the transfer price in one jurisdiction requires a corresponding adjustment in the other jurisdiction. If a corresponding adjustment is not made, double taxation will result.

He tells CA Vani that he has the following options available with him to invest in India:

OPTION – A: By acquiring controlling shares in Golden Rivers (P) Ltd., an Indian associate Company of one of his friend's Thais company, RPP Ltd. It is a company incorporated in Thailand and 55% of its shares are held by Golden Rivers (P) Ltd., an Indian company. RPP Ltd. has its presence in India also. The details relating to RPP Ltd. for the P.Y.2023-24, are as under:

Particulars	India (₹ in crore)	Thailand (₹ in crore)

Fixed assets at depreciated values for tax purposes	288	192
Intangible assets	120	480
Other assets (value as per books of account)	96	288
Income from trading operations	60	120
The above figure includes:		
(i) Income from transactions where purchases are from associated enterprises and sales are to unrelated parties	4.80	9.60
(ii) Income from transactions where sales are to associated enterprises and purchases are from unrelated parties	7.20	12
(iii) Income from transactions where both purchases and sales are from/to associated enterprises	12	24
Interest and dividend from investments	48	36
Payroll expenses on employees	19.20	28.80
Number of employees (Residents in respective countries)	168	216

CA Vani deliberates on how the Residential Status determination of Companies has changed in India recently when he left India to times now and the importance of the concept of POEM (Place of Effective Management). Mr. Mehta tells CA Vani about his research on Foreign Companies in India and this POEM concept and tells that he has studied the business model of two of his Friends' companies:

1. His friend Amit's company – ABC Inc, a US company has its place of effective management also in the USA, has advanced a loan equivalent to ₹ 255 crores to PQR Ltd., an Indian company on 10.4.2024. The total book value of assets of PQR Ltd. is ₹ 450 crores. The market value of the assets, however, is ₹ 480 crores. PQR Ltd. repaid ₹ 45 crores before 31.3.2024.
2. His nephew Rahul's company – Kings plc, a French company having its place of effective management also in France, has the power to appoint 4 of the directors of Golden Rivers Ltd., an Indian company, whose total number of directors in the Board is 9.
3. Zen Limited is one of his other Companies having registered office in Thailand, headed by his son. The Board of Directors usually meet and execute business decisions at their Board Meeting held in India.

OPTION – B: Mr. Mehta tells CA Vani that one of his Associate Companies engaged in the business of manufacturing and distribution of industrial gases, can acquire a listed Indian Company ABC Ltd. having a market share of more than 65% of the industrial gas business in India but only after a "Due Diligence" of this Indian Company is conducted. CA Vani tells him that Due Diligence is used to investigate and evaluate a business opportunity. It implies a general duty to exercise care in any transaction. Most legal definition of due diligence describe it as a measure of prudence activity, or assiduity, as is properly to be expected from, and ordinarily exercised by, a reasonable and prudent person under the particular circumstance, not measure by any absolute standard but depends on the relative facts of the special case. Due diligence is a process of investigation, performed by investors, into the details of a potential investment such as an examination of operations and management and the verification of material facts. It entails conducting inquiries for the purpose of timely, sufficient and accurate disclosure of all material statements/information or documents, which may influence the outcome of the transaction. Due diligence involves a careful study of the financial as well as non-financial possibilities for successful implementation of restructuring plans. Due diligence involves an analysis carried out before acquiring a controlling interest in a company to determine that the conditions of the business conform with what has been presented about the target business. Also, due diligence can apply to recommendation for an investment or advancing a loan/credit. Due Diligence may also require to be

performed in cases of corporate restructuring, venture capital financing, lending, leveraged buyouts, public offerings, disinvestment, corporatisation, etc. Sometimes, in a restructuring exercise, while the unit may remain within a group, it may pass from under the charge of one management team to that of another team. This situation also gives rise to the need for a due diligence review.

OPTION – C: Mr. Mehta will get incorporated a new Company in India itself at Kolkata as a Foreign Company which would work under the supervision of its Thais counterpart and invest Capital in the construction of infrastructure required to set up company. He has worked on this option and tells CA Vani that he has studied Borrowing & Financing options, his father's new company Key Ltd. has opted for. Key Ltd. began construction of a new building at an estimated cost of ₹14 lakh on 1st April, 2023. To finance construction of the building it obtained a specific loan of ₹ 4 lakh from a financial institution at an interest rate of 9% per annum. The construction of building was completed by 31st January, 2024. The company's other outstanding loans were:

Amount (₹)	Rate of Interest per annum
14,00,000	12%
18,00,000	11%

The expenditure incurred on the construction was:

April, 2023	₹ 3,00,000
August, 2023	₹ 4,00,000
October, 2023	₹ 7,00,000
January, 2024	₹ 2,00,000

Mr. Mehta comes to India for the first time on June 17, 2023 to discuss these options as per their practicality with CA Vani and her team and he leaves India on September 29, 2023. His total income (other than from foreign sources) does not exceed ₹ 15 lakhs.

Multiple Choice Questions

- Section 92A(2) provides that two enterprises shall be deemed to be associated enterprises if, they satisfy any one or more of 13 conditions of being an AE:
 - For whole of the previous year
 - At the end of the previous year
 - At the beginning of the previous year
 - At any time during the previous year
- What would be Residential status of Mr. Mehta for the A.Y. 2024-25?
 - Resident and ordinarily resident
 - Resident but not ordinarily resident
 - Non-resident
 - Deemed resident
- Under Income Tax Act, 1961, ABC Inc. & PQR Ltd. are?
 - Associated Enterprises.
 - Unrelated Entities.
 - Holding & Subsidiary.
 - ABC Inc. is a specified foreign company of PQR Ltd.

4. Under the Income Tax Act, 1961, Kings plc & Golden Rivers Ltd. are?
 - (a) Associated Enterprises.
 - (b) Two Independent Entities.
 - (c) Holding & Subsidiary.
 - (d) Kings plc is a specified foreign company of Golden Rivers Ltd.
5. What is the status of Zen Ltd. as per the provisions of the Income Tax Act?
 - (a) Indian company.
 - (b) Foreign Company.
 - (c) Not a Foreign Company.
 - (d) Special Purpose Company.

Descriptive Questions

6. Determine the residential status of RPP Ltd. for A.Y.2024-25, if during the F.Y. 2023-24, eight board meetings were held – 3 in India and 5 in Thailand.
7. CA Vani would conduct the Due Diligence work w.r.t ABC Ltd. as required by Mr. Hari Mehta. Help her list out the contents of Due Diligence Review Report that she may submit.
8. Following the provisions of Ind AS 23 'Borrowing Costs', calculate the amount of interest to be capitalized and pass necessary journal entry for capitalizing the cost and borrowing cost in respect of the building as on 31st January, 2024, by Key Ltd.

ANSWERS TO THE CASE STUDY 19

Answers to the Multiple Choice Questions

1. (d) At any time during the previous year

Reason: Section 92A(2) provides that two enterprises shall be deemed to be associated enterprises if, they satisfy any one or more of 13 conditions of being an AE At any time during the previous year.

2. (c) Non-resident

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

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

If the individual satisfies any one of the conditions mentioned above, he is a resident. If both the above conditions are not satisfied, the individual is a non-resident.

In the case of Mr. Mehta, his presence in India is as follows:

Previous year 2023-24:	105 [14+31+31+29]
Previous year 2022-23	Nil
Previous year 2021-22:	Nil

Previous year 2020-21:

Nil

Previous year 2019-20:

Nil

Thus, Mr. Mehta is non-resident as he does not satisfy either of the basic conditions.

3. (a) Associated Enterprises.

Reason: ABC Inc, a foreign company, has advanced loan of ₹ 255 crores to PQR Ltd., an Indian company, which amounts to 56.67% of book value of assets of PQR Ltd. Since the loan advanced by ABC Inc. is 51% or more of the book value of assets of PQR Ltd., ABC Inc. and PQR Ltd. are deemed to be associated enterprises under the Indian transfer pricing regulations. The deeming provisions would be attracted even if there is a repayment of loan during the same previous year which brings down the said percentage below 51%.

4. (b) Two Independent Entities.

Reason: Kings plc, a foreign company has the power to appoint 44.44% (4 out of 9) of the directors of an Indian company, Golden Rivers Ltd. Two enterprises would be deemed to be associated enterprises if more than half of the board of directors of one enterprise are appointed by the other enterprise.

In this case, since Kings plc has the power to appoint only 44.44% (which is less than half) of the directors of an Indian company, Golden Rivers Ltd., Kings plc and Golden Rivers Ltd. are not deemed to be associated enterprises.

5. (b) Foreign Company.

Reason: As per provisions of Income Tax Act, 1961, a company having registered office outside India is treated as a foreign company. Holding of board meetings and executing business decisions in India is irrelevant. Hence, Zen Limited is a foreign company.

Answers to the Descriptive Questions

6. The residential status of a foreign company is determined on the basis of place of effective management (POEM) of the company.

For determining the POEM of a foreign company, the important criteria is whether the company is engaged in active business outside India or not.

A company shall be said to be engaged in "Active Business Outside India" (ABOI) for POEM, if

- the passive income is not more than 50% of its total income; and
- less than 50% of its total assets are situated in India; and
- less than 50% of total number of employees are situated in India or are resident in India; and
- the payroll expenses incurred on such employees is less than 50% of its total payroll expenditure.

RPP Ltd. shall be regarded as a company engaged in active business outside India for POEM purpose only if it satisfies all the four conditions cumulatively.

Condition 1: The passive income of RPP Ltd. should not be more than 50% of its total income

Total income of RPP Ltd. is ₹ 264 crores [(₹ 60 crores + ₹ 120 crores) + (₹ 48 crores + ₹ 36 crores)]

Passive income is the aggregate of, -

- (i) income from the transactions where both the purchase and sale of goods is from/to its associated enterprises; and
- (ii) income by way of royalty, dividend, capital gains, interest or rental income;

Passive Income of RPP Ltd. is ₹120 crores, being sum total of:

- (i) ₹ 36 crores, income from transactions where both purchases and sales are from/to associated enterprises (₹ 12 crores in India and ₹ 24 crores in Thailand)
- (ii) ₹ 84 crores, being interest and dividend from investment (₹ 48 crores in India and ₹ 36 crores in Thailand)

Percentage of passive income to total income = ₹ 120 crore/₹ 264 crore x 100 = 45.45%

Since passive income of RPP Ltd. is 45.45%, which is not more than 50% of its total income, the first condition is satisfied.

Condition 2: RPP Ltd. should have less than 50% of its total assets situated in India

Value of total assets of RPP Ltd. is ₹ 1,464 crores [₹ 504 crores, in India+ ₹ 960 crores, in Thailand]

Value of total assets of RPP Ltd. in India is ₹ 504 crores

Percentage of assets situated in India to total assets = ₹ 504 crores/₹ 1464 crores x 100 = 34.43%

Since the value of assets of RPP Ltd. situated in India is less than 50% of its total assets, the second condition for ABOI test is satisfied.

Condition 3: Less than 50% of the total number of employees of RPP Ltd. should be situated in India or should be resident in India

Number of employees situated in India or are resident in India is 168. Total number of employees of RPP Ltd. is 384 [168 + 216]

Percentage of employees situated in India or are resident in India to total number of employees is 168/384 x 100 = 43.75%

Since employees situated in India or are residents in India of RPP Ltd. are less than 50% of its total employees, the third condition for ABOI test is satisfied.

Condition 4: The payroll expenses incurred on employees situated in India or resident in India should be less than 50% of its total payroll expenditure

Payroll expenses on employees employed in and resident of India = ₹ 19.20 crores. Total payroll expenses = ₹ 48 crores (₹ 19.20 crores + ₹ 28.80 crores)

Percentage of payroll expenses of employees situated in India or are resident in India to the total payroll expenses = 19.20 x 100/48 = 40%

Since the payroll expenses incurred on employees situated in India or resident in India is less than 50% of its total payroll expenditure, the fourth condition for ABOI test is also satisfied.

Thus, since RPP Ltd. has satisfied all the four conditions, the company would be said to be engaged in "active business outside India".

POEM of a company engaged in active business outside India shall be presumed to be outside India, if the majority of the board meetings are held outside India.

Since RPP Ltd. is engaged in active business outside India and majority of its board meetings i.e., 5 out of 8, were held outside India, POEM of RPP Ltd. would be outside India.

Therefore, RPP Ltd. would be non-resident in India for the P.Y. 2023-24.

7. **Contents of a Due Diligence Report**

The contents of a due diligence report will always vary with individual circumstances. Following headings are illustrative:

Example of Headings of a Due Diligence Report

♦ Executive Summary
♦ Introduction
♦ Background of Target company
♦ Objective of due diligence
♦ Terms of reference and scope of verification
♦ Brief history of the company
♦ Shareholding pattern
♦ Observations on the review
♦ Assessment of management structure
♦ Assessment of financial liabilities
♦ Assessment of valuation of assets
♦ Comments on properties, terms of leases, lien and encumbrances.
♦ Assessment of operating results
♦ Assessment of taxation and statutory liabilities
♦ Assessment of possible liabilities on account of litigation and legal proceedings against the company
♦ Assessment of net worth
♦ Interlocking investments and financial obligations with group/associates companies, amounts receivable subject to litigation, any other likely liability which is not provided in books of account
♦ SWOT Analysis
♦ Comments on future projections
♦ Status of charges, liens, mortgages, assets and properties of the company
♦ Suggestion on ways and means including affidavits, indemnities, to be executed to cover unforeseen and undetected contingent liabilities
♦ Suggestions on various aspects to be taken care of before and after proposed merger/acquisition.

8. (i) Calculation of capitalization rate on borrowings other than specific borrowings

Amount of loan (₹)	Rate of interest		Amount of interest (₹)
14,00,000	12%	=	1,68,000
<u>18,00,000</u>	11%	=	<u>1,98,000</u>
<u>32,00,000</u>			<u>3,66,000</u>
Weighted average rate of interest (3,66,000/32,00,000) x 100		=	11.4375%

(ii) Computation of borrowing cost to be capitalized for specific borrowings and general borrowings based on weighted average accumulated expenses

Date of incurrence of expenditure	Amount spent (₹)	Financed through	Calculation	(₹)
1 st April, 2023	3,00,000	Specific borrowing	3,00,000 x 9% x 10/12	22,500.00
1 st August, 2023	4,00,000	Specific borrowing	1,00,000 x 9% x 10/12	7,500.00

		General borrowing	$3,00,000 \times 11.4375\% \times 6/12$	17,156.25
1 st October, 2023	7,00,000	General borrowing	$7,00,000 \times 11.4375\% \times 4/12$	26,687.50
1 st January, 2024	2,00,000	General borrowing	$2,00,000 \times 11.4375\% \times 1/12$	1,906.25
				75,750.00

Note: Since construction of building started on 1st April, 2023, it is presumed that all the later expenditures on construction of building had been incurred at the beginning of respective month.

(iii) Total expenses to be capitalized for building

Particulars	(₹)
Cost of building ₹ (3,00,000 + 4,00,000 + 7,00,000 + 2,00,000)	16,00,000
Add: Amount of interest to be capitalized	<u>75,750</u>
	<u>16,75,750</u>

(iv) Journal Entry

Date	Particulars		(₹)	(₹)
31.1.2024	Building account	Dr.	16,75,750	
	To Bank account			16,00,000
	To Interest payable (borrowing cost)			75,750
	(Being expenditure incurred on construction of building and borrowing cost thereon capitalized)			

Note: In the above journal entry, it is assumed that interest amount will be paid at the year end. Hence, entry for interest payable has been passed on 31.1.2024.

Alternatively, following journal entry may be passed if interest is paid on the date of capitalization:

Date	Particulars		(₹)	(₹)
31.1.2024	Building account	Dr.	16,75,750	
	To Bank account			16,75,750
	(Being expenditure incurred on construction of building and borrowing cost thereon capitalized)			

OLD COURSE DIGEST

Case Study 20

Subjects	Topics Covered	Marks
Audit	Professional Ethics	6
DT	PGBP	14
IDT	Time of Supply, Value of Supply (Rule 27)	5

CA Ankit Bansal has recently qualified his CA Finals and wants to join his father, FCA Vivek Bansal in his already established CA Practice. His father has earned a good name as one of the most successful Chartered Accountants in the city and Ankit wants to follow on his father's footsteps too. Ankit intimated about his desire to join his father in his office. His father, having struggled a lot in his initial days as a fresher knows the importance of hard-work and efforts required to settle in any Profession. He doesn't want his son to directly join him as a Boss over other employees, but to earn it after working for at least 6-8 months in the office as an employee. He wants his son to know the importance of efforts required to be made in the profession and understand that 'All that Glitters is not Gold'. He asks Ankit to study a new and emerging field in the Profession – GST properly and apply it practically in the office as well, with the help of other Staff & Trainers. He also tells him that as he is a newly qualified Professional, he will also discuss with him the Professional Ethics of CA Profession, though he might have read about it during his studies, yet he wants to tell him about its practical aspects. CA Vivek also asks his son to start working with the family's accounts first and prepare Income tax Returns and GST Returns of the Family including his elder brother's recently started business. Ankit happily agrees to abide by his father's wishes and starts working on it.

Since Indirect Taxes was one subject with which Ankit had to work on a lot to pass its exam, he decides to study about its applicability on their Profession. Initially, he had read that Chartered Accountants were subject to Service Tax in the Pre-GST regime, but now, in the Post-GST era, they also fall under the ambit of GST. He learns that the same exemption limit w.r.t. aggregate turnover as applicable to the Business Community is also applicable to them. However, if any CA or CA firm provides 'Interstate Service', they have to register themselves compulsorily under the GST Law, irrespective of their aggregate turnover being less than the exemption limit. All other provisions too, like issue of Invoices, Charge of GST, payment of tax and filing of returns for Service Providers like CA's are more or less similar under the 'One Nation One Tax' regime with minor variations. Many CA's who were following the Cash System of accounting for Income-tax purposes, cannot follow Cash-system under GST, for which Mercantile System can only be followed. They are also subject to Section 9 of CGST Act w.r.t. Payment & Collection of tax under the 2 different mechanisms - FORWARD CHARGE & REVERSE CHARGE. The GST rate applicable on them is 18% on the value of services provided by them. CA Vivek assigns the work of filing their CA firm's returns for the month to CA Ankit.

As far as Income-tax is concerned, they are individual or a firm of Chartered Accountants covered under the head of 'Profits & Gains from Business or Profession'. They fall under the ambit of Notified Profession as per a CBDT Notification under the Income-tax law but finds it's difficult to make out whether he needs to maintain Books of Accounts U/s 44AA of the Income-tax Act, 1961 like his Father and their CA Firm or not, being a freshly qualified CA. As per Section 145, they can either adopt Cash or Mercantile system of accounting as they desire, calculate their Gross receipts and then Surplus after deducting expenses required to be in the Profession. The Income tax is to be paid on such Surplus or Net Receipts. Under the Normal Taxation provisions, his income would consist as follows as per the case:

S.N.	Capacity in which income is earned	Treatment of income earned in each capacity

(1)	In his personal capacity (under the 5 heads of income)	Income from salaries, Income from house property, Profits and gains of business or profession, Capital gains and Income from other sources.
(2)	As a partner of a firm	Salary, bonus etc. received by a partner is taxable as his business income. Interest on capital and loans to the firm is taxable as business income of the partner. The income mentioned in (i) and (ii) above are taxable to the extent they are allowed as deduction to the firm. . Share of profit in the firm is exempt in the hands of the partner.

During his tenure of 6 months, CA Ankit would discuss various matters, relating to Professional Ethics with his father on various occasions. His father tells him that a Professional needs to be integral, confidential, independent, objective, competent & knowledgeable to be successful in his/her respective Profession. A Professional Accountant's responsibility is not exclusively to satisfy the needs of an individual client or employer but also acting in the public interest. A professional accountant should observe and comply with the ethical requirements of the Code of Ethics applicable on them. This Code discusses the fundamental principles which professional accountants have to observe in order to achieve the objectives of the Accountancy Profession. Compliance with such principles may potentially be threatened by a range of threats as per circumstances categorised as Self -Interest, Self- Review, Advocacy, Familiarity and Intimidation threats. The nature & significance of these threats may differ depending on whether they arise in relation to the provision of services to a financial statement audit client, a non-financial statement audit assurance client or a non-assurance client. Ankit understands the reason now why his father once refused to accept a CAR as a gift from one of his clients while auditing his Listed Company XYZ Ltd. And at other time, when he refused one of his big clients for offering him special treatment at his Service Centre, CA Ankit, asks his father whether they can also put up their Firm Name's Board at their residence and he would cater to some the clients for whom their residence is more accessible and approachable to get the work done, but his father CA Vivek denies him the permission to do so citing Ethics & tells him that they have already put up a Firm name board at their Official Premises and it is not required at their residence.

CA Ankit works for one year as an Individual- CA Ankit Bansal and after one year, joins his father CA Vivek Bansal in his CA firm as a Partner with full zeal & enthusiasm after having got the relevant experience under his experienced father for one year.

CA Vivek Bansal is having a very big corporate client, Ranjan Pvt. Ltd. This year, after Ankit qualifying and joining his father in the Office, CA Vivek assigns him the Audit work of Ranjan Ltd. for the preparation of their audit report in a timely manner. The Profit & Loss a/c of Ranjan Pvt. Ltd., having business of agricultural produce, consumer items and other products for the year ended 31.03.2024 is as under:

Particulars	Amount (₹)	Particulars	Amount (₹)
Opening Stock	3,75,000	Sales	1,55,50,000
Purchases	1,25,75,000	Closing Stock	4,50,000
Freight & Cartage	1,26,000		
Gross profit	29,24,000		
	1,60,00,000		1,60,00,000
Bonus to staff	47,500	Gross profit	29,24,000
Rent of premises	53,500	Income-tax refund	20,000

Advertisement	5,000	Warehousing charges	15,00,000
Bad Debts	75,000		
Interest on loans	1,67,500		
Depreciation	71,500		
Goods and Services tax demand paid	1,08,350		
Miscellaneous expenses	5,25,650		
Net profit of the year	33,90,000		
	44,44,000		44,44,000

Other Information:

- (i) There was a survey under section 133A on the business premises on 31.3.2024 in which it was revealed that the value of closing stocks of 31.3.2023 was ₹ 8,75,000 and a sale of ₹ 75,000 made on 13.3.2024 was not recorded in the books. The value of closing stocks after considering these facts and on the basis of inventory prepared by the department as on 31.3.2024 worked out at ₹ 12,50,000, which was accepted to be correct and not disputed.
- (ii) Income-tax refund includes amount of ₹ 4,570 of interest allowed thereon.
- (iii) Bonus to staff includes an amount of ₹ 7,500 paid in the month of December 2023, which was provided in the books on 31.03.2023.
- (iv) Rent of premises includes an amount of ₹ 5,500 incurred on repairs. The assessee was under no obligation to incur such expenses as per rent agreement.
- (v) Advertisement expenses include an amount of ₹ 2,500 paid for advertisement published in the souvenir issued by a political party. The payment is made by way of an account payee cheque.
- (vi) Miscellaneous expenses include:
 - (a) amount of ₹ 15,000 paid towards penalty for non-fulfillment of delivery conditions of a contract of sale for the reasons beyond control,
 - (b) amount of ₹ 1,00,000 paid to the wife of a director, who is working as junior lawyer for taking an opinion on a disputed matter. The junior advocate of High Courts normally charge only ₹ 25,000 for the same opinion,
 - (c) amount of ₹ 1,00,000 paid to an Electoral Trust by cheque.
- (vii) Goods and Services Tax demand paid includes an amount of ₹ 5,300 charged as penalty for delayed filing of returns and ₹ 12,750 towards interest for delay in deposit of tax.
- (viii) The company had made an investment of ₹ 25 lacs on the construction of a warehouse in rural area for the purpose of storage of agricultural produce. This was made available for use from 15.09.2022 and the income from this activity is credited in the Profit and Loss account under the head "Warehousing charges".
- (ix) Depreciation under the Income-tax Act, 1961 works out at ₹ 65,000.
- (x) Interest on loans includes an amount of ₹ 80,000 on which tax was not deducted.

Multiple Choice Questions

1. Had CA Vivek accepted the Offer of the special treatment from XYZ Ltd.'s Director, he would have been subject to -
 - (a) Familiarity Threats.

- (b) Self-Review Threats.
 - (c) Self-Interest Threats.
 - (d) Advocacy Threat.
2. CA Ankit wants to put the name board of the Firm with his name as a Partner in the Firm, if admitted to his Father's Firm as a Partner, at the Place of his residence. He can put up a name board of -
- (a) His name only with designation "Chartered Accountant".
 - (b) Firm's name only with designation "Chartered Accountants".
 - (c) 2 Different name-boards with respective details of his and the Firm's.
 - (d) Nothing, as a member can't put any name boards whether individual or firm name at his place of Residence.
3. Ankit doesn't wish to maintain Books of Account for his Professional earnings on the ground that his income is less than the limits prescribed under the relevant section of the Income Tax Act, 1961 unlike his father CA Vivek or his CA firm. He is -
- (a) Guilty of Professional Misconduct under CA Act, 1949.
 - (b) Not Guilty as the relevant Section doesn't apply on him.
 - (c) Guilty both under the CA Act, 1949 & the Income Tax Act, 1961.
 - (d) Guilty of Professional Negligence.
4. One of Ankit's Clients has displayed his Business name along with the GST Act requirements through Glow Sign Boards outside his Premises and has claimed the expense as a Revenue Expenditure. They seek Ankit's advice as to such Accounting treatment. What is the nature of expenditure incurred on glow-sign boards displayed at the premises of Ankit's client as to be suggested by Ankit?
- (a) Capital Expenditure.
 - (b) Revenue Expenditure as accounted for by the Client.
 - (c) Deferred Revenue Expenditure.
 - (d) Can be claimed as any as per the facts of the case.
5. One of CA Ankit's Clients states that Interest was payable to Goods and Services Tax Department but could not be paid before the due date specified in section 139(1). What should be CA Ankit's Reporting during the Tax Audit of such client?
- (a) Allowable as an expense.
 - (b) Disallowed u/s 43B.
 - (c) Disallowed u/s 37.
 - (d) Allowable but to the extent of 30% only.

Descriptive Questions

6. Compute the income chargeable to tax for Assessment Year 2024-25 of Ranjan Pvt. Ltd, ignoring MAT and provisions of section 115BAA. Support your answer with working notes for CA Ankit.
7. (a) CA Vivek bags a contract of providing financial and management consultancy to a group of companies for an annual retainership fee of ₹ 15 lakh. He is given a room in the head office of the group for its exclusive use. CA Vivek pays GST on the amount of ₹ 15 lakh. Is the value for the service provided by him correct under GST laws? If not, please elaborate.

- (b) CA Ankit has provided various Consultancy and Assurance services during the year as follows. Determine the time of supply in the following cases assuming that rate of GST changes from 18% to 20% w.e.f. June 1:

S.N.	Date of supply of services	Date of issue of invoice	Date of receipt of payment
(i)	May 28	June 9	July 25
(ii)		May 28	July 25
(iii)		June 9	May 26
(iv)	June 10	May 28	June 25
(v)		May 28	May 16
(vi)		June 9	May 28

ANSWERS TO THE CASE STUDY 20

Answers to the Multiple Choice Questions

- (c) Self-Interest Threats.
Reason: Being offered gift or special treatment from a supplier of the employing organization, is an example of Self-Interest Threats.
- (a) His name only with designation "Chartered Accountant".
Reason: With regard to the use of name-board, the Council of the Institute has decided a member of the Institute may put up a name board in the place of his/her residence with the designation of CA, provided it is a name-Plate or Board of an Individual member and not of the firm.
- (a) Guilty of Professional Misconduct under CA Act, 1949.
Reason: As per the Council General Guidelines 2008, under Chapter 5 on maintenance of books of accounts, it is specified that if a chartered accountant in practice or the firm of Chartered Accountants of which he is a partner fails to maintain and keep in respect of his/its professional practice, proper books of account including the Cash Book and Ledger, he is deemed to be guilty of professional misconduct. Accordingly, it does not matter whether section 44AA of the Income Tax Act, 1961 applies or not.
- (b) Revenue Expenditure as accounted for by the Client.
Reason: On this issue, the Delhi High Court noted the following observations of the Punjab and Haryana High Court in CIT v. Liberty Group Marketing Division [2009] 315 ITR 125, while holding that such expenditure was revenue in nature -
 - The expenditure incurred by the assessee on glow sign boards does not bring into existence an asset or advantage for the enduring benefit of the business, which is attributable to the capital.
 - The glow sign board is not an asset of permanent nature. It has a short life.
 - The materials used in the glow sign boards decay with the effect of weather. Therefore, it requires frequent replacement. Consequently, the assessee has to incur expenditure on glow sign boards regularly in almost each year.
 - The assessee incurred expenditure on the glow sign boards with the object of facilitating the business operation and not with the object of acquiring asset of enduring nature.

5. (b) Disallowed u/s 43B.

Reason: Interest payable to Goods and Services Tax department is part of Goods and Services Tax. Therefore, interest payable to Goods and Services Tax department, which is not paid before the "due date" of filing of return of income, would attract disallowance under section 43B [Mewar Motors v. CIT (2003) 260 ITR 218 (Raj)]

Answers to the Descriptive Questions

6. Computation of Total Income of Ranjan Pvt. Ltd.

Particulars		Amount (₹)
Net profit as per profit and loss account		33,90,000
Add:	Difference in the value of stocks detected on survey under section 133A on 31.03.2024 chargeable as income (See Note 1)	3,75,000
		37,65,000
Less:	Income-tax refund credited in the profit and loss account, out of which interest is to be considered separately under the head "Income from other sources"	20,000
		37,45,000
Add:	Expenses either not allowable or to be considered separately but charged in the profit & loss account	
	Repair expenses on rented premises where assessee is under no obligation to incur such expenses are not allowable as per section 30(a)(i). However, if such expenses are required for carrying on business efficiently, the same are allowable under section 37. In this case, assuming that such expenses are required for carrying on business efficiently, same are allowable under section 37.	-
	Advertisement in the souvenir of political party not allowable as per section 37(2B) (See Note 3)	2,500
	Payment made to the wife of a director examined as per section 40A(2) and the excess payment made to be disallowed (See Note 5)	75,000
	Payment made to electoral trust by cheque (See Note 6)	1,00,000
	Penalty levied by the Goods and Services tax department for delayed filing of returns not allowable as being paid for infraction of law (See Note 7)	5,300
	Depreciation as per books	71,500
	30% of interest paid on loan without deduction of tax at source not allowable as per section 40(a)(ia)	24,000
		40,23,300
Less:	Depreciation allowable as per Income-tax Act, 1961	65,000
		39,58,300
Less:	Income from specified business (warehousing charges) credited to profit and loss account, to be considered separately (See Note 8)	15,00,000
		24,58,300
Income from business (other than specified business)		24,58,300
Computation of income/loss from specified business (See Note 8)		
	Income from specified business	15,00,000
Less:	Deduction under section 35AD @ 100% of ₹ 25 lakhs	25,00,000

Loss from specified business to be carried forward, as per section 73A		(10,00,000)	
Income from Other Sources			
Interest on income-tax refund			4,570
Gross Total Income			24,62,870
Less:	Deduction under section 80GGB		
	Contribution to political party (See Note 3)	2,500	
	Contribution to an Electoral trust (See Note 3)	1,00,000	1,02,500
Total Income			23,60,370

Notes:

- (1) The business premises were surveyed and differences in the figures of opening and closing stocks and sales were found which have not been disputed and accepted by the assessee. Therefore, the trading account for the year is to be re-cast to arrive at the correct amount of the gross profit/net profit for the purpose of return of income to be filed for the previous year ended on 31.3.2024.

Revised Trading Account

Particular	(₹)	Particular	(₹)
Opening Stock	8,75,000	Sales (₹ 1,55,50,000 + ₹ 75,000)	1,56,25,000
Purchases	1,25,75,000	Closing Stock	12,50,000
Freight and Cartage	1,26,000		
Gross Profit	32,99,000		
	1,68,75,000		1,68,75,000

The difference of gross profit of ₹ 32,99,000 – ₹ 29,24,000 = ₹ 3,75,000 is to be added as income of the business for the year.

- (2) Bonus for the previous year 2022-23 paid after the due date for filing return for that year would have been disallowed under section 43B for the P.Y.2022-23. However, when the same has been paid in December 2023, it should be allowed as deduction in the P.Y.2023-24 (A.Y.2024-25). Since it is already included in the figure of bonus to staff debited to profit and loss account of this year, no further adjustment is required.
- (3) The amount of ₹ 2,500 paid for advertisement in the souvenir issued by a political party attracts disallowance under section 37(2B). However, such expenditure falls within the meaning assigned to "contribute" under section 293A of the Companies Act, 1956, and is hence, eligible for deduction under section 80GGB. Any contribution to the political party or electoral trust made by way of cash is not allowed as deduction under section 80GGB. Since in the present case, the payment to the political party is made by way of an account payee cheque, it is allowed as deduction under section 80GGB.
- (4) The penalty of ₹ 15,000 paid for non-fulfilment of delivery conditions of a contract for reasons beyond control is not for the breach of law but was paid for breach of contractual obligations and therefore, is an allowable expense.
- (5) It has been assumed that ₹ 25,000 is the reasonable payment for the wife of Director, working as a junior lawyer, since junior advocates of High Courts normally charge only ₹ 25,000 for the same opinion and therefore, the balance ₹ 75,000 has been disallowed.
- (6) Payment to an electoral trust qualifies for deduction under section 80GGB since the payment is

made by way of a cheque. However, since the amount has been debited to profit and loss account, the same has to be added back for computing business income.

- (7) The interest of ₹ 12,750 paid on the delayed deposit of goods and services tax is for breach of contract and hence, is allowable as deduction. However, penalty of ₹ 5,300 for delay in filing of returns is not allowable since it is for breach of law.
- (8) Deduction @ 100% of the capital expenditure is available under section 35AD in respect of specified business of setting up and operating a warehouse facility for storage of agricultural produce which commences operation on or after 1.04.2013. It is presumed that ₹ 25 lacs does not include expenditure on acquisition of any land. The loss from specified business under section 35AD (warehousing) should be segregated from the income from other businesses, since, as per section 73A(1), any loss computed in respect of any specified business referred to in section 35AD shall not be set off except against profits and gains, if any, of any other specified business. In view of the provisions of section 73A(1), the loss of ₹ 10 lacs from the specified business cannot be set-off against income from other businesses. Such loss has to be carried forward to be set-off against profit from specified business in the next assessment year. The return should be filed on or before the due date under section 139(1) for carry forward of such losses.

7. (a) CA Vivek gets an office room free of cost, which is an additional non-monetary consideration for his services. The market value of the rent of the room must be added to the retainer fee (₹ 15 lakh) in order to arrive at the value of the taxable service provided by him as per rule 27 of the CGST Rules relating to valuation.

(b) Determination of Time of Supply

S.N.	Date of supply of services	Date of issue of invoice	Date of receipt of payment	Time of supply	Applicable rate
(i)		June 9	July 25	June 9	20%
(ii)	May 28	May 28	July 25	May 28	18%
(iii)		June 9	May 26	May 26	18%
(iv)		May 28	June 25	June 25	20%
(v)	June 10	May 28	May 16	May 16	18%
(vi)		June 9	May 28	June 9	20%

OLD COURSE DIGEST

Case Study 21

Subjects	Topics Covered	Marks
DT	DTAA, NR Taxation, Advance Rulings	16
IDT	Place of Supply, ITC	9

M/s Mahaveer Medical based at Andheri in Mumbai is in the business of retail medical store. M/s Mahaveer Medical is registered under GST. As on 25th May, 2023, it returned the expired medicines to the whole-seller Radhika Drugs. M/s Mahaveer Medical issued an invoice to Radhika Drugs of ₹ 25,00,000 plus GST @ 5% totaling to ₹ 1,25,000. Radhika Drugs is also registered under GST. Radhika Drugs took the credit of input tax on accepting the expired goods from Mahaveer Medical.

Radhika Drugs issued the goods to Abbott & Co at a price of ₹ 30,00,000 plus GST @ 5%. Abbott & Co have availed input tax credit of ₹ 2,00,000 when it had manufactured the said goods. Abbott & Co have decided to destroy all the expired goods received from Radhika Drugs.

Abbott & Co's sister concern, Rabbot & Co is a resident Indian company, is engaged in the business of plantation and manufacture of coffee. Rabbot & Co submitted an application to the Board for Advance ruling seeking advance ruling in relation to the determination of tax liability of a non-resident i.e., Baron Holdings, Plc, U.K., pertaining to a transaction undertaken by Rabbot & Co with such non-resident.

Rabbot & Co purchased 15,20,000 (fifteen lakh twenty thousand) equity shares of Baron Coffee Company (India) Ltd. from Baron Holdings Plc, U.K., a non-resident company, as per the sale and purchase agreement (in short SPA) executed between Rabbot & Co and seller Baron Holdings Plc, U.K.) on April 18, 2023, wherein the purchaser agreed to purchase the said shares of Baron Tea Company held by the seller at ₹ 273 per share.

Mr. Hari, employee of Rabbot & Co works in Japan for the Japanese operations of the company. Mr. Hari had left India 5 years ago. In India, he has deposits in Dyka Bank, a nationalized bank in Mathura. He earned ₹ 12,00,000 from the deposits during FY 2023-24.

Mr. Hari has sold the flat at Worli, Mumbai for a price of ₹ 5 crores on 19.02.2022. The buyer had not deducted TDS while paying the sale consideration. Mr. Hari did not pay any tax on the capital gains arising on the sale of flat. The Assessing Officer issued a notice to Mr. Hari asking him to pay the tax, but he did not respond. The Assessing Officer decided to recover the tax due from the fixed deposits held in Dyka Bank.

There were different cases which were seeking opinion from the Chartered Accountant of Abbot Ltd:

- Ratio International Inc was a tax transparent entity established in the Netherlands. As trustee, it was the legal owner of the assets held by a fund which, under the Dutch law, was structured as a legal entity known as FGR (i.e. fonds voor gemene rekening, which means funds for joint account). The fund is registered with SEBI as a sub-account of a SEBI-registered FII. The fund had three investors. The fund was a tax transparent entity, fiscally domiciled in the Netherlands, and the income earned by it was taxable in the hands of its beneficiaries. All beneficiaries under the fund were taxable in respect of their shares of income in the Netherlands. Under the Dutch law, FGR is in the nature of a contractual arrangement between the investors, fund manager and its custodian. Since an FGR is not a legal entity, it does not hold any assets on its own and the assets are held by a custodian (i.e. Ratio International Inc). The clarifications issued by the Government of Netherlands also noted that the fund was a tax transparent entity.

Ratio International Inc was the trustee of the fund and also the legal owner of the assets owned by the fund. The fund had earned short term capital gains of ₹ 23,38,08,365 and long term capital gain of ₹ 12,60,91,050, on sale of shares in India.

- Sabyaschi Ltd was an Indian company engaged in the business of export of software and providing consultancy services. It had branches in various tax jurisdictions in which it had paid tax on profits of branches. Sabyaschi Ltd had claimed deduction of taxes paid in overseas countries. These taxes were paid in USA and in Canada.

The taxes paid in USA and Canada are with respect to income which is exempt under Income Tax Act, 1961. Sabyaschi Ltd has evidence of statements of tax paid in each jurisdiction.

- There is a Chartered Accountant firm by the name "Aashit & Co" based at Mumbai. M/s Aashit & Co is registered under GST. Mr. Raju from Bengaluru approaches the CA Firm to file its return of income in India. Mr. Raju is a salaried employee who is unregistered under GST. Aashit & Co charged a fee of ₹ 15,000 to Mr. Raju. Aashit & Co has all the KYC details of Mr. Raju required to file the return of income.
- M/s Aashit & Co's client who stays in UK wanted to get designed a flat in Dubai. M/s Aashit & Co gave him the contact details of a leading architect in Chennai. The client in UK gave the work of designing the layout of the flat in Dubai. The architect charged a fee of ₹ 5,00,000 for the said service.

Multiple Choice Questions

1. What is the place of supply in case of Aashit & Co assisting Mr. Raju to file the return of income in India?
 - (a) Bengaluru.
 - (b) Mumbai; as the services are rendered in Mumbai.
 - (c) Bengaluru; as the recipient of service is in Bengaluru.
 - (d) Mumbai.
2. One tax expert pointed out to Rabbot & Co that it cannot seek ruling from BAR on the said issue. Kindly let us know what the actual position of law is -
 - (a) Resident, who is liable to withhold tax on the payment to be made to non-resident can apply for an advance ruling.
 - (b) Resident, who is liable to withhold tax on the payment to be made to non-resident cannot apply for an advance ruling.
 - (c) Only non-resident can apply for advance ruling.
 - (d) Only Baron Coffee Company (India) Ltd. can apply for Advance Ruling.
3. What is the place of supply in case of services rendered by architect?
 - (a) Chennai.
 - (b) UK.
 - (c) Mumbai.
 - (d) Dubai.
4. How will the interest on fixed deposits be taxable in India in the hands of Mr. Hari?
 - (a) Mr. Hari cannot claim the benefit of special provisions applicable to non-residents.
 - (b) Mr. Hari can claim the benefit of special provisions applicable to non-residents and pay tax @20%.
 - (c) Mr. Hari will have to pay tax as per the new income tax slabs.
 - (d) Mr. Hari will have to pay tax as per the income tax slabs applicable to a non-resident.
5. Is the Assessing Officer correct in recovering the taxes due from Mr. Hari from his fixed deposits lying in India?

- (a) Yes, it can recover the taxes due from the fixed deposits.
- (b) It cannot recover the tax dues from the fixed deposits.
- (c) It can recover the taxes due only from the consideration received on the sale of the property.
- (d) It can recover the taxes due from the agent of the non-resident.

Descriptive Questions

6. Kindly tell Abbott & Co, Radhika Drug and M/s Mahaveer Medical as to how to deal with the input tax credit by them in the month of May, 2023.
7. Kindly inform Sabyaschi Ltd how much credit of tax paid in USA and Canada be obtained in India.
8. One tax expert opined Ratio International Inc that the capital gain earned by it shall be assessed as an AOP. As the said AOP was not a tax resident entity of Netherlands, benefits under the India-Netherlands DTAA would not be available. Kindly give your opinion on the same.

ANSWERS TO THE CASE STUDY 21

Answers to the Multiple Choice Questions

1. (a) Bengaluru.

Reason: As per Section 12(2) of IGST Act, 2017, The place of supply of services, except the services specified in sub-sections (3) to (14), – (a) made to a registered person shall be the location of such person; (b) made to any person other than a registered person shall be, – (i) location of recipient where the address on record exists; and (ii) the location of the supplier of services in other cases. Since Aashit & Co has the address of Mr. Raju, the place of supply shall be Bengaluru.

2. (a) Resident, who is liable to withhold tax on the payment to be made to non-resident can apply for an advance ruling.

Reason: Sub-clause (ii) of Clause (b) of Section 245N refers to a resident applicant who has entered into a transaction with a non-resident. In relation to the tax liability of such non-resident arising out of such transaction, the resident applicant can very well file the application. It stands to reason that a resident applicant who is directly concerned with the issue of tax deduction at source in respect of payments made to non-resident, is specified as one of the eligible applicants.

3. (d) Dubai.

Reason: As per Section 13(4) of IGST Act, The place of supply of services supplied directly in relation to an immovable property, including services supplied in this regard by experts and estate agents, supply of accommodation by a hotel, inn, guest house, club or campsite, by whatever name called, grant of rights to use immovable property, services for carrying out or co-ordination of construction work, including that of architects or interior decorators, shall be the place where the immovable property is located or intended to be located.

Thus, since place of immovable property on which services of architect are utilised is in Dubai, the location of supply shall be Dubai.

4. (b) Mr. Hari can claim the benefit of special provisions applicable to non-residents and pay tax @20%.

Reason: Every nationalized bank is deemed to be an Indian Company for purpose of the Income tax Act and assets deposited in such a bank would be specified assets within meaning of section

115C. Thus, Mr. Hari can claim the benefit of special provisions applicable to non-residents and pay tax @20%.

5. (a) Yes, it can recover the taxes due from the fixed deposits.

Reason: As per Section 173 of Income Tax Act, 1961,

"Without prejudice to the provisions of sub-section (1) of section 161 or of section 167, where the person entitled to the income referred to in clause (i) of sub-section (1) of section 9 is a non-resident, the tax chargeable thereon, whether in his name or in the name of his agent who is liable as a representative assessee, may be recovered by deduction under any of the provisions of Chapter XVII-B and any arrears of tax may be recovered also in accordance with the provisions of this Act from any assets of the non-resident which are, or may at any time come, within India."

Since sale of flat is covered u/s 9(1)(i), the Assessing Officer is correct in recovering the taxes due from the Indian asset of the Mr. Hari who is a non-resident.

Answers to the Descriptive Questions

6. Circular No. 72/46/2018 GST dated 26.10.2018 has clarified that the retailer/wholesaler can return the time expired goods, either by treating the same as fresh supply or by issuing credit notes.

As per Clause h of Section 17(5) of CGST Act, in case the person returning the time expired goods is a registered person (other than a composition taxpayer), he may, at his option, return the said goods by treating it as a fresh supply and thereby issuing an invoice for the same (hereinafter referred to as the, "return supply"). The value of the said goods as shown in the invoice on the basis of which the goods were supplied earlier may be taken as the value of such return supply. The wholesaler or manufacturer, as the case may be, who is the recipient of such return supply, shall be eligible to avail ITC of the tax levied on the said return supply subject to the fulfillment of the conditions specified in section 16.

Where the goods returned by retailer/wholesaler as a fresh supply, are destroyed by the manufacturer, he/she is required to reverse the ITC availed on the return supply in terms of section 17(5)(h). It is pertinent to mention here that the ITC which is required to be reversed in such scenario is the ITC availed on the return supply and not the ITC that is attributable to the manufacture of such time expired goods.

As per above, Radhika Drugs is entitled to avail ₹ 1,25,000 credit for input tax paid by them and Abbott & Co is required to reverse input tax credit of ₹ 1,50,000.

7. **Tax paid in USA:**

As per Article 25(2)(a) of DTAA between India and USA,

"2. (a) Where a resident of India derives income which, in accordance with the provisions of this Convention, may be taxed in the United States, India shall allow as a deduction from the tax on the income of that resident an amount equal to the income-tax paid in the United States, whether directly or by deduction. Such deduction shall not, however, exceed that part of the income-tax (as computed before deduction is given) which is attributable to the income which may be taxed in the United States"

Income tax is chargeable under the Act, but it is open to the Parliament to grant exemption under the Act from payment of tax for any specified period, normally, to incentivize the assessee to carry on manufacturing activities or providing services. After referring to the treaty provisions with USA, it is held that it is not the requirement of law that the assessee before he claims credit under the Indo-US convention or under the provision of the Act must pay tax in India on such income.

As per above DTAA, it does not require that to claim credit of tax, Sabyaschi Ltd. must have paid tax in India on such income.

A careful reading of the above DTAA and provisions of Section 90 of the Act, it shows that if a DTAA provides credit for foreign tax paid even in respect of income on which the assessee has not paid tax in India, it would qualify for tax credit u/s 90.

Thus, Sabyaschi Ltd will take the credit of tax paid in USA though the said income is not subject to tax in India.

Tax paid in Canada:

As per Article 23(3) of DTAA between India and Canada, in the case of India, double taxation shall be avoided as follows:

(a)	<i>The amount of Canadian tax paid, under the laws of Canada and in accordance with the provisions of the Agreement, whether directly or by deduction, by a resident of India, in respect of income from sources within Canada which has been subjected to tax both in India and Canada shall be allowed as a credit against the Indian tax payable in respect of such income but in an amount not exceeding that proportion of Indian tax which such income bears to the entire income chargeable to Indian tax.</i>

After analysing the above provision of DTAA between India-Canada, it allows credit for tax paid in Canada only if income is subjected to tax in India. Thus, since income is exempt from tax, Sabyaschi Ltd cannot claim the credit of taxes paid in Canada in India.

8. **The role of Ratio International Inc was that of custodian of investments.** The fund was organised as an FGR in the Netherlands (i.e., funds for joint account). Under the Dutch law, FGR is in the nature of a contractual arrangement between the investors, fund manager and its custodian. Since an FGR is not a legal entity, it does not hold any assets on its own and the assets are held by a custodian (in this case, the assessee). The clarifications issued by the Government of Netherlands also noted that the fund was a tax transparent entity.

The question that was to be addressed was - who was the actual beneficiary of the trust, in whose representative capacity Ratio International Inc was to be taxed, and whether those beneficiaries were fiscally domiciled in the Netherlands (i.e., 'liable to taxation by reasons of his domicile, residence, place of management or any other criterion of similar nature'). There are two reasons for following this approach.

First, the fund was not a legal entity. Hence, it was to be seen as to which legal entities the income belonged to. The income belonged to the three investors in the fund, who were tax residents of the Netherlands. Hence, benefits under the India-Netherlands DTAA could not be denied.

Second, even if one accepts that it is a tax transparent entity simpliciter, following the principles laid down in *Linklaters LLP vs. Income Tax Officer* [(2010) 9 ITR (Trib.) 217 (Mum.)], what is important is the fact that income should be taxable in the Netherlands and not the manner in which it is taxable. In such an asymmetrical taxation situation, as long as income is liable to tax in the Netherlands, whether in the hands of the Ratio International Inc or in the hands of its beneficiaries (since it is a tax transparent entity), benefits under DTAA should be granted in India.

After considering the facts, Article 13(5) of the treaty being the residuary provision would apply. As Article 13(5) allocates taxing rights to the Netherlands, capital gain would not be chargeable to tax in India in the hands of Ratio International Inc.

OLD COURSE DIGEST

Case Study 22

Subjects	Topics Covered	Marks
FR	Ind AS 101	10
DT	Capital Gains, TDS	8
IDT	Supply (Schedule I & III)	7

Rahul is the manager in a consultancy firm of chartered accountants namely, M/s ABC chartered accountants. Over the period of seven years since his qualification as a chartered accountant, he has worked on various assignments in diversified specialisations. Rahul's expertise has not been limited to a particular profile only, due to his versatile experience with number of engagements across the industry segments.

Recently, Rahul has been looking on assignments related to Ind AS. So, he has been appointed for a project by his consultancy firm to work on the project to prepare a report for one of its clients, HIM Limited relating to Ind AS Impact analysis.

HIM Limited's finance team does not have any experience in the preparation of financials as per Indian accounting standards. However, some employees of HIM Limited finance's team have recently done a refresher course on Ind AS to understand its principles in general and to have a fair idea for the transition period adjustments. Rahul is required to coordinate with them accordingly.

HIM Limited being a listed entity and having net worth above ₹ 500 crores is required to adopt Ind AS from April 1, 2021 in accordance with the Companies (Indian Accounting Standard) Rules 2015.

After doing extensive research, Rahul has identified some issues which need specific attention of management so that opening Ind AS balance sheet as on the date of transition can be prepared accordingly. Those issues which require consideration, after consultation and working with management are identified as follows, whose impact is going to be carved in the opening Ind AS balance sheet.

Issue 1:

As part of Property, Plant and Equipment, company has elected to measure land at its fair value and want to use this fair value as deemed cost on the date of transition.

The carrying value of land as on the date of transition is ₹ 5,00,000.

However, the fair value of land as on the date of transition is ₹ 8,00,000.

Issue 2:

Under Ind AS, the company has designated mutual funds as investments at fair value through profit or loss. The value of mutual funds as per previous GAAP is ₹ 4,00,000. However, the fair value of mutual funds as on the date of transition is ₹ 5,00,000.

Issue 3:

You have already calculated the deferred tax impact on financials due to Ind AS adjustments as on the date of transition. After consideration of possible effects as per Ind AS, the deferred tax impact is amounting to ₹ 25,000. This amount will further increase the portion of Deferred tax liability. There is no requirement to carry out the separate calculation of Deferred tax on account of Ind AS adjustments.

Issue 4:

Company had taken a loan from another entity. The loan carries an interest rate of 7% and it had incurred certain transaction costs while obtaining the same. It was carried at cost in its initial recognition. The principal

amount is to be repaid in equal instalments over the period of loan. Interest is also payable at each year end. The fair value of loan as on the date of transition is ₹ 1,80,000 as against the carrying amount of loan which at present amounts ₹ 2,00,000.

Issue 5:

The company has declared the dividend of ₹ 30,000 for last financial year. As on the date of transition, the declared dividend has been already deducted by accountant from the company's reserves & surplus and the dividend payable has been grouped under Provisions. The dividend had been only declared by board of directors at that time and it was not approved in the annual general meeting of shareholders. However, subsequently when the meeting was held it was ratified by the shareholders.

Issue 6:

The company has Intangible Assets as brands and trademarks amounting to ₹ 2,50,000 as on the date of transition to Ind AS. The fair value of those intangible assets as on the date of transition is ₹ 3,00,000. However, company wants to carry the intangible assets at ₹ 2,50,000 only.

Management wants to ascertain the impact of Ind AS in the financial statements of company for its general understanding. A presentation needs to be developed in this regard so that preliminary impact analysis exercise can be carried out for the management apprise.

The presentation would have the objective to provide information on the expected impact of transition to Ind AS on the Company's reported equity and reported profit against each of the stated issues separately.

Impacts contained therein would be preliminary as full compliance with Ind AS would be implemented at later stages. The financial information represented should correspond with the current best estimates based on principles and regulations known to date.

Once the assignment related to Ind AS was over, Rahul was told to supervise the internal audit of a company Rudra Private Limited. A freshly qualified chartered accountant, Mukesh and another three articled clerks are already working on this assignment. Mukesh has presented two noted issues which require the consideration of Rahul too for reporting the same in internal audit observations and to inform the management to take right decision accordingly.

Issue I:

Rudra Private Limited is considering expansion of its operations in other parts of the country. For this purpose, it wants to purchase few properties there by the sale of existing properties which do not hold much significance in operations or other administrative matters. The company has identified a building for sale which is situated at another area than its present office. During the financial year 2023-24, company has sold that building amounting to ₹ 1,00,00,000 in the month of July, 2023 to another corporate for its office use. Company had purchased this building 5 years ago which is having WDV as on 01.04.2023 at ₹ 40,00,000. Apart from the said building, Rudra Private Limited has also purchased one more building during the year in its portfolio in the same block of building for ₹ 60,00,000.

The purchaser of said building has agreed to pay ₹ 50,00,000 in the first installment in the month of October 2023 and amount therefore was paid on 29th October 2023. The balance payment of ₹ 50,00,000 is to be done in the next financial year as per the agreement between purchaser and seller. The accountant of purchaser of building thinks that the seller being a company, its TDS is required to be deducted at the rate of 5%. Later, as per the discussion held with both finance teams in a meeting, it was decided that TDS is to be deducted at the rate mentioned in the Income tax Act and its corresponding Income tax rules in force and not necessarily at the rate recommended by the accountant of Purchaser Company. The purchaser company has deposited the TDS amount to the credit of central government on 27th November 2023, although the TDS has been deducted

as per the rates defined in statute for the time being in force i.e. neither less nor more TDS has been deducted and thereafter the same has been deposited accordingly. Assume that rate on long term capital gain is 20%, as per Income tax rules for the time being in force.

During the review of transactions in company's books of accounts, a team member of internal audit has raised an objection for the sale of land by company. According to him, the company should have levied the GST at the time of sale; however, the company has not levied any GST at that time. He believes since the company has defaulted in charging the GST and depositing the same to the credit of central government, it may attract further interest and penalties in future.

Issue II:

During the year, Rudra Private Limited has transferred 10,000 units of its finished stock from its factory located in Delhi's Kirti Nagar to its retail showroom in Delhi's Chandni chowk so that the same can be sold from there. It has taken one registration in the State of Delhi declaring Delhi's Kirti Nagar factory as its principal place of business and Chandni chowk showroom as its additional place of business.

According to Mukesh, the company should have taken two separate registrations in the state of Delhi as the scope of GST is very complex and wide and it mandates to take GST registration from each place from where the company is doing business.

Rahul has resolved both outstanding issues pertaining to Rudra Private Limited accordingly by doing appropriate consultations with his team to reach on conclusions for the aforesaid matters.

Assume that you are Rahul and accordingly you are required to analyze the above scenarios and then answer the following questions on the basis of your understanding.

Multiple Choice Questions

1. Calculate the amount of capital gains for sale of building as per Income-tax Act, 1961 which the Rudra Private Limited needs to compute for A.Y. 2024-25?
 - (a) ₹ 16,00,000
 - (b) ₹ 12,00,000
 - (c) NIL
 - (d) ₹ 2,00,000
2. Calculate the amount of TDS which should have been deducted by the purchaser towards purchase of property from Rudra Private Limited for A.Y. 2024-25?
 - (a) ₹ 1,00,000
 - (b) ₹ 37,500
 - (c) ₹ 50,000
 - (d) ₹ 2,00,000
3. In which form, the details regarding transaction for sale of building and its corresponding TDS is required to be furnished by purchaser of building and how much time is to be taken for its filing?
 - (a) Form 26QB is required to be filed within 30 days of making the payment.
 - (b) Form 16B is required to be filed by 31.03.2024.
 - (c) Form 26QB is required to be filed by 30.11.2023.
 - (d) Form 16B is required to be filed within 30 days of making the transfer.
4. Calculate the amount of interest, Rudra Private Limited is required to pay for late payment of TDS to the

credit of Central Government.

- (a) ₹ 75,000
 - (b) ₹ 1,50,000
 - (c) NIL
 - (d) ₹ 50,000
5. Calculate the GST liability which Rudra Private Limited should have levied at the time of sale of land, as per the contention of Internal audit team member.
- (a) ₹ 6,00,000
 - (b) ₹ 9,00,000
 - (c) ₹ 12,00,000
 - (d) No GST Liability.

Descriptive Questions

6. Prepare Ind AS Impact analysis report of HIM Limited for presentation to the management wherein you are required to show the corresponding differences between Earlier IGAAP (AS) and New GAAP (Ind AS) against each identified issue in its first-time adoption and its appropriate treatment thereon at the transition date. Also show its corresponding impact on the company's financials by measuring its end result in monetary terms due to transition by supporting your presentation with Journal entry which is to be done at the time of transition, so as to give effect in the company's financials.
7. Whether stock transfers between Kirti Nagar factory and Chandni chowk showroom would be considered as supply in the light of GST provisions.

ANSWERS TO THE CASE STUDY 22

Answers to the Multiple Choice Questions

1. (c) Nil

Reason: Section 50 of the Income Tax Act, 1961 provides for the computation of capital gains in case of depreciable assets. Where all assets in a block are transferred during the previous year, the block itself will cease to exist. In such a situation, the difference between the sale value of the assets and the WDV of the block of assets at the beginning of the previous year together with the actual cost of any asset falling within that block of assets acquired by the assessee during the previous year will be deemed to be the capital gains arising from the transfer of short-term capital assets.

In this case, since the block of assets still continues to exist as the company has other buildings also in its portfolio, hence there would be no capital gains on the asset sold.

2. (c) ₹ 50,000

Reason: TDS is applicable on sale of immovable property wherein the sale consideration or stamp duty value of the property exceeds or is equal to ₹ 50,00,000 (₹ Fifty Lakhs). Sec 194IA of the Income Tax Act, 1961 states that for all transactions, Tax @ 1% should be deducted by the purchaser of the property at the time of making payment of sale consideration.

As per Section 194IA, TDS is to be deducted at time of payment. The date of transfer is not relevant as TDS is not required to be deducted at time of transfer but to be deducted at time of payment.

Since amount paid during the financial year 2023-24 is ₹ 50,00,000; hence the amount of TDS which is required to be deducted for the given period is ₹ 50,000 (₹ 50,00,000 × 1%).

3. (c) Form 26QB is required to be filed by 30.11.2023

Reason: The online form available on the TIN website for furnishing information regarding TDS on property is termed as Form 26QB.

Taxpayer is required to furnish challan-cum-statement in Form No. 26QB electronically within 30 days from the end of the month in which the tax deduction is made. Hence, taxpayer have to furnish Form No. 26QB by 30.11.2023

4. (c) Nil

Reason: Taxpayer is required to furnish challan-cum-statement in Form No. 26QB electronically within 30 days from the end of the month in which the tax deduction is made.

Since due date to furnish 26QB along with payment of TDS is 30.11.2023 and the purchaser company has deposited the TDS amount on 27th November 2023; hence no interest for late payment on TDS is required to be paid.

5. (d) No GST Liability.

Reason: By the nature of its definition, the Goods and Services Tax (GST) is applicable only on the sale and purchase of goods and services. As per the Section 2(52) of the GST Act, 2017, 'goods' imply every form of movable property, actionable claims, growing crops, grass and things attached to or forming a part of the land which will be severed from the land before supplying as per the contract of supply. Whereas 'services' mean anything other than goods, money and securities, for instance, activities relating to the use of money or its conversion by cash or by any other mode, from one form, currency or denomination, to another form, currency or denomination, for which a separate consideration is charged.

"Purchase or sale of land does not attract GST. GST is not applicable to the sale of land because it is neither treated as supply of goods nor the supply of services as per Schedule III of the CGST Act, 2017. Land is identified as immovable property, and so, it does not attract GST."

Answers to the Descriptive Questions

6. Issue 1: Fair Value as Deemed Cost for Property Plant and Equipment: (Ind AS 101)

Issue	Accounting Standard (Erstwhile IGAAP)	Ind AS (New IGAAP)	Impact on Company
1	As per Accounting Standard, Property, Plant and Equipment is recognised at cost less depreciation.	Ind AS 101 allows entity to elect to measure Property, Plant and Equipment on the transition date at its fair value or previous GAAP carrying value (book value) as deemed cost.	The company has decided to adopt fair value as deemed cost in this case. Since fair value exceeds book value, so the book value is brought up to fair value. The resulting impact of fair valuation of land is ₹ 3,00,000 and is adjusted in other equity accordingly.

Journal Entry as on the date of transition:

Particulars	Debit (₹)	Credit (₹)
Property Plant and Equipment	3,00,000	
To Revaluation Surplus (Other Equity)		3,00,000

Issue 2: Fair valuation of Financial Assets: (Ind AS 109)

Issue	Accounting Standard (Erstwhile IGAAP)	Ind AS (New IGAAP)	Impact on Company
2	As per Accounting Standard, investments are measured at lower of cost and net realizable value.	On transition, financial assets including investments are measured at fair values except for investments in subsidiaries, associates and JVs' which are recorded at cost.	All financial assets (other than Investment in subsidiaries, associate and JVs' which are recorded at cost) are initially recognized at fair value. The subsequent measurement of such assets is based on its categorization either Fair Value through Profit & Loss (FVTPL) or Fair Value through Other Comprehensive Income (FVTOCI) or at Amortised Cost based on business model assessment and contractual cash flow characteristics. Increase of ₹ 1,00,000 in mutual funds is to be given effect by increase in value of investments with corresponding increase to Retained earnings, since they are designated as FVTPL.

Journal Entry as on the date of transition:

Particulars	Debit (₹)	Credit (₹)
Investment in mutual funds	1,00,000	
To Retained earnings		1,00,000

Issue 3: Deferred tax

Issue	Accounting Standard (Erstwhile IGAAP)	Ind AS (New IGAAP)	Impact on Company
3	As per Accounting Standard, Deferred taxes are accounted as per income statement approach.	As per Ind AS, Deferred taxes are accounted as per balance sheet approach.	Company has recognised the deferred tax impact on account of GAAP adjustments identified on transition to Ind AS. Further, as per Ind AS 12, Company has recognised deferred tax following the principles of 'Balance Sheet Approach'. On transition, deferred tax liability is expected to increase by ₹ 25,000.

Journal Entry as on the date of transition:

Particulars	Debit (₹)	Credit (₹)
Retained earnings	25,000	
To Deferred tax liability		25,000

Issue 4: Borrowings - Processing fees/transaction cost:

Issue	Accounting Standard (Erstwhile IGAAP)	Ind AS (New IGAAP)	Impact on Company
4	As per Accounting Standard, such expenditure is charged to Profit and loss account or capitalised as the case may be.	As per Ind AS, such expenditure is amortised over the period of the loan. Ind AS 101 states, If it is impracticable for an entity to apply retrospectively the effective interest method in Ind AS 109, the fair value of the financial asset or the financial liability at the date of transition to Ind ASs shall be the new gross carrying amount of that financial asset or the new amortised cost of that financial liability at the date of transition to Ind ASs.	Fair value as on the date of transition is ₹1,80,000 as against its book value of ₹ 2,00,000. Accordingly, the difference of ₹ 20,000 is adjusted through retained earnings.

Journal Entry as on the date of transition:

Particulars	Debit (₹)	Credit (₹)
Borrowings	20,000	
To Retained earnings		20,000

Issue 5: Proposed dividend:

Issue	Accounting Standard (Erstwhile IGAAP)	Ind AS (New IGAAP)	Impact on Company
5	As per Accounting Standard, provision for Proposed dividend is made in the year when it has been declared and approved.	As per Ind AS, liability for proposed dividend is recognised in the year in which it has been declared and approved.	Since dividend should be deducted from retained earnings during the year when it has been declared and approved. Accordingly, the provision declared for preceding year should be reversed (to rectify the wrong entry). Retained earnings would increase proportionately due to such adjustment.

Journal Entry as on the date of transition:

Particulars	Debit (₹)	Credit (₹)
Provisions	30,000	
To Retained earnings		30,000

Issue 6: Intangible assets:

Issue	Accounting Standard (Erstwhile IGAAP)	Ind AS (New IGAAP)	Impact on Company
6	The useful life of an intangible asset cannot be indefinite under IGAAP principles. The Company amortised brand/trademark	The useful of an intangible asset like brand/trademark can be indefinite. Not required to be amortised and only tested for impairment. Company can avail the exemption	Consequently, there would be no impact as on the date of transition since company intends to use the carrying amount

	on a straight line basis at 25% amortisation rate.	given in Ind AS 101 as on the date of transition to use the carrying value as per previous GAAP.	instead of book value at the date of transition.

7. **Since no consideration is charged, supply of goods from factory to retail showroom in same State under single registration does not constitute supply.**

Transfer between two units of a legal entity under single registration (apparently within same State) will not be considered as supply.

However, in the above example, if the Company obtains separate registrations for factory and showroom, stock transfer between the factory and showroom will constitute supply.

OLD COURSE DIGEST

Case Study 23

Subjects	Topics Covered	Marks
FR	Ind AS 7	2
DT	IFOS, TDS, Total Income of Individual	16
IDT	Registration	2
Law	FEMA (Schedule III)	5

You are a chartered accountant and following clients have come to you to take the consultancy in the concerned areas and you are required to advise them as per your knowledge and experience in the backdrop of statutory framework of relevant laws and regulations.

Client 1: Ram Chander is a senior citizen and retired employee of Punjab government. He was employed in the Public works department of the state government wherein he served for 40 years. His pension income is not subject to income tax. He gets the monthly pension of ₹ 25,000 per month. In the recent years, he has invested in fixed deposits of a bank wherein his interest on fixed deposits is being credited after the deduction of tax at source. He has approached the bank authorities with a request to not deduct TDS on the interest income of fixed deposits since his income after considering all sources is below the maximum amount chargeable to tax; however, bank authorities are silent on the issue and not cooperating accordingly. Since Ram Chander has never filed the return in past, he wants to know the appropriate course of action to not let the bank deduct TDS.

Client 2: Rohit is a regular employee of consultancy firm of engineers, M/s ABC and has been associated with M/s ABC for last 2 years. During the financial year 2023-24, his salary details and the expenses incurred by him are as under:

Particulars	Amount (₹)
Gross salary (Note 1)	50,000 per month
Diwali Bonus	10,000
Conveyance expenses incurred for official purposes reimbursed by M/s ABC	50,000
Rental expenses (Note 2)	9,000 per month
Travelling expenses in connection with Home to office and vice-versa	48,000
Mess expenses	4,000 per month
Other miscellaneous expenses	3,000 per month
Interest income on savings bank account	3,000
Interest income on fixed deposits	5,000

Note 1: M/s ABC is paying the salary on consolidated basis. Hence there is no breakup or bifurcation of other allowances in it. Apart from the gross salary, Rohit is eligible for Diwali bonus only from M/s ABC.

Note 2: Rohit is currently staying in Delhi alone for the sake of job. His family is based at Jabalpur city of Madhya Pradesh. He has filed Form 10BA with details of payment of rent.

Note 3: Rohit has invested the sum of ₹ 75,000 in a fixed deposit for the said financial year. Rohit sends 50 percent of money received to his parents.

Note 4: Rohit during the year has donated refrigerator (₹ 25,000 spent) to one of the organisations, which is registered under the income tax act, to issue 80G receipts against the contributions received.

Note 5: Rohit has taken a medical insurance of his parents amounting to ₹ 15,000.

Note 6: M/s ABC has deducted the TDS on salary amounting to ₹ 50,000 during the year.

Note 7: Rohit has chosen to let his income tax be assessed with the available option against deductions.

Client 3: A person has the business of goods transportation across the nation. Apart from the said business, he does not deal in any other forms of business. He had the turnover of ₹ 50 lakhs during the preceding financial year and it is expected to cross ₹ 60 lakhs in the current financial year. Till the date, he has not registered the business in Goods and services act. However, the owner of business is reluctant to get his business registered on the contention that no recipient has ever expected a GST tax invoice out of his business.

Client 4: Mr. Shashank, an Indian Resident individual desires to obtain Foreign Exchange for the following purposes:

- (A) US\$ 120,000 for studies abroad on the basis of estimates given by the foreign university.
- (B) Gift Remittance amounting US\$ 10,000.

Client 5: Following data is presented to you for ascertaining the non-taxable income of Mr. Raj:

Particulars	(₹)
Interest on fixed deposits with public sector bank	16,000
Gift received on occasion of marriage	99,500
Interest on savings bank account	9,500
Interest on PPF	20,000

Client 6: Reshma is getting a fixed salary of ₹ 15,000 per month. She had invested in certain non-tax saver fixed deposits of ₹ 1,00,000 three years ago. Recently, she had gone to the bank for opening of another fixed deposit, but she has been told by the bank authorities to deposit her PAN card. She has not applied for PAN yet so there does not arise any question of intimating the same to bank authorities. On further interrogation, it is revealed that TDS has been deducted by bank against her interest income on fixed deposits.

Client 7: Mr. Shinde wants to know the cash flow arising out of investing activities from following information:

Particulars	Amount (₹)
Proceeds from issue of equity share capital	15,00,000
Proceeds from sale of investments held for capital appreciation	5,00,000
Realisation from debtors for sale of goods	3,50,000
Purchase of heavy machinery	5,00,000
Interest income from debtors	50,000

Multiple Choice Questions

- What Ram Chander should do to not let the bank deduct TDS for following years to avoid hardship?
 - (a) He cannot do anything, let the bank do whatever they want.
 - (b) Obtain a certificate u/s 197 from assessing officer to allow the TDS to be deducted at Nil rate.
 - (c) Let the tax be deducted and then file the return thereon.
 - (d) He should file an application to the state government to intervene in the said matter.
- For client 6, at what rate, TDS would have deducted by Bank in case of Reshma's income in fixed deposit?
 - (a) 10%

- (b) 5%
 - (c) 20%
 - (d) Exempt from tax
3. Calculate the exempt income in case of client 5 - Mr. Raj.
- (a) ₹ 1,29,000
 - (b) ₹ 1,45,000
 - (c) ₹ 20,000
 - (d) ₹ 1,19,500
4. Should the person engaged in goods transportation as mentioned in the case of client 3, is required to get his business registered under GST?
- (a) GTA does not have to register under GST if he is exclusively transporting goods where total tax is required to be paid by recipient under reverse charge and turnover does not exceed ₹ 40 lakhs.
 - (b) GTA needs to register under GST if he is exclusively transporting goods where the total tax is required to be paid by recipient under reverse charge and the turnover exceeds ₹ 40 lakhs.
 - (c) GTA does not have to register under GST if he is exclusively transporting goods where the total tax is required to be paid by recipient under reverse charge and even if turnover exceeds ₹ 40 lakhs.
 - (d) A GTA always need to register irrespective of the turnover.
5. Calculate the cash flow arising out of investing activities in case of Client 7 - Mr. Shinde.
- (a) ₹ 50,000
 - (b) Nil
 - (c) ₹ 4,00,000
 - (d) ₹ 3,50,000

Descriptive Questions

- 6. Calculate the income tax payable by client 2 - Rohit for assessment year 2024-25. Assume that Rohit has exercised the option to shift out of the default tax regime.
- 7. Advise Shashank (client 4) whether he can get Foreign Exchange and if so, under what condition(s)?

ANSWERS TO THE CASE STUDY 23

Answers to the Multiple Choice Questions

- 1. (b) Obtain a certificate u/s 197 from assessing officer to allow TDS to be deducted at Nil rate.
Reason: The Income-tax laws permit certain taxpayers to get relief from TDS at a lower or nil rate under Section 197 of the Income Tax Act. An Assessing Officer can grant relief from TDS provisions, if the Officer is satisfied that the existing and estimated tax liability of a person will be lower than the amount of TDS deducted and provide sufficient grounds for the same. For availing this benefit, assessee whose income would be liable for a tax deduction at source (TDS) need to furnish an application before assessing officer having jurisdiction over the assessee. The AO considers the total income of assessee and the estimated tax liability thereon, and then as per the case, grant a certificate for TDS at Nil or lower rate to such applicant.

2. (c) 20%

Reason: A recipient who fails to furnish PAN to the person making a payment would suffer TDS at the higher of the rates mentioned below:

- At the rate specified in the relevant provision of the Act;
- At the rate or rates in force, i.e., the rate prescribed in the Finance Act (10%);
- At the rate of 20%

3. (a) ₹ 1,29,000

Reason: Calculation of exempt income-

Particulars	(₹)	Remarks
Interest on fixed deposits with public sector bank	16,000	Taxable
Gift received on occasion of marriage	99,500	Exempt
Interest on savings bank account	9,500	Exempt (Sec 80TTA)
Interest on PPF	20,000	Exempt

4. (c) GTA does not have to register under GST if he is exclusively transporting goods where the total tax is required to be paid by recipient under reverse charge and even if turnover exceeds ₹ 40 lakhs.

Reason: As per Notification No. 5/2017- Central Tax dated 19/06/2017, a person who is engaged in making only supplies of taxable goods/services on which reverse charge applies is exempted from obtaining registration under GST.

Thus, a GTA does not have to register under GST if he is exclusively transporting goods where the total tax is required to be paid by the recipient under reverse charge basis (even if the turnover exceeds the specified limit).

5. (b) Nil

Reason: Cash flow from investing activities-

Particulars	Amount (₹)	Activity
Proceeds from issue of equity share capital	-	Financing
Proceeds from sale of investments held for capital appreciation	5,00,000	Investing
Realisation from debtors for sale of goods	-	Operating
Purchase of heavy machinery	(5,00,000)	Investing
Interest income from debtors	-	Operating
Net cash flow from investment activities	Nil	

Answers to the Descriptive Questions

6. Computation of Taxable Income & Income tax for assessment year 2024-25:

Particulars	Amount (₹)
Income from Salary (Note - 1)	5,60,000
Income From Other Sources (Note - 2)	<u>8,000</u>
Gross Total Income [A]	<u>5,68,000</u>
Deductions (Note - 3) [B]	71,000
Net Taxable Income [C] = [A] - [B]	<u>4,97,000</u>

Income Tax on [C]	12,350
Less: Relief under section 87A	(12,350)
Net Income tax payable [D]	Nil
Health and Education Cess @ 4% on [D]; [E]	Nil
Total Tax Liability [D] + [E]; [F]	Nil
TDS [G]	50,000
Tax payable/(refundable) [F] - [G]	(50,000)

Note 1 - Income from Salary:

Particulars	Amount (₹)
Gross salary	6,00,000
Diwali Bonus	<u>10,000</u>
Total	6,10,000
Less: Standard deduction	<u>(50,000)</u>
Income from Salary	5,60,000

Note 2 - Income from Other Sources:

Particulars	Amount (₹)
Interest on savings bank account	3,000
Interest on fixed deposits	<u>5,000</u>
Total	<u>8,000</u>

Note 3 - Deductions:

Particulars	Amount (₹)
Medical insurance premium paid under section 80D [A]	15,000
Deductions under section 80GG (Note 4) [B]	53,000
Interest from savings account in bank under section 80TTA [C]	<u>3,000</u>
Grand Total [A] + [B] + [C]	<u>71,000</u>

Note 4:

Particulars	Amount (₹)
Quantum of deduction shall be the least of the following:	
₹ 5000 per month	60,000
25% of Adjusted Total Income (5,50,000 x 25%)	1,37,500
Actual Rent paid minus 10 percent the adjusted total income (1,08,000 - 55,000)	53,000

Adjusted Total Income = salary + other sources income - deductions u/s 80C to 80U but before making deduction under this section ₹ 5,60,000 + ₹ 8,000 - ₹ 15,000 - ₹ 3,000 = ₹ 5,50,000

Note 5: Donation in form of kind i.e. refrigerator is not allowed as deduction under section 80G.

7. (a) **Remittance of Foreign Exchange for studies abroad:** Foreign exchange may be released for studies abroad up to a limit of US \$ 250,000 for the studies abroad without any permission from the RBI. Above this limit, RBI's prior approval is required. Further proviso to Para I of Schedule III states that individual may be allowed remittances exceeding USD 250,000 based on the estimate received from the institution abroad. In this case since US \$ 120,000 is the drawal of

foreign exchange, so permission of the RBI is not required.

- (b) **Gift remittance exceeding US \$ 10,000:** Under the provisions of Section 5 of FEMA 1999, certain Rules have been made for drawal of foreign exchange for current account transactions. Gift remittance is a current account transaction. **Gift remittance exceeding US \$ 250,000 can be made after obtaining prior approval of the RBI.** In the present case, since the amount to be gifted by an individual, Mr. Shashank is USD 10,000, there is **no need for any permission from the RBI.**

OLD COURSE DIGEST

Case Study 24

Subjects	Topics Covered	Marks
FR	Ind AS 7	5
Audit	Due Diligence	4
DT	Capital Gains	11
IDT	Accounts & Records	5

Stable and Efficient Limited is an industrial undertaking situated in the urban area of State H of India. The company is a registered person under CGST Act and is into manufacturing business of various types of carry bags and storage bags. During the financial year 2023-24, the manufacturing business of the said industrial undertaking was shifted from urban area of State H to rural area of State H. Land of the company was sold for ₹ 2.25 crore on 04.07.2023 because of the shifting. The said land was purchased on 13.11.2022 for ₹ 1.75 crore. The new land was purchased (not an agriculture land) for ₹ 1.30 crore on 07.11.2023, for the purpose of manufacturing business of various types of carry bags and storage bags in the rural area of State H of India.

Stable and Efficient Limited is an unlisted public limited company, having a paid-up share capital of ₹ 56 crore during the financial year 2023-24. An individual Chartered Accountant named Mr. H or a Partnership Firm of Chartered Accountants named WY and Associates was to be appointed as auditor of the company.

During the financial year 2023-24, the management of Stable and Efficient Limited was planning regarding acquiring the business of one of its competitors by the name of Competent and Capable Limited. Before acquiring the business of Competent and Capable Limited, the management of Stable and Efficient Limited thought of undertaking the process of Due Diligence for the purpose of evaluating whether the acquisition of business of Competent and Capable Limited would be beneficial or not. Three types of due diligence were undertaken, the information regarding which is provided as follows:

- (1) A Due Diligence was performed in order to analyze the financial information and account books of Competent and Capable Limited.
- (2) In order to understand what would be the advantage or disadvantage from the point of view of tax after the business of Competent and Capable Limited is acquired, another Due Diligence was performed.
- (3) A third type of Due Diligence was performed to understand the complete working environment of Competent and Capable Limited.

Certain transactions of Stable and Efficient Limited happened during the financial year 2023-24, the information of which is provided as below:

- (1) An amount of ₹ 15,300 was received in form of cash from one of the trade receivables of the company.
- (2) The equipment named Equipment 22 was purchased for an amount of ₹ 14,600 which was paid in cash.
- (3) A trade payable of ₹ 13,700 was not paid in form of cash, rather the equipment named Equipment 94 was given to settle the whole amount.
- (4) An amount of ₹ 2,72,000 was received for equity shares issued, during the beginning of financial year 2023-24 by the company.

Mr. T one of the directors of the company was of the opinion that the company was required to develop and maintain production records and accounts on half yearly basis.

Another director of the company, named Mr. N, was of the opinion that the company was not required to

develop and maintain production records and accounts showing quantitative details of various types of carry bags and storage bags manufactured and also quantitative details of raw materials used in the manufacturing of the carry bags and storage bags.

Multiple Choice Questions

1. The amount of capital gain before exemption arising on transfer of Land for Stable and Efficient Limited for the A.Y. 2024-25 will be:
 - (a) Long Term Capital Gain of ₹ 50 lakhs.
 - (b) Short Term Capital Gain of ₹ 50 lakhs.
 - (c) Short Term Capital Gain of ₹ 40 lakhs.
 - (d) Long Term Capital Gain of ₹ 40 lakhs.
2. The tax rate on short term capital gain arising on transfer of land will be:
 - (a) 15%
 - (b) 20%
 - (c) 10%
 - (d) Normal Tax Rate
3. Which of the following investment is not eligible for exemption under section 54G:
 - (a) Land
 - (b) Furniture
 - (c) Building
 - (d) Plant & Machinery
4. What type of Due Diligence was performed regarding Competent and Capable Limited for analyzing its financial information and account books:
 - (a) Financial Due Diligence.
 - (b) Environmental Due Diligence.
 - (c) Operational Due Diligence.
 - (d) Tax Due Diligence.
5. In order to understand the complete working environment of Competent and Capable Limited a type of Due Diligence was performed. This type of due diligence is known as:
 - (a) Operational Due Diligence.
 - (b) Tax Due Diligence.
 - (c) Financial Due Diligence.
 - (d) Environmental Due Diligence.

Descriptive Questions

6. In financial year 2023-24, there was a shifting of industrial undertaking of Stable and Efficient Limited from urban area of State H to rural area of State H of India. In this regard answer following questions:
 - (a) In respect of Land sold on 04.07.2023, what is the amount of exemption available to Stable and Efficient Limited for the A.Y. 2024-25?

- (b) Consider that stamp duty paid with respect to purchase of the land was ₹ 11,50,000. In this situation, what is the amount of exemption available to Stable and Efficient Limited for Land sold on 04.07.2022 for the A.Y. 2024-25?
- (c) If during the financial year 2024-25, new Land purchased on 07.11.2023 is sold then in that situation what would happen?
7. Explain in words what the below mentioned transactions represent in relation to Cash Flow Statement of Stable and Efficient Limited:
- (a) When amount of ₹ 15,300 was received in cash from a trade receivable.
- (b) When payment of ₹ 14,600 was made in cash for purchase of Equipment 22.
- (c) When Equipment 94 was given to settle the whole amount of ₹ 13,700 of a trade payable.
- (d) When equity shares were issued and an amount of ₹ 2,72,000 was received.
8. Identify whether the opinions formed by Mr. T and Mr. N w.r.t. maintenance of production records and accounts are correct or incorrect in the context of CGST Rules. Also give reason to explain your answer.

ANSWERS TO THE CASE STUDY 24

Answers to the Multiple Choice Questions

1. (b) Short Term Capital Gain of ₹ 50 lakhs.

Reason: Amount of capital gain before exemption arising on transfer of Plant and Machinery for Stable and Efficient Limited will be calculated in the following manner-

Particulars	Amount (₹)
Net Sale Consideration of Land Sold	2,25,00,000
Less: Cost of Acquisition of Land	(1,75,00,000)
Short Term Capital Gain	50,00,000

2. (d) Normal Tax Rate

Reason: Short term capital gain arising on transfer of land will be taxable at normal tax rates.

3. (b) Furniture

Reason: As per Section 54G, only investment in land, building, plant and machinery is eligible for exemption.

4. (a) Financial Due Diligence.

Reason: In Financial Due Diligence, the financial information and account books of a company are analyzed when the business of that company is acquired by another company.

5. (d) Environmental Due Diligence.

Reason: Environmental Due Diligence is performed for the purpose of understanding working environment of a company by another company.

Answers to the Descriptive Questions

6. (a) According to Section 54G of the Income Tax Act, 1961 in respect of Land sold on 04.07.2023, the amount of exemption available to Stable and Efficient Limited for A.Y. 2024-25 will be as follows:

Particulars	Amount (₹)
Net Sale Consideration of Land Sold	2,25,00,000
Less: Cost of Acquisition of Land	(1,75,00,000)
Short Term Capital Gain	50,00,000

Cost of new land purchased by Stable and Efficient Limited = ₹ 1,30,00,000.

As the cost of new land is more than Short Term Capital Gain, therefore whole amount of the short term capital gain of ₹ 50,00,000 is exempt.

- (b) Cost of new land, which was purchased by Stable and Efficient Limited = ₹ 1,30,00,000. Stamp duty paid with respect to purchase of land = ₹ 11,50,000. Total of cost of new land and stamp duty paid = $1,30,00,000 + 11,50,000 = ₹ 1,41,50,000$.

As per Section 54G of the Income Tax Act, 1961 as the cost of new land and expenses incurred is equal to ₹ 1,41,50,000 which is more than Short Term Capital Gain of ₹ 50,00,000, therefore complete amount of Short Term Capital Gain of ₹ 50,00,000 is exempt.

- (c) If the new land purchased on 07.11.2023 is sold during the financial year 2024-25 then according to Section 54G of the Income Tax Act, 1961 the Short Term Capital Gain of ₹ 50,00,000 which was earlier exempted would be reduced from cost of purchase of new land of ₹ 1,30,00,000 for the purpose of calculating the capital gain in respect of new land of Stable and Efficient Limited sold during the financial year 2024-25.

7. According to the Cash Flow Statement of Stable and Efficient Limited, the transactions mentioned above represent as follows:

- (a) This represents Cash Inflow of ₹ 15,300 from operating activities because according to Indian Accounting Standard 7 relating to Statement of Cash Flows, an amount received from a trade receivable represents inflow of cash from operating activities.
- (b) This represents cash outflow of ₹ 14,600 from investing activities because according to Indian Accounting Standard 7 relating to Statement of Cash Flows, an amount paid for purchase of an equipment represents outflow of cash from investing activities.
- (c) According to Indian Accounting Standard 7 relating to Statement of Cash Flows, this represents non-cash transaction and hence it will not be included in Cash Flow Statement of Stable and Efficient Limited because an equipment was given to settle the whole amount of ₹ 13,700 of a trade payable and no cash is involved in this transaction.
- (d) This represents Cash Inflow of ₹ 2,72,000 from financing activities because according to Indian Accounting Standard 7 relating to Statement of Cash Flows, an amount received for issue of equity shares represents inflow of cash from financing activities.

8. (a) The opinion of Mr. T is incorrect because according to Rule 56(12) of the Section 35 and Section 36 read with Chapter VII relating to Accounts and Records of CGST Rules, 2017, each and every registered person who is involved in manufacturing of goods is required to develop and maintain production records and accounts on monthly basis. Similarly, Stable and Efficient Limited is a registered person, which is involved in manufacturing of various types of carry bags and storage bags is required to develop and maintain production records and accounts on monthly basis.
- (b) The opinion of Mr. N is incorrect because according to Rule 56(12) of the Section 35 and Section 36 read with Chapter VII relating to Accounts and Records of CGST Rules, 2017, each and every

registered person involved in manufacturing of goods is required to develop and maintain production records and accounts on monthly basis showing quantitative details of goods manufactured and quantitative details of raw materials used in manufacturing of goods. Similarly, **Stable and Efficient Limited** is a registered person, who is involved in manufacturing business of various types of carry bags and storage bags is required to develop and maintain production records and accounts on monthly basis showing quantitative details of various types of carry bags and storage bags manufactured and quantitative details of raw materials used in the manufacturing of those carry bags and storage bags.

OLD COURSE DIGEST

Case Study 25

Subjects	Topics Covered	Marks
FR	Ind AS 115	7
DT	PGBP	14
IDT	Supply (Basics & Schedule II)	4

"PQRST & Co." is a CA Firm having partners "Mr. P", "Mr. Q", "Mr. R", "Mr. S" and "Mr. T", Chartered Accountants. This firm was established 10 years ago by these partners who were friends since college days and has made a remarkable success in Auditing & Taxation work till now. They have clients ranging from small traders to big multinational companies. They have practice of meeting and sitting together once a month to discuss and sort out various issues of their clients with each other as well as any issues related to their profession. This time when they met, 3 major issues were scheduled to be discussed as follows -

- (i) Accounting & Taxation issues w.r.t. Hamba Manufacturers Ltd., one of their old clients.
- (ii) Accounting & Taxation issues w.r.t. Talktime Telecom Pvt. Ltd., one of their prime clients.
- (iii) Their eligibility as partners to carry out various audits & ceiling limits.

Hamba Manufacturers Ltd. is in the business of manufacturing and trading in electronics and it has its own sale depots as well apart from being a part of the wholesale and distribution channel. It also enters into contracts with different customers for overhauling and renovation services and has also set up a separate unit in its factory for research related to biotechnology.

One of the issues being discussed at the meeting is that this company has its manufacturing unit in the State of Maharashtra. It stores the finished goods manufactured by it at a depot located in the State of Gujarat. The depot is owned by Punyabhumi Ltd. – a related person of Hamba Manufacturers Ltd. Punyabhumi Ltd. has not charged any consideration from it for usage of depot for storage purpose. There is a doubt raised by Mr. Q regarding such transactions as if they form supply or not under the GST law. They discussed about the term supply under the GST law and Mr. S helped to resolve this issue.

Mr. Q further tells them that he is currently having query with one of the supplies affected by Hamba Manufacturers Ltd. as to how to account for it in the books of accounts for revenue recognition purpose. He tells them that the Company has entered into an agreement on 1st January, 2024 with a customer for renovation of hospital and installation of new air- conditioners for total consideration of ₹ 1,00,00,000. The promised renovation service, including the installation of new air-conditioners is a single performance obligation satisfied over time. Total expected costs are ₹ 80,00,000 including ₹ 20,00,000 for the air conditioners.

The Company determines that it acts as a principal because it obtains control of the air conditioners before they are transferred to the customer. The customer obtains control of the air conditioners when they are delivered to the hospital premises. Company uses an input method based on costs incurred to measure its progress towards complete satisfaction of the performance obligation. As at 31st March, 2024, other costs incurred excluding the air conditioners are ₹ 12,00,000. This problem is solved by Mr. T, who is an expert in Ind AS matters.

Moving on, Mr. R, who is working on the case of Hamba Manufacturers Ltd. with Mr. Q jointly is struggling with certain issues to be handled while calculating profits from business for the Previous Year 2023-24 for the Company for taxation purpose and puts forward the relevant information for discussion among them. Mr. S who is an expert in Income tax matters offers help in this case.

He tells them that Hamba Manufacturers Ltd. has disclosed a net profit of ₹ 10 lakhs for the year ended 31st March, 2024.

- Advertisement expenditure debited to profit and loss account includes the sum of ₹ 60,000 paid in cash to the sister concern of a company, the market value of which is ₹ 52,000.
- Repairs of plant and machinery debited to profit and loss account include ₹ 1.50 lakhs towards replacement of worn out parts of machineries. Such expenditure does not increase the future benefit from the asset beyond its previously assessed standard of performance.
- A sum of ₹ 8,000 on account of liability foregone by a creditor has been taken to general reserve. The original purchase was debited to the Profit & Loss Account in the A.Y. 2019-20.
- Sale proceeds of import entitlements amounting to ₹ 1.1 lakh has been credited to Profit & Loss Account, which the company claims as capital receipt not chargeable to income-tax.
- Being also engaged in the biotechnology business, the company incurred the following expenditure on in-house research and development as approved by the prescribed authority:
 - (a) Research equipment purchased ₹ 1,50,000.
 - (b) Remuneration paid to scientists ₹ 50,000.

The total amount of ₹ 2,00,000 is debited to the profit and loss account.

Now, Mr. P comes up with the case of Talktime Telecom Pvt. Ltd. He tells them:

- (a) this company entered into an agreement with B Ltd. which is engaged in generation and supply of power. The agreement provided that Talktime Telecom Pvt. Ltd. will provide 2,00,000 minutes of talk time to employees of B Ltd. in exchange for getting power equivalent to 40,000 units. Talktime Telecom Pvt. Ltd. normally charges ₹ 0.50 per minute and B Ltd. charges ₹ 2.5 per unit. Mr. P is unable to account for recognize revenue from this transaction and Mr. T helps to resolve this issue.
- (b) this Company is to provide telecom services in Mumbai, obtained a licence on 1.4.2021 for a period of 10 years ending on 31.3.2031 against a fee of ₹ 54 lakhs to be paid in 3 installments of ₹ 18 lakhs each by April, 2021, April, 2022 and April, 2023, respectively. The company has commenced business on 1.4.2022. He is struggling with the treatment of such transaction under the Income tax law and Mr. S, comes forward to help.
- (c) the company has entered into a contract with an actor – Chandragupta - to act as their brand ambassador. The duration of the contract is 5 years and the contract fee payable to Chandragupta for being a brand ambassador is ₹ 10 lakh per annum. As per the terms of the contract, in case the contract is terminated by Chandragupta before the end of the contract period, Chandragupta will have to repay to the company, 50% of the contract fee received by him till the time of termination of contract.

Multiple Choice Questions

1. Whether the services rendered by Punyabhumi Ltd. to Hamba Manufacturers Ltd. qualify as supply under GST?
 - (a) No, as no consideration has been charged.
 - (b) No, as they are related persons.
 - (c) Yes, it qualifies as a Supply even though no consideration has been charged for the same.
 - (d) Yes, it qualifies as a Supply because the related person is situated in different state.
2. How should revenue be measured in the case of Talktime Telecom Pvt. Ltd.'s contract with the company B Ltd. in the books of Talktime Telecom Pvt. Ltd.?

- (a) ₹ 25,000
 (b) ₹ 50,000
 (c) No, Revenue recognition as it is a contract involving consideration in kind and just to be disclosed in the Notes to accounts.
 (d) ₹ 1,00,000
3. What amount of payment made for licence fees by Talktime Telecom Pvt. Ltd. shall be deductible, under the Income-tax Act, 1961 for A.Y. 2024-25?
 (a) ₹ 54,00,000
 (b) ₹ 18,00,000
 (c) ₹ 6,25,000
 (d) ₹ 4,00,000
4. At the end of 3rd year, Chandragupta terminates the contract with Talktime Telecom Pvt. Ltd. He has received the contract fee for 3 years at the time of termination of contract. You are required to determine whether the given transaction(s) qualifies(y) as supply(ies) under the GST Law.
 (a) Only services as a brand ambassador by Chandragupta is a Supply.
 (b) Both services as a brand ambassador by Chandragupta & act of tolerating the non-performance of a contract by Chandragupta by company qualify as two legs of one single supply.
 (c) Only act of tolerating the non-performance of a contract by Chandragupta by company is a Supply.
 (d) Both services as a brand ambassador by Chandragupta & act of tolerating the non-performance of a contract by Chandragupta by company qualify as two different supplies.
5. If Hamba Manufacturers Ltd. opts for section 115BAA, tax rate on business income will be:
 (a) 22% (plus 10% surcharge and 4% cess)
 (b) 15% (plus 10% surcharge and 4% cess)
 (c) 25%
 (d) 30%

Descriptive Questions

6. Whether Hamba Manufacturers Ltd. should include cost of the air conditioners in measure of its progress of performance obligation? How should revenue be recognised for the year ended March, 2024?
7. You are required to compute the income from business or profession (ignore the provisions of section 115BAA) of Hamba Manufacturers Ltd. for Assessment year 2024-25, after considering the information as provided in the above case scenario, duly explaining the reasons for each item of adjustment.

ANSWERS TO THE CASE STUDY 25

Answers to the Multiple Choice Questions

1. (c) Yes, it qualifies as a Supply even though no consideration has been charged for the same.
Reason: As per section 7(1)(c) read with Schedule I of the CGST Act, supply of goods or services or both between related persons without consideration when made in the course or furtherance of business qualifies as supply. Thus, the storage services provided by Punyabhumi Ltd. to Hamba

Manufacturers Ltd. in course or furtherance of business qualifies as supply under GST even though no consideration has been charged for the same.

2. (d) ₹ 1,00,000

Reason: Paragraph 5(d) of Ind AS 115 excludes non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers. For example, this Standard would not apply to a contract between two oil companies that agree to an exchange of oil to fulfil demand from their customers in different specified locations on a timely basis.

However, the current scenario will be covered under Ind AS 115 since the same is exchange of dissimilar goods or services. As per paragraph 47 of Ind AS 115, —an entity shall consider the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both. Paragraph 66 of Ind AS 115 provides that to determine the transaction price for contracts in which a customer promises consideration in a form other than cash, an entity shall measure the non-cash consideration (or promise of noncash consideration) at fair value. On the basis of the above, revenue recognised by Talktime Telecom Pvt. Ltd. will be the consideration in the form of power units that it expects to be entitled for talktime sold, i.e. ₹ 1,00,000 (40,000 units x ₹ 2.5). The revenue recognised by B Ltd. will be the consideration in the form of talk time that it expects to be entitled for the power units sold, i.e., ₹ 1,00,000 (2,00,000 minutes x ₹ 0.50).

3. (c) ₹ 6,25,000

Reason: The payment made for acquiring the licence to operate telecom services shall be subject to deduction as per the scheme in Section 35ABB. As per Section 35ABB, any amount actually paid for obtaining licence to operate telecommunication services shall be allowed as deduction in equal instalments during the number of years for which the licence is in force.

If the payment is made before the commencement of business: The deduction shall be allowed beginning with the year of commencement of business.

In any other case: It will be allowed commencing from the year of payment. Deduction shall be allowed up to the year in which the license shall cease to be in force.

The amount of deduction available for A.Y. 2024-25 is worked out below-

(1)	(2)	(3)	(4) = (3)/(2)
Previous year of payment	Unexpired period of license	Instalment paid (₹)	Deduction in respect of each instalment (₹)
2021-22	9 years	18,00,000	2,00,000
2022-23	9 years	18,00,000	2,00,000
2023-24	8 years	18,00,000	2,25,000
		54,00,000	6,25,000

The deduction under section 35ABB from assessment year 2024-25 shall be ₹ 6,25,000.

4. (d) Both services as a brand ambassador by Chandragupta & act of tolerating the non-performance of a contract by Chandragupta by company qualify as two different supplies.

Reason: As per section 7(1)(a), supply includes all forms of supply of goods or services or both made or agreed to be made for a consideration by a person in the course or furtherance of business. In the given case, Chandragupta has agreed to provide his services as a brand ambassador of the Company at an agreed annual consideration. Thus, his services fall within the purview of the term "supply" under GST where the consideration charged for such supply is ₹ 10 lakh per annum. Further, section 7(1A) provides that when certain activities or transactions constitute a supply in accordance with the provisions of section 7(1), they shall be treated either as a supply of goods or supply of services as referred to in Schedule II of the CGST Act. Tolerating non-performance of a contract is an activity or transaction which is treated as a supply of service as per Schedule II and the person is deemed to have received the consideration in the form of fines or penalty and is, accordingly, required to pay tax on such amount. In the given case, since the company is tolerating the act of Chandragupta of terminating the contract before the expiry of its contract period, 50% of contract fee for 3 years amounting to ₹ 15 lakh is being received by it as a penalty for the same. The act of tolerating non-performance of a contract by Chandragupta by the company is a supply of service where consideration charged for such supply is ₹ 15 lakh [50% of (₹ 10 Lakh × 3 years)].

5. (a) 22% (plus 10% surcharge and 4% cess)

Reason: Section 115BAA states that domestic companies have the option to pay tax at a rate of 22% plus surcharge of 10% and cess of 4%.

Answers to the Descriptive Questions

6. Paragraph B19 of Ind AS 115 inter alia, states that, "an entity shall exclude from an input method the effects of any inputs that, in accordance with the objective of measuring progress in paragraph 39, do not depict the entity's performance in transferring control of goods or services to the customer."

In accordance with the above, the company assesses whether the costs incurred to procure the air conditioners are proportionate to the entity's progress in satisfying the performance obligation. The costs incurred to procure the air conditioners (₹ 20,00,000) are significant relative to the total costs to completely satisfy the performance obligation (₹ 80,00,000). Also, the Company is not involved in manufacturing or designing the air conditioners.

Hamba Manufacturers Ltd. concludes that including the costs to procure the air conditioners in the measure of progress would overstate the extent of the entity's performance. Consequently, in accordance with paragraph B19 of Ind AS 115, the entity adjusts its measure of progress to exclude the costs to procure the air conditioners from the measure of costs incurred and from the transaction price. The entity recognises revenue for the transfer of the air conditioners at an amount equal to the costs to procure the air conditioners (i.e., at a zero margin).

The Company assesses that as at March, 2024, the performance is 20 percent complete (i.e., ₹ 12,00,000 / ₹ 60,00,000). Consequently, the Company should recognise the following:-

As at 31 st March, 2024	Amount in ₹
Revenue	36,00,000
Cost of goods sold	32,00,000
Profit	4,00,000

Revenue recognised is calculated as (20 percent × ₹ 80,00,000) + ₹ 20,00,000.

(₹ 80,00,000 = ₹ 1,00,00,000 {transaction price} – ₹ 20,00,000 {costs of air conditioners}.)

Cost of goods sold is ₹ 12,00,000 of costs incurred + ₹ 20,00,000 costs of air conditioners.

7. Computation of taxable income from business or profession of Hamba Manufacturers Ltd.

Particulars	Amount (₹)
Net profit as per profit and loss account	10,00,000
Add: Items debited to profit and loss A/c but not deductible or income to be taxed	
1. Payment of advertisement expenditure of ₹ 60,000	
(i) ₹ 8,000, being the excess payment to a relative disallowed u/s 40A(2)	8,000
(ii) As the payment is made in cash and since the remaining amount of ₹ 52,000 exceeds ₹ 10,000, 100% shall be disallowed under section 40A(3)	52,000
2. Under section 31, expenditure relatable to current repairs regarding plant, machinery or furniture is allowed as deduction. The test to determine whether replacement of parts of machinery amounts to repair or renewal is whether the replacement is one which is in substance replacement of defective parts or replacement of the entire machinery or substantial part of the entire machinery [CIT v. Darbhanga Sugar Co. Ltd. [1956] 29 ITR 21 (Pat)]. Here expenditure on repairs does not bring in any new asset into existence. Such replacement can only be considered as current repairs. Hence, no adjustment is required. Further, as per ICDS V on Tangible Fixed Assets, only an expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance has to be added to the actual cost.	
3. Liability foregone by creditor chargeable as business income but not credited to profit and loss account [taxable under section 41(1)]	8,000
4. Sale proceeds of import entitlements. The sale of the rights gives rise to profits or gains taxable under section 28(iia). As the amount has already been credited to profit and loss account, no further adjustment is necessary.	-
5. Expenditure on in-house research and development is entitled to a weighted deduction of 100% of the expenditure (both capital and revenue) so incurred under section 35(2AB)(1). As the amount has already been debited to profit and loss account, no further adjustment is necessary	-
Taxable Income from business or profession	10,68,000

OLD COURSE DIGEST

Case Study 26

Subjects	Topics Covered	Marks
FR	Ind AS 115, Schedule III	12
DT	PGBP	4
IDT	GST Liability	7
Law	Companies Act (Section 144)	2

Varsha Dutta is a Post-Graduate from IIM, Guwahati. She set up a business of her own in 2021 in the field of construction material manufacturing to substantiate & support his father's construction business, which is almost 30 years old. Until now, she was able to manage the accounting & taxation part of her business really good all by herself, but now, as the business is expanding, she hires the services of a taxation consultant, CA Amit Garg, her friend, for accounting & taxation related issues so as to make all required compliances good.

CA Amit has set up his own Proprietorship Firm and has been practicing in Audit & Taxation since the past 7 years. Amit & Varsha, both meet where Amit tells her that times have changed and so have the ways of presenting accounts of any business as per the Financial Reporting Framework (FRF). He also tells her about the Income tax and GST aspects w.r.t businesses. After a brief deliberation on accounting & taxation aspects, he asks Varsha to tell him in brief about her business.

Varsha tells him that her company, Varsha Pvt. Ltd., specializes in manufacturing & trading of construction material. She asks her accountant to show Amit how they present the various matters in their company's Balance Sheet and the accountant lays down a draft Balance sheet in front of Amit to show the presentation of financial items with relevant figures as follows:

Heading	Note No.	31 st March, 2024	31 st March, 2023
Equity & Liabilities			
Share Capital	1	XXX	XXX
Reserves & Surplus	2	0	0
Employee stock option outstanding	3	XXX	XXX
Share application money refundable	4	XXX	XXX
Non-Current Liabilities		XXX	XXX
Deferred tax liability (Arising from Indian Income Tax)	5	XXX	XXX
Current Liabilities			
Trade Payables	6	XXX	XXX
Total		<u>XXXX</u>	<u>XXXX</u>
Assets			
Non-Current Assets			
Fixed Assets - Tangible	7	XXX	XXX
CWIP (including capital advances)	8	XXX	XXX
Current Assets			
Trade Receivables	9	XXX	XXX
Deferred Tax Asset (Arising from Indian Income Tax)	10	XXX	XXX
Debit balance of Statement of Profit and Loss		XXX	XXX
Total		<u>XXXX</u>	<u>XXXX</u>

Varsha tells Amit that her father's company, Carp Pvt. Ltd., is a prime and regular purchaser of the construction material from her company. She finds it hard on how to deal with various accounting & taxation matters and discusses some of the issues as follows:

1. ISSUE 1: Presenting Inventories in the Financial Statements.

She asks Amit to provide guidance in presentation relating to inventories in the financial statements. Her Company is having inventory amounting to ₹ 100,000 in total with the details as below:

Spare parts	₹ 30,000
Finished goods	₹ 25,000
Work in progress	₹ 40,000
Tools	₹ 5,000
TOTAL	₹ 1,00,000

2. ISSUE 2: Just recently, they have entered into a contract with Customer E to build an asset. Depending on when the asset is completed, her company will receive either ₹ 2,20,000 or ₹ 2,60,000. Providing the following details, she asks for Amit's help in determining the transaction price of this contract.

Outcome	Consideration (₹)	Probability
Project completes on time	2,60,000	90%
Project is delayed	2,20,000	10%

3. ISSUE 3: She tells Amit that her company is GST registered under regular scheme but now with the expanding business, they find it hard to deal with GST matters and need his services as a GST Consultant. She provides her with some data relating to recent transactions to understand GST impact & compliance:

Their company supplies the following goods and services for construction of buildings and complexes -

- excavators for required period at a per hour rate
- manpower for operation of the excavators at a per day rate
- soil-testing and seismic evaluation at a per sample rate.

The excavators are invariably hired out along with operators. Similarly, excavator operators are supplied only when the excavator is hired out. For a given month, their receipts (exclusive of GST) are as follows:

- Hire charges for excavators - ₹ 36,00,000
- Service charges for supply of manpower for operation of the excavator - ₹ 40,000
- Service charges for soil testing and seismic evaluation at three sites - ₹ 5,00,000

4. ISSUE 4: Varsha's accountant tells Amit that while filing Income Tax return last year, they faced issues and doubts w.r.t. allowability of certain expenses and couldn't resolve them out. Similarly, this year as well, they face the similar issues, major two of them are as follows:

- a. A bank guarantee given by Varsha Pvt. Ltd. towards disputed tax liabilities.
- b. Their company paid dollars equivalent to ₹ 25 lakhs as sales commission for the year ended 31.03.2024, without deducting tax at source, to Mr. Rodrigues, a citizen of UK and non-resident who acted as agent for booking orders, from various customers who are outside India.

After a healthy discussion with Amit regarding various issues, Varsha is facing in her business, she feels satisfied that Amit can help her out in the Accounting & Taxation aspects of her business leading to better compliances. She gets him appointed as an auditor for the company for the current financial year. Further the company offered him if he could also provide the services of actuarial, investment advisory and investment banking which would be duly approved by the Board of Directors.

Multiple Choice Questions

1. W.r.t the Presentation of Inventories, what should be the presentation requirement as per Schedule III?
 - (a) All the aforesaid Inventory items to be shown separately.
 - (b) Spare Parts & Work-in-Progress items be clubbed together under one head.
 - (c) Finished goods & Tools items be clubbed together under one head.
 - (d) No separate Presentation, the total of all Inventory items be shown under the Inventory head without any bifurcation.
2. What shall be the transaction price w.r.t. the contract entered into with customer E by Varsha Pvt. Ltd.?
 - (a) ₹ 2,60,000
 - (b) ₹ 2,20,000
 - (c) ₹ 2,34,000
 - (d) ₹ 2,56,000
3. What should be CA Amit's reply to his appointment for other miscellaneous services apart from appointment as the Statutory auditor as duly approved by the Board of Directors of Varsha Pvt. Ltd.?
 - (a) Accept his appointment as would be approved by the Board of Directors.
 - (b) Should not accept such appointment.
 - (c) Should not accept the appointment and resign as the Statutory auditor as well.
 - (d) Should ask for an approval in the AGM of the company as well for such appointment.
4. Examine the taxability and/ or allowability of the guarantee furnished by Varsha Pvt. Ltd. under the provisions of the Income-tax Act, 1961.
 - (a) Allowable u/s 43B.
 - (b) Disallowed and not covered u/s 43B.
 - (c) Disallowed but to the extent of 30% only.
 - (d) Allowable u/s 37.
5. Examine the taxability and/or allowability of the payment made to Mr. Rodrigues by Varsha Pvt. Ltd. under the provisions of the Income-tax Act, 1961.
 - (a) Not be disallowed u/s 40(a)(i).
 - (b) Be disallowed u/s 40(a)(i).
 - (c) Be disallowed but to the extent of 30% only.
 - (d) Can't be determined in absence of required information w.r.t. Mr. Rodrigues.

Descriptive Questions

6. Comment on the presentation of the Balance Sheet as laid before CA Amit by Varsha's accountant w.r.t. Varsha Pvt. Ltd. in terms of Division II of Schedule III.
7. Compute the GST payable by Varsha Pvt. Ltd. for the given month. Assume the rates of GST to be as under:
 Hiring out of excavators – 12%
 Supply of manpower services and soil-testing and seismic evaluation services – 18%

ANSWERS TO THE CASE STUDY 26

Answers to the Multiple Choice Questions

1. (a) All the aforesaid Inventory items to be shown separately.

Reason:

As per Division II of Schedule III: Inventories shall be classified as -

(a) Raw materials; (b) Work in-progress; (c) Finished goods; (d) Stock-in-trade (in respect of goods acquired for trading); (e) stores and spares; (f) Loose tools; and (g) Others (specify nature).

2. (a) ₹ 2,60,000

Reason: Because there are only two possible outcomes under the contract, Company determines that using the most likely amount provides the best prediction of the amount of consideration to which it will be entitled. Company estimates the transaction price to be ₹ 2,60,000, which is the single most likely amount.

3. (b) Should not accept such appointment.

Reason: Services not to be Rendered by the Auditor- Section 144 of the Companies Act, 2013 prescribes certain services not to be rendered by the auditor. An auditor appointed under the Act shall provide to the company only such other services as are approved by the Board of Directors or the audit committee, as the case may be, but which shall not include any of the following services (whether such services are rendered directly or indirectly to the company or its holding company or subsidiary company), namely:

- (a) accounting and book keeping services;
- (b) internal audit;
- (c) design and implementation of any financial information system;
- (d) actuarial services;
- (e) investment advisory services;
- (f) investment banking services;
- (g) rendering of outsourced financial services;
- (h) management services; and
- (i) any other kind of services as may be prescribed.

Further section 141(3)(i) of the Companies Act, 2013 also disqualifies a person for appointment as an auditor of a company who is engaged as on the date of appointment in consulting and specialized services as provided in section 144. In the given case, CA Amit Garg was appointed as an auditor of Varsha Pvt. Ltd. He was offered additional services of actuarial, investment advisory and investment banking which would also be approved by the Board of Directors. The auditor is advised not to accept the services as these services are specifically notified in the services not to be rendered by him as an auditor as per section 144 of the Act.

4. (b) Disallowed and not covered u/s 43B.

Reason: For claiming deduction of any expense enumerated under section 43B, the requirement is, the actual payment and not deemed payment. Furnishing of bank guarantee cannot be equated with actual payment. Actual payment requires that money must flow from the assessee to the

public exchequer as specified in section 43B. Therefore, deduction of an expense covered under section 43B cannot be claimed by merely furnishing a bank guarantee [CIT v. McDowell & Co Ltd (2009) 314 ITR 167 (SC)]

5. (a) Not be disallowed u/s 40 (a)(i).

Reason: A foreign agent of an Indian exporter operates in his own country and no part of his income accrues or arises in India. His commission is usually remitted directly to him and is, therefore, not received by him or on his behalf in India. The commission paid to the non-resident agent for services rendered outside India is, thus, not chargeable to tax in India. Since commission income for booking orders by non-resident who remains outside India is not subject to tax in India, disallowance under section 40 (a)(i) is not attracted in respect of payment of commission to such non-resident outside India even though tax has not been deducted at source. Thus, the amount of ₹ 25 lakhs remitted to Mr. Rodrigues outside India in foreign currency towards commission would not attract disallowance under section 40(a)(i) for non-deduction of tax at source.

Answers to the Descriptive Questions

6. **Following errors have been noticed in presentation, as per Division II of Schedule III:**

- (i) Balance sheet should begin with Assets on top and then, Equity and Liabilities should be presented.
- (ii) Under the main heading of Non-Current Assets, following sub-headings are provided in the format as per Division II:

(a) Property, plant and equipment

(b) Capital work-in-progress

In view of the above, the Fixed asset- Tangible should be presented as "Property, Plant and Equipment". CWIP should be presented as "Capital Work in Progress". Under Ind AS Schedule III, 'Capital Advances' are not to be classified under 'Capital Work in Progress', since they are specifically to be disclosed under 'Other non-current assets'.

- (iii) Deferred Tax Asset should be presented under "Non-Current Asset". It should be the net balance of Deferred Tax Asset, after adjusting the balance of deferred tax liability, if the enterprise has a legally enforceable right to set off assets against liabilities representing current tax; and it relates to the same governing tax laws.
- (iv) Trade receivables shall be presented under sub-heading "Financial assets" under heading "Current Assets".
- (v) Share capital and Reserves & Surplus need to be presented under the heading "Equity". The heading Equity is missing in the balance sheet given in the question. Reserves & Surplus would form part of sub-heading "Other Equity" in the notes to accounts and such balance of "Other Equity" would be presented on face of balance sheet under the heading "Equity".
- (vi) Debit balance of statement of profit and loss would be presented as negative balance under "Retained Earnings" in sub-heading "Other Equity" in notes to accounts. Such balance of "Other Equity" even if negative, would be presented on face of balance sheet under heading "Equity".
- (vii) Division II of Schedule III requires that Employee Stock Option outstanding should be disclosed under the sub-heading "Other Equity" in the notes to accounts which should be presented on face of balance sheet under the heading "Equity".
- (viii) Share application money refundable should be presented under the sub-sub-heading "Other

Financial Liabilities" under the sub-heading "Financial Liability". As this is refundable and not pending for allotment, hence, it should not form part of equity.

- (ix) Deferred Tax Liability has been correctly presented under "Non-Current Liabilities". But Deferred tax assets and deferred tax liabilities, both, cannot be presented in balance sheet since **only the net balance of Deferred Tax Liability or Asset is to be disclosed** if the enterprise has a legally enforceable right to set off assets against liabilities representing current tax; and it relates to the same governing tax laws.
- (x) Trade payables should be presented under sub-heading "Financial liabilities" under the heading "Current liabilities" and should be disclosed as follows:
- total outstanding dues of micro enterprises and small enterprises; and
 - total outstanding dues of creditors other than micro enterprises and small enterprises.

7. Computation of GST liability

Particulars	Value of Supply (₹)	Rate of GST	GST (₹)
Hiring charges for excavators	36,00,000	12%	4,32,000
Service charges for supply of manpower for operation of excavators [Refer Note 1]	40,000	12%	4,800
Service charges for soil testing and seismic evaluation [Refer Note 2]	5,00,000	18%	90,000
GST liability			5,26,800

Notes:

- Since the excavators are invariably hired out along with operators and excavator operators are supplied only when the excavator is hired out, it is a case of composite supply under section 2(30) wherein the principal supply is the hiring out of the excavator.
As per section 8(a), the composite supply is treated as the supply of the principal supply. Therefore, the supply of manpower for operation of the excavators will also be taxed at the rate applicable for hiring out of the excavator (principal supply), which is 12%.
- Soil testing and seismic evaluation services being independent of the hiring out of excavator will be taxed at the rate applicable to them, which is 18%.

OLD COURSE DIGEST

Case Study 27

Subjects	Topics Covered	Marks
FR	Schedule III, Ind AS 103, Ind AS 110	17
IDT	Aggregate Turnover	2
Law	Companies Act (Section 173, 174)	4
SCPM	Decision Making (Minimum Price)	2

A person namely Deepak is a marketing person who is working in mid-sized corporate company, Iktara limited in Noida. Deepak is married and he is exploring the options to do his own business. One day his brother-in-law, Aakash, was in Delhi/NCR at Deepak's residence as his flight to his hometown Jaipur, Rajasthan was scheduled. Aakash is currently working in Universal bank, a reputed bank in South Africa. After being known to the condition of Deepak, Aakash decided to help Deepak by suggesting him an idea of business which could be done after due research and appropriate consultation. Deepak responded in affirmative to proceed further. Aakash is a person who is friend of Dujon Sobers, the purchase manager of Universal bank. Dujon generally acquires his purchase orders from India as import of bank electronic accessories such as biometric machines, cash counting machines etc. Aakash immediately called Dujon to know the prospects of acquiring material from other suppliers in India as Aakash was desperate to include Deepak in the list of those prospective sellers and even Dujon provided assurance to Aakash that he would do his level best to procure material from the reference of Aakash provided the material meets the quality standards and other terms which are framed as per the bank's policies. Dujon apprised Aakash of all the formalities which are needed to be done like bid price, quality, time of shipment etc. Deepak has the apprehensions that if 100% exports are done, there may not be the need for GST registration if separate sales in domestic market are lower than ₹ 40 lakhs.

Aakash on the perusal of Dujon first suggested Deepak to send free samples of Biometric fingerprint machines. Deepak enquired and researched for the same in domestic market and after due scrutiny and research, he decided to choose the manufacturer, Biotechno private limited from Mumbai to be the one from whom he would supply the material. At first, he procured 3 machines from company at market price and sent the same as sample to South Africa. As per estimates of Deepak and Aakash, there would come fixed operational expenses of around ₹ 3,60,000 and variable expenses of 1,000 per unit. Further selling and administrative expenses are expected at ₹ 2,00,000, irrespective of quantum of units sold.

After having received the biometric machines, the purchase department of Universal bank was satisfied with the quality of machines and since it was being offered at lower price than other bidders, Dujon called upon Deepak to send the first formal consignment of 1,000 biometric machines at ₹ 1,600 per machine. One of the conditions of Universal bank was that the supplier should be registered as a company as per the law of land and thereafter imports would be from India through designated official channels.

Meanwhile, Deepak made up mind to resign from the company. First, he decided to meet the directors in this regard and then send a formal resignation letter. He approached directors and described his intention to resign so that he could start his new business and concentrate fully thereon. Since Deepak was very hardworking, loyal and trustworthy, the directors were reluctant to leave such kind of person from company; the directors instead offered him a proposal to form the new company under 55:45 shareholding. The investment of 55% is to be done by Iktara limited and rest by Deepak. Voting powers are to be given as per the proportionate share of capital contribution. In this manner, new company which would be formed will be the subsidiary of Iktara limited. The directors saw it as an opportunity to diversify their operations and make their operations global, although very small in the initial stage. Since Deepak was always short of funds in the past and he had the

obvious reasons for the future too, so he came under the influence of directors to go along. For this purpose, it was decided to form a company with two directors and Deepak eventually becomes one of the directors of company. A consultant was hired, and he decided to charge ₹ 30,000 for the incorporation of company and to do other necessary statutory registrations. ₹ 30,000 is to be charged as an expense in the books after incorporation of company.

The company namely, Softbharti private limited was incorporated on 1st April, 2023 and thereafter its first board meeting was done on 10th May, 2023 wherein resolution for appointment of auditor was passed. The auditor who is appointed is the same as of Iktara limited. Deepak attended the board meeting through video conferencing as he was in his hometown, Rajasthan at that time, although another director was physically present at the board meeting. Further, the Company secretary is of doubt that whether quorum for the purpose of board meeting would be held as void ab initio.

For the year ending 31st March, 2024, Softbharti private limited on the insistence of Deepak has made donations amounting ₹ 25,000 in cash to Seva Jagriti Sansthan.

It is worthwhile to note that financials of Iktara Ltd. are prepared as per Ind AS since same are applicable on it.

During the year, Iktara Ltd. has further acquired 60% of the ordinary shares of another company, Maya private limited for ₹ 80 lacs. The fair value of its identifiable net assets is ₹ 135 lacs. The fair value of the 40% of the ordinary shares owned by non-controlling shareholders is ₹ 55 lacs. Carrying amount of Maya private ltd.'s net assets is ₹ 105 lacs.

Following are the draft results of Softbharti private limited for the year ending 31st March, 2024

Profit and Loss account

Particulars	Amount (₹)
Revenue from operations	10,00,000
Other Income	1,00,000
Total Revenue	11,00,000
Expenses:	
Purchase of stock in trade	5,00,000
(Increase)/Decrease in stock in trade	(50,000)
Employee benefits expense	1,75,000
Depreciation	30,000
Other expenses	90,000
Total	7,45,000
Profit before tax	3,55,000
Current tax	1,06,500
Deferred tax	6,000
Total tax expense	1,12,500
Profit for the year	2,42,500

Balance Sheet

Particulars	Amount (₹)
EQUITY AND LIABILITIES	

(1) Shareholders' Funds	
(a) Share Capital	1,00,000
(b) Reserves & Surplus	2,27,500
(2) Non-Current Liabilities	
(a) Long Term Provisions	25,000
(b) Deferred tax liabilities	6,000
(3) Current Liabilities	
(a) Trade Payables	11,000
(b) Other Current Liabilities	45,000
(c) Short Term Provisions	1,06,500
TOTAL	5,21,000
ASSETS	
(1) Non Current Assets	
(a) Fixed Assets (net)	1,00,000
(b) Long Term Loans and Advances	40,000
(c) Other Non Current Assets	50,000
(2) Current Assets	
(a) Current Investments	30,000
(b) Inventories	80,000
(c) Trade Receivables	55,000
(d) Cash and Bank Balances	1,15,000
(e) Other Current Assets	51,000
TOTAL	5,21,000

Additional Information of Softbharti private limited:

Deferred tax of ₹ 6,000 is created due to following temporary difference:

Difference in depreciation amount as per Income tax and Accounting profit = ₹ 6,000 (DTL)

There is only one fixed asset in the company, whose closing balance as at 31st March, 2024 is as follows:

Asset description	As per Books	As per Income tax
Fixed asset	₹ 1,00,000	₹ 80,000

Current tax is calculated at 30% on PBT- ₹ 3,55,000 without doing any adjustments related to Income tax.

The directors have recommended dividend of ₹ 15,000 for year ending March, 2024 which has been deducted from reserves and surplus. Dividend payable of ₹ 15,000 has been grouped under 'other current liabilities'.

The company has defaulted in certain payment, the details of which is as follows: Government statutory dues – ₹ 15,000 (which is grouped under 'other current liabilities') This amount has not been paid till the date.

The capital advances amounting ₹ 50,000 are grouped under 'Other non-current assets'.

Other current assets of ₹ 51,000 comprise Interest receivable on debtors.

Current investments of ₹ 30,000 are in shares of a company which was done with purpose of trading, current investments have been carried at cost in the financial statements. The fair value of current investments in this case is ₹ 50,000 as at March 31, 2024. Assume that increase in fair value through profit and loss is also taxable.

Following transaction has been omitted in financials of Softbharti Private Ltd. for year ending 31st March, 2024:

Actuarial gain on employee benefit measurements = 1,000

Please note that financial statements for FY 2023-24 have not been yet approved and you are required to ignore the MAT calculations.

Multiple Choice Questions

1. At which minimum price, Deepak should accept the offer of selling one machine to Universal bank?
 - (a) ₹ 1,600
 - (b) ₹ 1,560
 - (c) ₹ 1,000
 - (d) None of the above.
2. By which time company, Softbharti Private Limited, should have held its first board of directors meeting?
 - (a) By 31 May, 2023
 - (b) Private limited company is exempted of first meeting of board of directors.
 - (c) By 30 April, 2023
 - (d) Within 30 days of the appointment of auditor.
3. Which Ind AS/AS does the Iktara limited is required to apply for consolidation of Softbharti Private Limited's financials?
 - (a) Ind AS 110
 - (b) Ind AS 28
 - (c) Ind AS 27
 - (d) AS 21
4. Whether the quorum required for conduct of board meeting of Softbharti private limited has been met on 10th May, 2023?
 - (a) Quorum has been met.
 - (b) Quorum has not been met.
 - (c) Quorum is not met but it can be ratified by the shareholders.
 - (d) Quorum is not met but it can be ratified by the registrar of companies.
5. As Deepak thinks that export sales are not included in the definition of aggregate turnover under the GST law since export sales are exempt from tax. Whether export sales should also be added along with the domestic sales while checking the aggregate turnover in such a situation?
 - (a) Export sales should be added along with domestic sales barring SAARC nations.
 - (b) Export sales should not be added along with domestic sales.
 - (c) Export sales should not be added if central government's permission in the form of certificate has been taken to exclude export sales from criteria of 'aggregate turnover'.
 - (d) Export sales should be added along with domestic sales.

Descriptive Questions

6. Whether the financial statements of Softbharti private limited are correctly presented as per the

applicable financial reporting framework. If not, prepare the revised financial statements of Softbharti private limited after the careful analysis of facts and information mentioned in the case study.

7. Calculate the non-controlling interest in the books of Iktara limited for the investment made in Maya private limited by both the methods mentioned in Ind AS 103.

ANSWERS TO THE CASE STUDY 27

Answers to the Multiple Choice Questions

1. (b) ₹ 1,560

Reason: Since Deepak has received the order for selling 1000 biometric machines

Variable expenses = ₹ 1,000 × 1,000 units = ₹ 10,00,000

Fixed expenses = ₹ 3,60,000 + ₹ 2,00,000 = ₹ 5,60,000

Total cost = ₹ 15,60,000

Cost per unit = ₹ 15,60,000/1,000 = ₹ 1,560

Selling price per unit = ₹ 1,600

Since selling price per unit is greater than cost per unit, Deepak may accept offer.

2. (c) By 30 April, 2023.

Reason: As per section 173(1) of Companies Act, 2013, every company shall hold the first meeting of the Board of Directors within thirty days of the date of its incorporation.

3. (a) Ind AS 110

Reason:

- Ind AS 110 'Consolidated Financial Statements' is applied in establishing principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.
- Ind AS 28 'Investments in Associates and Joint Ventures' is applied in the accounting for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.
- Ind AS 27 'Separate financial statements' is applied in accounting for investments in subsidiaries, joint ventures and associates when an entity elects, or is required by law, to present separate financial statements.
- Since Iktara limited prepares its financials as per Ind AS, so AS are not applicable on it, even in the case of consolidation.

4. (a) Quorum has been met.

Reason: As per section 174(1) of Companies Act, 2013, quorum for a meeting of the Board of Directors of a company shall be one third of its total strength or two directors, whichever is higher, and the participation of the directors by video conferencing or by other audio visual means shall also be counted for the purposes of quorum under this sub-section.

Further, as per section 173(2) of Companies Act, 2013, the participation of directors in a meeting of the Board may be either in person or through video conferencing or other audio visual means, as may be prescribed, which are capable of recording and recognising the participation of the

directors and of recording and storing the proceedings of such meetings along with date and time.

5. (d) Export sales should be added along with domestic sales.

Reason: As per section 2(6) of the CGST Act, 2017, "aggregate turnover" means the aggregate value of all taxable supplies (excluding the value of inward supplies on which tax is payable by a person on reverse charge basis), exempt supplies, exports of goods or services or both and inter-state supplies of persons having the same Permanent Account Number, to be computed on all India basis but excludes Central tax, State tax, Union territory tax, integrated tax and compensation cess.

Hence, exports sales would also be considered along with domestic sales to check whether aggregate turnover is below 40 lakhs or not.

Answers to the Descriptive Questions

6. If IND AS becomes applicable to any company, then IND AS shall automatically be made applicable to all the subsidiaries, holding companies, associated companies, and joint ventures of that company, irrespective of individual qualification of such companies.

In the given case it has been mentioned that the financials of Iktara limited are prepared as per Ind AS. Accordingly the results of its subsidiary, Softbharti private limited, should also have been prepared as per Ind AS. However, the financials of Softbharti private limited have been presented as per earlier accounting standards along with erstwhile Division to schedule III applicable to it.

Hence it is necessary to revise the financial statements of Softbharti private limited as per Ind AS after the incorporation of necessary adjustments mentioned in the question.

Accordingly, the revised financial statements of Softbharti private limited as per Ind AS and Division II to Schedule III of Companies Act, 2013 are presented as follows:

IND-AS STATEMENT OF PROFIT AND LOSS

Particulars	Amount (₹)
Revenue from operations	10,00,000
Other Income (1,00,000 + 20,000) (refer note - 5)	1,20,000
Total Revenue	11,20,000
Expenses: Purchase of stock in trade	5,00,000
(Increase)/Decrease in stock in trade	(50,000)
Employee benefits expense	1,75,000
Depreciation	30,000
Other expenses	90,000
Total Expenses	7,45,000
Profit before tax	3,75,000
Current tax (W.N.1)	1,25,700
Deferred tax (W.N.2)	(1,200)
Total tax expense	1,24,500
Profit for the year (A)	2,50,500
Other Comprehensive Income	
Items that will not be reclassified to Profit or Loss	
Remeasurements of net defined benefit plans	1,000

Income tax relating to items that will not be reclassified to Profit or Loss	
Remeasurements of net defined benefit plans (tax) [1000 x 30%]	(300)
Other Comprehensive Income for the period (B)	700
Total Comprehensive Income for the period (A+B)	2,51,200

IND-AS BALANCE SHEET

Particulars	Amount (₹)
ASSETS	
Non-current assets	
Property, plant and equipment	1,00,000
Financial assets	
Other financial assets (Long term Loans & Advances)	40,000
Deferred tax assets (1200-300)	900
Other non-current assets (capital advances) (refer note-1)	50,000
Current assets	
Inventories	80,000
Financial assets	
Investments (30,000 + 20,000) (refer note -5)	50,000
Trade receivables	55,000
Cash and cash equivalents/Bank	1,15,000
Other financial assets (Interest receivable on debtors)	51,000
TOTAL ASSETS	5,41,900
EQUITY AND LIABILITIES	
Equity	
Equity share capital	1,00,000
Other equity	2,51,200
Non-current liabilities	
Provisions (25,000 - 1,000)	24,000
Current liabilities	
Financial liabilities	
Trade payables	11,000
Other financial liabilities (Refer note 3)	15,000
Other current liabilities (Govt. statutory dues) (Refer note 2)	15,000
Current tax liabilities	1,25,700
TOTAL EQUITY AND LIABILITIES	5,41,900

STATEMENT OF CHANGES IN EQUITY

A. EQUITY SHARE CAPITAL

	Balance (₹)
As at 31 st March, 2023	-
Changes in equity share capital during the year	1,00,000

As at 31 st March, 2024	1,00,000

B. OTHER EQUITY

	Reserves & Surplus
	Retained Earnings (₹)
As at 31 st March, 2023	-
Profit for the year	2,50,500
Other comprehensive income for the year	700
Total comprehensive income for the year	2,51,200
Less: Dividend on equity shares (refer note -- 4)	-
As at 31 st March, 2024	2,51,200

Disclosure forming part of financial statements:

Proposed dividend on equity shares is subject to the approval of the shareholders of the company at the annual general meeting and not recognised as liability as at the Balance Sheet date. (refer note - 4)

Notes:

- Assets for which the future economic benefit is the receipt of goods or services, rather than the right to receive cash or another financial asset, are not financial assets.
- Liabilities for which there is no contractual obligation to deliver cash or other financial asset to another entity, are not financial liabilities.
- Other current financial liabilities

Particulars	Amount (₹)
Balance of other current liabilities as per financial statements	45,000
Dividend declared for FY 2023-24 (Note - 4)	(15,000)
Reclassification of government statutory dues payable to 'other current liabilities'	(15,000)
Closing balance	15,000

- As per Ind AS 10, 'Events after the Reporting Period', If dividends are declared after the reporting period but before the financial statements are approved for issue, the dividends are not recognised as a liability at the end of the reporting period because no obligation exists at that time. Such dividends are disclosed in the notes in accordance with Ind AS 1, Presentation of Financial Statements.
- ₹ 20,000 has been added due to increase in fair value of investments which are classified as FVTPL since they are held for the purpose of trading.

Working note no 1: Calculation of Current tax (Provision for tax)

Particulars	Amount (₹)	Remarks
Profit before tax	3,75,000	
Adjustments:		
Add: Pre incorporation expenses	24,000	(30,000/5) x 4; As per section 35D of Income Tax Act, 1961
Add: Cash donations to Seva Jagriti Sansathan	25,000	As per section 40(A)3 of Income Tax Act, 1961

Add: Depreciation as per Companies Act	30,000	Disallowed as per Income Tax Act, 1961
Less: Depreciation as per Income Tax Act [W.N.3]	(50,000)	Allowed as per Income Tax Act, 1961
Add: Government statutory dues	15,000	As per section 43B of Income Tax Act, 1961
Taxable Profit	4,19,000	
Tax on taxable profit (₹ 4,19,000) at the rate of 30% = ₹ 1,25,700		

Working note no 2: Calculation of Deferred tax on Temporary differences as per Ind AS-12

Item	Carrying amount base (₹)	Tax base (₹)	Difference (₹)	DTA/DTL @ 30% (₹)
Property, Plant and Equipment	1,00,000	80,000	20,000	6,000-DTL
Pre-incorporation expenses	Nil	24,000	24,000	7,200-DTA
Net DTA/DTL				1,200-DTA

Working note no 3: Calculation of Depreciation as per Income Tax Act, 1961

Closing balance of fixed assets as at 31st March, 2024 as per company's books is ₹ 1,00,000. During the year, ₹ 30,000 has been charged as depreciation as per Companies Act, 2013. Hence, in the beginning of asset acquisition during the year, fixed asset opening balance would have been ₹ 1,30,000 (₹ 1,00,000 + ₹ 30,000).

In the additional information provided for Softbharti private limited, it is given that closing balance of fixed asset at the year-end as per Income Tax is ₹ 80,000.

It implies that during the year, ₹ 50,000 [₹ 1,30,000 (opening balance as per Income Tax) - ₹ 80,000 (closing balance as per Income Tax)] was charged as depreciation as per Income Tax Act, 1961.

7. Paragraph 19 of Ind AS 103 states that for each business combination, the acquirer shall measure at the acquisition date components of non-controlling interest in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either:

- fair value; or
- the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets.

Accordingly, non-controlling interests will be measured in either of the following manner in the books of Iktara limited:

- If non-controlling interests are measured at fair value:

(₹ in lacs)

Identifiable net assets at fair value	Dr	135	
To Non-controlling interest			55
To Investment in Maya private ltd.			80

NCI = ₹ 55 lacs

- If non-controlling interests are measured at proportionate share of identifiable net assets:

(₹ in lacs)

Identifiable net assets at fair value	Dr	135	

To Non-controlling interest		54
To Investment in Maya private ltd.		80
To Capital Reserve		1

NCI = ₹ 54 lacs

OLD COURSE DIGEST

Case Study 28

Subjects	Topics Covered	Marks
DT	Equalisation Levy	10
IDT	Supply (Schedule III), Place of Supply	11
Law	LODR (Regulation 18: Audit Committee)	4

Sudarshan Limited is a listed company engaged in the business of manufacture of LED products. It is one of the most renowned and trusted LED manufacturers of India. The company has been manufacturing high end, eco-friendly LED bulbs and lights that are cost effective and energy efficient. The company has remained consistent in manufacturing long lasting LED products. It is having its corporate office in Delhi. The company has recently doubled its revenue under the supervision of the owner founder of the company, Mr. Raj Sudarshan, who is also the CEO of the company. Mr. Raj graduated from Riverdale Country College in New York City. He started this company with a very less capital and today the company's net worth has increased manyfold. At present the company enjoys good market share and reputation. The company has a vast range of LED products for -

- Indoor
- Outdoor
- Solar
- Architectural and Linear Lighting

The company continues to cherish its ultimate passion for LED lighting innovations. It has a team consisting of skilled members who have decades of experience in the lighting industry. The company values innovation, research, learning and adapting to change. The company has a policy of giving priority to innovation and younger talent and during the year the company hired fresh talent at managerial as well as administrative positions.

During the month of April 2023, the company appointed Mr. Rahul & Ms. Shweta as executive director and non-executive director of the company, respectively. Mr. Rahul is an MBA from IIM, Ahmedabad and has 10 years industry experience. He is an exceptional Financial professional and his experience spans around various finance domains as Regional CFO, Finance Controller. He has been part of various teams starting Biz from scratch in the new markets.

Furthermore Ms. Shweta, a Chartered Financial Analyst, holds an experience of 8 years in the similar industry. Apart from her vast experience in the finance field, Ms. Shweta is a philanthropist who also believes that focusing on creating a culture where workers are encouraged to stay with the company is the need of the hour.

Mr. Rahul joined the company with the vision to expand the business of the company so as to include manufacture of LED lights for cars and motorbikes also. For this purpose, the company opens a new branch office in Faridabad (Haryana). It purchases a building for the branch office from RPS Builders (Faridabad). RPS builders has diversified asset classes of townships, residential, commercial- shopping malls and office spaces. It is one of the leading and trusted real estate companies. RPS builders is one of the fastest growing conglomerate in the field of real estate and infrastructure. It is committed to mark its excellence in the field of real estate since its inception. Sudarshan Limited enters into a separate contract with RPS builders for purchase of pre-installed office furniture and fixtures in the building.

During the year, the company also entered into a contract with RTS Ltd. (Delhi) to supply a machine which is required to be assembled in one of its factories in Chennai.

Om Krishan and Associates are the statutory auditors of Sudarshan Limited for the FY 2023-24. The said Chartered Accountant firm was established in 1987 with offices in New Delhi, Chennai & Mumbai. With its head office in Delhi, the firm currently has a diversified team lead by talented partners and directors having vast professional experience. CA Om, one of the senior partners in the firm, is the engagement partner for this audit engagement. While interacting with CA Om, Mr. Rahul informed him that the company is in discussion with a supplier in Korea for the purchase of raw material required for manufacturing LED lights for car. He further told CA Om that such import of raw material from Korea will help the company to procure the raw materials at very less cost compared to the cost at which the company is currently procuring. Mr. Rahul told CA Om that such raw material can be procured from China, Japan and Korea and the cost of importing the raw material from Korea works out to be the least. Mr. Rahul also told CA Om that the company is planning to export its products as the demand for the products of their company is high in foreign market. He asked CA Om to brief him about the GST implications with respect to the place of supply for import and export and also with respect to the purchase of machine from RTS Ltd. as mentioned above. Further, Mr. Rahul also discussed the following prospective export transaction of the company with CA Om:

Sudarshan Limited will be entering into an agreement, for sale of its products, with Brit Ltd., a company based in Australia. Brit Ltd. requires the goods to be delivered by Sudarshan Limited to Casper Ltd., a company based in Kerala.

Mr. Rahul asked CA Om to clarify as to whether the transaction will qualify as exports of goods under GST.

In order to promote its overseas sales/exports, Sudarshan Limited has launched an advertisement campaign of its products. For the purpose of the online advertisement, the company has utilised the services of Techno Inc., a Germany based company. During the financial year 2023-24, Sudarshan Limited paid ₹ 2,35,000 to Techno Inc. for such services.

Further, Mr. Rahul is also sceptical regarding the provisions of the Companies 2013, applicable with respect to the constitution of the audit committee. He accordingly discussed his understanding with CA Om and asked him to rectify in case he is not correct. He told CA Om that he has the following understanding with respect to the provisions applicable for Audit Committee.

- (a) Any senior member of the company having expertise of accounting and financial management can be appointed as the chairperson of the Audit Committee.
- (b) The Audit Committee of the company shall meet at least twice in a year.

CA Om briefed Mr. Rahul, the following provisions of Audit Committee as per the Companies Act, 2013:

"Every listed entity shall constitute a qualified and independent audit committee in accordance with the terms of reference, subject to the following:

1. The Audit Committee shall have minimum three directors as members. Two-thirds of the members of audit committee shall be independent directors, however, in case of a listed entity having outstanding SR (Superior Rights) equity shares, the audit committee shall only comprise of independent directors.
2. All members of Audit Committee shall be financially literate and at least one member shall have accounting or related financial management expertise.

Further, the term "financially literate" means the ability to read and understand basic financial statements i.e. balance sheet, profit and loss account, and statement of cash flows. A member will be considered to have accounting or related financial management expertise if he or she possesses experience in finance or accounting, or requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities."

CA Om continued discussing various other provisions of Audit Committee in detail with Mr. Rahul and cleared all the confusions of the latter with respect to such provisions applicable to the company.

Multiple Choice Questions

1. With respect to the purchase of building and pre-installed office furniture and fixture, which of the following is correct regarding the GST liability?
 - (a) There will be no GST liability on purchase of building while office furniture and fixtures will be liable to GST.
 - (b) GST liability will be there on purchase of building as well as office furniture and fixtures.
 - (c) GST liability will be there on purchase of building while office furniture and fixtures will be not be liable to GST.
 - (d) There will be no GST liability on purchase of building and on purchase office furniture and fixtures.
2. What is the place of supply of pre-installed office furniture and fixtures?
 - (a) Delhi
 - (b) Faridabad
 - (c) Question of place of supply does not arise as purchase of pre- installed office furniture and fixture is not chargeable to GST.
 - (d) Delhi or Faridabad as per the discretion of the company. However, option once exercised cannot be changed in later years.
3. Whether the understanding of Mr. Rahul is correct with respect to the appointment of chairperson of the Audit Committee?
 - (a) No, as only the company secretary of the company can be appointed as the chairperson of the Audit Committee.
 - (b) No, as the Chairperson of the Audit Committee shall be an independent director.
 - (c) Yes
 - (d) Partly correct as the chairperson should have expertise of accounting and financial management, however he should be a Chartered Accountant also.
4. How should CA Om correct Mr. Rahul with respect to the latter's understanding about the meetings of Audit Committee of the company?
 - (a) There is no need to correct Mr. Rahul as his understanding is correct with respect to the meetings of Audit Committee of the company.
 - (b) CA Om should inform Mr. Rahul that the Audit Committee of the company shall meet at least four times in a year and not more than 180 days should lapse between two meetings.
 - (c) CA Om should inform Mr. Rahul that the Audit Committee of the company shall meet at least six times in a year and not more than 60 days should lapse between two meetings.
 - (d) CA Om should inform Mr. Rahul that the Audit Committee of the company shall meet at least four times in a year and not more than 120 days should lapse between two meetings.
5. Taxation issues of E-commerce transactions are dealt in:
 - (a) OECD Action Plan 1 of BEPS
 - (b) OECD Action Plan 4 of BEPS

- (c) OECD Action Plan 2 of BEPS
- (d) OECD Action Plan 6 of BEPS

Descriptive Questions

6. What should CA Om tell Mr. Rahul about the latter's query about the GST implication with respect to place of supply? Also, what clarifications should CA Om give with respect to the prospective export transaction to be entered by the company with Brit Ltd.?
7. Discuss the tax implications/TDS implications of the payment made to Techno Inc. by Sudarshan Ltd. if:
 - (i) Techno Inc. has no permanent establishment in India.
 - (ii) Techno Ltd. has a permanent establishment in India, and the service is effectively connected to the permanent establishment in India.

ANSWERS TO THE CASE STUDY 28

Answers to the Multiple Choice Questions

1. (a) There will be no GST liability on purchase of building while office furniture and fixtures will be liable to GST.
 Reason: There will be no GST liability on purchase of building as sale of building is covered under Schedule III to CGST Act. However, office furniture and fixtures will be liable to GST.
2. (b) Faridabad
 Reason: Since there is no movement of office furniture and fixtures, the place of supply of such goods is their location at the time of delivery to the recipient i.e. Faridabad.
3. (b) No, as the Chairperson of the Audit Committee shall be an independent director.
 Reason: As per Regulation 18(1) of LODR Regulations, the chairperson of the Audit Committee shall be an independent director and he shall be present at Annual General Meeting to answer shareholder queries.
4. (d) CA Om should inform Mr. Rahul that the Audit Committee of the company shall meet at least four times in a year and not more than 120 days should lapse between two meetings.
 Reason: As per Regulation 18(2) of LODR Regulations, Audit Committee shall meet at least four times in a year and not more than one hundred and twenty days shall lapse between two meetings.
5. (a) OECD Action Plan 1 of BEPS
 Reason: Taxation issues of E-commerce transactions including equalisation levy are dealt in OECD Action Plan 1 of BEPS.

Answers to the Descriptive Questions

6. CA Om should explain to Mr. Rahul the following about the GST implications with respect to the place of supply as asked by Mr. Rahul:
 - (i) **Import of goods [Section 11(a)]:**
 The import of goods has been defined in section 2(10) of the IGST Act as bringing goods into India from a place outside India. All imports are deemed as inter-State supplies and accordingly IGST is levied in addition to the applicable custom duties. If the goods have been imported in India, the

place of supply of goods is the place where the importer is located.

Accordingly, the place of supply in present case would be Chennai.

(ii) Export of goods [Section 11(b)]

Section 2(5) defines export of goods to mean taking goods out of India to a place outside India. Under the GST Law, export of goods has been treated as:

- **inter-State supply**
- **zero rated supply** (i.e. the goods exported are relieved of GST levied upon them either at the input stage or at the final product stage.)

The place of supply in case of export of goods is the place where they have been exported, i.e. the destination outside India.

(iii) Machine to be installed in factory at Chennai:

As per Section 10(1)(d), if the supply involves goods which are to be installed or assembled at site, the place of supply is the place of such installation or assembly. Therefore, place of supply in case of purchase of machine from RTS Ltd. is Chennai, i.e. the place of installation of such machine.

(iv) Prospective export transaction with Brit Ltd.:

As per the definition of export of goods provided by section 2(5) of IGST Act, export of goods means taking goods out of India to a place outside India.

Since in the prospective export transaction, the goods remain in India, i.e. with Casper Ltd. located in Kerala, the transaction between Sudarshan Limited and Brit Ltd. will not be treated as export of goods under GST.

7. Chapter VIII of the Finance Act, 2016, "Equalisation Levy", provides for an equalisation levy of 6% of the amount of consideration for specified services received or receivable by a non-resident not having permanent establishment in India, from a resident in India who carries out business or profession, or from a non-resident having permanent establishment in India.

"Specified Service" means

- (1) **online advertisement;**
- (2) **any provision for digital advertising space or any other facility or service for the purpose of online advertisement and**
- (3) **any other service as may be notified by the Central Government.**

However, equalisation levy shall not be levied-

- where the non-resident providing the specified services has a permanent establishment in India and the specified service is effectively connected with such permanent establishment;
- the aggregate amount of consideration for specified service received or receivable during the previous year does not exceed ₹ 1 lakh; or
- where the payment for specified service is not for the purposes of carrying out business or profession.

(i) Where Techno Inc. has no permanent establishment in India:

In the present case, equalisation levy @ 6% is chargeable on the amount of ₹ 2,35,000 received by Techno Inc., a non-resident not having a PE in India, from Sudarshan Limited, an Indian company. Accordingly, Sudarshan Limited is required to deduct equalisation levy of ₹ 14,100 i.e., @ 6% of ₹ 2.35 lakhs, being the amount paid towards online advertisement services provided

by Techno Inc., a non-resident having no permanent establishment in India. Non-deduction of equalisation levy would attract disallowance under section 40(a)(ib) of 100% of the amount paid while computing business income.

Since equalisation levy is attracted on the amount of ₹ 2.35 lakhs, the said amount is exempt from income-tax by virtue of section 10(50) of the Income-tax Act, 1961.

- (ii) **Where Techno Inc. has permanent establishment in India and the service is effectively connected to the permanent establishment in India:**

Equalisation levy would not be attracted where the non-resident service provider (Techno Inc., in this case) has a permanent establishment in India and the service is effectively connected to the permanent establishment in India. Therefore, **Sudarshan Limited is not required to deduct equalisation levy on ₹ 2.35 lakhs**, being the amount paid towards online advertisement services to Techno Inc, in this case.

Since equalisation levy is not attracted in this case, exemption under section 10(50) of the Income-tax Act, 1961 would not be available. Therefore, **tax has to be deducted by Sudarshan Limited at the rates in force under section 195** in respect of such payment to Techno Inc. Non deduction of tax at source under section 195 would attract disallowance under section 40(a)(i) of 100% of the amount paid while computing business income.

OLD COURSE DIGEST

Case Study 29

Subjects	Topics Covered	Marks
FR	Ind AS 1, Ind AS 8, Ind AS 38	11
Audit	Professional Ethics	5
DT	PGBP (Basics, ICDS)	9

Mr. B K Gupta is the Managing Director of Beta Ltd., a company set up just 3 years ago and is growing rapidly in the field of Heavy Electronics and equipment. Mr. Gupta has a vast experience in this field as he had been doing the same business as a Sole Proprietor since the last 15 years. With an increase in his business activities, he decided to float a Company to carry on the same success at a bigger level and rest what they say is History as the Company has been doing very well in its field of Electronics within just 3 years. Now, the Company is also planning to expand globally.

He approached CA Kumar Mishra, who got qualified 7 years back as a CA and is practicing successfully in the field of auditing, taxation & providing consultancy regarding legal compliances to be made by companies with respect to various laws and standards. Mr. Gupta calls for a meeting with the Accounts, Internal Audit and the Taxation department in the presence of CA Kumar so as the latter could provide the requisite knowledge about all such statutory requirements which are applicable to the Company.

In the meeting with CA Kumar Mishra -

Mr. Anand, the Head accountant is having query as to the treatment of a certain expense in the books of account. He tells CA Kumar that their company has incurred an amount of ₹ 1,00,000 on a land surfacing and at the later part of the year, it was found that the title of land was not transferred in the name of the Company due to some legal restrictions. Hence, the deal to purchase that land will have to be cancelled. Now, his dilemma is as to how should he recognise this expense of land surfacing. Also, he wants to know from Mr. Kumar if there are any circumstances which demand for a deviation from the IND AS by their company Beta Ltd., whether they can do so and what should be the presentation & disclosure requirements in that case.

Mr. Sharma, from the Legal Department, tells him that a legal case has been filed against the entity and there was an order which was yet to be received. There was a reliable estimation made to arrive at an amount which is expected to flow to the company at the end of year but there was no recognition of asset during that period of financial statements because the accounts department was of the view that in subsequent periods, once the amount of such claim can be received reliably, then the recognition of asset can be established.

Mr. Dutta, one of the Directors, requests CA Kumar to not strictly adhere to such standards while carrying out the audit of their company as he is scared of some serious qualifications that CA Kumar would have to give in his Audit Report, if he follows such standards to which CA Kumar replies, "Mr. Dutta! There are many Professional responsibilities envisaged upon me as a member of the Institute of Chartered Accountants of India under the Chartered Accountants Act, 1949 and certain Disciplinary Proceedings may be initiated against me under this Act if I don't perform my duties as per such Standards and other accepted statements owing to a linkage between the SA's and Disciplinary Proceedings".

Mrs. Bhalla, assistant to the Tax Compliance Officer of the Company contends on one of the issues where the application of ICDS is in contradiction to the Income tax Act and that ICDS cannot prevail over Income tax Act and such contention is suitably resolved by CA Kumar. Also, her colleague in the same department, Mrs. Dave wants to know about the application and disclosure requirements of ICDS 1 w.r.t an error made in the percentage of provision from 10% to 12% during the year on Doubtful Debts as they have accounted for it in

computing the Income on a Prospective basis and not given any retrospective effect.

Mr. Praveen Dhakal, the Tax Compliance Officer had been very curious to seek CA Kumar's suggestion on the following tax related issues and their treatment-

- a. Their Company Beta Ltd. paid IDBI (a public financial institution) a lump sum pre-payment premium of ₹ 1.4 lakhs on 7.4.2023 for restructuring its debts and reducing its rate of interest. It claimed the entire sum as business expenditure for the P.Y. 2023-24. The Assessing Officer, however, held that the pre-payment premium should be amortised over a period of 10 years (being the tenure of the restructured loan), and thus, allowed only 10% of the pre-payment premium in the P.Y. 2023-24.
- b. The Company acquired some emergency spares (of plant and machinery) during the year which, even though kept ready for use, have not actually been used during the relevant previous year.

CA Kumar is also duly appointed as the Statutory Auditor of the Company and he conducts the audit of Beta Ltd. for the Financial Year 2023-24. He duly issues his Audit report with two very important qualifications, the extracts of which are reproduced below:

"The statement of profit and loss and balance sheet comply with the accounting standards referred to in Section 133 of the Companies Act, 2013, except the following:

- Other significant accounting policies, relating to treatment of research and development costs have not been disclosed nor have all the policies been disclosed at one place.
- The company has not disclosed in its accounts the fact of change, from this year, in the method of providing depreciation on plant and machinery from straight-line method to written-down value method, as also the effect of this change. As a result of this change, net profit for year, net block as well as reserves and surplus are lower by ₹ each as compared to position which would have prevailed had this change not been made.

Subject to the above, we report that.....".

Multiple Choice Questions

1. Mr. Sharma's contention w.r.t the recognition of assets is:
 - (a) Wrong, as it is just a deferment of period till the cost/value of the asset can be reliably received.
 - (b) Wrong, as it can be recognised only on the basis of receipt.
 - (c) Right, as the amount of probable economic benefit had been estimated reliably to recognise the asset in the books of account.
 - (d) Right, as it should be recognised irrespective of any reliable estimation or receipt but when the fact has come into the knowledge of the Company.
2. The contention of Mrs. Bhalla as to the conflict she faces while computing the income of the Company is:
 - (a) Correct as it has been stated in the Preamble at the beginning of each ICDS.
 - (b) Incorrect as ICDS are mandatory and should be applied in priority while computing Income.
 - (c) Incorrect as ICDS do not apply to their Company being in existence for just less than 5 years.
 - (d) Doesn't matter as it has been left to the discretion of the Companies as which option to choose.
3. What should be CA Kumar's professional advice to resolve the dilemma of Mr. Anand regarding the expense incurred on Land?
 - (a) Immediate recognition of ₹ 1,00,000 in Statement of Profit & Loss as an expense.
 - (b) He should treat it as a Deferred Revenue Expenditure and recognise only ₹ 25,000 for the current financial year.

- (c) He should make a provision for ₹ 1,00,000 to be recognised at a future date.
- (d) He should treat ₹ 1,00,000 as a Contingent liability.
- 4. CA Kumar resolves Mrs. Dave's query by guiding her that -
 - (a) She is right in her approach and should make adjustments prospectively.
 - (b) She is wrong in her approach and she should make adjustments retrospectively.
 - (c) Such revision cannot be made during the year as per ICDS 1 and should be made on 1st April, next year.
 - (d) She should not worry about this issue as ICDS 1 doesn't apply here.
- 5. CA Kumar's 2 qualifications in the Audit report relate to -
 - (a) IND AS 1, IND AS 38 & IND AS 8
 - (b) IND AS 1 & IND AS 5
 - (c) IND AS 1 & IND AS 38 only.
 - (d) IND AS 8 only.

Descriptive Questions

- 6. Comment on the reply given by CA Kumar to Mr. Dutta in response to his request of not following Standards on Auditing while carrying out the audit of their Company in terms of provisions of the Chartered Accountants Act, 1949.
- 7. Discuss, with reasons, whether the contention of the Assessing Officer in the case explained to CA Kumar by Mr. Praveen Dhakal is correct or not. Also, explain the tax treatment of the emergency spares issue as narrated by Mr. Dhakal.
- 8. What advice should CA Kumar give to Mr. Anand on the question posed by him regarding deviation from the IND AS?

ANSWERS TO THE CASE STUDY 29

Answers to the Multiple Choice Questions

- 1. (c) Right, as the amount of probable economic benefit had been estimated reliably to recognise the asset in the books of account.
Reason: An item will be recognized as an asset in the Balance sheet when it is probable that the future economic benefit will flow to the entity and the asset has a cost or value that can be measured reliably
- 2. (a) Correct as it has been stated in the Preamble at the beginning of each ICDS.
Reason: In the case of conflict between the provisions of the Income-tax Act, 1961 and the notified ICDSs, the provisions of the Act shall prevail to that extent. This is also stated in the Preamble at the beginning of each ICDS.
- 3. (a) Immediate recognition of ₹ 1,00,000 in Statement of Profit & Loss as an expense.
Reason: The amount that has been incurred relating to surfacing the land will have no future economic value and hence there is no allocation of expenses for any future benefits. Hence this cost of ₹ 1,00,000 will be expensed out immediately in full.

4. (d) She should not worry about this issue as ICDS 1 doesn't apply here.
Reason: This is a change due to Accounting Error and not policy. Errors are not covered by ICDS.
5. (a) IND AS 1, IND AS 38 & IND AS 8.
Reason: The qualification relates to IND AS 1, IND AS 38 and IND AS 8.

Answers to the Descriptive Questions

6. The SAs (as well as other statements on auditing) represent the generally accepted procedure(s) of audit. As such, a member who does not perform his audit in accordance with these statements and fails to disclose material departures there from, becomes liable to disciplinary proceedings of Institute as follow:
 - (a) **Under Clause 5 of Part I of the Second Schedule to the Chartered Accountants Act, 1949,** according to which a chartered accountant in practice shall be deemed to be guilty of professional misconduct, if he **fails to disclose a material fact known to him** which is not disclosed in a financial statement, but disclosure of which is necessary in making such financial statement where he is concerned with that financial statement in a professional capacity
 - (b) **Under Clause 7 of Part I of the Second Schedule to the Chartered Accountants Act, 1949** according to which a chartered accountant in practice shall be deemed to be guilty of professional misconduct, if he **does not exercise due diligence, or is grossly negligent** in the conduct of his professional duties;
 - (c) **Under Clause (9) of Part I of the Second Schedule to the Chartered Accountants Act, 1949** (as amended by the Chartered Accountants (Amendment) Act, 2006), according to which a member of the Institute engaged into practice shall be guilty of professional misconduct if he **"fails to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances"**.
7. (a) This issue came up before the Delhi High Court in CIT v. Gujarat Guardian Ltd (2009) 177 Taxman 434. The Court observed that the assessee company's claim for deduction has to be allowed in one lump sum keeping in view the provisions of section 43B(d), which provide that any sum payable by the assessee as interest on any loan or borrowing from any financial institution shall be allowed to the assessee in the year in which the same is paid, irrespective of the periods, in which the liability to pay such sum is incurred by the assessee according to the method of accounting regularly followed by the assessee. The High Court concurred with the Tribunal's view supporting the assessee that in terms of section 36(1)(iii) read with section 2(28A), the deduction for pre-payment premium was allowable. Since there was no dispute that the **pre-payment premium was nothing but interest and that it was paid to a public financial institution i.e. IDBI**, the Court held that, in terms of section 43B(d), the assessee's claim for deduction has to be allowed in the year in which the payment has actually been made.

Therefore, applying the ratio of the above case, the **contention of Mr. Dhakal is correct and not that of the Assessing Officer.**

Note – Section 36(1)(iii) provides for deduction of interest paid in respect of capital borrowed for the purposes of business or profession. Section 2(28A) defines interest to include, inter alia, any other charge in respect of the moneys borrowed or debt incurred. Section 43B provides for certain deductions to be allowed only on actual payment. From a combined reading of these three sections, it can be inferred that –

- pre-payment premium represents interest as per section 2(28A);

- such interest is deductible as business expenditure as per section 36(1)(iii);
- such interest is deductible in one lump-sum on actual payment as per section 43B(d).

(b) As per ICDS V on Tangible Fixed Assets, machinery spares shall be charged to the revenue as and when consumed. When such spares can be used only in connection with an item of tangible fixed asset and their use is expected to be irregular, they shall be capitalised. Where the spares are capitalised as per the above requirement, the issue as to provision of depreciation arises – whether depreciation can be provided where such spares are kept ready for use or is it necessary that they are actually put to use. This issue was dealt with by the Delhi High Court in CIT v. Insilco Ltd (2010) 320 ITR 322. The Court observed that the expression “used for the purposes of business” appearing in section 32 also takes into account emergency spares, which, even though ready for use, yet are not consumed or used during the relevant period. This is because these spares are specific to a fixed asset, namely plant and machinery, and form an integral part of the fixed asset. These spares will, in all probability, be useless once the asset is discarded and will also have to be disposed of. In this sense, the concept of passive use which applies to standby machinery will also apply to emergency spares. Therefore, once the spares are considered as emergency spares required for plant and machinery, the assessee would be entitled to capitalize the entire cost of such spares and claim depreciation thereon.

Note – One of the conditions for claim of depreciation is that the asset must be “used for the purpose of business or profession”. In the past, courts have held that, in certain circumstances, an asset can be said to be in use even when it is “kept ready for use”. For example, depreciation can be claimed by a transport company on spare engines kept in store in case of need, though they have not actually been used by the company. Hence, in such cases, the term “use” embraces both active use and passive use for business purposes.

8. In the extremely rare circumstances in which management concludes that compliance with a requirement in an Ind AS would be so misleading that it would conflict with the objective of financial statements set out in the Framework, the entity shall depart from that requirement if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure.

When an entity departs from a requirement of an Ind AS, it shall disclose:

- that management has concluded that the financial statements present a true and fair view of the entity's financial position, financial performance and cash flows;
- that it has complied with applicable Ind AS, except that it has departed from a particular requirement to present a true and fair view;
- the title of the Ind AS from which the entity has departed, the nature of the departure, including the treatment that the Ind AS would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in the Framework, and the treatment adopted; and
- for each period presented, the financial effect of the departure on each item in the financial statements that would have been reported in complying with the requirement.

When an entity has departed from a requirement of an Ind AS in a prior period, and that departure affects the amounts recognised in the financial statements for the current period, it shall make the disclosures given above. For example, when an entity departed in a prior period from a requirement in an Ind AS for the measurement of assets or liabilities and that departure affects the measurement of changes in assets and liabilities recognised in the current period's financial statements:

In the extremely rare circumstances in which management concludes that compliance with a requirement in an Ind AS would be so misleading that it would conflict with the objective of financial statements set out in the Framework, but the relevant regulatory framework prohibits departure from the requirement, the entity shall to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing:

- (a) the title of the Ind AS in question, nature of the requirement, and reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in the Framework; and**
- (b) for each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to present a true and fair view.**

OLD COURSE DIGEST

Case Study 30

Subjects	Topics Covered	Marks
FR	Ind AS 36, Ind AS 37, Schedule III	10
Audit	Professional Ethics	4
IDT	E-way bill, Place of Supply	7
Law	IBC (Section 31, Regulation 3)	4

Para 1

Samyen B. Ltd. (SBL) is an unlisted public company located in Nagpur and is involved in the business of lubricant products. It has a factory in the outskirts of Nagpur city for producing such products.

Krutsne (P) Ltd. (KPL) based in Bangalore had asked SBL for a special job that was required to be completed within a week and it had requested SBL to deliver the completed work order to its customer, TKF (P) Ltd. based in Bhopal city of Madhya Pradesh. The distance from SBL's factory to location of TKF (P) Ltd. was 350 kms and SBL made delivery accordingly through its transport vehicle by generating an E-way bill; for same, as required.

Para 2

For purpose of performing such special job of KPL, SBL had purchased a machinery of ₹ 10 lakhs on 1st April, 2023, which had a useful life of 5 years and nil residual value. SBL adopted straight line method of depreciation for depreciating the machinery. Following information had been provided with respect to such machinery:

Financial year	Estimated future cash flows (₹ in lakhs)
2024-25	1.5
2025-26	3
2026-27	4
2027-28	1

Discount rate applicable was 10% and the fair value less costs to sell of such machinery as on 31st March, 2024 was ₹ 7 lakhs.

Para 3

There was a corporate insolvency resolution process initiated against KPL by one of its operational creditor, Halson (P) Ltd. Mr. Kailash Dave, was appointed as the interim resolution professional who is a partner of Dave & Co. a consulting firm which had transactions of following amounts with KPL during the last 5 financial years:

Financial Year	Turnover of Dave & Co. (₹)	Total amount of Transactions with KPL during each F.Y. (₹)
2018-19	180 lakhs	10 lakhs
2019-20	180 lakhs	9 lakhs
2020-21	190 lakhs	9 lakhs
2021-22	200 lakhs	10 lakhs
2022-23	210 lakhs	9 lakhs

All the financial creditors of KPL were related parties and it had 14 operational creditors. The resolution plan of KPL contained a provision of combination as per Section 5 of the Competition Act, 2002 and it was approved by the prescribed authorities.

Para 4

There arose an obligation on SBL during F.Y. 2023-24 to restore environmental damage in the area surrounding its factory. Expert advice indicated that the restoration had to be carried out in two distinct phases; the first phase required expenditure of ₹ 10 lakhs to remove the contaminated soil from the area and the second phase, commencing from the end of first phase, to replant the area with suitable trees and vegetation. The estimated cost of replanting was ₹ 25 lakhs. SBL used a cost of capital (before taxation) of 10% and the expenditure, when incurred, will attract tax relief at the company's marginal tax rate of 30%. SBL had not recognized any provision for such costs in the past. The first phase of the cleanup will commence in a few months time and will be completed on 31st March, 2025, when the first payment of ₹ 10 lakhs made will be made. Phase 2 costs will be paid three years later from the end of first phase.

Para 5

Jaiswal & Co., a firm of Chartered Accountants, with three CA partners, was given an offer letter by SBL for appointment as its statutory auditor as well as tax auditor for F.Y. 2023-24 which was accepted by the firm after complying with the required formalities.

Jaiswal & Co. has 180 tax audits to be conducted for F.Y. 2023-24, including the tax audit of SBL, out of which 3 audits are to be conducted under section 44ADA of the Income Tax Act, 1961 and 2 audits are to be conducted under section 44AE of the Income Tax Act, 1961, respectively.

Mr. Amrit Jaiswal, was appointed as the engagement partner for conducting the statutory audit of SBL. There was a change in the accountant of SBL and the new accountant had prepared its financial statements as per Division II of Schedule III to the Companies Act, 2013, for F.Y. 2023-24, for which Mr. Amrit observed errors in presentation of following items:

- (1) Capital advances were classified under 'Capital Work in Progress'.
- (2) Share application money – both refundable and non-refundable has been shown under the head Equity.
- (3) Deferred tax assets and deferred tax liabilities, both, were presented in the balance sheet.
- (4) A bank deposit with a maturity period of 14 months was shown under 'Cash and Cash Equivalents'.

Multiple Choice Questions

1. With reference to the information given under Para 1, who could have generated the E-way bill in case of the work order to be delivered by SBL to TKL (P) Ltd. and for how many days such E-way bill would have been valid?
 - (a) The E-way could have been generated by only SBL and it would have been valid for 4 days.
 - (b) The E-way could have been generated by either SBL or KPL and it would have been valid for 2 days.
 - (c) The E-way could have been generated by either SBL or KPL or TKF (P) Ltd. and it would have been valid for 2 days.
 - (d) The E-way could have been generated by either SBL or KPL and it would have been valid for 4 days.
2. Mr. Kailash Dave would have ineligible to be appointed as Interim Resolution Professional of KPL if -
 - (a) Dave & Co. would have entered into transaction(s) of further amount of ₹ 1 lakh or more with KPL during any of the last 5 financial years.
 - (b) Dave & Co. would have entered into transaction(s) of further amount of ₹ 2 lakhs or more with KPL during any of the last 3 financial years.
 - (c) Dave & Co. would have entered into transaction(s) of further amount of ₹ 50,000 or more during F.Y. 2020-21 and transaction(s) of further amount of ₹ 1,50,000 or more during F.Y. 2022-23 with

- KPL, respectively.
- (d) Dave & Co. would have entered into transaction(s) of further amount of more than ₹ 3 lakhs with KPL during any of the last 3 financial years.
3. Which authorities would have approved the resolution plan of KPL and in what sequence?
- (a) Committee of Creditors and then Adjudicating Authority, respectively.
- (b) Committee of Creditors, Adjudicating Authority and then Competition Commission of India, respectively.
- (c) Committee of Creditors, Competition Commission of India and then Adjudicating Authority, respectively.
- (d) Competition Commission of India, Committee of Creditors and then Adjudicating Authority, respectively.
4. How many further tax audits can be accepted by Jaiswal & Co. for F.Y. 2023-24?
- (a) Nil
- (b) 5
- (c) 3
- (d) 2
5. If 10 further tax audits are accepted by Jaiswal & Co., then as per code of ethics, Jaiswal & Co. shall be?
- (a) Guilty of professional misconduct
- (b) Not guilty of professional misconduct
- (c) Guilty of other misconduct
- (d) None of the above

Descriptive Questions

6. (i) With reference to the information given under Para 2, calculate the impairment loss, if any, to be provided in the books of SBL with respect to the machinery bought for performing the special job of KPL?
- (ii) With reference to the information given under Para 4, whether SBL needs to recognize provision for the costs to be made with respect to the contaminated soil area and if so, what shall be amount of provision to be provided at 31st March, 2024?
7. With reference to the information given under Para 5, what shall be the correct presentation of the items for which Mr. Amrit had observed errors?
8. (i) With reference to the information given under Para 1, determine the place of supply in respect of transactions involved in the work order delivered by SBL and also comment on the tax levy to be made for the same?
- (ii) With reference to the information given under Para 3, what would have been the constitution of committee of creditors of KPL?

ANSWERS TO THE CASE STUDY 30

Answers to the Multiple Choice Questions

1. (b) The E-way could have been generated by either SBL or KPL and it would have been valid for 2 days.

Reason: E-way Bill in case of 'Bill To Ship To' Model

In a "Bill To Ship To" model of supply, there are three persons involved in a transaction, namely:

'A' is the person who has ordered 'B' to send goods directly to 'C'. 'B' is the person who is sending goods directly to 'C' on behalf of 'A'. 'C' is the recipient of goods.

It is clarified that as per the CGST Rules, 2017, either A i.e. SBL, in our case or B, i.e. KPL, in our case can generate the e-Way Bill but it may be noted that **only one e-Way Bill** is required to be generated.

Sub-rule 10 to Rule 138 of the CGST Rules relating to E-way Bill has been amended to provide as follows:

S.N.	Distance	Validity period
1.	Upto 200 km	One day in cases other than Over Dimensional Cargo or multimodal shipment in which at least one leg involves transport by ship
2.	For every 200 km or part thereof	One additional day in cases other than Over Dimensional Cargo or multimodal shipment in which at least one leg involves transport by ship

Analysis:

Here, distance to travel is 350 kms, so E-way generated would be valid for 2 days.

2. (b) Dave & Co. would have entered into transaction(s) of further amount of ₹ 2 lakhs or more with KPL during any of the last 3 financial years.

Reason: As per Regulation 3 of Insolvency and Bankruptcy (Insolvency Resolution process for corporate persons) Regulation, 2016, an insolvency professional shall be eligible for appointment as a resolution professional for corporate insolvency process if he is not an employee or proprietor or a partner of a legal or consulting firm that has or had any transaction with the corporate debtor amounting to five per cent or more of gross turnover of such firm in the last three financial years.

Financial Year	Turnover of Dave & Co. (₹)	Total amount of Transactions with KPL during each F.Y. (₹)
2020-21	190 lakhs	9 lakhs
2021-22	200 lakhs	10 lakhs
2022-23	210 lakhs	9 lakhs
Total	600 lakhs	28 lakhs

Here, 5% of ₹ 600 lakhs comes to ₹ 30 lakhs and Dave & Co. has already rendered transaction(s) amounting to ₹ 28 lakhs to KPL. So, Mr. Dev Sharma would have been ineligible to be appointed as the Interim Resolution Professional of KPL if Dave & Co. would have entered into transaction(s) of further amount of ₹ 2 lakhs or more with KPL during any of the last 3 financial years.

Note: Resolution Professional includes an Interim Resolution Professional as per Section 5(27) of the IBC, 2016.

3. (d) Competition Commission, Committee of Creditors and then Adjudicating Authority, respectively.

Reason: As per Section 31 of the Insolvency and Bankruptcy Code, 2016, if the Adjudicating Authority is satisfied that the resolution plan as approved by the committee of creditors meets the requirements as per section 30(2), it shall by order approve the resolution plan

Where the resolution plan contains a provision for combination, as per section 5 of Competition Act, 2002, the resolution applicant shall obtain the approval of the Competition Commission of India under that Act prior to the approval of such resolution plan by the committee of creditors.

On reading of aforesaid provisions, authorities and sequence of approval that can be derived is: Competition Commission, Committee of Creditors and then Adjudicating Authority, respectively.

4. (b) 5

Reason: Tax Audit assignments under Section 44AB of the Income-tax Act, 1961

In the case of firm of Chartered Accountants in practice, **60 tax audit assignments per partner in the firm, in a financial year, whether in respect of corporate or non-corporate assesses.

Provided also that the audits conducted under Section 44AD, 44ADA and 44AE of the Income Tax Act, 1961 shall not be taken into account for the purpose of reckoning the "specified number of tax audit assignments".

Here, Jaiswal & Co. has 180 tax audits to be conducted for current F.Y., including the tax audit of SBL, out of which 3 audits are to be conducted under section 44ADA of the Income Tax Act, 1961 and 2 audits are to be conducted under section 44AE of the Income Tax Act, 1961, respectively.

However, as aforesaid, the audits to be conducted under Section 44ADA and 44AE of the Income Tax Act, 1961 shall not be taken into account for the purpose of reckoning the "specified number of tax audit assignments".

Thus, further audits that can be accepted by Jaiswal & Co. will be $180 (60 \times 3) - 175 = 5$

5. (a) Guilty of professional misconduct

Reason: As per the Council General Guidelines 2008, under Chapter VI, a member of the Institute in practice shall not accept, in a financial year, more than "specified number of tax audit assignments" under Section 44AB of the Income-tax Act, 1961.

Further tax audits that can be accepted by Jaiswal & Co. will be $180 (60 \times 3) - 175 = 5$

Hence, Jaiswal & Co. shall be deemed to be guilty of professional misconduct.

Answers to the Descriptive Questions

6. (i) Value in use of the machinery as on 31st March, 2024 can be calculated as follows:

Financial year	Estimated future cash flows (₹ in lakhs)	Present value factor @ 10%	Present value
2024-25	1.5	0.9091	1.364
2025-26	3	0.8264	2.479
2026-27	4	0.7513	3.005
2027-28	1	0.6830	0.683
			7.531

The recoverable amount of the machinery is ₹ 7.531 lakhs (higher of value in use of ₹ 7.531 lakhs and fair value less costs to sell of ₹ 7 lakhs). Carrying amount of the machinery is ₹ 8 lakhs (after providing for one year depreciation @ ₹ 2 lakhs). Therefore, the impairment loss of ₹ 46,900 should be provided in the books.

(ii) Paragraph 14 of Ind AS 37 states "A provision shall be recognised when:

(a) an entity has a present obligation (legal or constructive) as a result of a past event;

- (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (c) a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision shall be recognised."

Given Case:

Present obligation as a result of a past obligating event - The obligating event is the contamination of the area, which gives rise to a constructive obligation because the conduct of the entity has created a valid expectation on the part of those affected by it that the entity will clean up and restore the area affected by such contamination.

An outflow of resources embodying economic benefits in settlement - Probable.

Conclusion- A provision needs to be recognized for the best estimate of the costs of removal and restoration.

Financial year	Cash flows (₹)	10% Discount factor	Present Value
2024-25	10,00,000	0.909	9,09,000
2027-28	25,00,000	0.683	17,07,500
Provision required at 31 March 2024			26,16,500

The provision is calculated using pre-tax costs and a pre-tax cost of capital. The fact that eventual payment will attract tax relief will be reflected in recognition of a deferred tax asset for deductible temporary difference (assuming that recognition criteria for deferred tax assets are met.)

7. The correct presentation of the items for which Mr. Amrit had observed errors as per Division II of Schedule III shall be as follows:

- 'Capital Advances' are not to be classified under 'Capital Work in Progress', since they are specifically to be disclosed under 'Other non-current assets'.
- Share application money to the extent not refundable shall be shown under the head Equity and share application money to the extent refundable shall be separately shown under 'Other financial liabilities'.
- Deferred tax assets and deferred tax liabilities, both, cannot be presented in balance sheet since only the net balance of Deferred Tax Liability or Asset is to be disclosed if the enterprise has a legally enforceable right to set off assets against liabilities representing current tax; and it relates to the same governing tax laws.
- Bank deposits with more than 12 months maturity shall be disclosed under 'Other financial assets'. Therefore, disclosure of deposits rupees 1.25 crores in a nationalised bank for 18 months as Cash and Cash Equivalents is not in order as per Division II of Schedule III.

8. (i) In case of transaction between KPL & SBL

As per section 10(1)(b) of the IGST Act, 2017, If the goods are delivered to a recipient or any other person by the supplier on the instructions of a third person (original buyer), who may be acting as an agent or on his own account before or during movement of goods (but not after the movement terminates) whether or not there is a transfer of documents of title to the goods it is deemed that the third person has received the goods and the place of supply is the principal place of business of such third person.

In the given instance, SBL, the supplier made the delivery of a special job order to TKF (P) Ltd. as

per the instructions of KPL. Accordingly, KPL is deemed as the third person and therefore, the place of supply will be the principal place of business of KPL i.e. Bangalore. Since location of supplier, SBL, is in Nagpur Maharashtra and place of supply is in Bangalore, Karnataka, the supply is interstate supply and IGST will be levied on such transaction.

In case of transaction between KPL & TKF (P) Ltd.

This situation involves another supply between KPL and TKF (P) Ltd. The place of supply in this case will be determined in terms of section 10(1)(a) of the IGST Act, 2017.

Section 10(1)(a) stipulates that where supply involves movement of goods, whether by supplier or the recipient or by any other person, the place of supply of such goods shall be the location of the goods at the time at which the movement of goods terminates for delivery to the recipient.

Thus, the place of supply in second case is the location of the goods at the time when the movement of goods terminates for delivery to the recipient, TKF (P) Ltd. i.e. Bhopal city, Madhya Pradesh.

Since location of supplier, KPL, is in Bangalore, Karnataka and place of supply is in Bhopal, Madhya Pradesh, the supply is an interstate supply and IGST will be levied on such transaction.

(ii) Legal Position:

As per Regulation 16 of IBBI (Insolvency Resolution Process for Corporate Persons) Regulations, 2016, where corporate debtor has no financial debt or where all financial creditors are related parties of corporate debtor, the committee shall be set up in accordance with this Regulation.

The committee formed under this Regulation shall consist of members as under –

(a) 18 largest operational creditors by value:

Provided that if the number of operational creditors is less than 18, the committee shall include all such operational creditors;

(b) 1 representative elected by all workmen; and

(c) 1 representative elected by all employees.

Given Case & Analysis:

Here, all the financial creditors of KPL were related parties and it had 14 operational creditors, so the committee of creditors constituted would have been as follows:

(a) All the 14 operational creditors (as it has less than 18 operational creditors);

(b) 1 representative elected by all workmen; and

(c) 1 representative elected by all employees.

OLD COURSE DIGEST

Case Study 31

Subjects	Topics Covered	Marks
FR	Ind AS 2, Ind AS 8	10
Audit	Internal Audit	5
DT	PGBP	10

Ease of doing business – this statement does seem to be lucrative and influencing but as they say, nothing comes to your kitty so easily. India is striving towards the ease of doing business with its new policies, less restrictions and business friendly environment which is supporting business facilitation efforts but one should always keep in mind that setting up a business and running it successfully is not a cakewalk as it seems to be. It requires a lot of efforts along with innovation, workforce, management, compliances and all above that, a dedication to survive in the market. These facts could be well supported by the success story of Annapurna Trading Pvt. Ltd. which is having business of agricultural produce, consumer items & other related products. Having been set up a decade ago by its Board of Directors' Chairman, Mr. Hasmukh Rawal, this company has carved a niche for itself. Mr. Rawal had started a small business in his rural village of Baddowal, near Ludhiana which he has grown into a big company in the past 10 years.

One fine evening, Mr. Rawal was sitting with his friends - Mr. Piyush Mutneja & Mr. Gorav Bhandari who are also Managing Directors in their respective companies set up by them and they discussed about Accounts, Audit & Tax over tea. CA Hariharan, who is a common Statutory Auditor and Consultant to their companies had also joined them in this discussion. During the discussion, when all of them were narrating their experiences and difficulties they were facing at present relating to Accounts & Audit, CA Hariharan suggested them on appointing an Internal Auditor in their respective companies. He makes them aware of the benefits of such an Internal Audit function as how would it help them weed out the deficiencies and weaknesses in the Internal Controls on a timely basis but would also be very helpful to him, being the Statutory Auditor in auditing the Books of Account of all their companies at year end. Out of curiosity, all the 3 of them – Mr. Rawal, Mr. Mutneja & Mr. Bhandari ask CA Hariharan to tell them in detail about this Internal Audit function and whether they are legally required to comply with the requirements of Internal Audit. CA Hariharan tells them that many modern enterprises have become huge and sophisticated. This has resulted in decentralisation of their activities and consequently the top management is remotely concerned with the day-to-day activities of the concern.

THE INTERNAL AUDIT

Internal Audit means “an independent management function, which involves a continuous and critical appraisal of the functioning of an entity with a view to suggest improvements thereto and add value to and strengthen the overall governance mechanism of the entity, including the entity's strategic risk management and internal control system”. The internal auditing need not to be confined to financial transactions and its scope may be extended to the task of reviewing whether the resource utilisation of the enterprise is efficient and economical. This would necessitate a review of all operations of the enterprise as also an evaluation of the effectiveness of management. One should not however lose sight of the fact that internal auditing is basically a service activity.

Applicability of Provisions of Internal Audit: As per section 138 of the Companies Act, 2013, following class of companies (prescribed in rule 13 of Companies (Accounts) Rules, 2014) shall be required to appoint an internal auditor which may be either an individual or a partnership firm or a body corporate, namely-

(a) every listed company;

(b) Every unlisted public company having - (i) paid up share capital of fifty crore rupees or more during the preceding financial year; or (ii) turnover of two hundred crore rupees or more during the preceding financial year; or	(iii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year; or (iv) outstanding deposits of twenty five crore rupees or more at any point of time during the preceding financial year; and
(c) every private company having- (i) turnover of two hundred crore rupees or more during the preceding financial year; or	(ii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year.

Further to this, they ask him as who could be appointed as Internal Auditor for their respective companies to which CA Hariharan replies that as per section 138, the internal auditor shall either be a chartered accountant or a cost accountant (whether engaged in practice or not), or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the companies. The internal auditor may or may not be an employee of the company.

Further, he tells them about the scope of work of an Internal auditor and also his qualifications as follows:

QUALIFICATIONS:

- I. The internal auditor should have the special expertise necessary for evaluating management control systems, especially financial and accounting controls.
- II. Accounting and finance functions provide basic data for management control of an enterprise. Therefore, the internal auditor must have accounting and financial expertise to be able to discharge his duties.
- III. The internal auditor is also expected to evaluate operational performance and non-monetary, operational controls. This requires a basic knowledge of the technology and commercial practices of the enterprise.
- IV. He should also have a basic knowledge of commerce, laws, taxation, cost accounting, economics, quantitative methods and EDP systems.
- V. An understanding of management principles and techniques is another essential qualification of an internal auditor as also the ability to deal with people.
- VI. By his conduct the internal auditor should provide an assurance to the management that confidentiality of such information would be maintained.

On hearing all this from CA Hariharan, Mr. Rawal gets really impressed and appoints CA Ravi Mehta as the Internal Auditor for his Company Annapurna Trading Pvt. Ltd., by following the applicable procedure as per the Companies Act, 2013 and the relevant rules. On a discussion related to the scope of CA Ravi's work, Mr. Rawal requests him that he pay special attention to the following 2 aspects related to the business of his company:

1. **Accounting Policies** being followed by the Company, especially related to Inventories and the Fixed assets. CA Ravi meets the Employees in the Accounts Department as well as in the Costing Department to get a knowledge about the Valuation, Presentation & Disclosure policies followed by the company w.r.t the inventories and fixed assets:
 - (a) In the factory, the Cost accountant tells him that in the case of packing Fruit beverages, they use tin cans of material DELTA and further, put them into boxes made of material GAMMA for transportation to Distributors.

- (b) The Marketing Manager tells him that they purchase certain goods from out of India to sell them in the domestic market & incur following expenses in relation to such transaction which have been put into following accounting codes –
- (1) Trade discounts on purchase
 - (2) Handling costs relating to imports
 - (3) Salaries of accounting department
 - (4) Sales commission paid to sales agents
 - (5) After sales warranty costs
 - (6) Import duties
 - (7) Costs of purchases (based on supplier's invoices)
 - (8) Freight expense
 - (9) Insurance of purchases
 - (10) Brokerage commission paid to indenting agents
- (c) The Sales Head tells about the following products and seeks CA Ravi's advice as to their accounting treatment w.r.t. the relevant IND-AS:
- I. One of Company's product lines – "MAGNI" is beauty products, particularly cosmetics such as lipsticks, moisturizers and compact make- up kits. The company sells hundreds of different brands of these products. Each product is quite similar, is purchased at similar prices and has a short lifecycle before a new similar product is introduced. The point of sale and inventory system is not yet fully functioning in this department. The sales manager of the cosmetic department is unsure of the cost of each product but is confident of the selling price and reliably informs him that the Company, on average, make a gross margin of 65% on each line.
 - II. The Company also sells handbags. The Company manufactures their own handbags as they wish to be assured of the quality and craftsmanship which goes into each handbag. The handbags are manufactured in India in the head office factory which has made handbags for the last fifty years. Normally, it manufactures 100,000 handbags a year in their handbag division which uses 15% of the space and overheads of the head office factory. The division employs ten people and is seen as being an efficient division within the overall company.
- (d) On a scrutiny of the Fixed Assets Register, CA Ravi finds that the Company had acquired a building for its administrative purposes and presented the same as property, plant and equipment (PPE) in the financial year 2022-23. During the financial year 2023-24, it relocated the office to a new building and leased the said building to a third party. Following the change in the usage of the building, the company reclassified it from PPE to investment property in the financial year 2023-24.
- (e) On checking the previous records of the Company, he also comes to know that the Company has an investment property with an original cost of ₹ 1,00,000 which it inadvertently omitted to depreciate in previous financial statements. The property was acquired on 1st April, 2020. The property has a useful life of 10 years and is depreciated using straight line method. Estimated residual value at the end of 10 year is Nil.
2. Mr. Rawal also wants CA Ravi to help them in calculation of the Profits of the company as per the Income Tax Act and related rules because had they been worked out & calculated properly in the past years, their

company would not have been subject to a survey as had been conducted on them in the past. CA Ravi meets the Head accountant who furnishes him the following Financial statements and tells him that:

- (a) There was a survey under section 133A on the business premises on 31.3.2024 in which it was revealed that the value of closing stocks of 31.3.2023 was ₹ 8,75,000 and a sale of ₹ 75,000 made on 13.3.2024 was not recorded in the books. The value of closing stocks after considering these facts and on the basis of inventory prepared by the department as on 31.3.2024 worked out at ₹ 12,50,000, which was accepted to be correct and not disputed.
- (b) The company had made an investment of ₹50 lacs on the construction of a warehouse in rural area for the purpose of storage of agricultural produce. This was made available for use from 15.09.2023 and the income from this activity is credited in the Profit and Loss account under the head "Warehousing charges".
- (c) The Head accountant also tells him that the Financial statements as furnished below are subject to following considerations also apart from as what is furnished above:
 - i. Income-tax refund includes amount of ₹5,000 of interest allowed thereon.
 - ii. Bonus to staff includes an amount of ₹7,500 paid in the month of December 2023, which was provided in the books on 31.03.2023.
 - iii. Rent of premises includes an amount of ₹5,500 incurred on repairs. The assessee company was under no obligation to incur such expenses as per rent agreement.
 - iv. Advertisement expenses include an amount of ₹2,500 paid for advertisement published in the souvenir issued by a political party. The payment is made by way of an account payee cheque.
 - v. Goods and Services Tax demand paid includes an amount of ₹5,300 charged as penalty for delayed filing of returns and ₹12,750 towards interest for delay in deposit of tax.
 - vi. Depreciation under the Income-tax Act, 1961 works out at ₹65,000.
 - vii. Interest on loans includes an amount of ₹80,000 paid to Mr. X, a resident, on which tax was not deducted.
 - viii. Miscellaneous expenses include:
 - amount of ₹15,000 paid towards penalty for non-fulfillment of delivery conditions of a contract of sale for the reasons beyond control,
 - amount of ₹1,00,000 paid to the wife of a Mr. Has Mukh Rawal, who is working as junior lawyer for taking an opinion on a disputed matter. The junior advocate of High Courts normally charge only ₹25,000 for the same opinion,
 - amount of ₹1,00,000 paid to an Electoral Trust by cheque.

TRADING AND PROFIT & LOSS ACCOUNT

Particulars	Amount (₹)	Particulars	Amount (₹)
Opening Stock	3,75,000	Sales	1,55,50,000
Purchases	1,25,75,000	Closing Stock	4,50,000
Freight & Cartage	1,20,000		
Gross profit	29,30,000		
	1,60,00,000		1,60,00,000

Particulars	Amount (₹)	Particulars	Amount (₹)
Bonus to staff	47,500	Gross profit	29,30,000
Rent of premises	53,500	Income-tax refund	20,000
Advertisement	5,000	Warehousing charges	40,00,000
Bad Debts	81,000		
Interest on loans	1,67,500		
Depreciation	71,500		
Goods and Services tax demand paid	1,08,350		
Miscellaneous expenses	5,25,650		
Net profit of the year	58,90,000		
	69,50,000		69,50,000

Multiple Choice Questions

- Packing material "GAMMA" as per the above case should be classified as per IND AS 2 as?
 - Raw material.
 - Finished Goods.
 - Materials & Supplies awaiting for use in the Production Process.
 - Selling Costs to be excluded as per IND AS 2.
- The Marketing Manager tells CA Ravi about the Costs which they incur to sell imported goods in domestic market alongwith their accounting codes. From the following alternatives, choose the combination of codes from the above case which are allowed by IND AS 2 for inclusion in the cost of such goods?
 - 01, 02, 06, 07, 08, 09, 10.
 - 01, 02, 03, 05, 07, 09, 10.
 - 01, 02, 03, 06, 08, 09, 10.
 - 02, 04, 06, 07, 08, 09, 10.
- How should "MAGNI" be measured in accordance with IND AS 2?
 - Standard Cost.
 - Retail Method.
 - Net Realisable Value.
 - Market Price.
- How should the Handbags as made and traded by Company be measured in accordance with IND AS 2?
 - Standard Cost.
 - Retail Method.
 - Net Realisable Value.
 - Market Price.
- How should the error be corrected in the case of Investment Property as found during checking of previous records, in the financial statements for the year ended 31st March, 2024, assuming the impact of the same is considered material? For simplicity, ignore tax effects.

- (a) Prospectively restating the Comparatives.
- (b) Retrospectively restating the Comparatives.
- (c) It is not an error and therefore correction should be avoided.
- (d) Eliminating the record of such asset from the books of account and dealt with separately.

Descriptive Questions

- 6. Differentiate between the two types of Audit functions as performed by CA Ravi Mehta and CA Hariharan as discussed in the above case of Annapurna Trading Pvt. Ltd.
- 7. From the information given in Para 2, compute the income chargeable to tax of Annapurna Trading Pvt. Ltd, ignoring MAT and provisions of section 115BAA. Support your answer with working notes.

ANSWERS TO THE CASE STUDY 31

Answers to the Multiple Choice Questions

- 1. (d) **Selling Costs to be excluded as per IND AS 2.**
Reason: While the primary packing material may be included within the scope of the term 'materials and supplies awaiting use in the production process' but the secondary packing material and publicity material cannot be so included, as these are selling costs which are required to be excluded as per Ind AS 2. For this purpose, the primary packing material is one which is essential to bring an item of inventory to its saleable condition, for example, bottles, cans etc., in case of food and beverages industry. Other packing material required for transporting and forwarding the material will normally be in the nature of secondary packing material.
- 2. (a) **01, 02, 06, 07, 08, 09, 10**
Reason: Items number 01, 02, 06, 07, 08, 09, 10 are allowed by Ind AS 2 for the calculation of cost of inventories. Salaries of accounts department, sales commission, and after sale warranty costs are not considered to be the cost of inventory. Therefore, they are not allowed by Ind AS 2 for inclusion in cost of inventory and are expensed off in the profit and loss account.
- 3. (b) **Retail Method.**
Reason: The retail method can be used for measuring inventories of the beauty products. The cost of the inventory is determined by taking the selling price of the cosmetics and reducing it by the gross margin of 65% to arrive at the cost.
- 4. (a) **Standard Cost.**
Reason: The handbags can be measured using standard cost especially if the results approximate cost. Given that the company has the information reliably on hand in relation to direct materials, direct labour, direct expenses and overheads, it would be the best method to use to arrive at the cost of inventories.
- 5. (b) **Retrospectively restating the Comparatives.**
Reason: The error shall be corrected by retrospectively restating the comparatives. A third balance sheet as at the beginning of the earliest period shall also be presented.

Answers to the Descriptive Questions

- 6. **Difference between Internal Audit and External Audit**

BASIS	INTERNAL AUDIT	EXTERNAL AUDIT
1. Meaning	It refers to an ongoing audit function performed within an organization by a separate internal auditing department .	It is an audit function performed by the independent body which is not a part of the organization.
2. Examination	Internal auditor examines Operational efficiency of organisation.	External auditor examines Accuracy & Validity of Financial Statements .
3. Appointment	The Internal auditor is appointed by the Management .	The External auditor is appointed by the Members .
4. Users of Report	The user of internal audit report is Management .	The user of external audit report is Stakeholders .
5. Period	Internal audit is a Continuous Process throughout the year.	An External audit is done once in a year .
6. Opinion	The opinion is provided on the effectiveness of the operational activities of the organization.	The opinion is provided on the truthfulness and fairness of the financial statement of the company.
7. Status of Auditor	The Internal auditor could be an employee of the company.	The External auditor is mandatorily not an employee of the company.

7. **Computation of Income of Annapurna Trading Pvt. Ltd. chargeable to tax:**

Particulars	₹
Net profit as per profit and loss account	58,90,000
Add: Difference in the value of stocks detected on survey under section 133A on 31.03.2024 chargeable as income (See Note 1)	3,75,000
	62,65,000
Less: Income-tax refund credited in the profit and loss account, out of which interest is to be considered separately under the head "Income from other sources"	20,000
	62,45,000
Add: Expenses either not allowable or to be considered separately but charged in the profit & loss account	
Repair expenses on rented premises where assessee is under no obligation to incur such expenses are not allowable as per section 30(a)(i). However, if such expenses are required for carrying on business efficiently, same are allowable under section 37. In this case, assuming that such expenses are required for carrying on business efficiently, same are allowable under section 37.	-
Advertisement in the souvenir of political party not allowable as per section 37(2B) (See Note 3)	2,500
Payment made to the wife of a director examined as per section 40A(2) and the excess payment made to be disallowed (See Note 5)	75,000
Payment made to electoral trust by cheque (See Note 6)	1,00,000
Penalty levied by the Goods and Services tax department for delayed filing of returns not allowable as being paid for infraction of law (See Note 7)	5,300
Depreciation as per books	71,500
30% of interest paid on loan paid to Mr. X, a resident, without deduction of tax at	

source not allowable as per section 40(a)(ia)	24,000
	65,23,300
Less: Depreciation allowable as per Income-tax Act, 1961	65,000
	64,58,300
Less: Income from specified business (warehousing charges) credited to profit and loss account, to be considered separately (See Note 8)	40,00,000
Income from business (other than specified business)	24,58,300
Computation of income/ loss from specified business (See Note 8)	
Income from specified business	40,00,000
Less: Deduction under section 35AD @ 100% of ₹ 50 lakhs	50,00,000
Loss from specified business to be carried forward	(10,00,000)
Income from Other Sources	
Interest on income-tax refund	5,000
Gross Total Income	24,63,300
Less: Deduction under section 80GGB	
Contribution to political party (See Note 3)	2,500
Contribution to an Electoral trust (See Note 6)	1,00,000
Total Income	23,60,800

Notes:

- (1) The business premises were surveyed and differences in the figures of opening and closing stocks and sales were found which have not been disputed and accepted by the assessee. Therefore, the trading account for the year is to be re-cast to arrive at the correct amount of the gross profit/net profit for the purpose of return of income to be filed for the previous year ended on 31.3.2024.

Revised Trading Account

Particular	Amount (₹)	Particular	Amount (₹)
Opening Stock	8,75,000	Sales (₹ 1,55,50,000 + ₹ 75,000)	1,56,25,000
Purchases	1,25,75,000	Closing Stock	12,50,000
Freight and Cartage	1,20,000		
Gross Profit	33,05,000		
	1,68,75,000		1,68,75,000

The difference of gross profit of ₹ 33,05,000 – ₹ 29,30,000 = ₹ 3,75,000 is to be added as income of the business for the year.

- (2) Bonus for the previous year 2022-23 paid after the due date for filing return for that year would have been disallowed under section 43B for the P.Y.2022-23. However, when the same has been paid in December 2023, it should be allowed as deduction in the P.Y.2023-24 (A.Y.2024-25). Since it is already included in the figure of bonus to staff debited to profit and loss account of this year, no further adjustment is required.
- (3) The amount of ₹ 2,500 paid for advertisement in the souvenir issued by a political party attracts disallowance under section 37(2B). However, such expenditure falls within the meaning assigned to "contribute" under section 293A of the Companies Act, 1956, and is hence, eligible for deduction under section 80GGB. Any contribution to the political party or electoral trust made by way of cash

is not allowed as deduction under section 80GGB. Since in the present case, payment to the political party is made by way of an account payee cheque, it is allowed as deduction under section 80GGB.

- (4) The penalty of ₹ 15,000 paid for non-fulfilment of delivery conditions of a contract for reasons beyond control is not for the breach of law but was paid for breach of contractual obligations and therefore, is an allowable expense.
- (5) It has been assumed that ₹ 25,000 is the reasonable payment for the wife of Director, working as a junior lawyer, since junior advocates of High Courts normally charge only ₹ 25,000 for the same opinion and therefore, the balance ₹ 75,000 has been disallowed.
- (6) Payment to an electoral trust qualifies for deduction under section 80GGB since the payment is made by way of a cheque. However, since the amount has been debited to profit and loss account, the same has to be added back for computing business income.
- (7) The interest of ₹ 12,750 paid on the delayed deposit of goods and services tax is for breach of contract and hence, is allowable as deduction. However, penalty of ₹ 5,300 for delay in filing of returns is not allowable since it is for breach of law.
- (8) Deduction @ 100% of the capital expenditure is available under section 35AD in respect of specified business of setting up and operating a warehouse facility for storage of agricultural produce which commences operation on or after 1.04.2013. It is presumed that ₹ 50 lacs does not include expenditure on acquisition of any land.

The loss from specified business under section 35AD (warehousing) should be segregated from the income from other businesses, since, as per section 73A(1), any loss computed in respect of any specified business referred to in section 35AD shall not be set off except against profits and gains, if any, of any other specified business.

In view of the provisions of section 73A(1), the loss of ₹ 10 lacs from the specified business cannot be set-off against income from other businesses. Such loss has to be carried forward to be set-off against profit from specified business in the next assessment year. The return should be filed on or before the due date under section 139(1) for carry forward of such losses.

OLD COURSE DIGEST

Case Study 32

Subjects	Topics Covered	Marks
FR	Ind AS 24	7
Audit	SA 550	10
DT	Tax Audit	2
IDT	Supply (Basics)	6

Mahajan Food Products Ltd. is an established Company in the Food Processing Industry dealing in Groceries and Processed Food Products. The Company's Board of Directors consists of 8 Directors. It has subsidiaries both in India as well as outside India. The Company has established a name for itself in the Food Processing Industry globally. Since the company has gone global, it has been facing many difficulties in Accounting & Taxation issues related to the concerns in its network, associates, joint ventures and related persons. It has also been facing some legal difficulties regarding the same due to a sudden upsurge in the business of the Company and its expansion globally with less time to manage its Internal operations. So, the Board has now approached M/s Sharma Pahwa & Co., a CA firm in their city to consult regarding such issue and scope for improvements. The Directors of the Company request CA Grace Pahwa, the Senior Partner of the Firm to conduct a Workshop for their Accounts & Taxation Department staff and deliberate on various issues and matters they have been addressing to off late so that they can get the right training on such issues to minimise any problems that may spur up during Finalisation of Accounts and further audit by CA Grace. CA Grace agrees to their Proposal and asks them that she would be happy to conduct two workshops at a 6 month Interval for their employees in the first year of their audit and later on, one workshop every year in future to keep them updated about the latest developments to be taken care of in future while compiling the Financial statements and addressing the Tax issues.

THE DAY OF THE WORKSHOP

On the day of workshop, CA Grace, as decided deliberates the Accounts & Taxation department of the Company on Accounting & Taxation aspects of Related Party Transactions. Following is an Extract of her Speech:

"Good Morning Dear Friends! I am CA Grace Pahwa and today I will be sharing with you the aspects to be kept in mind by you all while handling the Accounting and Taxation work of the Company so that we could carry out the Audit Process during the year as well as the Statutory Audit with the least difficulties and complexities. Mahajan Food Products is basically facing issues owing to the growing span of network and more and more concerns becoming a part of this group. For such a situation, we need to understand who are our Related Parties, their nature, transactions with them, their accounting and disclosure requirements, their audit considerations and taxation scenario.

Friends! An entity in the course of its commerce and business enters into numerous transactions and gets impacted by various related party relationships. It is a normal feature of business and commerce to have related party relationships. Entities frequently carry on their business activities through subsidiaries, joint ventures or associates. The entity has the ability to affect the financial and operating policy of a subsidiary as it has control over it. In the case of joint venture, it has joint control whereas in the case of an associate it has significant influence. It is quite probable that related party relationship may have an effect on the profit or loss and financial position of an entity. Therefore, the users of the financial statements of any entity should have:

(a) the knowledge of:

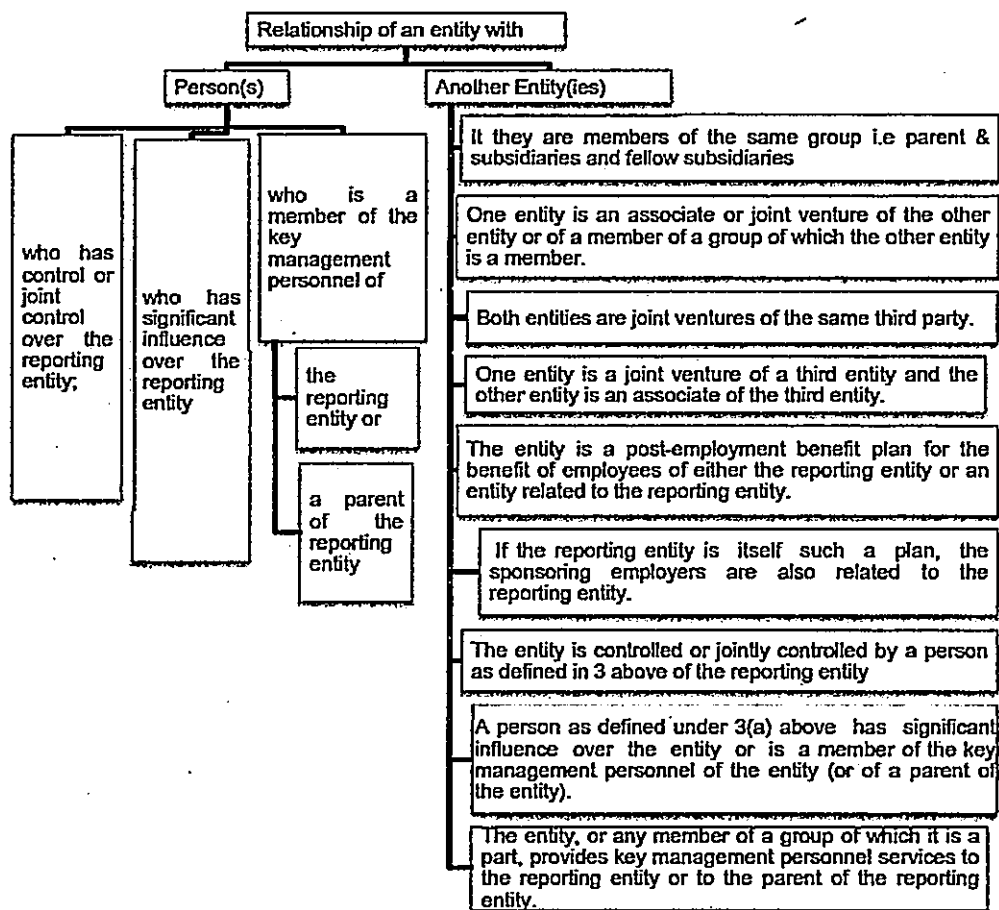
- related party relationships of an entity;

- entity's transactions, outstanding balances, commitments etc. with such related parties;
- (b) as it may affect the user's assessments:
- of operations of the entity and
 - the risks and opportunities facing the entity.

For Accounting purposes, you have to follow Ind AS 24 on RELATED PARTY DISCLOSURES.

You are all being provided with the chart as being shown on the screen in front of you and I would like you all to please write down your queries, if any to be taken up after I finish my deliberation. The following chart depicts the types of Relationships which an Entity can have with other individuals/entities in the Commercial scenario whose impact we need to study and analyse accordingly.

(CA Grace discusses the following chart in detail with thorough Practical Examples with her Audience)



However, the following are not treated as related parties:

1. Two entities are not related parties simply because they have a director or other member of key management personnel in common or because a member of key management personnel of one entity has significant influence over the other entity.
2. Two venturers are not related parties simply because they share joint control over a joint venture.
3. (i) providers of finance, (ii) trade unions, (iii) public utilities, and (iv) departments and agencies of a government that does not control, jointly control or significantly influence the reporting entity, are not related parties simply by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an entity or participate in its decision- making process).

4. a customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, simply by virtue of the resulting economic dependence.

Now, we all need to understand what actually is a Related Party Transaction is: A Related Party Transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged. It is not necessary for any consideration to be passed for such transactions.

RELATED PARTY TRANSACTIONS UNDER GST

Supply of goods or services or both between 'Related persons' or between 'Distinct persons' as specified in section 25, will qualify as supply provided it is made in the course or furtherance of business.

Let us understand the terms 'related persons' and 'distinct persons':

Related persons: A person who is under influence of another Person is called a related person like members of the same family or subsidiaries of a group company etc. Under GST law various categories of related persons have been specified. The term 'related person' has been defined in explanation to section 15.

Distinct persons: The establishments of a person with separate registrations whether within the same State/UT or in different States/UTs are considered as distinct persons. Where a person having one registered establishment in a State/UT has another establishment in a different State/UT [not necessarily registered], these establishments are considered as establishments of distinct persons. Statutory provisions relating to 'distinct persons' are contained in sub-sections (4) and (5) of section 25.

RELATED PARTY TRANSACTIONS UNDER INCOME TAX

Sub-section (2) of Section 40A of the Income Tax Act, 1961, effectively, disallows certain expenses or payments made to relatives or their close associates, as the case may be if found unreasonable and not at par with the Market. The term 'Relative' in relating to an individual has been defined under sub-section (41) of Section 2, as the husband, wife, brother or sister or any lineal ascendant or descendant of that individual.

Further, Section 40A(2) defined "Related Parties & its close associates." In condensed form, they are as follows:

Assessee	Relatives or Associates
In case of Individual	• Any relative of the assessee • Any person in whose business or profession the assessee himself or his relative has a substantial interest.
In case of Company, Firm, Association of Person & Hindu Undivided Family	Any – • Director • Partner • Member of the association • Member of the Family & Relatives of them • Any person in whose business or profession, as said above or relative of him or her has "substantial Interest." • Any Individual who has "substantial interest" in business or profession of "Assessee." • A Company or Firm or AOP or HUF having a substantial interest" in the business or profession of the "Assessee." Any other company carrying on business or profession in which the first mentioned has "Substantial interest"

The various individuals and Associate Concerns who are associated with your Company as submitted to me are as under:

1. Hemlata, sister of Mr. Kurla, the Non-Executive Director of the Company.
2. Naresh Kumar, the brother of Mr. Birla, the Executive Director of the Company.

3. The Company has one Air-Conditioned Restaurant in its Trade name in Mumbai and it has recently opened a Liquor shop, its first, in Uttarakhand for human consumption. It also has a Departmental Store in Delhi whose Stock is supplied from its Factory at Lucknow, UP.
4. A Limited is an ancillary of Mahajan Food Products Ltd. It supplies all its production to the company. Mahajan Food Products Ltd. has no other interest in A Limited.
5. ABC Ltd. is a long-standing customer of Mahajan Food Products Ltd. Mrs. Birla purchased a controlling interest in ABC Ltd. on 1st June, 2023.

So, these were some prominent individuals and concerns. There are more as per the List with me and given to you also. I hope you would be able to bifurcate easily now between Related and Unrelated Parties for Accounting & Taxation purposes so that the mistakes which have been being committed till now be not repeated in future. I would like to bring to your knowledge that I will be conducting your Company's Statutory Audit. To brief you, while carrying out the Statutory Audit, my Engagement team's main thrust would be on such related Party Transactions and we will be applying SA 550 on Related Parties as issued by ICAI to carry out the Audit efficiently and effectively. CA Kashish Jain, a Partner from my CA Firm Office in Delhi itself would be carrying out the Tax Audit of Company and will issue relevant Tax Audit Report in Form 3CA-3CD. The GST Audit of Company would be carried out by CA Mohan Sharma from our Kolkata Branch Office over here at your headquarters in Delhi only and he will issue GST Audit Report in Form 9C after GSTR-9 is filed by Company.

So Friends, I would like to end here and hope that major of your doubts and queries would have been resolved by now. In case you still have any issues, I am here for another half an hour to take the Open doubts session and my Engagement team would be available during Office hours every working day to resolve any of your concerns in near future too. Thanks for being such a Patient Audience."

Multiple Choice Questions

1. The management of the company wants to know whether the Food Products supplied from its Factory to its Departmental Store for sale at the store would constitute Supply under GST Law or not?
 - (a) Not a Supply as it is a Stock Transfer.
 - (b) Not a Supply as no Consideration is involved.
 - (c) It is a Deemed Supply under the GST Law.
 - (d) Not a Supply as the Factory and the Store are registered in the same State.
2. The Restaurant Manager of company asks CA Grace that their restaurant usually sends some packed food products to Company's Liquor Shop on a routine basis. Whether it constitutes a Supply or not under GST?
 - (a) No, as both the Restaurant & the Liquor shop are in different states.
 - (b) No, as the Restaurant is a Registered business under GST while the Liquor shop doesn't require registration under GST, being a Non-GST Item.
 - (c) Yes, because although they belong to the same entity, but they are distinct persons under GST law.
 - (d) Yes, because now the Company will have to take GST registration for its only Liquor Shop also.
3. The Company has paid Rent to Naresh Kumar of ₹ 2,50,000 and paid interest to Hemlata ₹ 4,00,000. State the reporting requirements in the Tax Audit Report by CA Kashish Jain:
 - (a) To be reported as Relative Payments under the relevant Clause u/s 40(A)(2)(b) of the Income Tax Act, 1961.
 - (b) To be reported as a Disallowed Expenditure being Relative Payments under the relevant Clause u/s 37 of the Income Tax Act, 1961.

- (c) Need not be reported as these two individuals are not the relatives of the Company.
 - (d) Only the payment made to Naresh Kumar to be reported.
4. The Head Accountant is of the view that A Ltd. is the Related Party of Mahajan Food Products Ltd.:
- (a) Yes, as A Ltd. is the ancillary of the Company.
 - (b) Yes, as Mahajan Food Products Limited is the sole purchaser of A Ltd.'s products.
 - (c) No, as A Ltd. has no other Interest in Mahajan Food Products Ltd.
 - (d) Yes, as both are Distinct Entities.
5. GST Audit Services rendered by CA Mohan on behalf of his CA firm to the Company would be construed as a Supply under GST Law for M/s Sharma Pahwa & Co. from its Branch Office:
- (a) True, as the Firm shall be treated as Distinct Persons with separate registrations in Delhi and West Bengal.
 - (b) No, as the rule of Branch Transfer doesn't apply to Services under GST.
 - (c) True, only if, bill is raised by the Kolkata Branch of the CA Firm to the Client Company.
 - (d) No, as there is no Consideration involved and therefore it is not a supply under GST Law.

Descriptive Questions

6. Sales of products from Mahajan Food Products Ltd. to ABC Ltd. in the two-month period from 1st April 2023 to 31st May 2023 totaled ₹ 16,00,000. Following the share purchase by Mrs. Birla, Mahajan Food Products Ltd. began to supply the products at a discount of 20% to their normal selling price and allowed ABC Ltd. three months' credit (previously ABC Ltd. was only allowed one month's credit, Mahajan Food Products Ltd.'s normal credit policy). Sales of products from Mahajan Food Products Ltd. to ABC Ltd. in the ten-month period from 1st June 2023 to 31st March 2024 totaled ₹ 80,00,000. On 31st March 2024, the trade receivables of Mahajan Food Products Ltd. included ₹ 36,00,000 in respect of amounts owing by ABC Ltd. Analyse and show (where possible by quantifying amounts) how the above event would be reported in the financial statements of Mahajan Food Products Ltd. for the year ended 31st March 2024 as per Ind AS. You are required to mention the disclosure requirements as well.
7. CA Grace Pahwa, at the start of the Statutory Audit of Mahajan Food Products Ltd. deliberates to her Audit team on how to conduct the audit as per the relevant requirements of the Companies Act and SA 550. You are required to outline the major points to be a part of her lecture to the Audit staff on SA 550 as per the audit requirements of the Company Mahajan Food Products Ltd. on following issues:
- (a) Nature of Related Party Relationships and Transactions.
 - (b) In the context of this Mahajan Food Products Ltd.'s Related parties, the potential effects of inherent limitations on CA Grace's ability to detect material misstatements are greater than usual. Give 2 reasons why?
 - (c) What shall the audit team inspect for indications of the existence of related party relationships or transactions that management has not previously identified or disclosed to them?
 - (d) Audit Procedures to be followed by the Audit team for identifying significant Related Party Transactions outside the Company's Normal Course of Business.
 - (e) Matters that may be addressed in the discussion among the engagement team from time to time for understanding the entity's Related Party Relationships and Transactions.

ANSWERS TO THE CASE STUDY 32

Answers to the Multiple Choice Questions

1. (c) It is a Deemed Supply under the GST Law.

Reason: Transactions between different locations (with separate GST registrations) of same legal entity (eg., stock transfers or branch transfers) will qualify as 'supply' under GST as these are transactions between distinct persons. Although no consideration is charged, supply of goods from factory to retail store constitutes supply.

2. (c) Yes, because although they belong to the same entity but they are distinct persons under GST law.

Reason: Since supply of alcoholic liquor for human consumption in Uttarakhand is a non-taxable supply, the company is not required to obtain registration with respect to the same in Uttarakhand. In this case, air-conditioned restaurant in Mumbai and liquor shop in Uttarakhand [though unregistered] shall be treated as establishments of distinct persons. Supply by Mumbai office to Uttarakhand office, in course or furtherance of business even without consideration will qualify as supply.

3. (a) To be reported as Relative Payments under the relevant Clause u/s 40(A)(2)(b) of the Income Tax Act, 1961.

Reason: A tax auditor has to report under Clause 23 of Form 3CD which deals with the particulars of payments made to persons specified under Section 40A(2)(b) of the Income Tax Act, 1961. Where the assessee is an individual, the specified persons include any relative of the assessee (i.e. Husband, Wife, Brother, Sister or any other Lineal Ascendant or Descendant). In the present case, an assessee has paid rent to his brother ₹ 2,50,000 and interest to his sister of ₹ 4,00,000 which may be disallowed if, in the opinion of the Assessing Officer, such expenditure is excessive or unreasonable having regard to:

- (1) the fair market value of the goods, services or facilities for which the payment is made; or
- (2) for the legitimate needs of business or profession of the assessee; or
- (3) the benefit derived by or accruing to the assessee from such expenditure.

4. (c) No as A Ltd. has no other Interest in Mahajan Food Products Ltd.

Reason: A customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, simply by virtue of the resulting economic dependence is not a related party as per Ind AS 24.

5. (a) True, as the Firm shall be treated as Distinct Persons with separate registrations in Delhi and West Bengal.

Reason: A person who has obtained/is required to obtain more than one registration, whether in one State/Union territory or more than one State/Union territory shall, in respect of each such registration, be treated as distinct persons [Section 25(4) of the CGST Act].

Answers to the Descriptive Questions

6. Mahajan Food Products Ltd. would include the total revenue of ₹ 96,00,000 (₹ 80,00,000 + ₹ 16,00,000) from ABC Ltd. received/receivable in the year ended 31st March 2024 within its revenue and show ₹ 36,00,000 within trade receivables at 31st March 2024. Mrs. Birla would be regarded as a related party of Mahajan Food Products Ltd. because she is a close family member

of one of the key management personnel of the Company.

From 1st June 2023, ABC Ltd. would also be regarded as a related party of Mahajan Food Products Ltd. because from that date ABC Ltd. is an entity controlled by another related party.

Because ABC Ltd. is a related party with whom Mahajan Food Products Ltd. has transactions, then Mahajan Food Products Ltd. should disclose:

- The nature of the related party relationship.
- The revenue of ₹ 80,00,000 from ABC Ltd. since 1st June, 2023.
- The outstanding balance of ₹ 36,00,000 at 31st March, 2024.

In the current circumstances it may well be necessary for Mahajan Food Products Ltd. to also disclose the favourable terms under which the transactions are carried out.

7. (a) Many related party transactions are in the normal course of business. In such circumstances, they may carry no higher risk of material misstatement of the financial statements than similar transactions with unrelated parties. However, the nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated parties. For example:
- Related parties may operate through an extensive and complex range of relationships and structures, with a corresponding increase in the complexity of related party transactions.
 - Information systems may be ineffective at identifying or summarising transactions and outstanding balances between an entity and its related parties.
 - Related party transactions may not be conducted under normal market terms and conditions; for example, some related party transactions may be conducted with no exchange of consideration.
- (b) In the context of related parties, the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for such reasons as the following:
- Management may be unaware of the existence of all related party relationships and transactions, particularly if the applicable financial reporting framework does not establish related party requirements.
 - Related party relationships may present a greater opportunity for collusion, concealment or manipulation by management.
- (c) In particular, auditor shall inspect following for indications of the existence of related party relationship or transactions that management has not previously identified or disclosed to auditor:
- Bank, legal and third party confirmations obtained as part of the auditor's procedures;
 - Minutes of meetings of shareholders and of those charged with governance; and
 - Such other records or documents as auditor considers necessary in circumstances of entity.
- (d) For identified significant related party transactions outside the entity's normal course of business, the auditor shall:
- Inspect the underlying contracts or agreements, if any, and evaluate whether:
 - The business rationale (or lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets;

- The terms of the transactions are consistent with management's explanations; and
- The transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework; and
- Obtain audit evidence that transactions have been appropriately authorised and approved.

(e) Matters that may be addressed in the discussion among the engagement team include:

- The nature and extent of the entity's relationships and transactions with related parties (using, for example, the auditor's record of identified related parties updated after each audit).
- An emphasis on the importance of maintaining professional skepticism throughout the audit regarding the potential for material misstatement associated with related party relationships and transactions.
- The circumstances or conditions of the entity that may indicate the existence of related party relationships or transactions that management has not identified or disclosed to the auditor (e.g., a complex organisational structure, use of special-purpose entities for off-balance sheet transactions, or an inadequate information system).
- The records or documents that may indicate the existence of related party relationships or transactions.
- The importance that management and those charged with governance attach to the identification, appropriate accounting for, and disclosure of related party relationships and transactions (if the applicable financial reporting framework establishes related party requirements), and the related risk of management override of relevant controls.

OLD COURSE DIGEST

Case Study 33

Subjects	Topics Covered	Marks
FR	Ind AS 37, Ind AS 115	7
Audit	Forensic Accounting	5
DT	Section 80JJAA	2
IDT	Value of Supply (Section 15), Returns	11

Akash, Bhawanmeet & Rupali have been friends since their College days and they had decided to pursue Chartered Accountancy after Graduation. Although they didn't find success so easily but all eventually became Chartered Accountants within a period of 5 years from their graduation. The trio ventured into practice and set up their own offices at Ambala in Haryana as sole proprietors. Their plan was to obtain expertise in different fields working individually and then form a partnership firm, at an appropriate time in future with 3 of them as the partners to reap and share the fruit of each other's expertise and experience through a common platform. Where Akash ventured into Taxation matters, Bhawanmeet took upon Forensics and Rupali gained expertise in Corporate matters and Statutory Audits.

Saman Pvt. Ltd. is a company set up 7 years ago, deals in the manufacturing & trading of Electronic Appliances and is registered in the state of Haryana. The Company's Board of Directors has always made it sure that their company is fully compliant with all the laws, applicable to it and duly fulfils each and every responsibility as per the law. Due to sudden demise of their statutory auditor, the Board is on the look out to engage a new professional to look after compliance matters of the Company. CA Akash who has been associated with the Company since 2018 to look after the Income tax & GST compliance, suggested appointment of CA Rupali as the Statutory Auditor of the Company to fill the casual vacancy created by sudden demise of the previous Statutory Auditor. The Board of Directors approached CA Rupali for the same and appointed her as the Statutory Auditor of the Company till the conclusion of the next Annual General Meeting of the Company.

Aman Saini, the son of the Managing Director of the Company, Mr. Vineet Saini, has joined the Board of Directors as a new director just recently. Aman is a Post Graduate from Harvard University and is very keen to know about the Indian way of doing business and various compliances Indian businesses have to make during a financial year. He requests CA Akash and CA Rupali for a meeting to get requisite knowledge about their work and how could they work together in future for establishing the Company's reputation as a known brand in the domestic as well as global market.

On the Scheduled day and time, all 3 of them met and discussed about the working of the Company.

Aman is keen to know about GST reconciliation statement applicability on one of his separate ventures - Aman & Co. as he has heard that there were a lot of challenges faced by the Professionals since implementation of GST in India and the due dates to get GST Return to be filed by the assesseees was being extended time and again. Aman & Co. is a footwear manufacturing firm and is registered with GST in Delhi and its branches registered in Punjab & Haryana.

Its aggregate turnover for the F.Y. ended 31st March, 2024 is:

Delhi: ₹ 1.8 crore,

Punjab: ₹ 1.2 crore and

Haryana: ₹ 2.7 crore.

However, the branch registered in Punjab is making only exempt supplies.

Aman calls upon the Head accountant of the company and asks him to discuss the issue of treatment of post supply discounts under GST Law and Income tax deductions as narrated by him to Aman. The Head accountant tells CA Akash that:

- (a) Their Company gives a discount of 30% on the list price to its distributors. Thus, for a carton of Product X, in the invoice the list price is mentioned as ₹ 2,000, on which a discount of 30% is given to arrive at the final price of ₹ 1,400. The Head accountant is confused as to what should be the value of supply under GST law for calculation of GST liability.
- (b) The Company has appointed distributors across the country who sell the televisions manufactured by it. The maximum retail price (MRP) printed on the package of a television is ₹ 24,000. The applicable rate of GST on televisions is 18%. The Company dispatches the stock of televisions to its distributors ordered by them on a quarterly basis.

In order to promote its sales, the Sales Head of the company has formulated a sales promotion scheme. Under this scheme, it offers a discount of 10% (per television) on televisions supplied to the distributors if the distributors sell 500 televisions in a quarter. The discount is offered on the price at which the televisions are sold to the distributors (excluding all charges and taxes). It has appointed Shah Electronics (an unrelated party as per GST Law) as its distributor in Haryana on 1st April and dispatches 750 televisions on 8th April as stock for the quarter April-June. It has sold the televisions to distributor - Shah Electronics at ₹ 16,800 per television (exclusive of applicable taxes). Shah Electronics has requested the company for a special packing of the televisions delivered to it for which it has charged ₹ 2,400 per television.

Shah Electronics places a purchase order of 1,000 televisions with their company for the quarter July-September. The distributor reports sales of 700 televisions for the quarter April-June and 850 televisions for the quarter July-September. The discount policy offered by the company as explained above is also available to Shah Electronics as per the distributorship agreement.

While Shah Electronics reverses the input tax credit availed for the quarter July - September, it has failed to reverse the input tax credit availed for the quarter April- June.

- (c) He further wants to gain knowledge of the deduction available to their company to which section 44AB is applicable in respect of new employees recruited during the F.Y. 2023-24 on 20th April, 2023, due to which there was increase in the total number of employees. The additional employee cost borne by the company during the year 2023-24 was ₹ 20 lakhs. The company was already incurring employee cost of ₹ 40 lakhs till now in respect of employees recruited before two immediately previous years. The new employees recruited as well as the previous employees of the company are regular employees having monthly emoluments of ₹ 24,000 each, paid by NEFT, who do not participate in any provident fund as well as Government do not contribute for such employees in any Employees Pension scheme, as notified.

CA Akash resolves these queries of the Head Accountant suitably.

Aman, then starts discussing with CA Rupali on Corporate matters. He puts forward the following information and extracts relating to the Company and wants to know certain facts and legal provisions regarding the Borrowings from Financial Institutions and Charitable contributions that can be made by the Company -

	As at 31.03.2022 (₹)	As at 31.03.2023 (₹)	As at 31.03.2024 (₹)
Paid up capital	50,00,000	50,00,000	74,00,000
General Reserve	40,00,000	42,50,000	49,00,000

Credit Balance in Profit & Loss Account	5,00,000	7,50,000	12,00,000
Debenture Redemption Reserve	15,00,000	20,00,000	22,00,000
Securities Premium	2,00,000	2,00,000	5,00,000
Secured Loans	10,00,000	15,00,000	33,00,000

On going through other records of the Company, the following is also determined:

Net Profit for the year (as calculated in accordance with the provisions of the Companies Act, 2013)	14,50,000	18,00,000	33,50,000

In the ensuing Board Meeting scheduled to be held on 18th July, 2024, among other items of agenda, following items are also appearing:

- (i) To decide about borrowing from financial institutions on long-term basis.
- (ii) To decide about contributions to be made to charitable funds.

Further, Mr. Ashok Chauhan, an employee from the Legal department brings into notice a legal query and the Head accountant seeks its solution to account for in the Books of Account. Mr. Chauhan tells them that on 1st January, 2024, Saman Pvt. Ltd. Was notified that a customer was taking legal action against the company in respect of financial losses incurred by the customer. Customer alleged that the financial losses were caused due to supply of faulty products on 30th September, 2023 by the Company. Saman Pvt. Ltd. defended the case but considered, based on the progress of the case up to 31st March, 2024, that there was a 75% probability they would have to pay damages of ₹ 20 lakhs to the customer. However, the Head accountant has not recorded this transaction in the financial statements as the case was not yet finally settled. The case was ultimately settled against the company resulting in to payment of damages of ₹ 24 lakhs to the customer on 15th May, 2024. The financial statements have been authorized by the Board of Directors in its meeting held on 18th May, 2024. CA Rupali helps them in accounting for this issue in the books of account appropriately.

Also, the accountant puts forward an accounting query to be resolved by CA Rupali. He states that the Company has sold goods to Mars Ltd. at a consideration of ₹ 100 lakhs, the receipt of which receivable in three equal installments of ₹ 33,33,333 over a two year period (receipts on 1st April, 2023, 31st March, 2024 and 31st March, 2025).

The company is offering a discount of 5 % (i.e. ₹ 5,00,000) if payment is made in full at the time of sale. The sale agreement reflects an implicit interest rate of 5.36% p.a.

The total consideration to be received from such sale is at ₹ 100 Lakhs and hence, he has recognised the revenue from sale of goods for ₹ 100 lakhs. Further, the management is of the view that there is no difference in this aspect between Indian GAAP and Ind AS. CA Rupali takes it under consideration and gives an appointment to the Head accountant to meet her in the office, the following day with all the required documents and information to sort this issue out.

Further, Aman tells them that he is suspicious of some financial irregularities he has noticed in the Company's accounts and believes that if not controlled and acted upon at the right time, it may lead to the situation of a Fraud taking place in the company and to avoid such situation to occur in future, he seeks CA Rupali's help to which she suggests Aman to hire the professional services of CA Bhawanmeet and get a Forensic Audit carried out into the Company's affairs and Books of account to which Aman agrees and does the same.

Multiple Choice Questions

1. Comment on applicability of furnishing self-certified reconciliation statement under GST on Aman & Co.

- (a) Not applicable as the Turnover is below threshold limit in each state.
 - (b) Applicable as, the total aggregate turnover of all such branches is considered while calculating the threshold limit.
 - (c) Not applicable, as the supplies being affected in Punjab are not to be counted in aggregate turnover for the purpose of applicability of furnishing self-certified reconciliation statement under GST.
 - (d) Applicable as entities having multi-state/UT units have to furnish self-certified reconciliation statement under GST mandatorily irrespective of the Aggregate Turnover condition.
2. What should be the Value of supply of Product X for calculation of GST liability as asked by the Head accountant?
- (a) ₹ 2,000
 - (b) ₹ 2,600
 - (c) ₹ 1,400
 - (d) ₹ 2,850
3. In which form reconciliation statement under GST would be required to be furnished by Aman & Co. and by what date?
- (a) GSTR-9C by 31.12.2024
 - (b) GSTR-9 by 31.12.2024
 - (c) GSTR-9C by 31.12.2025
 - (d) GSTR-9C by 31.12.2023
4. What amount of total deduction would be available to Saman Pvt. Ltd. w.r.t. employee cost under the Income tax Act, 1961?
- (a) ₹ 20 lakhs
 - (b) ₹ 60 lakhs
 - (c) ₹ 18 lakhs
 - (d) Nil
5. Analyse whether the accounting treatment made by the head accountant w.r.t. the case filed by a customer as narrated by Mr. Chauhan is in compliance of the Ind AS?
- (a) No, a Provision of ₹ 15 lakhs is required to be made in the Books of account.
 - (b) No, a Provision of ₹ 24 lakhs is required to be made in the Books of account.
 - (c) Yes, No Provision is required to be made as the amount estimation is just a probability.
 - (d) Provision should be made in the Financial Year 2024-25 of ₹ 24 lakhs.

Descriptive Questions

6. Compute the taxable value of televisions supplied by Saman Pvt. Ltd. to Shah Electronics during the quarters April-June and July-September assuming the rate of tax applicable on the televisions as 18%.
7. Discuss the differences between the types of audit as carried out by CA Rupali & CA Bhawanmeet.
8. Analyse whether the accounting treatment made by the accountant w.r.t. revenue recognition in the case of sale made to Mars Ltd. by Saman Pvt. Ltd., is in compliance of the Ind AS. If not, advise the correct treatment along with working for the same as might have been suggested by CA Rupali.

ANSWERS TO THE CASE STUDY 33

Answers to the Multiple Choice Questions

1. (b) Applicable as the total aggregate turnover of all such branches is considered while calculating the threshold limit.

Reason: Every registered person, other than those referred to in the second proviso to section 44, an Input Service Distributor, a person paying tax under section 51 or section 52, a casual taxable person and a non-resident taxable person, whose aggregate turnover during a financial year exceeds five crore rupees, shall also furnish a self-certified reconciliation statement as specified under section 44 in FORM GSTR-9C along with the annual return referred in subrule (1), on or before the thirty-first day of December following the end of such financial year, electronically through common portal either directly or through a Facilitation Centre notified by Commissioner.

2. (c) ₹ 1,400

Reason: The value is ₹ 1,400, as the discount is allowed at the time of supply and shown in invoice. Post supply discounts, i.e. the discounts that are given after supply is made are allowed as a deduction from the value of supply if the following two conditions are satisfied:

- Discount is in terms of an agreement that existed at the time of supply and can be worked out invoice-wise; and
- Proportionate input tax credit is reversed by the recipient - The buyer would have availed input tax credit of GST payable on the gross value

specified in the invoice. Thus, when a credit note is issued to him by the supplier for the discount, the buyer will reverse the proportionate credit; consequent to which, the supplier's output tax liability will be reduced by the same amount.

3. (a) GSTR-9C by 31.12.2024

Reason: Every registered person, other than those referred to in the second proviso to section 44, an Input Service Distributor, a person paying tax under section 51 or section 52, a casual taxable person and a non-resident taxable person, whose aggregate turnover during a financial year exceeds five crore rupees, shall also furnish a self-certified reconciliation statement as specified under section 44 in FORM GSTR-9C along with the annual return referred in subrule (1), on or before the thirty-first day of December following the end of such financial year, electronically through common portal either directly or through a Facilitation Centre notified by Commissioner.

4. (c) ₹ 18 lakhs

Reason: U/s 80 JJAA of the Income tax Act, 1961, Where the gross total income of an assessee to whom section 44AB applies, includes any profits and gains derived from business, a deduction of an amount equal to 30% of additional employee cost incurred in the course of such business in the previous year, would be allowed for three assessment years including the assessment year relevant to the previous year in which such employment is provided. Hence, total deduction under the Income tax law comes out to be ₹ 40 lakhs + ₹ 20 lakhs = ₹ 60 lakhs * 30% = ₹ 18 lakhs.

5. (b) No, a Provision of ₹ 24 lakhs is required to be made in the Books of account.

Reason: The Accountant of Saman Pvt. Ltd. has not recognised the provision and accordingly not adjusted the amounts recognised in its financial statements to reflect adjusting events after the reporting period is not correct and nor in accordance with provision of Ind AS 37 and Ind AS 10.

As per given facts, the potential payment of damages to the customer is an obligation arising out of a past event which can be reliably estimated. Therefore, following the provision of Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets' – a provision is required.

The provision should be for the best estimate of the expenditure required to settle the obligation at 31st March, 2024 which comes to ₹ 15 lakhs (₹ 20 lakhs x 75%). Further, following the principles of Ind AS 10 'Events After the Reporting Period' evidence of the settlement amount is an adjusting event. Therefore, the amount of provision created shall be increased to ₹ 24 lakhs and accordingly be recognised as a current liability.

Answers to the Descriptive Questions

6. Section 15(3)(a) as per CGST Act allows discounts to be deducted from the value of taxable supply if the same is given before or at the time of the supply and if such discount has been duly recorded in the invoice issued in respect of such supply. In other words, **pre-supply discounts recorded in invoices are allowed as deduction.**

Further, **post supply discounts are also allowed as deduction** from value of supply u/s 15(3)(b) if -

- (i) such discount is established in terms of an **agreement** entered into at or before the time of such supply and specifically linked to relevant invoices; and
- (ii) **input tax credit** as is attributable to the discount on the basis of document issued by the supplier has been reversed by the recipient of the supply.

In given case, Shah Electronics is entitled for 10% discount on televisions supplied by company Saman Pvt. Ltd. for quarters April-June as well as July-September as it has sold more than 500 televisions in each of these quarters. However, since the sales targets are achieved after the entire stock for the respective quarters of April-June and July-September has been dispatched, **discounts on the televisions supplied to Shah Electronics for quarters of April-June and July-September is a post-supply discount.**

Such post-supply discount will be allowed as a deduction from the value of supply since the discount policy was known before the time of such supply and the discount can be specifically linked to relevant invoices (invoices pertaining to televisions supplied to Shah Electronics for the quarters of April- June and July-September) provided Shah Electronics reverses the input tax credit attributable to the discount on the basis of document issued by Saman Pvt. Ltd.

The value of supply for the quarters of April-June and July-September will thus, be computed as under:

Computation of value of supply for the quarter - April-June

Particulars	Amount (₹)
Price at which the televisions are supplied to Shah Electronics [Note 1]	16,800
Add: Packing expenses [Note 2]	2,400
Less: Discount [Note 3]	<u>Nil</u>
Value of taxable supply of one unit of television	19,200
Value of taxable supply of televisions for the quarter April-June [₹ 19,200 x 750]	1,44,00,000

Notes:

- (1) The value of a supply is the transaction value, which is the price actually paid or payable for the said supply, in terms of section 15(1) presuming that supplier and the recipient of supply are not related and price is sole consideration for supply as supplier and recipient are not related parties.
- (2) The value of supply includes incidental expenses like packing charges in terms of section 15(2)(c).

- (3) Since Shah Electronics has not reversed the input tax credit attributable to such discount on the basis of document issued by Saman Pvt. Ltd., the conditions specified in section 15(3)(b) have not been fulfilled. Thus, post-supply discount will not be allowed as deduction from the value of supply.

Computation of value of supply for quarter - July-September

Particulars	Amount (₹)
Price at which the televisions are supplied to Shah Electronics [Note 1]	16,800
Add: Packing expenses [Note 2]	2,400
Less: Discount [Note 3]	<u>(1680)</u>
Value of taxable supply of one unit of television	17,520
Value of taxable supply of televisions for July-September [₹ 17,520 x 1,000]	1,75,20,000

Notes:

- (1) The value of a supply is the transaction value, which is the price actually paid or payable for the said supply, in terms of section 15(1) presuming that the supplier and recipient of supply are not related and price is sole consideration for supply as supplier and recipient are not related parties.
- (2) The value of supply includes incidental expenses like packing charges in terms of section 15(2)(c).
- (3) Since all the conditions specified in section 15(3)(b) have been fulfilled, the post-supply discount will be allowed as deduction from the value of supply. The input tax credit to be reversed will work out to be ₹ 3,02,400 $[1,000 \times (16,800 \times 10\%) \times 18\%]$.

7. While it is true that many of the financial statements and frauds could have, perhaps should have, been detected by financial auditors, the vast majority of frauds could not be detected with the use of financial audits. Reasons include the dependence of financial auditors on a sample and the auditors' reliance on examining the audit trail versus examining the events' and activities behind the documents. The latter is simply resource prohibitive in terms of costs and time.

There are some basic differences today between the procedures of forensic auditors and those of financial auditors. In comparison, forensic accounting and audit differ in specific ways, as shown below.

A forensic accountant will often look for indications of fraud that are not subject to the scope of a financial statement audit. Forensic Accounting has Investigative mentality" however auditing is done with "professional scepticism". A forensic accountant will often require more extensive corroboration. A forensic accountant may focus more on seemingly immaterial transactions.

Particulars	Other Audits - CA Rupali	Forensic Audit - CA Bhawanmeet
Objectives	Express an opinion as to 'True & Fair' presentation.	Whether fraud has actually taken place in books.
Techniques	Substantive & Compliance. Sample based.	Investigative, substantive or in-depth checking.
Period	Normally for a particular accounting period.	No such limitations.
Verification of stock, Estimation realisable value of assets, provisions etc.	Relies on the management certificate / Management Representation.	Independent verification of suspected/selected items where misappropriation in suspected.
Off balance sheet item	Used to vouch the arithmetic accuracy & compliance with procedures.	Regulatory & propriety of these transactions/contracts are examined.

Adverse findings if any	Negative opinion or qualified opinion expressed with/without quantification.	Legal determination of fraud impact and identification of perpetrators depending on scope.

8. The revenue from sale of goods shall be recognised at the fair value of the consideration received or receivable. The fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest where the receipt is deferred beyond normal credit terms. The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue.

The fair value of consideration (cash price equivalent) of the sale of goods is calculated as follows: (₹)

Year	Consideration (Installment)	Present value factor	Present value of consideration
Time of sale	33,33,333	1.000	33,33,333
End of 1 st year	33,33,333	0.949	31,63,333
End of 2 nd year	<u>33,33,334</u>	0.901	<u>30,03,334</u>
	<u>1,00,00,000</u>		<u>95,00,000</u>

The Company that agrees for deferring the cash inflow from sale of goods will recognise the revenue from sale of goods and finance income as follows:

Initial recognition of sale of goods		(₹)	(₹)
Cash	Dr.	33,33,333	
Trade Receivable	Dr.	61,66,667	
To Sale			95,00,000
Recognition of interest expense & receipt of second installment			
Cash	Dr.	33,33,333	
To Interest Income			3,30,533
To Trade Receivable			30,02,800
Recognition of interest expense & payment of final installment			
Cash	Dr.	33,33,334	
To Interest Income (Balancing figure)			1,69,467
To Trade Receivable			31,63,867

Statement of Profit and Loss (extracts) for the year ended 31st March, 2024 and 31st March, 2025

	As at 31 st March, 2024	As at 31 st March, 2025
Income		
Sale of Goods	95,00,000	-
Other Income (Finance income)	3,30,533	1,69,467

Balance Sheet (extracts) as at 31st March, 2024 and 31st March, 2025

	As at 31 st March, 2024	As at 31 st March, 2025
Assets		
Current Assets		
<u>Financial Assets</u>		
Trade Receivables	31,63,867	XXX

OLD COURSE DIGEST

Case Study 34

Subjects	Topics Covered	Marks
DT	PGBP, Charitable Trust, Exit Tax	21
Audit	Professional Ethics	4

MSNV Pvt. Ltd. is an Indian Company which is into manufacturing of Kitchen products, mainly utensils. Mr. Kapoor the CEO of the Company had started this company 21 years ago with the help of his wife. Today, the company enjoys a good market share and reputation. It has involved itself not only into its objects but also in philanthropic activities. It is Mrs. Kapoor, who believes that what businesses take from the society should give back in the form of their social responsibility, howsoever they may.

To support Mrs. Kapoor's thoughts, Mr. Kapoor has got incorporated and registered two charitable organizations – The first one is an NGO by the name "Serving the Poor" and the other one is a Section 8 company formed with charitable objects by the name "ABC Foundation Ltd." Although Mr. Kapoor is a man with a vast business experience but when it comes to the case of charitable organizations, he finds it hard to understand many matters and has therefore approached CA Lalita to help Mrs. Kapoor in working out the various issues involved in the structure, organization & working of these two organizations. CA Lalita has entered into a contract with MSNV Pvt. Ltd. to provide consultancy w.r.t. these two organizations which have been set up under the "Corporate Social Responsibility" initiatives of the Company MSNV Pvt. Ltd.

MSNV Pvt. Ltd. carries out some other CSR activities from rented premises in Pune. The rent paid for such premises is disclosed as CSR expenditure and subsequently MSNV Pvt. Ltd. also claimed deduction of the same under Income-tax Act, however accountant of company opposes this move of Company. Mr. Kapoor consults CA Lalita on this treatment of rent expense & whether the contention of accountant is correct or not.

CA Lalita is also consulted upon the tax treatment of following transactions that have been effected into by ABC Foundation Ltd. during the P.Y. 2023-24:

- (a) The organization acquires a building to use for charitable purposes and office activities. Mr. Kapoor wants to claim the cost of the building while the accountant suggests that they can claim only depreciation thereon in the current year and the subsequent year.
- (b) The accountant of ABC Foundation Ltd. is having queries in computing the capital gains in the case of a capital asset transferred by ABC Foundation Ltd. during the year and in computing the amount that would be deemed as application out of such capital gains, for which he seeks CA Lalita's help.

The relevant details are as follows:

Original cost of capital asset transferred	₹ 10,00,000
Consideration for which it is transferred	₹ 15,00,000
Cost of new capital asset acquired	₹ 15,00,000

- (c) The Board of Directors of MSNV Pvt. Ltd. want to get the Books of Account of ABC Foundation Ltd. audited under the Income tax law and seek CA Lalita's services for the same at a desired professional fee to which CA Lalita agrees.

Mr. & Mrs. Kapoor tell CA Lalita that the other Charitable organization "Serving the Poor" which was registered u/s 12AB of the Income tax Act, 1961, was not doing well since 3 years and they planned to merge it with their Company MSNV Pvt. Ltd. on 01.04.2023. They also seek her help w.r.t the treatment of this merger under the Income tax law and furnished the following information:

- All the assets and liabilities of the erstwhile trust became the assets and liabilities of M/s. MSNV Pvt. Ltd which is not entitled for registration under section 12AB of the Act. The trust appointed a registered valuer for the valuation of its assets and liabilities.
- Stamp duty value of land held ₹ 15 lakhs. However, if this land is sold in the open market, it would ordinarily fetch ₹ 18 lakhs. The book value of the land is ₹ 20 lakhs.
- 70,000 equity shares in Ink Ltd. traded in Delhi Stock Exchange. The lowest price per share on 1.4.2023 was ₹ 75 and the highest price on that day was ₹ 85. The book value was ₹ 67 lakhs.
- 50,000 preference shares held in N Ltd. The shares will fetch ₹ 44 lakhs, if they are sold in the open market on 1.4.2023. Book value was ₹ 25 Lakhs.
- Corpus fund as on 1.4.2022 – ₹ 19 Lakhs.
- Outside liabilities – ₹ 87 lakhs
- Provision for taxation – ₹ 7 lakhs.
- Liabilities in respect of payment of various utility bills – ₹ 6 lakhs.

Multiple Choice Questions

1. CA Lalita should comply with relevant laws and regulations and should avoid any action that discredits the profession, this principle is known as:
 - (a) Integrity
 - (b) Objectivity
 - (c) Professional behavior
 - (d) Professional competence & due care
2. If CA Lalita discloses information acquired from Mrs. Kapoor to public without the consent of Mrs. Kapoor, then she shall:
 - (a) Not guilty of professional misconduct
 - (b) Guilty of professional misconduct
 - (c) Guilty of other misconduct
 - (d) None of the above
3. The accountant's contention w.r.t. rent expense is:
 - (a) Incorrect, as the Rent expense can be claimed as deduction u/s 30 of the Income tax Act, 1961.
 - (b) Incorrect, as the Rent expense can be claimed as deduction u/s 37 of the Income tax Act, 1961.
 - (c) Correct, as CSR expenses cannot be claimed as deduction under the Income tax law.
 - (d) Correct, as it is not related to any business purpose of the company.
4. What should be CA Lalita's advice w.r.t the correct treatment of the cost of new building purchased by ABC Foundation Ltd. in its books of account under the Income tax law?
 - (a) She should second Mr. Kapoor's opinion.
 - (b) She should second the Accountant's opinion.
 - (c) Both Mr. Kapoor & the accountant are wrong in their opinions as no deduction can be claimed in respect of such cost.
 - (d) She should suggest going either way – The Accountant's way or Mr. Kapoor's, way, but not both.

5. What would be the amount of capital gains arising as a result of transfer of capital asset by ABC Foundation Ltd. and what proportion would be deemed as application of Income towards charitable objects during the previous year out of such capital Gains?
- Nil and ₹ 15,00,000 would be deemed as application of income towards charitable purposes.
 - Nil and ₹ 10,00,000 would be deemed as application of income towards charitable purposes.
 - ₹ 5,00,000 and no amount would be deemed as application of income towards charitable purposes.
 - Nil and ₹ 5,00,000 would be deemed as application of income towards charitable purposes.

Descriptive Questions

- Explain about the Income tax audit provisions applicable to a charitable trust.
- You are required to calculate the tax liability in the hands of "Serving the Poor" trust arising as a result of merger with MSNV Pvt. Ltd. with the help of the information given in the Case scenario as discussed.

ANSWERS TO THE CASE STUDY 34

Answers to the Multiple Choice Questions

- (c) Professional behavior

Reason: This fundamental principle requires professional accountant to comply with relevant laws and regulations and avoid any conduct that might discredit the profession.
- (b) Guilty of professional misconduct

Reason: Clause (1) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 states that a chartered accountant in practice shall be deemed to be guilty of professional misconduct if he discloses information acquired in the course of his professional engagement to any person other than his client, without the consent of the client or otherwise than as required by law for the time being in force.
- (a) Incorrect, as the rent expense can be claimed as deduction u/s 30 of the Income tax Act, 1961.

Reason: CSR expenditure which is of the nature described under the section 30 to 36 of the Income-tax Act shall be allowed as a deduction. Rent expenses can be claimed under section 30 of the Act and hence it can be claimed as a deduction.
- (d) She should suggest going either way – The Accountant's way or Mr. Kapoor's, way, but not both.

Reason:

 - 15% of income from property held for charitable purposes is exempt from tax under section 11. The remaining 85% of such "income" would be exempt if it is "applied" for charitable purposes in India.
 - Application of the amount can be for revenue or capital purposes. As long as the expenditure is incurred out of income earned by the trust and for the purposes of carrying on the objects of the trust, it would be treated as application of income even if such expenditure is for capital purposes. Therefore, since the building is acquired by the organization for holding classes and office activities, which is for the purposes of carrying on the objects of the charitable institution i.e., for providing education in hotel management, the cost of the building would be treated as application of income.

However, section 11 provides that where the cost of building is claimed as application, no other deduction for depreciation or otherwise would be allowed as an application of income in respect of such asset for the same or any other previous year.

5. (d) Nil and ₹ 5,00,000 would be deemed as application of income towards charitable purposes.

Reason: Transfer of a capital asset held under trust wholly for charitable or religious purposes [Section 11(1A)(a)]- Where the whole of the net consideration from the transfer of the capital asset is utilised for acquiring a new capital asset which is held under trust wholly for charitable or religious purposes, the entire amount of capital gains arising from the transfer would be deemed to have been applied for charitable or religious purposes. If, however, only a part of the net consideration is utilised in acquiring the new capital asset, the amount of capital gains deemed to have been utilised for charitable or religious purposes shall be equal to the excess of the proceeds utilised over the cost of the asset transferred.

Answers to the Descriptive Questions

6. Section 12A of the Act deals with the conditions as to registration of trust etc. According to this section, exemption from Income tax would be available under sections 11 and 12 of the Income tax Act in relation to the income of any trust or institution provided the following conditions are satisfied:
- (A) Clause (ac) of section 12A requires a charitable or religious trust or institution to make an application for registration within at least one month prior to the commencement of the previous year relevant to the assessment year from which the said registration is sought of the trust or the institution.
- (B) Where the total income of the trust or institution as computed under this Act, without giving effect to the provisions of Sections 11 and 12 exceeds the maximum amount which is not chargeable to income tax in any previous year, the accounts of the trust or institution for that year have been audited by an accountant as defined in the explanation below sub-section (2) of Section 288 before the specified date referred to in section 44AB and the person in receipt of the income furnishes by that date, the report of such audit in the prescribed form duly signed and verified by such accountant and setting forth such particulars as may be prescribed. Rule 17B of the Income tax Rules, 1962 provides that the report of audit of accounts of a trust or institution which is required to be furnished under Clause (b) of Section 12A should be in Form No. 10B.
7. As per section 115TD of the Income-tax Act, 1961, the accreted income of "Serving the poor", a charitable trust, registered under section 12AB which is merged with M/s AP Ltd., an entity not entitled for registration under section 12AB, would be chargeable to tax at maximum marginal rate @ 34.944% [30% plus surcharge @ 12% plus cess @ 4%].

Computation of accreted income and tax liability in the hands of the trust arising as a result of merger with MSNV Pvt. Ltd.

Particulars	Amount (₹)
Aggregate FMV of total assets as on date of merger [See Working Note 1]	1,18,00,000
Less: Total liability computed in accordance with the prescribed method of valuation [See Working Note 2]	93,00,000
Accreted Income	25,00,000
Tax Liability @ 34.944% of ₹ 25,00,000	8,73,600
Working Notes:	

(1) Aggregate fair market value of total assets on the date of merger - Land, being an immovable property [The fair market value of land would be higher of ₹ 17 lakhs i.e., price that the land would ordinarily fetch if sold in the open market and ₹ 15 lakhs, being stamp duty value as on the specified date] - Quoted equity shares in Ink Ltd. [70,000 x ₹ 80 per share] [₹ 80 per share, being the average of the lowest (₹ 75) and highest price (₹ 85) of such shares on the date of merger] - 50,000 preference shares of N Ltd. [The fair market value which it would fetch if sold in the open market on the date of merger]	18,00,000 56,00,000 44,00,000
(2) Total liability - Outside liabilities - Corpus Fund of ₹ 19 lakhs [not includible] - Provision for taxation ₹ 7 lakhs [not includible] - Liabilities in respect of payment of various utility bills [since this liability is an ascertained liability]	1,18,00,000 87,00,000 - - 6,00,000 93,00,000

Section - III

PAST PAPERS

(31 Case Studies)

PAST PAPERS

Case Study 1

Subjects	Topics Covered	Marks
FR	Ind AS 19	4
AFM	IRRM (Swaption), Securitization (Securitization Instruments)	7
DT	PGBP (Basics)	8
SCPM	Customer Lifetime Value, Outsourcing	6

Jwala Mills Limited is a fast growing listed company focusing on bringing innovation in the chemical manufacturing industry. The company has grown by 4 times during past 3 years in terms of revenue and 2 times in terms of profitability. The management is interested in inorganic growth and hence started hunting for suitable targets for acquisition. Based on the inputs provided by various consultants/advisors, the following companies have been short listed for potential buyout possibilities along with a SWOT analysis. The management of Jwala has reached out to you with this list and has asked for your inputs on certain specific matters which could significantly influence their decision.

Clean and sweep Limited

The company was incorporated in 1967 by the erstwhile Johar Group and is currently managed by Panna & Panna. It has its own customers who are very loyal and continue their relationship with the company for several years. Clean and Sweep could not grow beyond those customers and is finding it difficult to add new customers. Whilst the traditional customer Segment gives premium for their products, the few new customers added by the Company during the past 4 to 5 years did not fetch enough margins. The management of the company believes that since Customer Lifetime Value (CLV) of the company for all its customers is positive, the valuation should reflect the same.

Further, Clean and Sweep also deals with variety of securitisation instruments, derivative instruments and interest rate swaptions as part of their financial management. The company is able to make sizable income on account of treasury activities.

Swatch Limited

Swatch is a leading player in the industry and has received several awards for modernisation of the plant, Talent recognition etc. The board of the company has eminent directors with enough experience in the industry. It is also worth noting that the company has a profit sharing and bonus plan to its employees which is accounted as an appropriation of profit.

Swatch has been incurring profits since many years. It has decided to distribute profits to its employees @ 4% during the year. However, due to the employee turnover in the organisation, the expected pay-out of Swatch is expected to be around 3.5%. The profits earned during the year is ₹ 200 crores.

The company was raided by the income tax department recently. and there were several allegations of unaccounted income/overstatement of expenditure etc. Some of the matters arising out of income tax raid are:

- (i) Payment of secret commission by the Company;
- (ii) Non-accounting of ₹ 30 crores received from the competitor for not pursuing the digital business for the next 5 years;
- (iii) Non-payment of interest on GST amounting to ₹ 50 Lakhs which was claimed as deductible expenditure;

- (iv) An amount of ₹ 4 crores was paid to George, a non-resident based out Netherlands, without deducting any truces, towards commission for getting orders from certain customers based out of Netherlands;
- (v) Claiming the Bank Guarantees provided to the Pollution department as a deductible expenditure on an environmental matter pending before the Green Tribunal;
- (vi) Over paying the inflated supplier bills after due deduction of taxes and getting back part of the amount in cash from the suppliers for ensuring smooth conduct of business.

Whilst business prospects are attractive, implications of income true raid are concerning to the management.

Guru Limited

Guru is having a decentralised set up and has 5 plants and 8 branches in multiple locations in the country. The Company is aggressively expanding its size and scale by acquiring several small entities/operations. Now with the increased debt in the balance sheet, the management is willing to offload a share not exceeding 49% to interested third parties. The management is also seriously exploring options of outsourcing its administrative, finance, HR and IT activities to a third party service provider and focus more on the core activities.

You are required to review the above matters carefully and answer the following questions:

Multiple Choice Questions

1. CLV of Clean and Sweep denotes the:
 - (a) Net present value of the projected cash flows from a lifetime of customer relationship;
 - (b) Fair value of the past cash flows generated based on a customer relationship;
 - (c) Net present value of the projected profits from the present customer relationship;
 - (d) Historical intangible value of the customer relationship.
2. Clean and Sweep is dealing with the interest rate Swaption which is
 - (a) an option on an interest rate swap;
 - (b) an option on an swap;
 - (c) an option on a collar;
 - (d) an option on the interest in the property.
3. If Swatch Limited opts for section 115BAA, tax rate on business income will be:
 - (a) 25%
 - (b) 30%
 - (c) 15% (plus surcharge 10%, cess 4%)
 - (d) 22% (plus surcharge 10%, cess 4%)
4. The cost of profit sharing and bonus plan for the employees of Swatch is
 - (a) In the nature of distribution of profit and hence an appropriation;
 - (b) In the nature of an expense;
 - (c) In the nature of contingent liability which may arise in future;
 - (d) In the nature of human resource asset.
5. How should Swatch recognise profit-sharing plan in accordance with the applicable Ind AS:
 - (a) Recognise ₹ 8 crores (200 x 4%) as a liability and expense in its books of account.
 - (b) Recognise ₹ 7 crores (200 x 3.5%) as a liability and expense in its books of account.

- (c) Recognise ₹ 8 crores (200 x 4%) as an appropriation of profit.
- (d) Recognise ₹ 7 crores (200 x 3.5%) as an appropriation of profit.

Descriptive Questions

- 6. Evaluate the matters arising out of the income tax raid of Swatch and its allowability under the Income Tax Act, 1961.
- 7. What would be typical categorisation of various securitisation instruments handled by Clean and Sweep?
- 8. Provide your inputs in evaluating the outsourcing proposal of Guru duly considering its pros and cons.

ANSWERS TO THE CASE STUDY 1

Answers to the Multiple Choice Questions

- 1. (a)
- 2. (a)
- 3. (d)
- 4. (b)
- 5. (b)

Answers to the Descriptive Questions

- 6. Treatment and allowability of certain unaccounted income/overstated expenditure noticed in income-tax search

(i) Secret commission payment not accounted

This is an unaccounted expenditure and hence will be added to the income of the assessee under section 69C of the Income-tax Act, 1961.

An unaccounted expenditure can never be claimed as deduction.

In any case, even before section 69C is invoked by the Assessing Officer, such expenditure is hit by *Explanation* to section 37(1) owing to which payment of **secret commission** by Swatch Ltd., if it is established as a payment for any purpose which is an offence or which is prohibited by law, **cannot be allowed as deduction.**

(ii) Non-compete fees of ₹ 30 crores received, not accounted for, in the books

As per section 28(va), any sum received under an agreement for not carrying out any activity in relation to any business/profession (i.e., non-compete fee) is chargeable to income-tax under the head "Profits and gains of business or profession".

The assessee had failed to record this receipt in the books. **Non-compete fee received is taxable under the head "Profits and gains of business or profession" and hence, the unaccounted income unearthed in the raid/search will be brought to tax under the provisions of the Act.**

(iii) Interest under GST law, not paid, claimed as expenditure

The issue to be considered is whether the interest on GST will have to be treated as GST for attracting disallowance u/s 43B as the actual payment has not been made before the due date for filing the return of income.

Rajasthan High Court in case of Mewars Motors case (2003) 260 ITR 218 held that such interest is also to be treated as sales tax, and hence, disallowance u/s 43B would be attracted.

(iv) Payment to Mr. George, a non-resident without deduction of TDS Commission income of Mr. George, a non-resident, who remains outside India, for getting orders from customers located outside India is not subject to tax in India, since the non-resident renders services from outside India. Hence, provisions of section 195 are not attracted in respect of commission paid to Mr. George. Consequently, disallowance under section 40(a)(i) is not attracted in respect of payment of commission to such non-resident outside India since there is no obligation to deduct tax at source in first place. Thus, amount of ₹ 4 crores remitted to Mr. George outside India as commission is an allowable deduction in computing business income.
(v) Bank Guarantee furnished to Pollution department The fee payable to the Pollution Control Department has been claimed as a deduction. Actual payment has not been made, but only bank guarantee appears to have been furnished to the Pollution Department. Disallowance under section 43B would be attracted since furnishing of bank guarantee cannot be equated to actual payment. Hence, deduction cannot be claimed merely on furnishing of bank guarantee.
(vi) Overstatement of expenditure As per section 37, any expenditure laid out or expended wholly and exclusively for the purpose of the business or profession would be allowed as deduction. However, Swatch Ltd has inflated the bills and claimed the inflated payment as expenditure. Inflated amount is not expended for the purpose of business or profession, but received back in cash and hence, the same is disallowed while computing business income.

7. **Securitized instruments handled by Clean and Sweep**

This can be divided into three categories based on different maturity characteristics which are as under:

(1) Pass Through Certificates (PTCs)

Originator (seller of the assets) transfers the entire cash in form of interest or principal repayment from the assets sold. Thus, these securities represent direct claim of the investors on all the assets that has been securitized through SPV.

Since all the cash flows are transferred the investors carry proportional beneficial interest in asset held in trust by SPV. Since it is a direct route, any prepayment of principal is also proportionately distributed among the securities holders. Further, due to these characteristics on completion of securitization by final payment of assets, all securities are terminated simultaneously.

Skewness of cash flows occurs in early stage if principals are repaid before the scheduled time.

(2) Pay Through Security (PTS)

Since, in PTCs all cash flows are passed to the performance of the securitized assets. To overcome this limitation and limitation to single mature there is another structure i.e. PTS.

In contrast to PTC in PTS, SPV debt securities backed by the assets and hence it can restructure different tranches from varying maturities of receivables.

In other words, this structure permits desynchronization of servicing of securities issued from cash flow generating from the asset. Further, this structure also permits the SPV to reinvest surplus funds for short term as per their requirement.

Since, in Pass Through, all cash flow immediately in PTS in case of early retirement of receivables plus cash can be used for short term yield. This structure also provides the freedom to issue several debt tranches with varying maturities.

(3) Stripped Securities

Stripped Securities are created by dividing the cash flows associated with underlying securities into two or more new securities. Those two securities are as follows:

- (i) Interest Only (IO) Securities
- (ii) Principle Only (PO) Securities

As each investor receives a combination of principal and interest, it can be stripped into two portion of Interest and Principle.

Accordingly, the holder of IO securities receives only interest while PO security holder receives only principal. Being highly volatile in nature these securities are less preferred by investors.

In case yield to maturity in market rises, PO price tends to fall as borrower prefers to postpone the payment on cheaper loans. Whereas if interest rate in market falls, the borrower tends to repay the loans as they prefer to borrow fresh at lower rate of interest.

Value of securities increases when interest rate goes up in the market as more interest is calculated on borrowings.

However, when interest rate due to prepayments of principals, IO's tends to fall.

8. Evaluation of the outsourcing proposal

Guru Limited is exploring the options of outsourcing its administrative, finance, HR, and IT activities to a third party service provider to enable him to focus on the core activities.

Outsourcing is often an integral part of downsizing or reengineering and is considered to **reduce costs or improve efficiency by shifting tasks, operations, jobs, or process to another party for a span of time**. The outsourcing proposal of Guru Limited can be evaluated giving due consideration to the below pros and cons of outsourcing:

Advantages of Outsourcing

- Outsourcing helps in **cost savings**. The lower cost of operation and labour, and reduction in overhead costs makes it attractive to outsource.
- It **frees an organization from investments** in technology, infrastructure and people that make up the bulk of a back-end process capital expenditure.
- It gives **businesses flexibility** in staffing, manpower management, helps in cost savings.

Disadvantages of Outsourcing

- One of the biggest disadvantages is the **risk of losing sensitive data** and the loss of confidentiality.
- Control of operations and deliverables of activities outsourced.
- Inexperienced worker or improper process can lead to **quality problems**.

PAST PAPERS

Case Study 2

Subjects	Topics Covered	Marks
FR	Ind AS 37	2
Law	Companies Act (Section 174, 182)	4
SCPM	Budget Slack, Process Innovation, Standard Costing	19

You are an open minded, highly sensible, competent professional with value-added, decision-making capabilities. You have the ability to forecast the consequences of grey areas and matters of concern relating to the existing costing, capital budgeting, standard setting practices followed by the corporates and help them in providing alternative remedial measures duly aligned with the emerging financial reporting processes. You have a sharp acumen of Ind AS and Corporate Laws advising the Board of many reputed Companies.

You advocate that it is very fundamental to any business to keep updating the business strategies and plans to suit the changing business scenario. In the modern market place, there is no mercy for the mediocre. The rule applies to all the sectors of Indian economy, be it a small scale industry or a big contributor to the GDP.

SINDHUJA FOUNDRIES LIMITED (SFL)

SFL is a fast emerging Company involved in development of castings for automobiles and tractors to industrial engines, construction equipment and power generation equipment. It even caters to the exceptionally high standards of Defense applications. SFL hones its skills by enhancing its development capabilities with the most complex castings. The indigenous expertise that drives the organization enables it to keep pace with the constantly changing requirements of the market. It produces cast iron cylinder blocks, cast iron cylinder heads and cast iron transmission housings. It has won the much coveted quality certifications including ISO 9000, QS 9000 and ISO 14001 certifications that endorse its capabilities. The top Management of SFL is driven by a highly competent Board of Directors. The Board drives the business plans, operating, investment and financing activities besides all key decisions.

Mr. S. Abhi, Special Director (Costing and Accounts) of SFL based out of Chennai approached you last week seeking your views and solutions on certain matters that they are facing in controlling costs and improving the profitability amidst growing tension with the management. They also wish to seek your advice on disclosures affecting Ind AS and certain other matters. You have accepted the invitation.

COST OVERVIEW

The Company uses and adopts variance analysis and standard costing approach for setting and monitoring costs. Mr. Abhi has provided you as under, the details of variance between standards and the actuals which is placed for your evaluation.

Particulars	Budgeted	Actuals	Variance
Sales/production (sets in units)	6,50,000	5,00,000	1,50,000
Sales (in ₹)	10,00,00,000	8,50,00,000	1,50,00,000
Less: Variable costs (in ₹)	6,55,00,000	5,65,00,000	90,00,000
Less: Fixed Costs (₹)	3,45,00,000	3,25,00,000	20,00,000
Profit (₹)	2,00,00,000	1,60,00,000	40,00,000

BUDGET OVERVIEW

The Budgets are set by the Board which is pushed down to various teams and the actuals are regularly

compared with the budgets for taking remedial actions in case of any adverse situations. As compared to earlier years, it was found that of late, the variance between the budget and the actual is widening and has become a cause of concern to the top management. Under the circumstances, it was emphasized that every personnel in the Company should participate in the budgetary process and perhaps even asking every manager to set his own targets and consolidate the same for setting the target for the Company.

YOUR PROPOSAL

After carefully analyzing all the above inputs provided by the Special Director (Costing and Accounts), you have suggested the following measures:

A. Innovative reporting mechanism for better transparency and better monitoring.
B. Introduction of incentive based compensation system for reducing variable cost by ₹ 15 per set and increase in the production and sales by 10,000 sets.
C. Introduction of modernization in the production process to increase efficiency of production process.

CORPORATE CULTURE

Whilst the Company is historically Board managed, nevertheless, it believes in the principle of developing with everyone. SFL looks at its responsibilities to all stakeholders and is equally concerned with the society, environment and work force. To follow its principle of collective growth, SFL provides several benefits and values to its employees as value addition. SFL has also a policy of environment conservation and accordingly has set up a small renewable energy plant out of solid waste and the power so generated is consumed on its own to support its manufacturing plants.

Other matters concerning opinion having an impact on presentation of accounts:

- (A) The Company has made a contribution of ₹ 3.5 lakhs during the financial year to a political party for running a school, situated in the village where most of the workers of the Company reside. It is admitted that the benefit of the school is mostly for the children of the workers of the Company. The Company has not made sufficient profits in the last four years.
- (B) An Inter Corporate Deposit of ₹ 75 lakhs has become overdue. The Company has disclosed this in the notes to accounts in Note No. 15 in Schedule No. 21 stating that ₹ 75 lakhs is overdue from XYZ Ltd. and said Company is in the process of liquidation. The Management is taking steps to appoint the liquidator.
- (C) The Company had 9 Directors on the Board. 2 offices of the directors have fallen vacant.

Multiple Choice Questions

1. Giving utmost freedom and flexibility to set their own targets in the setting process has the potential danger of having:
 - (a) Sheer Failure
 - (b) Non-Performance
 - (c) Resistance
 - (d) Slackness in Budget
2. Introduction of modernization in the production process to increase efficiency of production process is an example of:
 - (a) Business Process Re-engineering
 - (b) Process Innovation
 - (c) Kaizen Costing

- (d) Total Productive Maintenance
3. Regarding contribution of ₹ 3.5 lakhs during the financial year to a political party for running a school:
- There is no bar in making political contribution of ₹ 3.5 lakhs despite not having profits in the last four years as the benefit of the school is mostly for the children of the workers of the Company.
 - The Company cannot make contribution to the political fund as it has not earned any profits in the last four years and is a violation of the provisions of the Companies Act, 2013 and should be qualified by the Auditor.
 - The Company cannot make contribution to the political fund as it has not earned any profits in the last four years. It is, however, not a violation of the provisions of the Companies Act, 2013. But the Auditor need to qualify his report.
 - As the contribution to the political fund is for the benefit of the school where children of the workers reside, it is neither a contravention of the provisions of the Companies Act, 2013 nor a matter of audit qualification. It is enough if the Company discloses such contribution in the notes forming part of the accounts.
4. Regarding the overdue inter-corporate deposits:
- Since Company is in process of liquidation, provision for loss is required to be made in accounts.
 - No provision for the loss is required to be made in the accounts.
 - No provision for the loss or compliances of any accounting standard is required since adequate disclosures have been made in the notes to accounts.
 - The overdue inter-corporate deposit is safe and realizable in full as the management is taking steps to appoint a liquidator.
5. There were 10 directors in the Company. 2 offices of the directors have fallen vacant. The quorum for the Board meetings under the Companies Act, 2013 shall be:
- 4
 - 2
 - 3
 - 5

Descriptive Questions

6. By using Marginal Costing approach, reconcile the budgeted profit and the actual profit and also provide a statement of reconciliation.

ANSWERS TO THE CASE STUDY 2

Answers to the Multiple Choice Questions

- (d)
- (b)
- (d)
- (a)
- (c)

Answers to the Descriptive Questions

6. Workings

Particulars	Budget	Actual	Variance
Sales/Production (units)	6,50,000	5,00,000	(1,50,000)
Sales (₹)	10,00,00,000	8,50,00,000	(1,50,00,000)
Less: Variable Costs (₹)	6,55,00,000	5,65,00,000	(90,00,000)
Less: Fixed Costs (₹)	3,45,00,000	3,25,00,000	(20,00,000)
Profit	NIL	(40,00,000)	(40,00,000)

Statement of Reconciliation - Budgeted Vs Actual Profit

Particulars	(₹)
Budgeted Profit	NIL
Sales Volume Variance (A)	(79,61,538)
Sales Price Variance (F)	80,76,923
Variable Cost Variance (A)	(61,15,385)
Fixed Cost Variance (F)	20,00,000
Actual Profit	(40,00,000)

Calculation of Variances

Sales Variances

Volume = Standard Contribution – Budgeted Contribution

= Standard Contribution × (Actual Quantity – Budgeted Quantity)

= ₹3,45,00,000/6,50,000 × (5,00,000 – 6,50,000)

= 79,61,538 (A)

Price = Actual Contribution – Standard Contribution

= Actual Sales Quantity × (Actual Contribution – Standard Contribution)

= 5,00,000 units × [(₹ 8,50,00,000/5,00,000 – ₹ 6,55,00,000/6,50,000) – ₹ 3,45,00,000/6,50,000]

= 80,76,923 (F)

Note: Price Variance can also be calculated through Sales Value approach i.e. based on the price. However, price variance would be the same.

Variable Cost Variances

Cost = Standard Cost for Production – Actual Cost

= Actual Production × (Standard Cost per unit – Actual Cost per unit)

= 5,00,000 units × (₹ 6,55,00,000/6,50,000 – ₹ 5,65,00,000/5,00,000)

= 61,15,385 (A)

Fixed Cost Variances

Expenditure = Budgeted Fixed Cost – Actual Fixed Cost

= ₹ 3,45,00,000 – ₹ 3,25,00,000

= ₹ 20,00,000 (F)

PAST PAPERS

Case Study 3

Subjects	Topics Covered	Marks
FR	Ind AS 16, Schedule III	10
DT	Assessment Procedure (Section 147 to 149)	5
Law	Companies Act (Section 149, 165, 203)	10

The Company

Ram Equipments Limited (REL) is a listed Company incorporated on 08.06.1959 under the provisions of the erstwhile Companies Act, 1956, having its Registered Office at Ayodhya, Uttar Pradesh.

REL is a leading air compressor manufacturer with an extensive range of innovative and technologically advanced air compressors. True to the leadership position it aspires, REL has through the decades maintained a technological edge in the air compressor market with incremental and break through innovation, through incorporation of latest technologies in its product. It has secured ISO 9001:2008, ISO 14001:2015, ISO 45001:2018 and ISO 50001 certifications and has employed best-in-class practices and advanced capabilities to manufacture products to meet International Standards.

BOARD OF DIRECTORS

The Company has a vibrant Board of Directors with a proper mix of both Executive and Non- Executive Directors, including Women Independent Directors. The CEO of the Company, Dr. Ram Varadaraj, a Phd in International Business from the University of Michigan, USA is a third generation entrepreneur from the illustrious family of Ram Bhakth, the founder of the Company. The Company adopts a robust corporate governance norms both in letter and spirit.

YOU ARE INVITED

Now, assume that you are an extrovert CA and possess excellent communication and presentation skills. You are invited on coming Friday, by the Chairman of the Audit Committee, for a business meeting, with a view to discuss certain matters that are proposed to be discussed at the forth coming Board Meeting and other matters seeking clarifications and/or on presentations in the financial statements. You consented to clarify all issues. On the appointed day of the meeting, you were provided with the following inputs:

BOARD MEETING

To further strengthen the Board vis-a-vis to strengthen the corporate governance to the maximum extent and in compliance of the requirements of the Companies Act, 2013 to have another women director and also an independent director on the Board, the Company proposes the following appointments at the Board Meeting scheduled to be convened on 10.10.2024:

- To appoint Ms. Right as the women director in the place of Ms. Smart who had recently resigned from the position of Women Director. Ms. Right already holds directorship in twelve companies including ten public companies. She is a whole time Company Secretary in practice.
- To appoint Ms. Bright as an Independent Women Director. She holds directorship in eight public companies including Managing Directorship in two companies and directorship in six companies. These eight companies include directorship in REL also. In addition, she also holds alternate directorship in three companies and Independent directorship in three subsidiary companies of REL.

OTHER INPUTS SHARED:

- (A) REL is also the holding Company of Alfa White Limited (AWL) with Beta Blue Private Limited (BBPL) as a subsidiary to AWL. Now, Mr. Intelligent is a Director (Operations) of Town City Limited, which is also a subsidiary of REL. Impressed by the performance of Town City Limited, the Directors of REL approached Mr. Intelligent to act as the Joint Managing Director of REL. Upon his favourable consent, the Company (REL) proposed to pass a Board Resolution through resolution (containing the terms and conditions of appointment including remuneration) by circulation.
- (B) Also, the Board of Directors of BBPL, at their Board Meeting, wherein all the Directors present at the meeting, approved the resolution to appoint Mr. Intelligent as the Whole Time Director (WTD). Thereafter, BBPL also convened the general meeting for getting the approval of shareholders and passed an ordinary resolution to appoint Mr. Intelligent as the WTD. In the matter of the above appointments, both the Companies have duly complied with Schedule V of the Companies Act, 2013.
- (C) The business premises of REL was searched on 17.4.2023 under section 132, consequent to which the Assessing Officer has in his possession documents revealing information pertaining to shares purchased in the P.Y.2017-18 for ₹ 23 lakhs and in the P.Y.2018-19 for ₹ 25 lakhs.
- (D) The Management prepared financial statements of one of the subsidiary Company adhering to Ind AS as at 31.03.2024 and was made available to you. On a perusal of same, you made the following observations:
- Provision for doubtful debts of trade debtors was grouped in "Provisions" under current liabilities.
 - In the Statement of Profit and Loss, prior period income was shown under "Other Income".
 - Sale proceeds of scrap incidental to manufacture were included in "Other Income".
 - Payment towards a one time voluntary retirement scheme introduced during the year was included in "Employee Benefit Expense".
- (E) Revaluation of Plant and Machinery

The Company performed a revaluation of all its plant and machinery at the beginning of 01.04.2023. The following information relates to one of the machinery:

Particulars	Amount ₹ ('000)
Gross carrying amount	200
Accumulated depreciation (SLM)	(80)
Net carrying amount	120
Fair value	150

The useful life of the machinery is 10 years and the Company uses Straight Line method of depreciation. The revaluation was performed at the end of 4 years.

Please go through carefully the above data/issues and answer the following questions in your capacity as a Chartered Accountant.

Multiple Choice Questions

- The proposed appointment of Ms. Right as the Women Director in REL would be:
 - Valid. Appointment of Women Director is a statutory requirement despite the number of her directorship in other Companies.
 - Invalid as she is a whole time practicing Company Secretary.
 - Invalid as she is already a director in 12 Companies.
 - Invalid as the appointment will lead her directorship in public Companies.

2. The proposed appointment of Ms. Bright as an Independent Women Director in REL would be:
 - (a) Invalid as her total holding of directorship in Public Companies is 14 which is beyond the limit of 10 Public Companies.
 - (b) Invalid as her total holding of directorship in Public Companies is 11 which is beyond the limit of 10 Public Companies.
 - (c) Invalid as her total holding of directorship in Public Companies is which is beyond the limit of 10 Public Companies.
 - (d) Valid as her total holding of directorship in Public Companies is which is below the limit of 10 Public Companies.
3. In addition to a listed entity, which other Company is required to appoint a women Director?
 - (a) A Company having a paid up capital of ₹ one hundred crore.
 - (b) A Company having a Turnover of ₹ three hundred crore.
 - (c) Both (a) and (b)
 - (d) Neither (a) or (b)
4. Whether the appointment of Mr. Intelligent as the Joint Managing Director of REL is valid?
 - (a) Valid with further approval of the Central Government.
 - (b) Invalid as a person cannot hold more than one office as Managing Director.
 - (c) Valid as a Whole Time Key Managerial Person can hold office in its subsidiary also at same time.
 - (d) Invalid due to passing of resolution through improper mode and absence of approval of general body resolution.
5. Whether the appointment of Mr. Intelligent as Whole Time Director in BBPL is valid?
 - (a) Yes.
 - (d) Yes, subject to further approval of the Central Government.
 - (c) No. In view of restriction placed under Section 203(3) on appointment in more than one company.
 - (d) No. BBPL is a private company and hence, Rule 8 & 8a of Companies (Appointment & Remuneration of Managerial Personnel) Rules, 2014 is not applicable.

Descriptive Questions

6. In the light of the information given in summary of discussion (C) - 'Other Inputs' above, Can the Assessing Officer issue notice u/s 148 for bringing to tax income escaping assessment?
7. In the light of information provided in para (D) - 'Other Inputs' above, as a Chartered Accountant, give your comments to the disclosures made by the Company which adopted Ind AS for compilation of Financial Statements.
8. In the light of information provided in para (E) - 'Other Inputs' above and Ind AS 16, explain how should Company account for revaluation of Plant and Machinery and depreciation subsequent to revaluation?

ANSWERS TO THE CASE STUDY 3

Answers to the Multiple Choice Questions

1. (d)

2. (b)
3. (c)
4. (d)
5. (a)

Answers to the Descriptive Questions

6. Where search is initiated under section 132, the Assessing Officer shall be deemed to have information suggesting that income has escaped assessment. In such a case, where search was initiated on or after 1.4.2021, the relevant assessment year can be any assessment year which is not time-barred under section 149. As per section 149(1)(a), the time limit for issue of notice under section 148 for the relevant assessment year is upto 3 years from the end of the relevant assessment year. However, if the Assessing Officer has in his possession, books of account which reveal that income chargeable to tax, represented in the form of an asset or expenditure in respect of a transaction or in relation to an event or occasion or an entry or entries in the books of account, which has escaped assessment amounts to or is likely to amount to ₹ 50 lakh or more, notice can be issued beyond 3 years but not more than 10 years from the end of the relevant assessment year. For this purpose, "asset" includes immovable property, being land or building or both, shares and securities, loans and advances, deposits in bank account.

In this case, since search was conducted under section 132 on 17.4.2023, the Assessing Officer is deemed to have information suggesting that income chargeable to tax has escaped assessment in the case of REL. In this case, the Assessing Officer has in his possession, books of account which reveal that income chargeable to tax, represented in the form of an asset, has escaped assessment. Shares are included in the definition of "asset". However, the income chargeable to tax, represented in the form of shares, which has escaped assessment amounts to ₹ 48 lakhs (i.e., ₹ 23 lakhs + ₹ 25 lakhs). Since the amount is lower than ₹ 50 lakhs, notice cannot be issued beyond 3 years from the end of the relevant assessment year. In this case, the relevant assessment years are A.Y.2018-19 (relevant to P.Y.2017-18) and A.Y.2019-20 (relevant to P.Y.2018-19). The three-year period for A.Y.2018-19 and A.Y.2019-20 expired on 31.3.2022 and 31.3.2023, respectively. Accordingly, notice cannot be issued under section 148 in April, 2023 due to expiry of the three-year time limit under section 149(1)(a).

7. **Comments on disclosures (as extracted) made by the company from the draft financial statements under Ind AS:**
- (i) The term doubtful debts is an adjustment to the carrying amount of assets, hence no provision is created separately for it. As per Division II of Schedule III (for Ind AS based Financial Statements), **provision for doubtful debts should be deducted from gross amount of trade receivables** after disclosing all the categories of trade receivables rather than including it under provisions under current liabilities.
 - (ii) Under Ind AS, there is no concept of 'Prior period items'. In case any error related to prior period is detected during current year, then entity shall correct such material prior period errors retrospectively in first set of financial statements approved for issue after their discovery by:
 - (a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or
 - (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

Since in the question it is not mentioned that prior period income pertains to which accounting year, it is assumed that it relates to previous year. Therefore, comparative amounts shall be restated. Thus, showing prior period income under current year's 'other income' is not in accordance with Ind AS 8.

- (iii) As per Guidance Note on Division II of Schedule III, sale of manufacturing scrap arising from operations for a manufacturing company should be treated as 'other operating revenue' since the same arises on account of the company's main operating activity. Therefore, presenting it under 'other Income' is not a correct treatment.
- (iv) Employee benefits include termination benefits. Payment made during the year towards one-time voluntary retirement scheme is in the nature of termination benefits. Hence, it should be shown by an entity under employee benefit expenses only. Thus, the treatment done by the company is correct.

8. **Revaluation of Machinery:** According to Ind AS 16, when an item of property, plant and equipment is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of the revaluation, the asset is treated in one of the following ways:

- (a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount. The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses.

In such a situation, the revised carrying amount of the machinery will be as follows:

(Amount in '000)		
Gross carrying amount	₹250	[(200/120) x 150]
Net carrying amount	₹150	
Accumulated depreciation	₹100	(₹250 - ₹150)

Journal entry

Plant and Machinery (Gross Block)	Dr.	₹50	
To Accumulated Depreciation			₹20
To Revaluation Reserve			₹30

Depreciation subsequent to revaluation

Since the Gross Block has been restated, the depreciation charge will be ₹ 25 per annum (₹ 250/10 years).

Journal entry

Accumulated Depreciation	Dr.	₹25 p.a.	
To Plant and Machinery (Gross Block)			₹25 p.a.

Alternatively,

- (b) The accumulated depreciation is eliminated against the gross carrying amount of the asset. The amount of the adjustment of accumulated depreciation forms part of the increase or decrease in carrying amount that is accounted for in accordance with Ind AS 16.

In this case, the gross carrying amount is restated to ₹ 150 to reflect the fair value and accumulated depreciation is set at zero.

Journal entry

Accumulated Depreciation	Dr.	₹80	
To Plant and Machinery (Gross Block)			₹80
Plant and Machinery (Gross Block)	Dr.	₹30	
To Revaluation Reserve			₹30

Depreciation subsequent to revaluation

Since the revalued amount is the revised gross block, the useful life to be considered is the remaining useful life of the asset which results in the same depreciation charge of ₹ 25 per annum as per Option A (₹ 150/6 years).

Journal entry

Accumulated Depreciation	Dr.	₹25 p.a.	
To Plant and Machinery (Gross Block)			₹25 p.a.

PAST PAPERS

Case Study 4

Subjects	Topics Covered	Marks
Audit	Material Misstatement, SA 505, SA 560	15
DT	PGBP (Basics)	2
Law	Companies Act (Section 247), LODR (Regulation 17)	4
SCPM	Budget Slack, Standard Setting Approach	4

Background

Aroma Technologies Limited, (the Company), a listed entity, is one of the world's leading professional services companies, transforming clients' business, operating and technology models for the digital era. With Corporate headquarters in Chennai, India and global presence across 15 countries worldwide, the Company utilizes its expertise in 20 different industries to leverage analytics, enhance interactive experiences, automate processes, develop platforms, modernize infrastructures and engineer digital solutions that help clients capitalize on the tremendous opportunities the latest technologies could offer.

The Company's sound management track record of shifting ahead of client needs and building new capabilities has earned a niche for itself, both with domestic as well as International Clients for its cutting edge digital services, timely execution of projects at a competitive and commercially viable costs to the clients.

The Company is managed by a dynamic Board of Directors who are qualified professionals in Information Technology, Engineering, Accounting, Finance and Business Administration. The Company has earned a good reputation with the shareholders, bankers, customers at large, equity analysts and general investors.

CEO & Managing Director

Mr. Kumar, is the extrovert CEO & Managing Director of the Company steering the Board in all policy matters and decision making process. He is of the strong view that though at one hand, India is gearing up for simplifying various economic laws and aiming at ease of doing business, at the other, huge penalties for non-compliances have been made more severe and therefore, utmost care is warranted to adhere to all applicable statutory compliances. As a consequence, though not mandated in India, he has introduced 'compliance audit' in the Company and instructed the Internal Auditor and the Audit Committee to monitor and report on the statutory compliances to the Board. Mr. Kumar is also keen to understand the Company's obligations under the SEBI (LODR) Regulations, 2015 in regard to Board or Non-Executive Directors.

About You

You are a young, qualified Chartered Accountant and the Audit Manager of a reputed CA Firm, appointed as the statutory Auditors of the Company, to audit the books of accounts of the Company for Financial Year 2023-24.

You were informed by Mrs. Sudha, Director (Accounts and Finance) that it is the policy of the Company to publish Audited Financial Results (Standalone and Consolidated) on a quarterly basis to the Stock Exchanges rather than publishing un-audited financial results and therefore your involvement to audit the books of accounts shall be on a continuous basis.

Going forward, on 04.04.2024, you were informed that a meeting of the Audit Committee and the Board of Directors is scheduled to be convened on 22.04.2024 and 23.04.2024 respectively to consider amongst other items, inter-alia to approve and take on record the audited financial results of the Company for the fourth quarter/year ended 31.03.2024. He also informed you that three days prior to the Audit Committee Meeting, an internal meeting with the Top Management would be scheduled to discuss any matter arising out of Audit.

A draft of the management prepared un-audited financial statements for the fourth quarter/year ended 31.03.2024 was given to you for your perusal and audit.

While auditing the books of accounts, you wanted to adopt certain audit procedures and made certain audit observations as under:

- (1) As part of the audit process, you wanted to use confirmation procedures as audit evidence. In view of the fact that positive confirmations were not responded favorably, you intended to use negative confirmation requests.
- (2) TDS receivable as per books is more than the cumulative balance as per Form 26AS by ₹ 12.00 Lakhs. No valid explanation was provided for the difference amount.
- (3) Gratuity liability was not provided for employees who have joined the Company during the past 4 years, the aggregate amount of which would be ₹ 15 Lakhs, on the basis that they are yet to complete 5 years of continuous service.
- (4) The Company is in process of selling its office along with freehold land available at one of its offices at Chennai and is actively on lookout for potential buyers. Whilst the same was purchased at ₹ 25 Lakhs in 2007, current market value is ₹ 250 Lakhs. This property is pending to be registered in name of Company, due to certain procedural issues associated with the Registration though the Company is having a valid possession and has paid its purchase cost in full. The Company has disclosed this amount under 'Property, Plant and Equipment' though no disclosure of non-registration is made in financial statements.
- (5) The Company paid "Online advertisement charges" to a domestic Company amounting to ₹ 8,00,000. No Tax was deducted at source.
- (6) On a test check of cost records, you were informed that the annual Budgets are set based on the decision of the Board of Directors which is pushed down to various teams. Whilst during the initial years, the budgets were exceeded, of late, the variance between the budget and the actual is somewhat widening and has become a cause of concern to the senior management. One of the foreign director is concerned about this variation and has mandated the local management to find solutions for dealing with the same. In particular, he has emphasized on the need for involving everyone in the budgetary process and perhaps even considering the possibility of asking each and every manager to set his own targets and consolidate the same for setting the target for the Company. One of the Board members raised the issue of McDonaldization of the budget process and its suitability for the Company.
- (7) The Board of Directors (BoD) of the Company decided to undertake a valuation exercise of their shares, debentures, assets and the liabilities, net worth and goodwill of the Company as at 31.03.2024. In this connection, the Chairman of the Audit Committee (AC), Mr. Jaish, proposed to appoint an experienced Registered Valuer (RV) who meets all the eligibility conditions for registered valuers. Mr. Saman, a member of the Audit Committee is of the opinion that only the BoD have the power to appoint a RV and not the AC.
- (8) While conducting the audit you also wanted to conduct an inquiry of management and those charged with governance as to whether any subsequent events have occurred which might affect the financial statements.

As the Statutory Auditor of the Company, you are required to comprehend, analyse and apply to arrive at a correct solution to the issues given here under:

You are requested to provide the correct option to the following questions.

Note that the financial statements of the Company for the year under review are prepared using IND AS.

Multiple Choice Questions

1. In the case of online advertisement charges paid to the domestic Company, the amount liable for disallowance for non-deduction of tax at source would be:
 - (a) ₹ 80,000
 - (b) ₹ 2,40,000
 - (c) ₹ 8,00,000
 - (d) NIL
2. For Appointment of Registered Valuer, is view of Mr. Saman valid?
 - (a) Yes;
 - (b) No, appointment can be made only by the Audit Committee
 - (c) No, appointment can be made only by the Shareholders
 - (d) No, appointment can be made by the Audit Committee and in its absence, by the Board
3. Based on the background in observation (6), providing freedom and flexibility to managers to set their own targets in the budget setting process has the potential danger of having.
 - (a) Failure
 - (b) Non performance
 - (c) Resistance
 - (d) Budget Slacks
4. Based on the background in observation (6), McDonaldization of the standard setting approach is more relevant for
 - (a) Automobile Services
 - (b) Research and Development Services
 - (c) Hairdressing, dentistry type of Services
 - (d) Manufacturing Plant
5. With regard to queries of Mr. Kumar in relation with the provisions of SEBI (LODR) Regulations, 2015, composition of Board should have not less than _ % of Directors comprising of Non-Executive Directors.
 - (a) 70
 - (b) 50
 - (c) 40
 - (d) 20

Descriptive Questions

6. What are the factors to be considered for using negative confirmation requests in the scenario mentioned in the audit observation (1)?
7. Based on the audit observation (8), state the matters where specific enquiry may be conducted to evaluate subsequent events.
8. Summarize the material mis-statements/disclosure deficiencies, if any, on the Management prepared financial statements which could impact the true and fair view of the financial statements. Please provide the basis for your assessment briefly.

ANSWERS TO THE CASE STUDY 4

Answers to the Multiple Choice Questions

1. (b)
2. (d)
3. (d)
4. (c)
5. (b)

Answers to the Descriptive Questions

6. As per SA 505, "External Confirmation", Negative Confirmation is a request that the confirming party respond directly to the auditor only if confirming party disagrees with information provided in the request. Negative confirmations provide less persuasive audit evidence than positive confirmations.

Accordingly, auditor should consider following factors for using negative confirmation requests as the sole substantive audit procedure to address an assessed risk of material misstatement at assertion level:

- (i) The auditor has assessed the risk of material misstatement as low and has obtained sufficient appropriate audit evidence regarding operating effectiveness of controls relevant to the assertion;
- (ii) The population of items subject to negative confirmation procedures comprises a large number of small, homogeneous, account balances, transactions or conditions;
- (iii) A very low exception rate is expected; and
- (iv) The auditor is not aware of circumstances or conditions that would cause recipients of negative confirmation requests to disregard such requests.

Further non-response for negative confirmation request does not mean that there is some misstatement as negative confirmation request itself is to respond to the auditor only if the confirming party disagrees with the information provided in the request.

But, if the auditor identifies factors that give rise to doubts about the reliability of the response to the confirmation request, he shall obtain further audit evidence to resolve those doubts.

7. As per SA 560 "Subsequent Events", in inquiring of management and, where appropriate, those charged with governance, as to whether any subsequent events have occurred that might affect the financial statements, auditor may inquire as to the current status of items that were accounted for on the basis of preliminary or inconclusive data and may make specific inquiries about following matters:
- Whether new commitments, borrowings or guarantees have been entered into.
 - Whether sales or acquisitions of assets have occurred or are planned.
 - Whether there have been increases in capital or issuance of debt instruments, such as the issue of new shares or debentures, or an agreement to merge or liquidate has been made or is planned.
 - Whether any assets have been appropriated by government or destroyed, for example, by fire or flood.
 - Whether there have been any developments regarding contingencies.
 - Whether any unusual accounting adjustments have been made or are contemplated.
 - Whether any events have occurred or are likely to occur that will bring into question the

appropriateness of accounting policies used in the financial statements, as would be the case, for example, if such events call into question the validity of the going concern assumption.

- Whether any events have occurred that are relevant to the **measurement of estimates** or provisions made in the financial statements.
 - Whether any events have occurred that are relevant to the **recoverability of assets**.
8. **Material misstatements on the management prepared financial statements which could impact the true and fair view of the financial statements are:**
1. **Difference between TDS as per books and TDS as per 26AS may lead to material misstatement** as there is overstatement of revenue by rupees 12.00 lakh and there is no valid explanation available for the difference amount.
 2. **Gratuity benefit is a defined benefit obligation** as per which, actuarial valuation using projected unit credit method, which recognizes each period of service as giving rise to additional unit of employee benefit entitlement. **Thus, even though employee has not completed 5 years of service, liability for gratuity is to be accrued as and when service is rendered by employees.**
 5. **Though as per substance over form freehold land appearing in financial statements is correct however, non-registration of the same should be separately disclosed in notes to financial statements. Non-disclosure of the same in notes to accounts will be considered as disclosure deficiency that could impact the true and fair view of financial statements. Further, classification of above land should also be as Assets held for Sale in financial statements.**

PAST PAPERS

Case Study 5

Subjects	Topics Covered	Marks
DT	TDS (Section 194J)	2
IDT	GST Basics, Value of Supply (Section 15), Customs Valuation	23

Lucknow the capital and the largest city of Uttar Pradesh, is famous as industrial hub for manufacturing industrial goods, machine parts, auto parts, household appliances, hosiery, and apparels. XYZ Ltd. is a manufacturing company based in Lucknow manufacturing pulley chains. Mr. Rony is the Managing Director of the company.

The pulley chains manufactured by the company are used by various industries and are used in hydraulic lifts, overhead hoists, conveyer belts, etc. Lucknow is also a major hub for manufacturing Tricycles. The product of the company is procured by leading Tricycles manufactures in the country. Tricycles and its parts using chain drives manufactured by XYZ Ltd. are sold not only within the country but are exported all across the world. Having expertise in the business, the company is often engaged as consultants for installation of hydraulic machines and other systems in manufacturing and automated movements of various materials. Thus, XYZ Ltd. has both manufacturing and service revenue streams. The XYZ Limited also imports machineries for its manufacturing hub at Lucknow.

XYZ Ltd. has deployed the following applications for its business activities:

Application Name	Purpose
QWERTY	Allows employees to fill and submit time sheets
ASDF	Financial accounting and reporting (has an interface with PQRT)
PQRT	Cost Accounting and reporting (has an interface with ASDF). This was provided free of cost along with ASDF application.
CRT	Internal knowledge repository
VMS	Internal share point portal used for utilities such as leave management, storing policies and procedures of XYZ Ltd., creating email signatures, meeting room booking and cab booking system etc.
SWIPE	Logs employee swipe in / swipe out data

Mr. Rony is also coordinating implementation of Ind AS in the XYZ Ltd. The company falls under phase 2 of IND AS implementation. Following are details of the financials: (in ₹ Crores)

Revenue (including royalty income from patent registered in India)	1000
Direct expenses (including expense related to patent registered in India)	550
Depreciation as per books of accounts	100
Interest expense	50
Actuarial Gains	30
Advance tax	50
Expense relatable to patent chargeable to tax u/s 115BBF	50
Income relatable to patent chargeable to tax u/s 115BBF	75
Depreciation as per Income Tax	75

After implementation of Goods and Service Tax, Mr. Rony is very apprehensive of its impact on the business owing to the multiplicity of changes made over the past three years. He is disturbed by the news reports and the general grapevine that have raised several challenges in the implementation of Goods and Service Tax. Highly concerned, the company appointed ABC Co. Chartered Accountants to prepare Risk Control Table and ascertain the impact of GST on the processes followed.

ABC Co. is leading firm of Chartered Accountants in Lucknow rendering services to several big corporates in Uttar Pradesh. After a long discussion between the Managing Director of XYZ Ltd. and ABC Co., the firm of Chartered Accountants was asked to identify and suggest new controls which XYZ Ltd. should design and implement due to GST implementation and its impact on imports.

The Chartered Accountants deployed a team to study the existing processes within the company. Extensive interviews were also conducted of senior managerial personnel in the company.

It was noted that the XYZ Ltd. uses 'WSM' ERP for accounting, financial reporting and inventory management. Below are the notes prepared during process understanding discussions held with team members of XYZ Ltd.:

Purchase to pay process

(1) Vendor creation process

Procurement team maintains list of vendors along with the agreed prices in WSM system. In case of better prices being available, the procurement team sends an initial requirement list to the prospective vendor. The initial requirements contain details such as government proofs and tax registrations. On receipt of the requirements from the vendor, the procurement team verifies the same to ensure validity of documents shared. Once the data requirements are fulfilled, the draft agreement is prepared by legal department and the proposal is shared for senior management approval. Once approved, the vendor is added to the list of vendors in WSM application.

(2) Purchase Requisition (PR) & Purchase Order (PO)

Individual employees and designated department heads can raise PR. The PR contains the item details and quantity. The PR is raised in IJK tool which has in - built workflow for PR processing. The PR is sent to supervisor of the requestor for business approval. Thereafter, it is transferred to procurement team for further processing. Procurement team verifies the requested items and approvals. Then it first checks whether any stock is available in house or at any other office location. If not, then it identifies appropriate vendor and raises PO in WSM application for the requested quantity and agreed amount.

(3) Goods receipt & invoicing

- (a) In case of non-factory items: On delivery of the requested item, requestor performs receipt by collecting the items and informing procurement team over email that requested items have been received. The invoice is separately sent to Finance for payment. A copy of the invoice is sent to Procurement for their records.
- (b) Goods receipt at factory/warehouse: Designated personnel verifies the delivery challan against invoice and unloads the goods. The designated personnel informs the procurement team over email that requested items have been received. The invoice is separately sent to Finance for payment. A copy of the invoice is sent to Procurement for their records.

(4) Payment

Finance checks the PO raised in WSM and matches the same with invoice received. On satisfactory verification of quantity and price, the invoice is approved and payment is released. There may also exist non -PO based expenses for which invoice is the only document. These are processed on invoice receipt and payment released by Finance. Procurement is not involved in these expenses.

(5) Reconciliations & Reporting

On monthly basis, the Finance team files returns and makes payment of GST. The ABC Co advised on Reconciliation and Reporting of GST.

Mr. Rony asked ABC Co Chartered Accountants to explain his senior management and accounts personnel with the help of an example(s) on GST working and calculation of assessable value of the machine and custom duty in order to bring clarity as well as to avoid prosecution and penalty further implementing the same in the process of XYZ Limited. Mr. Rony also advised that the solution to the example(s) should be explained with working notes.

The ABC Co Chartered Accountants framed one example each on GST working and calculation of assessable value of the machine and custom duty for the benefit of senior management & accounts personnel of XYZ Limited and Mr. Rony as follows:

1. L Ltd. of Bhopal (Madhya Pradesh) is a supplier of machinery. L Ltd. has supplied machinery to PQR Enterprises in Indore (Madhya Pradesh) on 1st October, 2023. The invoice for supply has been issued on 1st October, 2023. Thus, the time of supply of machinery is 1st October, 2023. L Ltd and PQR Enterprise are not related.

Following information is provided:

Basic price of machinery excluding all taxes but including design and engineering charges of ₹ 10,000 and loading charges of ₹ 20,000 - ₹ 20,00,000.

L Ltd. provides 3 years free warranty for the machinery. L Ltd. also provides an extended one year warranty on payment of additional charges of ₹ 1,00,000. The extended warranty is given by the manufacturer at the time of supply of goods to the buyer and that the same is not available separately. PQR Enterprises opted for extended one year warranty.

L Ltd. has collected consultancy charges in relation to pre-installation planning of ₹ 10,000 and freight and insurance charges from place of removal to buyer's premises of ₹ 20,000.

L Ltd. received subsidy of ₹ 50,000 from Central Government for supplying machinery to backward region since receiver was located in a backward region. L Ltd. also received ₹ 50,000 from the joint venture partner of PQR Enterprises for making timely supply of machinery to the recipient.

A cash discount of 1% on basic price of machinery is offered at time of supply, if PQR Enterprises agrees to make the payment within 30 days of the receipt of the machinery at his premises. Discount @ 1% was given to PQR Enterprises as it agreed to make the payment within 30 days.

The machinery attracts CGST and SGST @ 18% (9% + 9%) and IGST @18%.

2. N Ltd., New Delhi has imported certain machine (by sea) from South Korea. From the following particulars furnished by it, work out the assessable value of the machine and customs duty payable by N Ltd. with appropriate working notes:

S.N.	Particulars	Amount (₹)
(i)	CIF value of the machine	4,23,379.69
(ii)	Freight incurred from port of entry to Inland Container depot	25,000.00
(iii)	Unloading and handling charges paid at the place of importation	40,000.00
(iv)	Designing charges paid to Consultancy firm in Mumbai	10,000.00

Notes:

- (1) Basic Customs Duty leviable is 10% advalorem.

- (2) Integrated tax leviable under section 3(7) of the Customs Tariff Act, 1975 is 18%.
- (3) Ignore GST Compensation Cess.

Multiple Choice Questions

1. Goods and Service Tax is:
 - (a) Source based tax on consumption of goods and services;
 - (b) Destination based tax only on sale of goods and services;
 - (c) Destination based tax on consumption of goods and services;
 - (d) Source based tax on supply of goods and services.
2. For Royalty Income received by XYZ Ltd, the tax deducted at source, if any, by the payer on account of XYZ Ltd would be reflected in Form 26AS of XYZ Ltd against which section of Income Tax Act, 1961?
 - (a) 193
 - (b) 194A
 - (c) 194I
 - (d) 194J
3. If XYZ Ltd sells pulley chains to a business entity situated in a SEZ (Special Economic Zone) at Noida, Uttar Pradesh, then applicable tax would be:
 - (a) CGST & SGST, being intra-state supply;
 - (b) CGST & UTGST, being intra-state supply;
 - (c) Only IGST, being inter-state supply;
 - (d) Only CGST, being inter-state supply;
4. If XYZ Ltd purchases machinery for ₹ 118 Lakhs (inclusive of 18% GST) and capitalized it in the books of accounts at ₹ 118 Lakhs without claiming ITC, then Actual Cost for charging depreciation under Income Tax Act, 1961 would be:
 - (a) ₹ 118 Lakhs;
 - (b) ₹ 100 Lakhs (no Depreciation allowed on GST component);
 - (c) ₹ 82 Lakhs;
 - (d) ₹ 109 Lakhs (as Depreciation allowed only on central levy CGST and not State levy SGST)
5. Assuming that entire revenue of XYZ Ltd is value of supply and subject to outward GST liability, what is the applicable periodicity of filing of GSTR-1 return?
 - (a) Monthly
 - (b) Quarterly
 - (c) Half-yearly
 - (d) Annually

Descriptive Questions

6. Compute the CGST and SGST or IGST payable, as the case may be, on the machinery purchased by PQR Ltd from L Ltd along with explanatory notes.
7. Work out the assessable value of the machine and customs duty payable by N Ltd..

ANSWERS TO THE CASE STUDY 5

Answers to the Multiple Choice Questions

1. (c)
2. (d)
3. (c)
4. (a)
5. (a)

Answers to the Descriptive Questions

6. Computation of GST payable on the machinery

Particulars	₹
Price of the machinery [Note 1]	20,00,000
Add: Extended warranty cost [Note 2]	1,00,000
Freight and insurance charges [Note 3]	20,000
Consultancy charges in relation to pre-installation planning [Note 4]	10,000
Subsidy received from Central Government [Note 5]	Nil
Receipts from joint venture of PQR Enterprises [Note 5]	50,000
Less: 1% discount on basic price = ₹ 20,00,000 x 1% [Note 6]	(20,000)
Value of supply of machinery	21,60,000
CGST @ 9% [Note 7]	1,94,400
SGST @ 9% [Note 7]	1,94,400

Notes:

1.	L Ltd. and PQR Enterprises are not related and price is assumed to be the sole consideration for the supply. Therefore, in terms of section 15 of the CGST Act, 2017, the value of the supply is the transaction value i.e., price actually paid or payable for the machinery by PQR Enterprises. Incidental expenses, including commission and packing, charged by the supplier to the recipient of a supply and any amount charged for anything done by the supplier in respect of the supply of goods and/or services or both at the time of, or before delivery of goods or supply of services is includible in the value of the supply in terms of section 15 of CGST Act, 2017. Therefore, design and engineering charges and loading charges are includible in value of supply of the machinery.
2.	Supply of machinery (goods) with supply of ancillary services like extended warranty, is a composite supply, the principle supply of which is the supply of machinery. [Section 2(30) of the CGST Act, 2017 read with section 2(90) of that Act]. Thus, value of such ancillary supply is includible in the value of composite supply.
3.	Supply of machinery (goods) with supply of ancillary services like freight and insurance is a composite supply, the principal supply of which is the supply of machinery. Thus, value of such ancillary supply is includible in the value of composite supply.
4.	Any amount charged for anything done by the supplier in respect of the supply of goods at the time of, or before delivery of goods is includible in the value of supply in terms of section 15 of CGST Act, 2017.

5.	Subsidies provided by the Central Government and State Governments are not includible in the value of supply in terms of section 15 of the CGST Act, 2017. However, subsidy directly linked to the price received from a non-Government body is includible in the value in terms of section 15.
6.	Cash discount has been given to PQR Enterprises upfront at the time of supply and thus would have been recorded in the invoice and hence, the same is excluded from the value of supply in terms of section 15 of the CGST Act, 2017.
7.	In the given case - - the location of the supplier is in Bhopal (Madhya Pradesh); and - the place of supply of machinery is the location of the machinery at the time at which the movement of the same terminates for delivery to the recipient i.e., Indore (Madhya Pradesh). Therefore, the given supply is an intra-State supply as the location of the supplier and the place of supply are in the same State. Thus, the supply will be leviable to CGST and SGST.

7. Computation of assessable value of the machine and customs duty payable

Particulars	Amount (₹)
CIF value [Assessable value for customs purpose]	4,23,379.69
Add: Basic custom duty @10%	42,337.97
Add: Social Welfare Surcharge @ 10% on ₹ 42,337.97	4,233.80
Total	4,69,951.46
Add: Integrated tax @ 18% [Note 4]	84,591.26
Total duty and integrated tax payable (rounded off) (₹ 42,337.97 + ₹ 4,233.80 + ₹ 84,591.26)	1,31,163

Notes:

- Freight incurred from port of entry to Inland Container depot is not includible in assessable value.
- Only charges incurred for delivery of goods "to" the place of importation are includible in the transaction value. The loading, unloading and handling charges associated with the delivery of the imported goods at the place of importation are not to be added while computing the assessable value.
- Charges for design and engineering work is includible in the assessable value only when the same is undertaken elsewhere than in India and necessary for the production of the imported goods.
- Integrated tax is levied on the sum total of the assessable value of the imported goods, customs duties and applicable social welfare surcharge.

PAST PAPERS

Case Study 6

Subjects	Topics Covered	Marks
FR	Ind AS 16	7
DT	PGBP (Basics), NR Taxation (Section 9)	11
Law	Companies Act (Section 196, Schedule V)	7

You are a Fellow Chartered Accountant, computer savvy, possessing excellent interpersonal and communication skills, hands on proven track record of industrial experience with a sound clarity of thought on the technical aspects of multidisciplinary economic legislation and is a much sought after professional.

You have recently joined as Vice President (Accounts and Finance) with M/s. Orange Highway Stabilizers (India) Limited (OHSIL), a listed MNC, having its registered office at Mumbai. OHSIL, is engaged in the business of building highway projects in India. It has a tremendous track record of showing consistent business growth and is one of the key companies closely monitored by the Analysts and other shareholders.

The Company is professionally managed and various financial Institutional investors are holding about 43% of the overall equity share capital of the Company. The Board of Directors of the Company is broad based having Indian and foreign nationals as Board members. The Board meetings of the Company are usually held at the Registered Office in India in person and at times through Video Conferencing.

The Management has very high expectations from you regarding the role you need to play, given the timing as well as the multiple challenges impacting the organization. Therefore, timing of your entry in the Company has become very crucial since the Board of Directors of the Company are planning to convene a Board Meeting on 05.05.2024 wherein certain matters especially with respect to presentation of financial statements, compliance of corporate and economic laws and direct taxation aspects as applicable to the Company are proposed to be discussed and approved.

Also, the foreign Independent directors wanted to know from you the current state of affairs, compliance standards and regulatory assessment hygiene on the various laws and regulations which may potentially have an impact on the Company. They wanted to know specifically from you the regulatory requirements under the Companies Act, 2013 relating to:

- Appointment of Mr. Alex as a Key Managerial Personnel,
- Validity of appointment of Mr. 'X', a turnaround specialist, as the Whole Time Director of "Status One Highway Limited" (SOHL) (a wholly owned subsidiary of OHSIL) w.e.f. 01.01.2024 on which date he would be 70 years of age. You are informed that at the extra-ordinary general meeting of Company held on 15.03.2024, the shareholders have not passed a special resolution with regard to the appointment of Mr. 'X', but votes cast in favour of the motion exceeded the votes cast against the motion. The Company has provided you the following inputs extracted from latest audited Balance Sheet as at 31st March, 2024.

SN	Particulars	Amount (₹ In Lakhs)
01.	Authorized Equity Share Capital	1,560
02.	Paid Up Equity Share Capital	860
03.	Share Application Money A/c (Company is in process of Follow on Public Issue (FPO)	60
04.	Reserves & Surplus (including General Reserve - 600 & Revaluation Reserve - 80)	680
05.	Long Term Borrowings	800

06.	Investments	160
07.	Accumulated Losses	40

Besides the above, you have been provided with the following information in advance for your perusal impacting the presentation of financial statements and direct tax matters so that you can provide the necessary inputs at the time of Board Meeting.

Information: During the financial year 2023-24:

- (i) In respect of its on-going projects, the Assessee Company (OHSIL) had made some structural changes contrary to what was earlier approved by the municipal authorities. OHSIL hence paid a sum of ₹ 19,80,000 as regularization fee in respect of such changes made in the construction plan.
- (ii) Depreciation as per Income Tax Act, 1961 is ₹ 51,14,00,000. This includes ₹ 78,00,000 in respect of firefighting equipment purchased from POI Ltd and installed in various highway sites/business premises/offices of the assessee. During the year, as there was no incidence of fire, these equipment were not used.
- (iii) The Company earned ₹ 2,20,000 by way of sale of carbon credit. This has been credited to 'Capital Reserve'.
- (iv) As per the books of account, other expenses include ₹ 14,45,000 as expenditure incurred on CSR activities referred to in Section 135 of the Companies Act, 2013.
- (v) The Company performed a revaluation of all its plant and machinery at the beginning of 01.04.2023. The following information relate to one of the machinery:

Particulars	Amount ₹ ('000)
Gross carrying amount	200
Accumulated depreciation (SLM)	(80)
Net carrying amount	120
Fair value	150

The useful life of the machinery is 10 years and the Company uses the Straight Line method of depreciation. The revaluation was performed at the end of 4 years.

- (vi) The Company has borrowed US \$ 250 million from Chase Inc, a financial institution resident in the US, to invest in one of its ongoing building of highway projects in India. The rate of interest charged is 8% per annum. The US \$ may be assumed ₹ 69.

Based on the above inputs, you are requested to deal with the following issues and present your appropriate solutions at the time of the Board Meeting scheduled on 05.05.2024. Please note that the financial statements of the Company for the year under review are prepared using IND AS.

Multiple Choice Questions

1. As per the Companies Act, 2013, for the appointment of Mr. Alex, the company can use combination of:
 - (i) Manager, Company Secretary and Chief Financial Officer
 - (ii) Chief Executive Officer, Company Secretary and Chief Financial Officer
 - (iii) Managing Director, Company Secretary and Manager
 - (iv) Managing Director, Company Secretary and Chief Financial Officer Which options are available for the Company?
- (a) (i), (ii) and (iii)

- (b) (ii), (iii) and (iv)
- (c) (i), (ii) and (iv)
- (d) (i), (iii) and (iv)
2. ₹ 19,80,000 paid to municipal authorities to regularize the deviation from earlier approved construction plan in its on-going projects is:
- (a) Eligible for a 100% deduction under Section 37 of the Income Tax Act, 1961 as it was paid in the normal course of business as a regularization fee.
- (b) Eligible for a deduction under Section 37 of the Income Tax Act, 1961 to an extent of 50% only.
- (c) Eligible for a deduction under Section 37 of the Income Tax Act, 1961 to an extent of 75%.
- (d) Does not qualify for a deduction under Section 37 of the Income Tax Act, 1961 as it is in the nature of a penalty to compound an offence.
3. As per the Income Tax Rules, 1962, depreciation on purchases from POI Ltd. is:
- (a) Not allowable as one of the conditions for the claim of depreciation is that the asset must be used for the purpose of business or profession.
- (b) Allowable as stand-by equipment, whereby an asset can be said to be in use even when it is kept "ready for use".
- (c) Not allowable as fire fighting equipments are not assets but are in nature of revenue expenditure
- (d) Allowable only to an extent of 50 %
4. The tax liability on the earning of ₹ 2,20,000 credited to Capital Reserve would be:
- (a) ₹ 68,640 (@ 31.2%)
- (b) ₹ 45,760 (@ 20.8%)
- (c) ₹ 22,880 (@ 10.4%)
- (d) NIL (exempt)
5. Expenditure ₹ 14,45,000 incurred on CSR Activities which is included in other Expenses
- (a) Shall be deemed to have been incurred for the purpose of business and hence shall be allowed as deduction under Section 37 of the Income Tax Act, 1961.
- (b) Shall not be deemed to have been incurred for the purpose of business and hence shall not be allowed as deduction under Section 37 of the Income Tax Act, 1961.
- (c) Shall be deemed to have been incurred for the purpose of business and hence shall be allowed only to an extent of 50% as deduction under Section 37 of the Income Tax Act, 1961.
- (d) Shall be deemed to have been incurred for the purpose of business and hence shall be allowed to an extent of 125% as deduction under Section 35 of the Income Tax Act, 1961.

Descriptive Questions

6. On the basis of the facts and figures of "Status One Highway Limited" (SOHL) advise in respect of the following under the provisions of the Companies Act, 2013.
- (i) Validity of the appointment of Mr. 'X' as Whole Time Director.
- (ii) Compute the effective capital for payment of managerial remuneration.
7. In the light of Ind AS 16, explain how should the Company account for revaluation of Plant and Machinery and depreciation subsequent to revaluation?

8. In respect of US \$ 250 million from Chase Inc. to invest in one of its ongoing building of highway projects in India, state with reasons whether the income of the non-resident is deemed to accrue or arise in India? Will your answer differ in case the money is invested in one of its ongoing projects in Sri Lanka?

ANSWERS TO THE CASE STUDY 6

Answers to the Multiple Choice Questions

1. (c)
2. (d)
3. (b)
4. (c)
5. (b)

Answers to the Descriptive Questions

6. (i) As per section 196(3) of the Companies Act, 2013, no company shall appoint or continue the employment of any person as managing director, whole-time director or manager who is below the age of 21 years or has attained the age of 70 years. However, where a person has attained the age of seventy years, he may still be appointed to such office if a special resolution is passed in this respect. In such a case, the explanatory statement annexed to the notice for such motion shall indicate the justification for appointing such person.

Further, where no such special resolution is passed but votes cast in favour of the motion exceed the votes, if any, cast against the motion and the Central Government is satisfied, on an application made by the Board, that such appointment is most beneficial to the company, the appointment of the person who has attained the age of seventy years may be made.

In the given question, the appointment of Mr. X is not valid as special resolution was not passed. However, it could have been regularized (since the votes cast in favour exceeded votes cast against the motion of appointment of Mr. X as whole time director) by seeking approval of the Central Government, which, if satisfied, can accord such approval.

- (ii) As per Explanation 1 to Section II of Part II of Schedule V "effective capital" means aggregate of paid-up share capital (excluding share application money or advances against shares); amount, if any, for the time being standing to the credit of share premium account; reserves and surplus (excluding revaluation reserve); long-term loans & deposits repayable after one year (excluding working capital loans, overdrafts, interest due on loans unless funded, bank guarantee, etc., and other short-term arrangements) as reduced by aggregate of any investments (except in case of investment by an investment company whose principal business is acquisition of shares, stock, debentures or other securities), accumulated losses and preliminary expenses not written off. The effective capital shall be calculated as on the last date of the financial year preceding the financial year in which the appointment of the managerial person is made.

Calculation of Effective Capital:

Particulars	Amount (₹ in crores)
Paid up Capital (excluding share application money)	860
Add: Reserves and surplus excluding revaluation reserve	600

Add: Long term borrowings	800
Less: Investments	160
Less: Accumulated Losses	40
Effective Capital	2,060

7. As per Ind AS 16, an item of property, plant and equipment whose fair value can be measured reliably is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Accumulated depreciation at the date of revaluation

When an item of property, plant and equipment is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of the revaluation, the asset is treated in one of the following ways:

- the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount. The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or
- the accumulated depreciation is eliminated against the gross carrying amount of the asset.

Treatment of surplus or deficit arising on revaluation

- If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.
- If an asset's carrying amount is decreased as a result of a revaluation, decrease shall be recognised in profit or loss. However, decrease shall be recognised in other comprehensive income to extent of any credit balance existing in revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces amount accumulated in equity under heading of revaluation surplus.
- The revaluation surplus included in equity in respect of an item of property, plant and equipment may be transferred directly to retained earnings when the asset is derecognised. This may involve transferring the whole of the surplus when the asset is retired or disposed of.
- However, some of the surplus may be transferred as the asset is used by an entity. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Transfers from revaluation surplus to retained earnings are not made through profit or loss.
- The effects of taxes on income, if any, resulting from the revaluation of property, plant and equipment are recognised and disclosed in accordance with Ind AS 12, Income Taxes.

According to the above provisions of Ind AS 16, revaluation of plant and machinery at the beginning of 1st April, 2023 would be as follows:

(Note: It is assumed that the revaluation is conducted on the plant and machinery for the first time.)

Method – I: Depreciation Elimination Approach

Journal Entries

Upward revaluation of Plant and Machinery

Accumulated depreciation	Dr.	80,000	
To Asset			80,000
Asset	Dr.	30,000	
To Revaluation reserve			30,000

The net result is that the asset has a carrying amount of ₹ 1,50,000 (2,00,000 – 80,000 + 30,000).

Subsequent depreciation on Plant and Machinery

Depreciation Account	Dr.	25,000	
To Asset			25,000

Method – II: Restatement Approach

Carrying amount (2,00,000 – 80,000) =	1,20,000
Fair value (revalued amount)	1,50,000
Surplus	30,000
% of surplus to the carrying amount (30,000/1,20,000)	25%

Journal Entries

Asset (2,00,000 x 25%)	Dr.	50,000	
To Accumulated Depreciation (80,000 x 25%)			20,000
To Revaluation Reserve			30,000
(Being the entry to increase both the original cost and the accumulated depreciation by 25%)			

Subsequent depreciation on Plant and Machinery

Depreciation Account	Dr.	25,000	
To Asset			25,000

Additional entry could be passed under both the approaches, if company adopts the policy to transfer difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost from revaluation surplus to retained earnings as follows:

Revaluation reserve	Dr.	5,000	
To Retained Earnings			5,000

8. (i) As per section 9(1)(v), interest payable by a person who is a resident in India would be deemed to accrue or arise in India in the hands of the non-resident payee. However, where it is payable in respect of borrowing for the purposes of a business carried on by such person outside India or for the purposes of making or earning any income from any source outside India, the amount payable by way interest would not be deemed to accrue or arise in India, in the hands of non-resident.
- Since OHSIL company has borrowed money from Chase Inc., a foreign company not resident in India, for the purpose of ongoing building of highway project in India, interest payable on the same would be income which is deemed to accrue or arise in India in the hands of Chase Inc.
- (ii) If interest is payable in respect of borrowings used for the purpose of ongoing projects in Sri Lanka, interest income would not be deemed to accrue or arise in India in the hands of Chase Inc. a foreign company not resident in India.

PAST PAPERS

Case Study 7

Subjects	Topics Covered	Marks
FR	Ind AS 10	2
AFM	Mergers (Share Offer), Capital Budgeting (Replacement Decision)	15
Audit	Professional Ethics	6
Law	FCRA (Section 2(1)(h), Rule 6A)	2

Company Background

Compressors and Equipment Solutions Ltd (CESL), is a professionally managed Company, incorporated in the year 1999 under the erstwhile Companies Act, 1956, having its factory and registered office at Kolkata. The Company is a leading air compressor manufacturer with a broad line of innovative and technologically superior compressed air systems and has earned worldwide distinction for designing sustainable solutions that help companies achieve their productivity goals and keep the cost of ownership low.

Wholly owned subsidiary

On 12.08.2023, Sharp Falls Limited (SFL) was incorporated at Delhi and was added as a wholly owned subsidiary company of CESL.

Maintenance of Books of Accounts

Since inception, the Company has maintained proper books of accounts adopting historical cost convention, accrual basis of accounting, in alignment with generally accepted accounting principles, complying with all significant accounting policies and mandatory accounting standards and on the basis of going concern.

The books of accounts were duly audited by a reputed firm of Chartered Accountants. The income tax assessments are also completed up to Assessment Year 2022-23 and there are no income-tax or any other statutory dues payable by the Company.

Appointment of Statutory Auditors

After completing two consecutive terms of 5 years each, the existing firm of Chartered Accountants retired at the last Annual General Meeting and the shareholders have appointed you as the new Statutory Auditor (Firm Registration No. XXXXX) for period of five years as recommended by Audit Committee and approved by Board of Directors of Company in terms of Companies Act, 2013 on such remuneration as may be mutually agreed upon between Board of Directors of the Company and Statutory Auditor.

Accordingly, you have assumed the office of Statutory Auditor and started your audit of books of accounts for financial year 2023-24 on a monthly basis. During May, 2024, the Chief Accountant has provided you with the draft management prepared financial statements (Standalone/Consolidated) for your perusal and audit.

You have formed a team of 6 members and drafted a detailed audit program. Initially you have deployed Ms. Diya, the Senior Audit Manager to review the Board Minutes, other secretarial records/regulatory records and instructed her to take note of all important and relevant data/issues for the audit.

During the course of the audit, Ms. Diya has made certain observations/collected the following management proposals/information/queries:

- (1) CESL was considering the replacement of its existing machine with a new machine. The purchase price of the new machine is ₹ 26 lakhs and its expected life is 8 years. The Company follows a straight line method of depreciation on the original investment (scrap value is not considered for the purpose of

depreciation). The other expenses to be incurred for the new machine are as follows:

- (i) Installation charges ₹ 9,000
- (ii) Fee paid to the consultant for his advice to buy the new machine ₹ 6,000.
- (iii) Additional working capital required ₹ 17,000 (will be released after 8 years).

The written down value of the existing machine is ₹ 76,000 and its cash salvage is ₹ 12,500. The dismantling of this machine would cost ₹ 4,500. The annual earnings (before tax but after depreciation) from the new machine would amount to ₹ 3,15,000. Income tax rate is 35%. The Company's required rate of return is 13%.

- (2) The Managing Director of CESL informed you that there is a proposal of SFL (subsidiary of CESL) to acquire XYZ Ltd. and has offered a swap ratio of 1:2 (0.5 shares for every one share of XYZ Ltd.). He has provided you with the following information:

Particulars	SFL	XYZ Ltd.
Profit after tax (₹)	18,00,000	3,60,000
Equity shares outstanding (Nos.)	6,00,000	1,80,000
EPS (₹)	3	2
P/E Ratio	10 Times	7 Times
Market Price Per Share	30	14

- (3) A theft of Cash of ₹ 15 lakhs by the cashier in January 2024 was detected only in May 2024 on which date the final accounts were not yet approved by the Board as the accounts were under audit.
- (4) One of the foreign director (foreign citizen) of CESL made donations in kind to various Indian residents for their personal use.

BZ and Associates, Chartered Accountants having CA. B and CA. Z as partners, were appointed as the Internal Auditors of CESL. The audit firm got their website developed as www.bzassociates.com from WYK Ltd. The color of website was very bright and attractive to run on a 'push technology.' Further, names of partners of the firm and major clients were also displayed on web-site without any disclosure obligation from any regulator.

At this juncture, before further audit is carried out, you wanted to discuss and provide solutions to the above audit findings/observations with the Chairman of the Audit Committee of CESL.

Multiple Choice Questions

- A theft of cash of ₹ 15 lakhs by the cashier in January 2024 was detected only in May 2024 on which date the final accounts were not yet approved by Board as the accounts were under audit. The theft of cash:
 - Need not be adjusted to the reported value of assets, liabilities, incomes or expenses for the year ended 31.03.2024.
 - Need to be adjusted to the reported value of assets, liabilities, incomes or expenses for the year ended 31.03.2024.
 - Need to be adjusted to the reported value of assets, liabilities, incomes or expenses for the year ended 31.03.2025.
 - A provision for bad debts should be made in the accounts.
- If BZ and Associates who were appointed as the Internal Auditors of CESL, also conducts statutory audit of CESL as joint auditor, then firm will be:
 - Not guilty of professional misconduct.

- (b) guilty of professional misconduct.
 - (c) guilty of other misconduct.
 - (d) Both (b) and (c)
3. One of the foreign director (foreign citizen) of CESL made donations in kind to various Indian residents for their personal use. When shall such donation in kind be excluded from the definition of Foreign contribution under the provisions of Foreign Contribution (Regulation) Act, 2010?
- (a) If the market value, in India, of such article, on the date of such gift, does not exceed ₹ 25,000.
 - (b) If the market value, in India, of such article, on the date of such gift, does not exceed ₹ 50,000.
 - (c) If the market value, in India, of such article, on the date of such gift, does not exceed ₹ 1,00,000.
 - (d) Any donation given in kind is excluded
4. Whether, web-site designed for www.bzassociates.com is in compliance with the guidelines to the Chartered Accountants Act, 1949:
- (a) Yes. Web-site can have names of the partners and major clients along with its fees.
 - (b) Yes. Web-site can have names of the major clients, but not of the Firm's Partners.
 - (c) Web-site can be designed on "push technology" and there is no restriction on the colors used.
 - (d) No, names of the firm's major clients cannot be displayed on firm's website without any disclosure obligation from a Regulator.
5. As per website guidelines given in the Chartered Accountants Act, 1949, colour of the website should be:
- (a) Bright
 - (b) Dark
 - (c) Light
 - (d) No restriction on colour

Descriptive Questions

6. CESL was considering the replacement of its existing machine with a new machine. On the basis of the inputs given in para (2) above, advise on the viability of the proposal.
- $PVIF(13\%,8) = 0.376$ $PVIFA(13\%,8) = 4.80$
7. In respect of the acquisition by SFL (another subsidiary of CESL) of XYZ Ltd, you are required to calculate:
- (i) The number of equity shares to be issued by SFL, for acquisition of XYZ Ltd.
 - (ii) What would be the EPS of SFL, after the acquisition?
 - (iii) Determine the equivalent earnings per share of XYZ Ltd.
 - (iv) What is the expected market price per share of SFL, after the acquisition, assuming its P/E multiple remains unchanged?
 - (v) Determine the market value of the merged firm, assuming its P/E multiple remains unchanged.

ANSWERS TO THE CASE STUDY 7

Answers to the Multiple Choice Questions

1. (b)

2. (b)
3. (c)
4. (d)
5. (d)

Answers to the Descriptive Questions

6. (A) Cash Outflow

	₹
Purchase Price	26,00,000
Add: Installation cost	9,000
Add: Additional Working Capital	17,000
Total Cost	26,26,000
Less: Disposal of old machine net of dismantling cost	8,000
Less: Tax Benefit on STCL	22,225
Total Cash Outflow	25,95,775

(B) Cash Inflows after Taxes (CFAT)

	₹
Earnings after Depreciation but before Tax	3,15,000
Less: Tax @ 35%	1,10,250
Earning after Tax	2,04,750
Less: Tax Shield on Depreciation on Existing Machine	3,325
Earning after Depreciation	2,01,425
Add: Depreciation	3,25,000
Cash Flow after Tax (CFAT)	5,26,425

(C) Terminal Year Cash Flow

Release of Working Capital ₹ 17,000

Computation of NPV

$$= ₹ 5,26,425 \times 4.80 + ₹ 17,000 \times 0.376 - ₹ 25,95,775$$

$$= ₹ 25,26,840 + ₹ 6,392 - ₹ 25,95,775 = - ₹ 62,543$$

As the NPV of proposal is negative, company should continue with the existing old Machine.

Alternative Answer - (If Tax on Short Term Capital Loss on disposal of old machine is ignored)

(A) Cash Outflow

	₹
Purchase Price	26,00,000
Add: Installation cost	9,000
Add: Additional Working Capital	17,000
Total Cost	26,26,000
Less: Disposal of old machine net of dismantling cost	8,000
Total Cash Outflow	26,18,000

(B) Cash Inflows after Taxes (CFAT)

	₹
Earnings after Depreciation but before Tax	3,15,000
Less: Tax @ 35%	1,10,250
Earning after Tax	2,04,750
Less: Tax Shield on Depreciation on Existing Machine	3,325
Earning after Depreciation	2,01,425
Add: Depreciation	3,25,000
Cash Flow after Tax (CFAT)	5,26,425

(C) Terminal Year Cash Flow

Release of Working Capital ₹ 17,000

Computation of NPV

$$= ₹ 5,26,425 \times 4.80 + ₹ 17,000 \times 0.376 - ₹ 26,18,000$$

$$= ₹ 25,26,840 + ₹ 6,392 - ₹ 26,18,000 = - ₹ 84,768$$

As the NPV of proposal is negative, company should continue with the existing old Machine.

7. (i) The number of shares to be issued by SFL Ltd.:

The Exchange ratio is 0.5

$$\text{So, new Shares} = 1,80,000 \times 0.5 = 90,000 \text{ shares.}$$

(ii) EPS of SFL Ltd. After acquisition:

Total Earnings (₹18,00,000 + ₹ 3,60,000) ₹ 21,60,000

No. of Shares (6,00,000 + 90,000) 6,90,000

EPS (₹21,60,000)/6,90,000 ₹ 3.13

(iii) Equivalent EPS of XYZ Ltd.:

No. of new Shares 0.5

EPS ₹ 3.13

Equivalent EPS (₹ 3.13 x 0.5) ₹ 1.57

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

Present P/E Ratio of SFL Ltd. 10 times

Expected EPS after merger ₹ 3.13

Expected Market Price (₹3.13 x 10) ₹ 31.30

(v) Market Value of merged firm:

Total number of Shares 6,90,000

Expected Market Price ₹ 31.30

Total value (6,90,000 x 31.30) ₹2,15,97,000

PAST PAPERS

Case Study 8

Subjects	Topics Covered	Marks
FR	Ind AS 12, Ind AS 41	7
Audit	Investigation	5
DT	Set-off	2
Law	Companies Act (Section 202, 230, 439), IBC (Section 8, 9), FEMA (Sec. 6)	11

You are a part of a reputed Chartered Accountants firm, based out of Delhi and having branches in all metros and tier - 1 cities of India. The audit firm has rich exposure across all sectors of industries and offers varied services. You are at the helm of leading a blend of a vibrant team of distinguished professionals known for possessing expert knowledge on various economic legislations and mandate best reporting practices.

Your Competencies

As a professional, you aid in facing the challenges and ease of doing business in India by advising necessary compliances, efficient transaction planning, smooth transaction execution, best industry practices etc., You practice strong professional ethics and advise your clients to comply with the rule of law, promote transparency in financial and business transactions and make them tax compliant vis-a-vis intelligent tax planning rather than tax dodging and tax evasion. You are also a Director on the Board, Chairman and/or Member of Committees on the Board of many listed and unlisted entities.

Your Key Client

One of the key clients of the audit firm is Angel Motor Company (AMC), (flagship company of Angel Group of Companies), based out of Pune, having three factories at Pune, branches/dealer networks in almost all parts of India, wherein your audit firm provides audit and auxiliary services, taxation and advisory services from time to time on various business related projects, expansion strategies, funding aspects, tax implications etc. AMC is the third largest 2-wheeler company in India (manufacturing 14 different types of two wheelers like mopeds, scooters and sporty bikes) in terms of revenues, annual sales and annual capacity (in million units) and is also the 2nd largest exporter in India with exports to over 60 countries. AMC is the largest Company of the group in terms of size and turnover.

Professional Meeting

In view of your excellent technical and presentation skills, AMC has reached out to you seeking your expert opinions and advice on certain issues. AMC has also certain issues in their subsidiary companies. They have requested you to join their internal brain storming session organized to discuss and decide on the way forward. You have agreed to participate and provide your insights in the session. AMC will decide the way forward based on your advice and, hence, your expert guidance would be extremely crucial for the ultimate decision making by the Board.

On the appointed day, Mr. Nani, Director (Finance), formally welcomed you and your team and after pleasantries, at the request of the Chairman, Mr. Nani discussed the following matters and submitted various facts and figures in support of the discussion.

GIST OF DISCUSSION: 1

As AMC is involved in manufacturing of different types of two wheelers in its factories, of late, is concerned with shortage in production and there arose suspicion of inventory fraud. In order to curb the defalcation of inventory, the Management wants to evaluate the options for verifying the process to reveal fraud and the

corrective action to be taken.

GIST OF DISCUSSION: 2

One of the subsidiary of AMC is Gogreen Ltd (GL) which is engaged in horticulture, plantation and farming activities on a large scale on a pan India basis. On 01.04.2023, the Company received a government grant of ₹ 40 lakhs subject to a condition that GL will continue to engage in plantation of eucalyptus trees for a continuous period of five years. GL made a reasonable assurance that the entity would comply with the above government's condition of planting eucalyptus trees for a continuous period of five years and accordingly it recognized proportionate grant of ₹ 8 lakhs in its Statement of Profit and Loss as income following the principles laid down under Ind AS.

GIST OF DISCUSSION: 3

GL is one of the key operational creditors of Multicrop Limited (ML) which is engaged in farming activities and was the sole supplier of fertilizers to ML. The arrangement between GL and ML was formally documented through a blanket purchase order on an annual basis with weekly supply schedules and a 30 days credit period. In view of the financial crisis including heavy cash losses of ML, there was a significant backlog in the payment by ML and in line with the terms of the purchase order, the matter was referred to an Arbitral Tribunal with claims and counterclaims by both the parties. The Arbitral Tribunal delivered its award in favour of GL for the entire balance including receivables assigned to the Bank (without recourse basis) by ML and rejected the cross claims of ML. Thereafter, ML proceeded to file a petition under the Arbitration and Conciliation Act, 1996 challenging the award of the Arbitral Tribunal. Based on the opinion of Mr. Nani that the object of Insolvency and Bankruptcy Code, 2016 (IBC, 2016) is also to hold Promoters personally financially liable for the defaults of the firms they control, an application was filed by GL under Section 9 of the IBC, 2016 as the sole operational creditor of ML. The NCLT, based on the application, admitted the same since there is clear evidence of a demand and the appropriate notice has been submitted by GL as per the IBC, 2016.

GIST OF DISCUSSION: 4

01. While discussing certain matters on Direct Tax Laws, Mr. Durai, one of the participant in the brainstorming session opined that under the provisions of the Income Tax Act, 1961, the Assessing Officer (AO) can complete the assessment of Income from International Transaction in disregard of the order passed by the Transfer Pricing Officer (TPO) by accepting the contention of the Assessee.

Other Issues:

02. Mr. Shiva, brother of Mr. Suresh, the Chairman of AMC, is a resident of Malaysia and he owns an immovable property in Bengaluru which he inherited from his father, who was a resident of India. Mr. Suresh wants to know whether Mr. Shiva can continue to hold the property in terms of the Foreign Exchange Management Act.
03. Mr. Sampath, the MD of the company has put forward a proposal to merge AMC with an unlisted entity "Robust Fitting Works Ltd." (Robust) through an approved restructuring route considering certain business reasons. The MD further added that Robust is going through tough times and all efforts made by the Promoters to revive the entity has become futile and the time has come now to fix the problem with the help of AMC. The MD further added that since AMC is a tax paying entity, through the merger, the possibility of setting off the carry forward losses of "Robust" including the speculative losses is possible.
04. MX Ltd., another subsidiary of AMC has not provided for any tax expense in the books of accounts due to tax losses. The Company has recognized deferred tax assets on the unabsorbed business losses based on Management assessment and on its understanding of Ind AS.

05. One of the wholly owned Indian subsidiary of AMC namely X Ltd was amalgamated and merged with Y Ltd. Some workers of X Ltd refused to join as workers of Y Ltd and claimed compensation for premature termination of their services. X Ltd resisted the claim on the ground that their services are transferred to their Company by the Order of Tribunal for amalgamation and merger and therefore, the workers are bound to join the services and cannot claim any compensation.
06. You were informed that AMC committed an offence under the Companies Act, 2013 which is alleged to have been committed by the Company and its officers relating to entering into contracts in which the directors are interested. The Management wants to know the law related to cognizance of an offence under the Companies Act 2013.

The ball is now in your Court. Based on the above information, you have to provide your inputs on the below aspects to your key client Company and to assist the Board in arriving at the conclusions.

Note that the financial statements of the Company for the year under review are prepared using IND AS.

Multiple Choice Questions

1. Can Mr. Shiva continue to hold the property in Bengaluru in terms of the "Foreign Exchange Management Act?
 - (a) No, he cannot hold, transfer or invest in India, since he is resident outside India.
 - (b) Yes, he can continue to hold the property in India, since he is a person of Indian origin and the property is located in India.
 - (c) Yes, he can continue to hold the property in India, since this was inherited from a person who was resident in India.
 - (d) Yes, he can continue to hold the property, since his brother (Mr. Suresh) uses the property whenever he travels to India.
2. Whether the speculative losses carried forward by "Robust" is available for set-off against the profits and gains of business of "Robust" post merger under the provisions of Income Tax Act, 1961?
 - (a) Yes
 - (b) No
 - (c) Permissible, if it is within the period of 8 years.
 - (d) If the scheme provides for such set-off, the same would be permissible.
3. Do you think that the "Deferred Tax Asset" recognition on the unabsorbed business loss is appropriate?
 - (a) Not fully appropriate
 - (b) No
 - (c) Yes, since it is based on Management assessment and the same is as per Ind AS 12.
 - (d) It depends/based on the decision to be taken by the MD regarding the probable merger.
4. In respect of the amalgamation and merger of X Ltd with Y Ltd, state the correct option under the provisions of the Companies Act, 2013:
 - (a) Workers contention is incorrect as they are bound with the amalgamation scheme as sanctioned by the Tribunal.
 - (b) Workers contention is correct as their services cannot be transferred without their consent.
 - (c) Workers contention is incorrect as they are not entitled to any compensation.

- (d) Both (a) and (c)
5. The law related to cognizance of an offence under the Companies Act 2013 is that:
- (a) The Court shall take cognizance of the offence only on the written complaint of the Registrar of Companies.
- (b) The Court shall take cognizance of the offence only on the written complaint of a shareholder of the Company.
- (c) The Court shall take cognizance of the offence only on the written complaint of a person authorized by the Central Government
- (d) The Court shall take cognizance of the offence only on the written complaint of the Registrar, a shareholder or of a person authorized by the Central Government on that behalf.

Descriptive Questions

6. With reference to the inputs provided in the Gist of Discussion-1 above, what will be your areas of verification and the procedure to be followed for verification of defalcation of inventory?
7. With reference to the inputs provided in the Gist of Discussion-2 above, evaluate whether the accounting treatment made by the Management is in compliance with the applicable Ind AS. If not, advise the correct treatment.
8. With reference to the inputs provided in the Gist of Discussion-3 above, what is your view with regard to the stand taken by NCLT in admitting the application of GL for initiating insolvency proceedings against ML?

ANSWERS TO THE CASE STUDY 8

Answers to the Multiple Choice Questions

1. (c)
2. (b)
3. (c)
4. (d)
5. (d)

Answers to the Descriptive Questions

6. **Inventory Frauds:** Inventory frauds are many and varied but here we are concerned with misappropriation of goods and their concealment.
- (i) Employees may simply remove goods from the premises.
- (ii) Theft of goods may be concealed by writing them off as damaged goods, etc.
- (iii) Inventory records may be manipulated by employees who have committed theft so that book quantities tally with the actual quantities of inventories in hand.
- (iv) Inflating quantities issued for production is another way of defalcating raw materials and store items.
- (v) Stocks actually dispatched but not entered in sales/debtor's account.

Verification Procedure for Defalcation of inventory - Such thefts usually are possible through

collusion among a number of persons. Therefore, for their detection, the **entire system of receipts, storage and dispatch** of all goods, etc. **should be reviewed** to localise the weakness in the system.

The determination of factors which have been responsible for the theft and the establishment of guilt would be difficult in the absence of:

- (a) a system of inventory control, and existence of detailed record of the movement of inventory, or
- (b) availability of sufficient data from which such a record can be constructed.

The step in such an investigation is to establish the different items of inventory defalcated and their quantities by checking physically quantities in inventory held and those shown by the Inventory Book.

Defalcations of inventory, sometimes, also are committed by the management, by diverting a part of production and consequent shortages in production being adjusted by inflating wastage in production; similar defalcations of inventories & stores are covered up by inflating quantities issued for production. For detecting such shortages, the investigating accountant should take assistance of an engineer. For that he will be more conversant with factors which are responsible for shortage in production and thus will be able to correctly determine the extent to which shortage in production has been inflated.

In this regard, guidance can also be taken from **past records showing the extent of wastage in production** in the past. Similarly, he would be able to better judge whether the material issued for production was excessive and, if so to what extent.

The per hour capacity of the machine and the time that it took to complete one cycle of production, also would show whether the issues have been larger than those required.

7. AMC Ltd. is engaged in plantation and farming on a large scale. This implies that it has agriculture business. Hence, **Ind AS 41 will be applicable.**

Further, the government grant has been given subject to a condition that it will continue to engage in plantation of eucalyptus tree for a coming period of five years. This implies that it is a **conditional grant**.

In the absence of the measurement base of biological asset, it is assumed that **"AMC Ltd measures its Biological Asset at fair value less cost to sell"**:

- (i) As per Ind AS 41, the government grant should be recognised in profit or loss when, and only when, the conditions attaching to the government grant are met i.e. continuous plantation of eucalyptus tree for coming period of 5 years. In this case, the grant shall not be recognised in profit or loss until the five years have passed. The entity has recognised the grant in profit and loss on proportionate basis, which is incorrect.
- (ii) However, if the terms of the grant allow part of it to be retained according to the time elapsed, the entity recognises that part in profit or loss as time passes. Accordingly, **entity can recognise the proportionate grant for ₹ 8 lakh in the statement of Profit and Loss based on terms of grant.**

Alternatively, it may be assumed that AMC Ltd. measures its Biological Asset at its cost less any accumulated depreciation and any accumulated impairment losses (as per para 30 of Ind AS 41):

In such a situation, principles of Ind AS 20 (with respect to conditional grant will apply). According to Ind AS 20, the conditional grant should be recognised in the Statement of Profit and Loss over the periods and in the proportions in which depreciation expense on those assets is recognised. Hence the **proportionate recognition of grant ₹ 8 lakh (40 lakh/5) as income is correct** since the entity has reasonable assurance that the entity will comply with the conditions attached to the grant.

Note: In case eucalyptus tree is considered as bearer plant by AMC Ltd., then Ind AS 20 will be applicable and not Ind AS 41.

8. In the given case study, GL, the operational creditor was the sole supplier of fertilizers to ML. Due to financial crises and heavy losses, there was a backlog in the payment by ML in line with the terms of purchase order. The matter was referred to an Arbitral Tribunal and Award was delivered in favour of GL. Thereafter, ML filed a petition under the Arbitration and Conciliation Act, 1996 challenging the award of the Arbitral Tribunal. In the meantime, GL filed an application under section 9 of the IBC, 2016.

As per section 8 of the Insolvency and Bankruptcy Code, 2016, an operational creditor, on the occurrence of default, shall first send a demand notice and a copy of invoice to the corporate debtor. The corporate debtor shall within a period of ten days of receipt of demand notice or copy of invoice intimate to the operational creditor about the existence of a dispute, if there is any, and record of pendency of any suit or arbitration proceedings.

"Demand notice" means a notice served by an operational creditor to the corporate debtor demanding payment of the operational debt in respect of which the default has occurred.

After the expiry of ten days, if the operational creditor does not receive his payment or the confirmation of a dispute that existed even before demand notice was sent, he may file an application before the Adjudicating Authority for initiating a Corporate Insolvency Resolution Process.

In view of the stated facts, no demand notice and copy of invoice was served to ML, on occurrence of default i.e. on non-payment of due amount. Further, arbitral award which was challenged, was also pending under the Arbitration and Conciliation Act, 1996. Therefore, in the light of non-compliance of the section 8 required for initiation of Corporate Insolvency Resolution Process by operational creditor under section 9 of the IBC, NCLT's stand of admission of the application of GL for initiation of insolvency process, is not in order.

PAST PAPERS

Case Study 9

Subjects	Topics Covered	Marks
FR	Ind AS 1&8, Schedule III	6
AFM	Business Valuation (Incremental Value of Strategy)	8
Audit	SA 505, SA 550, Professional Ethics.	7
DT	PGBP (Basics)	4

About You

You are a knowledgeable Chartered Accountant and appointed as a partner in an established firm of Chartered Accountants based out of Mumbai. You are very much excited on your becoming a partner and cannot afford to wait to sign your first set of audited accounts.

A New Client

Your audit firm added a new client, "Sunshine Cot Spin Ltd" (SCSL), a family owned, closely held, Public Limited Company, located at Pune to act as the Statutory Auditors of the Company and audit the books of accounts of the Company for the financial year 2023-24. The Company is engaged in spinning and weaving of cotton yarn. The Audit firm's Senior Partner, CA. Sriman Narayan, (fondly referred to as 'SN') has allocated the client to you to conduct the audit. The senior partner is very close to the family which owns the Company and you strongly believe that this is atleast part of the reason why the Company decided to appoint your audit firm.

About SCSL

SCSL has evolved to be a significant player in cotton yarn spinning in Pune, commanding a premium market for their products and also exports its products to several countries. SCSL has two manufacturing plants at Pune housing around 1.5 lakh sq ft each. The spinning division in factory 'A' has an installed capacity of 2.25 lakh spindles, producing around 20 tonnes of cotton yarn per day. The weaving division at factory 'B' has an installation of 50 Suzler projectile machines. The export sales constituted around 30% of the total revenues as at 31st March, 2024. In Nov 2022, the Company was awarded a certificate of recognition as an export house by the Joint Director of Foreign Trade. One of the Company's division is also continuously engaged in leasing of properties - Mobile Towers as its principal or ancillary generating activities. Going forward, the company's strategy is to expand their existing capacity in spinning and weaving as well as enter in the textile chain including processing, garments and home textiles. Their vision is to scale new heights in the textile industry from fibre to finished products and to be at the forefront of the industry.

Commencement of the Audit Process

The CFO of the Company made available to you the audited accounts of the last five years and the draft summary of management prepared financial statements for the FY 2023-24 subject to audit of certain items that need clarifications and resolutions from the statutory auditors.

Before the commencement of the audit, you reviewed the Company's audited accounts of the previous year. You noticed that the Auditors Report was qualified due to non-compliance with a mandatory accounting standard with respect to valuation of a high valued property that the Company owns. The audit opinion adds that the auditor is unable to quantify the impact of this non-compliance with the accounting standard. At this point, you made a telephonic conversation with the previous auditor informing them about your firm's appointment as auditor and also discussed the qualification in the previous audit report.

You were wondering whether the audit qualification issued was appropriate in the circumstances and you feel that a 'limitation of scope' opinion may have been more appropriate rather than "except for disagreement with accounting treatment due to non-compliance with an accounting standard". You are considering the impact of this issue when CA.SN comes into your office. He provides you certain important inputs of SCSL and then asks whether you have any clarifications to be sought. At this juncture, you inform CA.SN what you have found. He immediately replies: "I don't see any issues. If the Company does not believe that it is worth paying for this information, then who are we to tell them otherwise. It is a family business after all. If we have to, then, we can also adopt the same approach as the previous auditors and qualify the audit report on the same grounds." CA.SN further stated that you should go ahead with the audit work and reassess the position once the audit fieldwork has been completed by your team.

Precarious situation and the way forward

Now you are in a very precarious situation. You need to build a strategy. On the one hand, as an individual, you don't feel like to compromise anything in the audit process as well as your Independence and on the other hand, the relationship of CA.SN with the Company matters you a lot. Finally, after a good thought, you have proposed to balance the situation with an appropriate presentation of a matter that needs proper reporting and/or by pointing out the legal position before hand with a view to avoid/rectify any lapse or shortcomings to the satisfaction of both the Company's management and CA.SN. You always believe in Professional Scepticism/Professional Judgement and is of the opinion that it is your legitimate right to advise your clients to comply with the rule of law, promote transparency in financial and business transactions, make your clients much more tax complaint vis-a-vis intelligent tax planning rather than tax dogging and tax evasion.

Accordingly, you made a detailed audit program and deputed your audit team to look meticulously into every material aspects and conduct the audit from the propriety angle. You also instructed that all observations made by the audit team would be reviewed by you with proper assessments to ensure that the financial statements reflects a true and fair view.

Review of accounts and records

On a review of the books of accounts, draft financial statements/minutes of the Board meetings and other secretarial and regulatory records, the following observations were made by your audit team:

1. During the FY 2023-24, the company had entered into certain related party transactions. A payment of ₹ 4 lakhs per month was made to a partnership firm which is a 'related party' within the meaning of the Companies Act, 2013 for marketing services rendered by them. Based on an independent assessment, the consideration paid was higher than the arms length by ₹ 0.50 lakhs per month. Whilst the transactions was accounted in the financial statements based on the amounts paid, no separate disclosure of this related party transaction has been made in the notes to accounts forming part of the financial statements highlighting the same as related party transaction. Further, regarding related party transactions, the Management of the Company has insisted the statutory auditors to rely on the management representation letter regarding the proper accounting, presentation and disclosure of such related party transactions.
2. The long term borrowings from a subsidiary Company has no written terms and neither the interest nor the principal has been repaid so far.
3. Certain computers and peripherals were received from the subsidiary company free of cost, the value of which is ₹ 0.75 lakhs and no accounting or disclosure of the same has been made in the notes to accounts.
4. The Company also sells its products to local dealers in Maharashtra. One of the conditions of sale is that interest will be charged at the rate of 2% p.m., for delayed payments. On scrutiny of the accounts, the audit team found that the percentage of interest recovery is only 10% on such overdue outstanding due

to various reasons. During the year 2023-24, the Management has recognized the entire interest receivable as income in the Statement of Profit and Loss.

5. One of their division also deals in Leasing of properties - Mobile Towers. The accountant showed the rent arising from the leasing of such properties as 'other income' in the Statement of Profit and Loss.
6. During the course of the audit, you were provided with various oral representations during meetings and discussions. Whereas, while finalizing the audit, you requested the Management to provide all such oral representations into writing. The Management has informed you that since it has provided you full access to whatever records, documents and evidences were available with them without any exception, providing any representations in writing to external auditors is not possible. They have requested you to co-relate the same with the oral representations.
7. You as the engagement partner has requested the Management to provide email addresses of trade receivables of the company for the purpose of obtaining balance confirmation from the trade receivables. The Management asked its Sales Manager to send confirmation requests to the trade receivables and collect all the responses and provide the same to the Auditors. The Management informed that confirmation with respect to two of its trade receivables namely X Limited and Y Limited will not be available as a dispute is going on with them. With respect to other trade receivables, the Sales Manager provided you all the balance confirmations.
8. While verifying the inventories as on 31st March, 2024, you observed that significant amount of inventories belonging to the Company are held by third parties. However, the Company has kept all the records of the inventories maintained by the third parties.
9. SCSL purchased new computers for ₹ 10 lakhs on October 5, 2023, installed the same in its office and put the said computers to use on the same date.
10. The Company has incurred an expenditure of ₹ 10 lakhs on advertisement in a souvenir of a registered political party.
11. While preparing the Ind AS financial statements for the previous year ended 31.03.2023, SCSL has observed that it had presented certain material liabilities as non-current in its financial statements for the year ended 31.03.2022. While preparing annual financial statements for the year ended 31.03.2024, management discovers that these liabilities should have been classified as current. The Management intends to restate the comparative amounts for the prior period presented (i.e as at 31.03.2023).
12. Other Issues of Management for your professional advice SCSL is considering a new sales strategy for one of its small subsidiary company that will be valid for the next 4 years. They want to know the value of new strategy. Following information relating to the year which has just ended is available:

Income Statement

	Amount (in ₹ '000)
Sales	20,000
Gross Margin (20%)	4,000
Administration, Selling and Distribution Expenses (10%)	2,000
PBT	2,000
Tax (30%)	600
PAT	1,400
Balance Sheet Information	
Fixed Assets	8,000

Current Assets	4,000
Equity	12,000

If it adopts the new strategy, sales will grow at the rate of 20% per year for three years. The gross margin ratio, assets turnover ratio, the capital structure and the income tax rate will remain unchanged. Depreciation would be 10% of net fixed assets at the beginning of the year. The company's target rate of return is 15%.

At this juncture, before proceeding further, Mr. SN has desired to have an interim meeting with you to get an hands on summary of the audit observations and also with proper solutions to address them. So get ready to comprehend, analyse and apply to arrive at a correct solution to the issues given here under:

You are requested to provide the correct option to the following questions. Please indicate your option in capital letters. No reasoning is required. Note that the financial statements of the Company for the year under review are prepared using IND AS.

Multiple Choice Questions

- In respect of the inputs given in para (1) above, is there any further responsibility of the statutory auditor with regard to the other formalities to be performed for related party transactions (RTP)?
 - There is no further responsibility as the best audit evidence for the RTP is the Management representation letter.
 - There is no further responsibility, as the statutory auditor is responsible for verifying the balances and disclosure of RTPs. The identification of RTPs is the responsibility of the Management.
 - Yes, the statutory auditor has the responsibility to perform the audit procedures to identify, assess and respond to the material misstatements arising from the entity's failure to account for/ disclose related party relationships, transactions and balances.
 - Yes, statutory auditor has ultimate responsibility to detect fraud and error with respect to RTPs.
- With respect to the inputs given in para (7) above, which of the following is warranted as per the requirement of the relevant SA?
 - As the Statutory Auditor, you should not have relied on the explanation provided by the Management with respect to the trade receivables namely X Limited and Y Limited and you should have performed alternative procedures with respect to such trade receivables.
 - As the Statutory Auditor, based on the risk assessment and materiality, you should have obtained direct responses atleast from some significant, if not all, trade receivables instead of the sales manager receiving direct responses and forwarding the same to you.
 - Both (a) and (c)
 - You should give a qualified opinion as balance confirmations with respect to two trade receivables were not available.
- With respect to the inputs given in para (9) above, the allowable depreciation under the Income Tax Act would be:
 - ₹ 1.5 Lakhs
 - ₹ 2 Lakhs
 - ₹ 3 Lakhs
 - ₹ 4 Lakhs

4. With respect to the inputs given in para (10) above, which of the following statement is correct as per the Income Tax Act?
 - (a) Such expenditure is an allowable deduction while computing its business income.
 - (b) Such expenditure is not an allowable deduction while computing its business income.
 - (c) Such expenditure is not an allowable deduction while computing its business income but is allowable as a deduction from gross total income.
 - (d) Such expenditure is neither allowable as a deduction from business income nor allowable as a deduction from gross total income.
5. With respect to the inputs given in para (11) above, which of the following statement is valid?
 - (a) Change in Estimate - Restatement of previous year comparative is not required.
 - (b) Change in Estimate - Restatement of previous year comparative is required.
 - (c) Prior period error - Restatement of previous year comparative is not required.
 - (d) Prior period error - Restatement of previous year comparative is required.

Descriptive Questions

6. With reference to the case study, comment on whether communication made with the previous auditor is in line with relevant clause of Schedule to the Chartered Accountants Act, 1949 and Code of Ethics.
7. Comment whether the classification referred in para (5) above is correct or not in the light of Schedule III to the Companies Act, 2013.
8. In respect of the inputs given in para (12) above, determine the incremental value due to adoption of the new strategy in line with the strategic financial management principles adopted by the company.

ANSWERS TO THE CASE STUDY 9

Answers to the Multiple Choice Questions

1. (c)
2. (c)
3. (b)
4. (c)
5. (d)

Answers to the Descriptive Questions

6. As per Clause (8) of Part I of the First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant is deemed to be **guilty of professional misconduct** if he accepts a position as auditor previously held by another chartered accountant or a certified auditor who has been issued certificate under the Restricted Certificate Rules, 1932 without first communicating with him in writing.

It must be pointed out that professional courtesy alone is not the major reason for requiring a member to communicate with the existing accountant who is a member of the Institute or a certified auditor. The underlying objective is that the member may have an opportunity to know the reasons for the change in order to be able to safeguard his own interest, the legitimate interest of the public and the independence

of the existing accountant. It is not intended, in any way, to prevent or obstruct the change. When making the inquiry from the retiring auditor, the one proposed to be appointed or already appointed should primarily find out whether there are any professional or other reasons why he should not accept the appointment.

In the given situation, the incoming auditor has informed the previous auditor about their appointment and discussed about the qualifications given in audit report over telephone. Mere informing about appointment over telephone instead of writing is not correct in accordance with Clause 8. Therefore, the incoming auditor would be held guilty of professional misconduct under Clause (8) of Part I of First Schedule to Chartered Accountants Act, 1949 for not communicating with previous auditor in writing.

7. General Instructions for the Preparation of Statement of Profit and Loss of Division II under Schedule III to the Companies Act, 2013, requires revenue from operations to be separately disclosed in the notes, showing revenue from:

- (a) Sale of products;
- (b) Sale of services; and
- (c) Other operating revenues

The term "other operating revenue" is not defined. This would include Revenue arising from a company's operating activities, i.e., either its principal or ancillary revenue-generating activities, but which is not revenue arising from sale of products or rendering of services. Whether a particular income constitutes "other operating revenue" or "other income" is to be decided based on the facts of each case and detail understanding of the company's activities.

The classification of income would also depend on the purpose for which the particular asset is acquired or held.

In the given case, it is mentioned that one of their divisions also deals in Leasing of properties – Mobile Towers. The company is primarily engaged in spinning and weaving of cotton yarn. The revenue arising out of mobile towers division may be considered as either its principal or ancillary revenue-generating activities. Accordingly, the rent arising from leasing of Mobile towers properties would be classified under the head "Revenue from Operations" in the Statement of Profit and Loss. Hence, it cannot be shown under the head "Other Income".

8. Projected Balance Sheet

	Year 1	Year 2	Year 3	Year 4
Fixed Assets (40% of Sales)	9,600	11,520	13,824	13,824
Current Assets (20% of Sales)	4,800	5,760	6,912	6,912
Total Assets	14,400	17,280	20,736	20,736
Equity	14,400	17,280	20,736	20,736

Projected Cash Flows

	Year 1	Year 2	Year 3	Year 4
Sales	24,000	28,800	34,560	34,560
PBT (10% of sale)	2,400	2,880	3,456	3,456
PAT (70%)	1,680	2,016	2,419.20	2,419.20
Depreciation	800	960	1,152	1,382
Addition to Fixed Assets	2,400	2,880	3,456	1,382

Increase in Current Assets	800	960	1,152	-
Operating cash flow (FCFF)	(720)	(864)	(1,036.80)	2,419.20

Projected Cash Flows:

Present value of Projected Cash Flows:

Cash Flows	PVF at 15%	PV
-720	0.870	-626.40
-864	0.756	-653.18
-1,036.80	0.658	<u>-682.21</u>
		-1,961.79

Residual Value	=	2419.20/0.15 = 16,128
Present value of Residual value	=	16128/(1.15) ³ = 16128/1.521 = 10603.55
Total shareholders' value	=	10,603.55 - 1,961.79 = 8,641.76
Pre strategy value	=	1,400/0.15 = 9,333.33
Incremental Value of strategy	=	8,641.76 - 9,333.33 = - 691.57

PAST PAPERS

Case Study 10

Subjects	Topics Covered	Marks
FR	Ind AS 16, Schedule III	7
AFM	Startup Finance (Ways to Finance Startup)	5
DT	Revision u/s 263 & 264, Tax Audit	7
Law	FEMA (Section 6), IBC (Section 4)	6

You are a young dynamic Management Consultant of 30 years of age, having graduated from a top notch business school in India and later on obtained a Doctorate degree in Finance from USA. At the age of 27 years, you started a consultancy firm in Bengaluru, India for providing scratch to end business advisory solutions to start-up companies, especially on innovative ways to finance a start-up, direct taxes, financial reporting, legal advisory under Insolvency and Bankruptcy Code, 2016. Your clients are spread across the country and you have a sizeable team of professionals working under your entire advisory practice.

Your client, Soft Tech Automobile Solutions Private Limited (STAS) is one of the India's start-up companies incorporated at Delhi in the year 2017. The main objective of the Company is to develop a niche, never invented before, customized software packages for two and three wheeler automobile manufacturers in India and abroad. The Company is the first ever start-up company wholly owned, managed by women technocrats with only women employees. It was promoted by Ms. Sunandha and Ms. Pracheeti, IITians from Delhi.

Ever since the promoters started their venture, they have, within a span of one year, garnered about 15 reputed automobile companies in India and twelve foreign companies in USA as their customers with long term contracts and significant business in terms of volume and money value. The promoters have also formed a wholly owned subsidiary at Singapore which has a liaison office in Mumbai and currently has very limited operations in India. The Indian liaison office, at present, employs about 30 people primarily to represent the foreign subsidiary in dealing with the customers in India.

Because of their innovative and user friendly software package, that provides high value addition, and going by the success they reaped within a year, it is for sure, that, they would flourish and branch out in their business within the next five years of their establishment. In other words, the Company is also looking at rapid expansion over the next three years. Nevertheless, what disturbs them, is the infusion of initial funds and continued working capital in the start-up to meet their commitments.

STAS is well recognized for its governance standards and is very keen to implement its zero tolerance for non-compliances policy. Under the circumstances, they have reached out to you seeking your advice on strategic financial management vis-a-vis innovative ways to finance a start up, matters on financial reporting and direct taxation. Besides the above, they also wanted you to advise them on the regulatory provisions of IBC Code, 2016 that may impact their business. Accordingly, they have requested you to join their internal brainstorming session organized to discuss and decide on the way forward. This meeting will be attended by Ms. Sunandha, Managing Director, Ms. Pracheeti, Joint Managing Director, Ms. Anjana, Chief Financial Officer, Ms. Samanvitha, Manager, Taxation and Ms. Jaishvitha, Company Secretary. Prior to the meeting, the promoters have informed you and given the following inputs:

- In the Company's draft unaudited Balance Sheet as at 31.03.2024, the sub-head inventories contained an item "goods in transit" in which a consolidated amount aggregating the cost of raw materials in transit and, loose tools billed on the Company but delivery not made to the Company had been specified.
- During the financial year 2023-24, the Company had changed its method of accounting compared to the

previous financial year (2022-23) and had reported a closing stock of computer peripherals amounting to ₹ 2 lakhs only as on 31.03.2024. Also, the Company had borrowed a sum of ₹ 10 crores equally from two public sector banks and two NBFCs. The Company had promptly repaid few deposits amounting to ₹ 80 lakhs to the deposit holders.

- (c) The Company acquired 5 state of the art, hitech computers, peripherals and servers (herein after referred to as 'Plant') at a cost of ₹ 2 Crores (with no break down of the component parts). The estimated useful life is 10 years. At the end of the 2nd year, one of the major component (Server) has become obsolete and requires replacement as further maintenance is uneconomical. The balance of the plant is perfect and expected to last for next 10 years. The cost of the replacement of new component is ₹ 60,00,000. The discount rate assumed is 5%
- (d) Ms. Suman, sister of Ms. Sunandha, (the Managing Director of the Company) is a resident of Singapore and she owns an immovable property in Varanasi, which she inherited from her father, who was a resident in India. Currently, Ms. Sunandha uses the property.
- (e) Ms. Pracheeti, the Joint Managing Director wants to know the legal remedies available in India for recovering amounts rightfully due to the Company in case of a wilful default by the customer. In this regard, she is curious to understand the legal provisions of Insolvency and Bankruptcy Code, 2016 which would come handy for enforcing timely actions by the defaulting customers, where required. She also wanted to understand how the settlement of the dues would be prioritized as compared to various secured creditors of the defaulting company at the time of insolvency.
- (f) The income tax assessment of the Company was completed under Section 143(3) of the Income Tax Act, 1961 with an addition of income of ₹ 24 lakhs to the returned income. The Company had preferred an appeal before the Commissioner of Appeals which is pending disposal.

Asks from You

You are requested to advise STAS based on your understanding of their requirements, issues and clarifications sought. You can make relevant assumptions, if any, as may be required to explain your views so as to provide a holistic and relevant feedback. Your timely advices may go a long way to the dynamic women entrepreneurs in scaling new heights in their business operations. Good Luck!

Multiple Choice Questions

1. With reference to information in para (a), the disclosures made by the Company which adopted IND AS for compilations of financial statements is:
 - (a) Wrong. A separate sub-head of Loose Tools under heading of Inventories i.e. as a part of Current Assets must be shown;
 - (b) Correct. A separate sub-head of Loose Tools under heading of Inventories i.e. as a part of Current Assets need not be shown;
 - (c) Wrong. A separate head of Loose Tools under heading of Current Assets must be shown;
 - (d) Partly correct.
2. In the light of the information provided in para (b) above, state which among the below transactions which were undertaken by the Company needs to be reported by Statutory Auditors under tax audit?
 - (i) ₹ 10 crore loan taken, which is exceeding the limit specified u/s 269SS of the Income tax Act, 1961.
 - (ii) Changed its method of accounting from the previous financial year.
 - (iii) Repayment of deposits of ₹ 80 lakhs which is exceeding the limit specified u/s 269T of the Income Tax Act, 1961.

- (iv) Reporting of closing stock of computer peripherals worth ₹ 2 Lakhs only.
 - (a) (i), (iii) & (iv)
 - (b) (i), (ii), (iii) & (iv)
 - (c) (i) & (iii)
 - (d) (ii)
3. With reference to information in para (d), In respect of immovable property in Varanasi, Ms. Sunandha will be?
- (a) Beneficiary
 - (b) Beneficial owner
 - (c) Legal owner
 - (d) None of the above
4. With reference to information in para (d), can Ms. Suman continue to hold the property?
- (a) No, she cannot hold, transfer or invest in India, since she is resident outside India.
 - (b) Yes, she can continue to hold in India, since she is a person of Indian origin and the property is located in India.
 - (c) Yes, she can continue to hold in India, since this was inherited from a person who was resident in India.
 - (d) Yes, she can continue to hold in India, since her sister uses the property whenever she travels to Varanasi.
5. Under the Insolvency and Bankruptcy Code, 2016, with reference to information in para (e), the foreign subsidiary can initiate action against the defaulting companies in India for non-payment of its enforceable dues:
- (a) For any amount in excess of US \$ 100 in its capacity as financial creditor.
 - (b) For any amounts in excess of ₹ 10 million with the approval of NCLT.
 - (c) For any amount in excess of US \$ 100 in its capacity as corporate debtor.
 - (d) For any amounts in excess of ₹ 10 million without the approval of NCLT.

Descriptive Questions

6. Being the referred Management Consultant, what are some of the ways you would suggest STAS management to finance their start-up?
7. In respect of the information provided in para (c) above, examine whether the cost of new component (server) be recognized as an asset and if so, what should be the carrying value of the plant at the end of the second year?
8. In respect of the information provided in para (f) above, please answer the following questions:
- (i) Can the Commissioner make a revision under Section 263 of the Income Tax Act, 1961 both in respect of matters covered in appeal and other matters?
 - (ii) Can STAS seek revision under Section 264 of the Income Tax Act, 1961 in respect of the matters other than those preferred in appeal?

ANSWERS TO THE CASE STUDY 10

Answers to the Multiple Choice Questions

1. (a)
2. (d)
3. (a)
4. (c)
5. (b)

Answers to the Descriptive Questions

6. Every startup needs access to capital, whether for funding product development, acquiring machinery and inventory or paying salaries to its employee. Though we can think first of bank loans as the primary source of money, only to find out that banks are really the least likely benefactors for startups. So, we suggest innovative measures include maximizing non-bank financing.

Here are some of the sources for funding a startup:

- (i) **Personal financing:** It may not seem to be innovative but you may be surprised to note that most budding entrepreneurs never thought of saving any money to start a business. This is important because most of the investors will not put money into a deal if they see that you have not contributed any money from your personal sources.
- (ii) **Personal credit lines:** One qualifies for personal credit line based on one's personal credit efforts. Credit cards are a good example of this. However, banks are very cautious while granting personal credit lines. They provide this facility only when the business has enough cash flow to repay the line of credit.
- (iii) **Family and friends:** These are the people who generally believe in you, without even thinking that your idea works or not. However, the loan obligations to friends and relatives should always be in writing as a promissory note or otherwise.
- (iv) **Peer-to-peer lending:** In this process group of people come together and lend money to each other. Peer to peer lending has been there for many years. Many small and ethnic business groups having similar faith or interest generally support each other in their start up endeavors.
- (v) **Crowd funding:** Crowd funding is the use of small amounts of capital from a large number of individuals to finance a new business initiative. Crowdfunding makes use of the easy accessibility of vast networks of people through social media and crowdfunding websites to bring investors and entrepreneurs together.
- (vi) **Micro loans:** Microloans are small loans that are given by individuals at a lower interest to a new business ventures. These loans can be issued by a single individual or aggregated across a number of individuals who each contribute a portion of the total amount.
- (vii) **Vendor financing:** Vendor financing is the form of financing in which a company lends money to one of its customers so that he can buy products from the company itself. Vendor financing also takes place when many manufacturers and distributors are convinced to defer payment until the goods are sold. This means extending the payment terms to a longer period for e.g. 30 days payment period can be extended to 45 days or 60 days. However, this depends on one's credit worthiness and payment of more money.

- (viii) **Purchase order financing:** The most common scaling problem faced by startups is the inability to find a large new order. The reason is that they don't have the necessary cash to produce and deliver the product. Purchase order financing companies often advance the required funds directly to the supplier. This allows the completion of transaction and profit flows up to the new business.
- (ix) **Factoring accounts receivables:** In this method, a facility is given to the seller who has sold the good on credit to fund his receivables till the amount is fully received. So, when the goods are sold on credit, and the credit period (i.e. the date upto which payment shall be made) is for example 6 months, factor will pay most of the sold amount up front and rest of the amount later. Therefore, in this way, a startup can meet his day to day expenses.

7. The new component will produce economic benefits to company, and the cost is measurable. Hence, the item should be recognised as an asset.

The original invoice for the plant did not specify cost of component; however, cost of replacement ₹ 60,00,000 can be used as an indication (usually by discounting) of likely cost, two years previously.

If an appropriate discount rate is 5% per annum, ₹ 60,00,000 discounted back two years amounts to ₹ 54,42,177 [$₹ 60,00,000 / (1.05)^2$], i.e., the approximate cost of component before 2 years.

The current carrying amount of the component which is required to be replaced of ₹ 43,53,742 would be derecognised from the books of account, (i.e., Original Cost ₹ 54,42,177 as reduced by accumulated depreciation for past 2 years ₹ 10,88,435, assuming depreciation is charged on straight-line basis.)

The cost of the new component, ₹ 60,00,000 would be added to the cost of plant, resulting in a revision of carrying amount of plant to ₹ 1,76,46,258 (i.e., ₹ 1,60,00,000* – ₹ 43,53,742 + ₹ 60,00,000).

*Original cost of plant ₹ 2,00,00,000 reduced by accumulated depreciation (till the end of 2 years) ₹ 40,00,000.

8. (i) As per section 263, the Commissioner has the power to revise an order prejudicial to revenue, even if order is subject matter of appeal before Commissioner (Appeals). However, the power of Commissioner under section 263 shall extend to only such matters as had not been considered and decided in such appeal. The doctrine of partial merger would apply in this case.

In a case where the appeal is pending but not yet decided, the Commissioner cannot exercise his revisionary jurisdiction in respect of those issues which are the subject matter of appeal.

Thus, Commissioner cannot make a revision in respect of the matters covered in appeal but can do so in respect of other matters.

- (ii) As per section 264(4), the Commissioner shall not revise any order under section 264, where such order has been made the subject of an appeal to the Commissioner (Appeals), even if the revision pertains to a matter, other than the matter(s) covered in the appeal. Thus, the concept of total merger would apply in the case of section 264.

Therefore, STAS cannot seek revision under section 264 even in respect of matters other than those preferred in appeal.

PAST PAPERS

Case Study 11

Subjects	Topics Covered	Marks
AFM	Mergers (Share Offer)	8
DT	PGBP (Basics)	4
Law	Companies Act (Section 233, 241, 244)	4
SCPM	Target Costing, Decision Making (Changes to Inspection Process)	9

Your Position in the Professional Arena

You are an open minded, sensible, competent and innovative Management Consultant providing solutions in financial reporting, budgetary control, cost analysis, capital budgeting and other areas of costing and management reporting. You are also advising corporates on the implications of mergers and amalgamations covering various aspects inter-alia on the legal, business and corporate tax related matters.

You are specifically approached by various corporates to implement governance and ethics into the very fabric of the client's organization, revising and re-framing the compliance framework, policies, processes in line with the corporate & allied laws and other local regulations.

Professional Work

During the month of January, six different Companies approached you seeking your advice with respect to their proposals as outlined below:

Proposals

(1) KG LIMITED (KGL)

KOL is a manufacturing company that produces a wide range of consumer products for home consumption. Among its popular brand are its energy efficient and environment friendly LED lamps. The Company has a quality control department that monitors the quality of production. As per the recent 'poor quality report', the current rejection rate of LED lamps is 5% of units input. 5,000 units input goes through the process each day. Each unit that is rejected costs ₹ 200 to the Company. The quality control department has proposed few changes to the inspection process that would enable early detection of defects. This would reduce the overall rejection rate from 5% to 3% of units input. The improved inspection costs would cost the company ₹ 15,000 per day.

(2) GANGOTRI LIMITED (GL)

GL is intending to acquire Madhruk Limited (ML) (by merger) (a company not within the definition of a "small company" under the Companies Act, 2013) and the following information are available in respect of both the companies:

Particulars	Gangotri Limited	Madhruk Limited
Total Current Earnings	2,50,000	90,000
Number of outstanding shares	50,000	30,000
Market price per share	21	14

Besides the above, GL has lent an amount of ₹ 10 lakhs to ML as an inter-corporate deposit (ICD) for meeting various working capital requirements in the year 2021 which is being rolled over every 6 months since ML is not in a position to repay the loan as per agreed tenure. It is also not servicing any interest and the amount of interest payable as per the terms is not recognized in the books of ML in view

of uncertainties attached to revenue recognition.

The CFO of GL believes that this proposal of merger is completely workable and in fact the same needs to be mandatorily pursued through the fast track mechanism available under the regulatory framework. He further added that the ICD which remains as outstanding from ML will also be eliminated on merger and hence the issue of repayment also does not arise.

(3) EL GEE INDUSTRIES LIMITED (EGIL)

EGIL manufactures standard heavy duty steel storage racks for industrial use. Each storage rack is sold for ₹ 750 each. The Company produces 10,000 racks per annum. Relevant cost data per annum are as follows:

Cost Component	Budget	Actual	Actual Cost p.a. (₹)
Direct Material	5,00,000 sq. ft.	5,20,000 sq. ft.	20,00,000
Direct Labour	90,000 hrs.	1,00,000 hrs.	10,00,000
Machine Setup	15,000 hrs.	15,000 hrs.	1,50,000
Mechanical Assembly	2,00,000 hrs.	2,00,000 hrs.	30,00,000

The actual and budgeted operating levels are the same. Actual and standard rates of material procurement and hourly labour rate are also the same. Any variance in cost is solely on account of difference in the material usage and hours required to complete production. Aggressive pricing from competitors has driven down sales. A comparable rack is available in the market for ₹ 675 each. Shankar, the marketing manager has determined that in order to maintain the company's existing market share of 10,000 racks, EGIL must reduce the price of each rack to ₹ 675.

(4) JM BAKES & CONFECTIONERS LTD (JMBCL)

JMBCL started a Bakery and Confectionery store. The MD of JMBCL, Mr. X contacted Mr. Y, representing Iyer & Co., Confectioners & Bakers (ICCB) for supply of cakes and biscuits. Payment of ₹ 25,000 and ₹ 30,000 was made in cash to ICCB on 3rd December and 10th December respectively for purchase of cakes and biscuits.

(5) SHANTHI BIOTECH LIMITED (SBTL)

SBTL had a paid up equity share capital of ₹ 20 crores divided into 20,00,000 equity shares of ₹ 10 each. The Company had 2,000 equity shareholders. A petition was submitted before the Tribunal signed by 320 members holding 40,000 equity shares of the Company for the purpose of claiming relief against oppression and mismanagement by the majority of the shareholders. Subsequently, 160 members, who had signed the petition withdrew their consent.

(6) SUPER SPINNING LTD (SSL)

While computing statement of total income prepared as per ICDS, following information was noted:

The amount of employee benefits include a sum of ₹ 4,50,000 in respect of bonus payable to employees. In the previous year 2023-24, the Company and its employees union had a dispute over payment of bonus. In order to avoid late payment of bonus, the Company formed a trust and transferred the amount of bonus payable to employees to the said trust. The dispute was settled in the month of November, 2024 and the trust paid the amount of bonus to the employees on 30th December, 2024.

Multiple Choice Questions

- Whether the proposal of Gangotri Limited for the merger of Madhruk Limited needs to be mandatorily pursued under "fast track mode"?

- (a) Yes
 - (b) No
 - (c) Yes, as it involves capital reduction
 - (d) Would vary on a case to case basis depending on the contents of the scheme.
2. On giving effect to the scheme of merger, the ICD provided by Gangotri Limited (GL) to Madhruk Limited (ML):
 - (a) Will remain in the books of ML.
 - (b) Will be squared off.
 - (c) Will remain as a memorandum entry.
 - (d) Will remain only in the books of GL.
 3. While computing the total income of JM Bakes & Confectioners Ltd. (JMBCL), amount paid for supply of cakes and biscuits is disallowed u/s 40A(3) to the extent of:
 - (a) ₹ 45,000
 - (b) ₹ 25,000
 - (c) ₹ 30,000
 - (d) ₹ 55,000
 4. In respect of SBTL, as per the given facts:
 - (a) The petition becomes automatically void.
 - (b) The petition is nevertheless maintainable subject to the condition that approval of 80 members is obtained within a period of 30 days.
 - (c) The petition is nevertheless maintainable subject to the condition that approval of at least 40 members is obtained within a period of 30 days.
 - (d) It will not affect the maintainability of the petition.
 5. While computing the total income of Super Spinning Limited (SSL), for the A.Y. 2024-25, the amount of bonus payable:
 - (a) Would be allowed as a deduction
 - (b) Would not be allowed as a deduction
 - (c) Would be partially allowed as a deduction
 - (d) No treatment is required.

Descriptive Questions

6. With reference to the inputs given for KG Limited above, analyze the proposal and suggest if it would be beneficial for the Company to implement it.
7. With reference to the inputs given for Gangotri Limited as above:
 - (i) What is the present EPS of both the companies?
 - (ii) If the proposed merger takes place, what would be the new earnings per share for Gangotri Ltd. (assuming the merger takes place by exchange of Equity Shares and the Exchange Ratio is based on the Current Market Price)? Assume no synergy impact.
8. With reference to the inputs given for El Gee Industries Limited,

- (i) Calculate the current cost and profit per unit and identify the non-value added activities in the production process.
- (ii) Calculate the new target cost per unit for a sales price of ₹ 675 if the profit per unit is maintained.

ANSWERS TO THE CASE STUDY 11

Answers to the Multiple Choice Questions

1. (b)
2. (b)
3. (d)
4. (d)
5. (b)

Answers to the Descriptive Questions

6. Analysis of the proposal to make changes to the inspection process:

The company wants to reduce the cost of poor quality on account of rejected items from the process. The current rejection rate is 5% that is proposed to be improved to 3% of units input.

The expected benefit to the company can be worked out as follows:

The units of input each day = 5,000. At the current rate of 5%, 250 units of input are rejected each day. It is proposed to reduce rejection rate to 3%, that is 150 units of input rejected each day. Therefore, improvements to the inspection process would reduce the number of units rejected by 100 units each day. The resultant cost of poor quality would reduce by ₹ 20,000 each day (100 units of input × ₹ 200 cost of one rejected unit).

The cost of implementing these additional controls to inspection process would be ₹ 15,000 each day.

The net benefit to the company on implementing the proposal would be ₹ 5,000 each day. Therefore, the company should implement the proposal.

7. (i) Present EPS of Gangotri Ltd. (GL) and Madhruk Ltd. (ML)

	GL	ML
Total Current Earnings (a)	₹ 2,50,000	₹ 90,000
No. of outstanding shares (b)	50,000	30,000
EPS (a)/(b)	₹ 5.00	₹ 3.00

- (ii) Calculation of new EPS of GL

No. of equity shares to be issued by GL to ML

= 30,000 shares × ₹ 14/₹ 21 = 20,000 shares Total no. of shares in GL after acquisition of ML

= 50,000 + 20,000 = 70,000

Total earnings after tax [after acquisition]

= ₹ 2,50,000 + ₹ 90,000 = ₹ 3,40,000

EPS = ₹ 3,40,000/₹ 70,000 = ₹ 4.86

8. (i) The current cost and profit per unit are calculated as below:

Cost Component	Units	Actual Cost p.a. for 10,000 racks (₹)	Actual Cost per rack (₹)
Revenue	10,000 racks	75,00,000	750
Direct Material	5,20,000 sq. ft.	20,00,000	200
Direct Labour	1,00,000 hrs.	10,00,000	100
Machine Setup	15,000 hrs.	1,50,000	15
Mechanical Assembly	200,000 hrs.	30,00,000	300
Total Cost	61,50,000	615	
Profit	13,50,000	135	

Therefore, the current cost is ₹ 615 p.u. while the profit is ₹ 135 p.u. Machine setup is the time required to get the machines and the assembly line ready for production. In this case, 15,000 hours spent on setting up does not add value to the storage racks directly. Hence, it is a non-value add activity.

- (ii) New sale price per rack is ₹ 675 per unit. The profit per unit needs to be maintained at ₹ 135 per unit. Hence, the new target cost per unit = new selling price per unit – required profit per unit = ₹ 675 - ₹ 135 = ₹ 540 per unit.

PAST PAPERS

Case Study 12

Subjects	Topics Covered	Marks
IDT	GST Refund (Unjust Enrichment), Liability of Retiring Partner	11
Law	Companies Act (Section 235, 236)	14

You are advising companies in mergers and acquisitions. One of your clients, T Limited reached out to you with their interest in acquiring companies for their inorganic growth. They have provided you with an analysis of their initial target list along with some business insights obtained through various channels. You are required to consider the details below and answer the questions.

PB Private Limited

The promoters of this company are Z & Y who hold about 90% in the company. The remaining 10% is held by a group of minority shareholders of which 9% is held by J in his individual capacity. Whilst the promoters of the company are willing to offload their shares completely at a fair price, J, being a significant minority shareholder, may be creating problems and he may also demand higher price to capitalise on the opportunity.

J is also in the board of the Company and has issues with the Board Chairman on various matters. He has also written to the Registrar of Companies (RoC) that the matters discussed by him in the board meetings are filtered by the Chairman and the minutes do not reflect the facts and the key discussion matters appropriately.

Further, the promoters want to know about the powers to acquire shares of Shareholders dissenting from scheme or contract approved by the majority or how they can directly purchase Minority Shareholding, under Companies Act, 2013.

IP Limited

IP Limited is the market leader in introducing innovation in the paper industry. The advanced 3D printing capable new generation machineries are imported by the Company which has helped the company in cutting its cost considerably and improving its profitability. Post introduction of Goods and Service Tax (GST), the Company has resorted to certain practices which were challenged by the Department. Several GST refunds received by the Company from the Goods and Service Tax department were alleged to be failing the principle of unjust enrichment under the Act. The exposure arising out of the same needs careful evaluation.

Further, the company is also having several issues with respect to supply and reversals/returns and the process of invoicing/raising of credit and debit notes requires complete overhaul. It has paid GST on several supplies without considering the subsequent reversals resulting in over payment of taxes since it was not clear on the provisions, clarity was also sought on allowable refunds. Further, the time limits for claiming refunds of excess tax paid/unutilised Input credit also requires evaluation since this could have a significant impact on the net worth of the company.

DP (Regd.)

DP (Regd.) is a partnership firm where G and K are the current partners. Earlier M was also a partner, who retired on 31.03.2022 and he intimated about his retirement to jurisdictional commissioner on 31.05.2022. The firm primarily focuses on exports and has got good recoveries over the past 2 years.

Majority of the exports of the firm were routed through a third party under the deemed exports category which was challenged by the GST authorities recently. The firm has also been slapped with a tax notice on their supplies made in financial year 2021-22 which if confirmed would virtually result in wiping out all the net worth and the partners may have to pay from their personal assets in view of their joint and several liability.

G and K believe that if there is a requirement to pay the tax, then M would also be required to pay the same as per the applicable provisions, though M challenges this position. In view of the tax uncertainty, the firm is willing to consider a total buy out by any large company.

Multiple Choice Questions

1. Presume that T Limited proposes to pursue amalgamation of PB Pvt. Ltd. and pursuant to the same, agrees to pay higher price (higher than the price decided under the scheme) to J based on his negotiation, the extra amount/compensation received by J shall be:
 - (a) Fully payable to him in his individual capacity.
 - (b) Full payable to the remaining minority shareholders.
 - (c) Allocated to all minority shareholders on pro rata basis.
 - (d) Allocated to all majority shareholders on pro rata basis.
2. Where tribunal has ordered transferee company to acquire shares of dissenting shareholders u/s 235(2), can transferee company decide, on its own, not to acquire those shares?
 - (a) Yes, since they gave notice to Tribunal for purchase of shares earlier, now they can decide on their own not to acquire those shares
 - (b) No, transferee company shall be entitled and bound to acquire shares of dissenting shareholders
 - (c) Yes, if dissenting shareholders allow
 - (d) No, it is possible only if the same is approved by Board Resolution
3. The GST liability of IP Ltd. as a supplier will reduce when the:
 - (a) Credit note is issued by the supplier.
 - (b) Credit note is issued by the customer.
 - (c) Debit note is issued by the supplier.
 - (d) Debit note is issued by the customer.
4. M is liable to pay GST, interest and penalty of the firm due:
 - (a) Till the date of the retirement notwithstanding any intimation to Commissioner.
 - (b) Till the date of the intimation provided to the commissioner.
 - (c) Indefinitely notwithstanding the retirement/intimation.
 - (d) Not at all liable.
5. The time limit for making an application for claiming refund of GST taxes paid by IP Ltd. is:
 - (a) 3 years from the relevant date.
 - (b) 2 years from the relevant date.
 - (c) None since there is no time limit.
 - (d) None since such refund can never be claimed.

Descriptive Questions

6. With the reference to the decision to acquire P B Private Limited by T limited, discuss the powers to acquire shares of Shareholders dissenting from scheme or contract approved by Majority and also discuss various provision of purchase of minority shareholding, as required by Z & Y.

7. Under what circumstances IP limited is legally entitled to GST refunds and can also retain such amounts without having requirement to pass it on to anybody else? Also brief about what are allowable refunds.

ANSWERS TO THE CASE STUDY 12

Answers to the Multiple Choice Questions

1. (c)
2. (b)
3. (a)
4. (b)
5. (b)

Answers to the Descriptive Questions

6. **POWER TO ACQUIRE SHARES OF SHAREHOLDERS DISSENTING FROM SCHEME OR CONTRACT APPROVED BY MAJORITY [SECTION 235 OF THE COMPANIES ACT, 2013]**

(1) Basic requirements as to acquisition of shares [Sub-section (1)]:

- The scheme or contract involving the transfer of shares or any class of shares in a company (the transferor company) to another company (the transferee company) has been approved by the holders of **not less than 9/10th in value of the shares whose transfer is involved.**
- The approval from 9/10th shareholders in value shall be received within four months after making of an offer in that behalf by the transferee company.
- The shares already held at the date of offer by Transferee Company, or by a nominee of the transferee company or its subsidiary companies shall not be counted for this purpose. The transferee company shall express his desire to acquire the remaining shares of dissenting shareholders within two months after the expiry of the said four months and shall give notice in the prescribed manner to any dissenting shareholder that it desires to acquire his shares.

- (2) Order of Tribunal to acquire shares of dissenting shareholders [Sub-section (2)]:** Where a notice under sub-section (1) is given, the transferee company shall, unless on an application made by the dissenting shareholder to the Tribunal, within one month from the date on which the notice was given and the Tribunal thinks fit to order otherwise, be entitled to and bound to acquire those shares on the terms on which, under the scheme or contract, the shares of the approving shareholders are to be transferred to the transferee company.

(3) Application by dissenting shareholders [Sub-section (3)]:

- (i) Where a notice has been given by the transferee company on an application made by the dissenting shareholder and the Tribunal has not, made an order to the contrary i.e. order made in favor of the company, the transferee company shall, on the expiry of one month from the date on which the notice has been given, or,
- (ii) if an application to the Tribunal by the dissenting shareholder is then pending, - Nothing is required to be done.
- (iii) after that application has been disposed of-
shall send a copy of the notice to the transferor company together with an instrument of transfer, to be executed on behalf of the shareholder by any person appointed by the

transferor company and on its own behalf by the transferee company, and pay or transfer to the transferor company- the amount or other consideration representing the price payable by the transferee company for the shares which that company is entitled to acquire,

(iv) The transferor company shall:

- (a) thereupon register the transferee company as the holder of those shares; and
- (b) within one month of the date of such registration, inform the dissenting shareholders of the fact of such registration and of the receipt of the amount or other consideration representing the price payable to them by the transferee company.

(4) Separate Bank account for disbursement to entitled shareholders [Sub-section (4)]: Any sum received by transferor company under this section shall be paid into a separate bank account, and any such sum and any other consideration so received shall be held by that company in trust for several persons entitled to shares in respect of which the said sum or other consideration were respectively received and shall be disbursed to entitled shareholders within sixty days.

(5) Scheme/contract made before the commencement of Act [Sub-section (5)]: In relation to an offer made by a transferee company to shareholders of a transferor company before the commencement of this Act, this section shall have effect with the following modifications, namely:

- (a) in sub-section (1), for the words "the shares whose transfer is involved other than shares already held at the date of the offer by, or by a nominee of, the transferee company or its subsidiaries," the words "the shares affected" shall be substituted; and
- (b) in sub-section (3), the words "together with an instrument of transfer, to be executed on behalf of the shareholder by any person appointed by the transferee company and on its own behalf by the transferor company" shall be omitted.

Explanation — For the purposes of this section, "dissenting shareholder" includes a shareholder who has not assented to the scheme or contract and any shareholder who has failed or refused to transfer his shares to the transferee company in accordance with the scheme or contract.

Purchase of Minority Shareholding [Section 236]

(1) Notify to company for purchase of minority shareholding [Sub-section (1)]:

- In the event of an acquirer, or a person acting in concert with such acquirer – becoming registered holder of ninety percent or more of the issued equity share capital of a company, or
- in the event of any person or group of persons - becoming ninety percent majority or holding ninety percent of issued equity share capital of a company, by virtue of an amalgamation, share exchange, conversion of securities or for any other reason,

such acquirer, person or group of persons, as case may be, shall notify company of their intention to buy remaining equity shares."

(2) Offer of equity shares to minority shareholders by acquirer, person or group of persons [Sub-section (2)]: The acquirer, person or group of persons shall offer to the minority shareholders of the company for buying the equity shares held by such shareholders at a price determined on the basis of valuation by a registered valuer in accordance with Rule 27.

(3) Offer to majority shareholder to purchase the minority equity shareholding [Sub-section (3)]: The minority shareholders of company may offer to majority shareholders to purchase the minority equity shareholding of the company at the price determined in accordance with Rule 27.

(4) Deposit of amount in separate bank account [Sub-section (4)]: The majority shareholders

shall deposit an amount equal to the value of shares to be acquired by them under sub-section (2) or sub-section (3), as the case may be, in a separate bank account to be operated by the company whose shares are being transferred for at least one year for payment to the minority shareholders and such amount shall be disbursed to the entitled shareholders within sixty days:

Provided that such disbursement shall continue to be made to the entitled shareholders for a period of one year, who for any reason had not been made disbursement within the said period of sixty days or if the disbursement have been made within the aforesaid period of sixty days, fail to receive or claim payment arising out of such disbursement.

- (5) **Role of company whose shares are being transferred to act as a transfer agent in the event of purchase [Sub-section (5)]:** In the event of a purchase under this section, the company whose shares are being transferred shall act as a transfer agent for receiving and paying the price to the minority shareholders and for taking delivery of the shares and delivering such shares to the majority, as the case may be.
- (6) **Company whose shares are being transferred to issue shares [Sub-section (6)]:** In the absence of a physical delivery of shares by the shareholders within the time specified by the company,
 - the share certificates shall be deemed to be cancelled, and
 - the company whose shares are being transferred shall be authorised to issue shares in lieu of the cancelled shares and complete the transfer in accordance with law, and
 - make payment of the price out of deposit made under sub-section (4) by the majority in advance to the minority by despatch of such payment.
- (7) **Right of shareholders to make an offer for sale of minority equity shareholding [Sub-section (7)]:** In the event of a majority shareholder or shareholders requiring a full purchase and making payment of price by deposit with the company for any shareholder or shareholders who have died or ceased to exist, or whose heirs, successors, administrators or assignees have not been brought on record by transmission, right of such shareholders to make an offer for sale of minority equity shareholding shall continue & be available for period of three years from date of majority acquisition or majority shareholding.
- (8) **Sharing of additional compensation [Sub-section (8)]:** Where the shares of minority shareholders have been acquired in pursuance of this section, and as on or prior to the date of transfer following such acquisition, the shareholders holding seventy-five per cent. or more minority equity shareholding negotiate or reach an understanding on a higher price for any transfer, proposed or agreed upon, of the shares held by them without disclosing the fact or likelihood of transfer taking place on the basis of such negotiation, understanding or agreement, the majority shareholders shall share the additional compensation so received by them with such minority shareholders on a pro rata basis.

Explanation—For the purposes of this section, the expressions “acquirer” and “person acting in concert” shall have the meanings respectively assigned to them in clause (b) and clause (e) of sub-regulation (1) of regulation 2 of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997.

- (9) **Determination of price for purchase of minority shareholders:** Rule 27 prescribes that the registered valuer shall determine the price to be paid by the acquirer, person or group of persons referred to in sub-section (1) of section 236 of the Act for purchase of equity shares of the minority shareholders of the company in accordance with the prescribed rules.

(10) On failure of acquisition of shares [Sub-section (9)]: When a shareholder or the majority equity shareholder fails to acquire full purchase of the shares of the minority equity shareholders, then, the provisions of this section shall continue to apply to the residual minority equity shareholders, even though, —

- (a) the shares of the company of residual minority equity shareholder had been delisted; and
- (b) the period of one year or the period specified in the regulations made by the Securities and Exchange Board under the Securities and Exchange Board of India Act, 1992, had elapsed.

7. The refundable amount under GST shall, instead of being credited to the Consumer Welfare Fund, be paid to IP Limited, if such amount is relatable to —

- (a) Refund of tax paid on export of goods or services or both or on inputs or input services used in making such exports.
- (b) Refund of unutilized ITC in case of zero-rated supplies made without payment of tax or accumulated ITC on account of inverted duty structure.
- (c) Refund of tax paid on a supply which is not provided, either wholly or partially, and for which invoice has not been issued or where a refund voucher has been issued.
- (d) Refund of tax paid on a transaction treating it to be an intra-State supply, but which is subsequently held to be an inter-State supply or vice-versa.
- (e) If the incidence of tax or interest paid has not been passed on to any other person.
- (f) Such other class of persons who has borne the incidence of tax as the Government may notify.

The allowable refunds are as under:

- (i) Export/supply to SEZ developer/unit on payment of IGST.
- (ii) Refund of unutilized ITC.
- (iii) Refund of tax paid on the supply of goods regarded as deemed exports may be claimed.
- (iv) Refund of any balance in the electronic cash ledger after payment of tax, interest, penalty, fee or any other amount payable under this Act or the rules made there under may be claimed.
- (v) Refund on account of tax paid on a supply which is not provided, either wholly or partially, and for which invoice has not been issued (tax paid on advance payment).
- (vi) Refund of tax wrongly collected and paid to the Government (i.e. CGST & SGST paid by treating the supply as intra-State supply which is subsequently held as inter-State supply and vice versa).
- (vii) Refund of IGST paid by tourist leaving India on any supply of goods taken out of India by him.
- (viii) Tax becomes refundable as a consequence of judgment, decree, order or direction of the Appellate Authority, Appellate Tribunal or any Court.
- (ix) On finalization of provisional assessment, if any tax becomes refundable to taxpayer (on account of assessed tax on final assessment being less than the tax deposited by the taxpayer).
- (x) Refund of taxes on purchases made by UN bodies or embassies etc.
- (xi) Refund of taxes to the retail outlets established in departure area of an international airport beyond immigration counters making tax free supply to an outgoing international tourist.
- (xii) Refund of advance tax deposited by a casual taxable person/Non-resident taxable person.
- (xiii) Refund of excess payment of tax.

PAST PAPERS

Case Study 13

Subjects	Topics Covered	Marks
FR	Ind AS 101	15
DT	TDS (Section 194C, 194J)	6
IDT	Place of Supply (Section 12)	2
Law	Companies Act (Section 182)	2

S Limited is company having its registered and corporate office at New Delhi. It is specialised in manufacturing machinery products and is looking to expand its operations across the nation. 60% of the S Limited's shares are held by the Government of India and rest by other investors. The company is also in the process of negotiations with other companies to take over their business for strategic advantage.

Since the company has been in existence for more than 10 years, the board resolution was passed to make political contributions amounting to ₹ 10,00,000 for the year ending March 31st, 2024. However, the average net profit of company for immediately preceding 3 years is ₹ 8,00,000 only. The management of company is concerned regarding the maximum amount of political contributions to be made considering the relevant provisions of laws being in force.

This is the first time that S Limited would be applying Ind AS for the preparation of its financials for the current financial year 2023-24. Ind AS mandates that an entity shall present three Balance Sheets as at: (a) the end of the current period; (b) the end of the preceding period; and (c) the beginning of the preceding period, in its first-time adoption of Ind AS. During this process, the company is also required to present the opening Ind AS Balance Sheet as at the date of transition. Accordingly, following is the Balance Sheet prepared as per earlier GAAP as at the beginning of the preceding period along with the additional information:

Balance Sheet as at 31st March, 2023

(All figures are in '000, unless otherwise specified)

Particulars	Amount (₹)
EQUITY AND LIABILITIES	
(1) Shareholder's Funds	
(a) Share Capital	10,00,000
(b) Reserves & Surplus	25,00,000
(2) Non-Current Liabilities	
(a) Long Term Borrowings	4,50,000
(b) Long Term Provisions	3,50,000
(c) Deferred Tax Liabilities	3,50,000
(3) Current Liabilities	
(a) Trade Payables	22,00,000
(b) Other Current Liabilities	4,50,000
(c) Short Term Provisions	12,00,000
TOTAL	85,00,000
ASSETS:	
(1) Non-Current Assets	
(a) Property, Plant & Equipment (net)	20,00,000

(b) Intangible Assets	2,00,000
(c) Goodwill	1,00,000
(d) Non-Current Investments	5,00,000
(e) Long Term Loans & Advances	1,50,000
(f) Other Non-Current Assets	2,00,000
(2) Current Assets	
(a) Current Investments	18,00,000
(b) Inventories	12,50,000
(c) Trade Receivables	9,00,000
(d) Cash and Bank Balances	10,00,000
(e) Other Current Assets	4,00,000
TOTAL	85,00,000

Additional Information:

- Other current liabilities include ₹ 3,90,000 liabilities to be paid in cash such as expense payable, salary payable etc. and ₹ 60,000 are statutory government dues.
- Long term loans and advances include ₹ 40,000 loan and the remaining amount consists advance to staff of ₹ 1,10,000.
- Other non-current assets of ₹ 2,00,000 consists Capital advances to suppliers.
- Other current assets include ₹ 3,50,000 current assets receivable in cash and Prepaid expenses of ₹ 50,000.
- Short term provisions include Dividend payable including DDT of ₹ 2,00,000. The dividend payable had been as a result of board meeting wherein the declaration of dividend for financial year 2021-22 was made. However, it is subject to approval of shareholders in the annual general meeting.

Chief Financial Officer of S Limited has also presented the following information against corresponding relevant items in the Balance Sheet:

- Property, Plant & Equipment consists a class of assets as office buildings whose carrying amount is ₹ 10,00,000. However, the fair value of said office building as on the date of transition is estimated to be ₹ 5,00,000. Company wants to follow revaluation model as its accounting policy in respect of its property, plant and equipment for the first annual Ind AS financial statements.
- The fair value of Intangible Assets as on the date of transition is estimated to be ₹ 2,50,000. However, the management is reluctant to incorporate the fair value changes in books of account although auditor does not agree to the same.
- S Ltd. had acquired 80% shares in Excel Private Limited few years ago thereby acquiring the control in it at that time. S Ltd. recognised goodwill as per erstwhile accounting standards by accounting the excess of consideration paid over the net assets acquired at the date of acquisition. Fair value exercise was not done at the time of acquisition. Now auditors insist the company that fair value exercise must be done with retrospective effect as on the date of transition.
- Trade receivables include an amount of ₹ 20,000 as provision for doubtful debts measured in accordance with previous GAAP. Now as per latest estimates, the provision needs to be revised to ₹ 25,000.
- Six years ago, company had given a loan of ₹ 1,00,000 to an entity for the term of 10 years. Transaction costs were incurred separately for this loan. The loan carries an interest rate of 7% p.a. and it was carried at cost in its initial recognition. The principal amount is to be repaid in equal instalments over the period of ten years at the year end. Interest is also payable at each year end. The fair value of loan as on the date of

transition is ₹ 50,000 as against the carrying amount of loan which at present amounts ₹ 40,000. However, Ind AS 109 mandates to charge the interest expense as per effective interest method after the adjustment of transaction costs. Management says it is tedious task in the given case to apply the effective interest rate changes with retrospective effect and hence is reluctant to apply the same retrospectively in its first-time adoption.

- In the long-term borrowings, ₹ 4,50,000 of component is due towards the State Government. Interest is payable on the government loan at 4% p.a., however the prevailing rate in the market at present is 8% p.a. The fair market value of loan stands at ₹ 4,20,000 as on the relevant date.
- Under Previous GAAP, the mutual funds were measured at cost or market value, whichever is lower. Under Ind AS, the Company has designated these investments at fair value through profit or loss. The value of mutual-funds as per previous GAAP is ₹ 2,00,000 as included in 'current investments'. However, the fair value of mutual funds as on the date of transition is ₹ 2,30,000.
- Ignore separate calculation of deferred tax on above adjustments. Assume the net deferred tax income to be ₹ 50,000 on account of Ind AS transition adjustments.

During the briefing with internal audit head of S Limited, internal auditor has put an observation that a contractor, M/s DG Brothers Private Limited, has been providing the services to S Limited since the beginning of the year. M/s DG Brothers Private Limited does billing to S Limited's corporate office each month at ₹ 50,000 (exc. GST). From the invoice particulars, it is found that M/s DG Brothers Private Limited is situated at Ghaziabad, Uttar Pradesh and having PAN no. XXXXXXXXXX. The total invoice amount comes to ₹ 59,000 incorporating GST @ 18%. Meanwhile, company deducts Tax Deduction at Source (TDS) of M/s DG Brothers Private Limited each month amounting to ₹ 500 on the amount of ₹ 50,000 and not on ₹ 59,000. Accountant is worried that he should have been deducting TDS on ₹ 59,000 as its non-compliance would require the company to pay interest on late payment of TDS/Short deduction.

There is another service provider, Amit Shukla who as a professional had assisted the company for Ind AS adjustments. Amit Shukla billed ₹ 10,00,000 to the company on 16th January, 2024. Company booked the said invoice in its books with the date as mentioned in invoice and deducted the TDS accordingly. However, company has deposited the due TDS amount on 30th April, 2024.

Multiple Choice Questions

1. Calculate the amount of political contribution S Limited can make to political party for the year ending 31st March, 2024.
 - (a) ₹ 10,00,000
 - (b) ₹ 8,00,000
 - (c) Nil
 - (d) No Limit
2. Calculate the amount of TDS to be deducted by S Limited against the monthly invoice of M/s DG Brothers Private Limited.
 - (a) ₹ 1,180
 - (b) ₹ 1,000
 - (c) ₹ 885
 - (d) ₹ 750
3. Calculate the amount of TDS deducted by S Limited against ₹ 10,00,000 billed by Amit Shukla.

- (a) ₹ 50,000
(b) ₹ 20,000
(c) ₹ 10,000
(d) ₹ 1,00,000
4. Calculate the interest on late payment of TDS, S Limited is required to pay and deposit to the account of Central Government in the case of Amit Shukla.
(a) ₹ 5,000
(b) ₹ 7,500
(c) ₹ 6,000
(d) ₹ 4,000
5. The place of supply and tax leviable in case of services provided by M/s DG Brothers Private Limited to S Limited is (assuming that M/s DG Brothers Private Limited is not a works contractor) -
(a) Delhi, CGST & SGST
(b) Delhi, IGST
(c) Uttar Pradesh, CGST & SGST
(d) Uttar Pradesh, IGST

Descriptive Questions

6. Discuss in brief about the provisions/requirements of the relevant Ind AS, which is required for preparation of S Limited's opening Balance Sheet as on the date of transition.
7. Prepare transition date Balance Sheet of S Limited as per Indian Accounting Standards, according to the format prescribed in Division II - Ind AS Schedule III to the Companies Act, 2013.
8. Show necessary explanation for each of the items presented by chief financial officer in the form of notes, which may or may not require the adjustment as on the date of transition.

ANSWERS TO THE CASE STUDY 13

Answers to the Multiple Choice Questions

1. (c)
2. (b)
3. (d)
4. (c)
5. (b)

Answers to the Descriptive Questions

6. Ind AS 101 prescribes the accounting principles for first-time adoption of Ind AS. It lays down various 'transition' requirements when a company adopts Ind AS for the first time. Conceptually, the accounting under Ind AS should be applied retrospectively at the time of transition to Ind AS. However, to ease process of transition, Ind AS 101 has given certain exemptions from retrospective application of Ind AS.

An entity shall prepare and present an opening Ind AS Balance Sheet at the date of transition to Ind AS. This is the starting point for its accounting in accordance with Ind AS.

An entity shall, in its opening Ind AS Balance Sheet:

- recognise all assets and liabilities whose recognition is required by Ind AS;
- not recognise items as assets or liabilities if Ind AS do not permit such recognition;
- reclassify items that it recognised in accordance with previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with Ind AS; and
- apply Ind AS in measuring all recognised assets and liabilities.

The accounting policies in opening Ind AS Balance Sheet may differ from those that it used for the same date using previous GAAP. The resulting adjustments arise from events and transactions before the date of transition to Ind AS, shall be recognised directly in retained earnings (or, if appropriate, another category of equity) at the date of transition to Ind AS.

7. Transition Date (Opening) Ind-As Balance Sheet of S Limited as at 1st April 2023 (₹)

Particulars	Previous GAAP	Transitional Ind AS adjustments	Opening Ind AS Balance Sheet
ASSETS			
Non-current assets			
Property, plant and equipment (Note 1 of Ans 5.8)	20,00,000	(5,00,000)	15,00,000
Goodwill (Note 2 of Ans 5.8)	1,00,000	-	1,00,000
Other Intangible assets (Note 3 of Ans 5.8)	2,00,000	-	2,00,000
Financial assets:			
Investment	5,00,000	-	5,00,000
Loans (Note 4 of Ans 5.8)	40,000	10,000	50,000
Other financial assets	1,10,000	-	1,10,000
Other non-current assets	2,00,000	-	2,00,000
Current assets			
Inventories	12,50,000	-	12,50,000
Financial assets			
Investments (Note 5 of Ans 5.8)	18,00,000	30,000	18,30,000
Trade receivables (Note 6 of Ans 5.8)	9,00,000	-	9,00,000
Cash and bank balances	10,00,000	-	10,00,000
Other financial assets	3,50,000	-	3,50,000
Other current assets	50,000	-	50,000
TOTAL ASSETS	85,00,000	(4,60,000)	80,40,000
EQUITY AND LIABILITIES			
Equity			
Equity share capital	10,00,000	-	10,00,000
Other equity	25,00,000	(2,10,000)	22,90,000

Non-current liabilities			
Financial liabilities			
Borrowings (Note 7 of Ans 5.8)	4,50,000	-	4,50,000
Provisions	3,50,000	-	3,50,000
Deferred tax liabilities (Net)	3,50,000	(50,000)	3,00,000
Current liabilities			
Financial liabilities			
Trade payables	22,00,000	-	22,00,000
Other financial liabilities	3,90,000	-	3,90,000
Other current liabilities	60,000	-	60,000
Provisions (Note 8 of Ans 5.8)	12,00,000	(2,00,000)	10,00,000
TOTAL EQUITY AND LIABILITIES	85,00,000	(4,60,000)	80,40,000

OTHER EQUITY

	Retained Earnings (₹)	Total
As on the date of transition	22,90,000 (W.N.1)	22,90,000

Working Note 1:

Retained earnings balance:	
Balance as per Earlier GAAP	25,00,000
Transitional adjustment due to revaluation of PPE	(5,00,000)
Transitional adjustment due to loan's fair value	10,000
Transitional adjustment due to increase in mutual fund's fair value	30,000
Transitional adjustment due to decrease in deferred tax liability	50,000
Transitional adjustment due to decrease in provisions (dividend)	2,00,000
Total	22,90,000

Disclosure forming part of financial statements:

Proposed dividend on equity shares is subject to the approval of the shareholders of the company at the annual general meeting and should not be recognized as liability as at the Balance Sheet date.

8. **Explanation for the items as presented by chief financial officer against the corresponding relevant items which may or may not require adjustment on the date of transition as per Ind AS 101 in S Limited's opening Ind AS balance sheet:**

Note 1: Property, plant & Equipment:

As per para D5 of Ind AS 101, an entity may elect to measure an item of property, plant and equipment at date of transition to Ind AS at its fair value and use that fair value as its deemed cost at that date.

Para D7AA has to be applied for all items of property, plant and equipment. So, if D5 exemption is taken for buildings, Ind AS will have to be applied retrospectively for other assets as well. Since, an entity elects to measure an item of property, plant and equipment at the date of transition to Ind AS at its fair value and use that fair value as its deemed cost at that date, it is assumed that the carrying amount of other assets based on retrospective application of Ind AS is equal to their fair value of ₹ 10 lakhs.

Note 2: Goodwill:

Ind AS 103 mandatorily requires measuring the assets and liabilities of the acquiree at its fair value as

on the date of acquisition. However, a first time adopter may elect to not apply the provisions of Ind AS 103 with retrospective effect that occurred prior to the date of transition to Ind AS.

Hence company can continue to carry the goodwill in its books of account as per the previous GAAP.

Note 3: Intangible assets:

Para D7 read with D6 of Ind AS 101 states that a first-time adopter may elect to use a previous GAAP revaluation at, or before, the date of transition to Ind AS as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to:

- (a) Fair value; or
- (b) Cost or depreciated cost in accordance with Ind AS, adjusted to reflect, for example, changes in a general or specific price index.

However, there is a requirement that Intangible assets must meet the definition and recognition criteria as per Ind AS 38.

Hence, company can avail the exemption given in Ind AS 101 as on the date of transition to use the carrying value as per previous GAAP.

Note 4: Loan:

Para B8C of Ind AS 101 states that if it is impracticable (as defined in Ind AS 8) for an entity to apply retrospectively the effective interest method in Ind AS 109, the fair value of the financial asset or the financial liability at the date of transition to Ind AS shall be the new gross carrying amount of that financial asset or the new amortised cost of that financial liability at the date of transition to Ind AS.

Accordingly, ₹ 50,000 would be the gross carrying amount of loan and difference of ₹ 10,000 (₹ 50,000 – ₹ 40,000) would be adjusted to retained earnings.

Note 5: Mutual Funds:

Para 29 of Ind AS 101 states that an entity is permitted to designate a previously recognised financial asset as a financial asset measured at fair value through profit or loss in accordance with paragraph D19A. The entity shall disclose the fair value of financial assets so designated at the date of designation and their classification and carrying amount in the previous financial statements.

D19A states that an entity may designate a financial asset as measured at fair value through profit or loss in accordance with Ind AS 109 on the basis of the facts and circumstances that exist at the date of transition to Ind AS.

Note 6: Trade receivables:

Para 14 of Ind AS 101 states that an entity's estimates in accordance with Ind AS at the date of transition to Ind AS shall be consistent with estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.

Para 15 of Ind AS 101 further states that an entity may receive information after the date of transition to Ind AS about estimates that it had made under previous GAAP. In accordance with paragraph 14, an entity shall treat the receipt of that information in the same way as non-adjusting events after the reporting period in accordance with Ind AS 10, Events after the Reporting Period.

The entity shall not reflect that new information in its opening Ind AS Balance Sheet (unless the estimates need adjustment for any differences in accounting policies or there is objective evidence that the estimates were in error). Instead, the entity shall reflect that new information in profit or loss (or, if appropriate, other comprehensive income).

Note 7: Government Grant:

Para 10A of Ind AS 20 states that the benefit of a government loan at a below-market rate of interest is treated as a government grant. The loan shall be recognised and measured in accordance with Ind AS 109, Financial Instruments. The benefit of the below-market rate of interest shall be measured as the difference between the initial carrying value of the loan determined in accordance with Ind AS 109, and the proceeds received. The benefit is accounted for in accordance with this Standard.

However, Para B10 of Ind AS 101 states, a first-time adopter shall classify all government loans received as a financial liability or an equity instrument in accordance with Ind AS 32, Financial Instruments: Presentation. Except as permitted by paragraph B11, a first-time adopter shall apply the requirements in Ind AS 109, Financial Instruments, and Ind AS 20, Accounting for Government Grants and Disclosure of Government Assistance, prospectively to government loans existing at the date of transition to Ind AS and shall not recognise the corresponding benefit of the government loan at a below-market rate of interest as a government grant. Consequently, if a first-time adopter did not, under its previous GAAP, recognise and measure a government loan at a below-market rate of interest on a basis consistent with Ind AS requirements, it shall use its previous GAAP carrying amount of the loan at the date of transition to Ind AS since the carrying amount of the loan in the opening Ind AS Balance Sheet. An entity shall apply Ind AS 109 to the measurement of such loans after the date of transition to Ind AS.

Note 8: Dividend

Dividend should be deducted from retained earnings during the year when it has been declared and approved. Accordingly, the provision declared for preceding year should be reversed (to rectify the wrong entry). Retained earnings would increase proportionately due to such adjustment.

PAST PAPERS

Case Study 14

Subjects	Topics Covered	Marks
FR	Ind AS 16, Ind AS 24, Ind AS 28	7
Audit	Basic Verification, Professional Ethics	4
DT	PGBP (Depreciation)	7
Law	Companies Act (Section 188)	7

You have been appointed as statutory auditors of XYZ Limited in its 12th annual general meeting for a period of five years. Your appointment has been made in place of M/s AB and Company, Chartered Accountants.

XYZ Limited is unlisted public company in which CDE Limited, a listed company, holds 50 % equity shares. The balance 50% equity shares are held by Mr. FG and his close relatives. The management of XYZ Limited is being done by Mr. FG and his son. CDE Limited has also appointed two of his directors as directors of XYZ Limited. CDE Limited is listed on both National Stock Exchange (NSE) as well as Bombay Stock Exchange (BSE). XYZ Limited is a manufacturing company engaged in production of piston, an auto part for commercial trucks. CDE Limited is also a manufacturing company engaged in the production of commercial trucks having its assembly plants at three different locations in the country.

Upto 31st March, 2020, the entire production of XYZ Limited of pistons was purchased by CDE Limited. However, with effect from April 1st 2020, XYZ Limited has started contract manufacturing for CDE Limited and for that purpose an agreement has been entered into between the two companies.

The salient features of the Agreement are as follows:

- (1) The installed capacity of XYZ Limited is 200,000 piston per annum. The optimum production level is expected to be not less than 80% of the installed capacity.
- (2) All the raw materials/parts for production shall be procured and supplied by CDE Limited to XYZ Limited. Sufficient quantity levels of raw material/parts shall be maintained with XYZ Limited for smooth and uninterrupted production.
- (3) 5% production loss shall be permitted to XYZ Limited.
- (4) Any production scrap shall be disposed of by XYZ Limited at its own expense. Receipt from sale of scrap shall be to the credit of XYZ Limited only.
- (5) An estimated cost sheet shall be prepared by XYZ Limited based on the prevailing cost of raw materials/parts, wages and stores/consumables and shall be approved by CDE Limited in advance before the start of every new financial year.
- (6) XYZ Limited shall be given 30% of the cost of production as its contract receipt.
- (7) The production shall be stored by XYZ Limited in its warehouse and shall be despatched to various assembly plants of CDE Limited as per delivery schedule provided to it three months in advance.
- (8) The payment of invoices raised by XYZ Limited on respective assembly plants of CDE Limited shall be made by respective plants where products shall be delivered with 30 days from receipt of the products.
- (9) CDE will not interfere in day to day operation.

During the financial year ended 31.03.2024, you noticed the following transactions in accounts of XYZ Limited:

- (1) An advance against supplies of ₹ 2,00,00,000 was received from CDE Limited. However, the same has been utilised by XYZ Limited to replace an old machinery with the new one to improve the quality of the

finished products. No supplies were made against the said advance by the company to CDE Limited.

- (2) An export order has been fulfilled by XYZ Limited at the instruction of CDE Limited at a price mutually agreed by the importer and CDE Limited.
- (3) A consignment of 2500 pistons supplied to one of the units of CDE Limited has been rejected due to inferior quality material used for production.
- (4) The Assessing officer has disallowed depreciation on plant and machinery claimed by the company on the ground that the arrangement of contract manufacturing has been made by the parties with malafide to claim depreciation on plant and machinery whereas the substance of the arrangement is nothing but giving the entire plant on lease and therefore, the income has been assessed under the 'Income from House Property' instead of under the head 'Profit or gains from business or profession. The company has filed an appeal against said assessment order before CIT (appeals) and appeal was pending as on date.

Multiple Choice Questions

1. After you have received your appointment as statutory auditor of XYZ Limited, you were required to:
 - (a) start your audit assignment immediately.
 - (b) communicate with the previous auditors for knowing their objection in accepting the assignment by you, if any.
 - (c) wait for the retiring auditor to communicate with you.
 - (d) start your audit assignment pending confirmation from previous auditor about their objection, if any.
2. As provided in the Companies Act, 2013, the relationship of XYZ Limited with CDE Limited is that of an associate because:
 - (a) CDE Limited holds 50% equity shares of XYZ Limited.
 - (b) CDE Limited was purchasing the entire production of XYZ Limited.
 - (c) XYZ Limited has utilised a sum of ₹ 2,00,00,000 given by CDE Limited.
 - (d) CDE Limited hold significant influence over XYZ Limited and does not fulfil definition of control under Ind AS.
3. In terms of Indian Accounting Standard (Ind AS)-16 Property, Plant and Equipment, the replacement of old machinery shall be accounted for by XYZ Ltd. as:
 - (a) an addition to PPE as the expenditure fulfils the definition of PPE.
 - (b) an addition to PPE as it is a very big expenditure.
 - (c) revenue expenditure as it is relating to replace of existing plant.
 - (d) revenue expenditure, as management has incurred that expenditure from its short term resources.
4. As the statutory auditors of XYZ Limited, your query for using the advance against supplies towards replacement of machinery, shall be that:
 - (a) whether it was used with the consent of the party.
 - (b) advance against supplies can never be used for any other purpose, why it was done?
 - (c) company has actually used short term funds for long term purpose. Reasons required as this matter needs to be reported.
 - (d) All of the above.

5. What will be the depreciation rate on plant and machinery used in production under Income Tax Rules, 1962:
- (a) 10%
 - (b) 15%
 - (c) 20%
 - (d) 40%

Descriptive Questions

6. What are the compliances which XYZ Limited, must have taken to comply with the provisions of the Companies Act, 2013 for entering into an agreement for contract manufacturing for CDE Limited?
7. What are the disclosure requirements which you would like to verify from the financial statement of XYZ Limited for the year ended 31.03.2024 with respect to its transactions with CDE Limited? Whether your audit scope will include TDS and GST compliances also?
8. Please explain with reasoning, whether the disallowance of depreciation made and the income being assessed under the head 'Income from House Property' instead of Business Profits by the Assessing Officer, was justified.

ANSWERS TO THE CASE STUDY 14

Answers to the Multiple Choice Questions

- 1. (b)
- 2. (d)
- 3. (a)
- 4. (d)
- 5. (b)

Answers to the Descriptive Questions

6. In the instant case, XYZ Limited is unlisted public company in which CDE Limited, a listed company holds 50% equity shares. This means these companies are Associates companies by virtue of Section 2(6) of the Companies Act, 2013.

According to Section 2(76)(viii)(A) "related party", with reference to a company, means any company which is a holding, subsidiary or an associate company of such company. Hence, CDE Limited and XYZ Limited are related parties and hence compliances under Section 188 shall be applicable.

According to Section 188(1), except with the consent of the Board of Directors given by a resolution at a meeting of the Board and subject to such conditions as may be prescribed, no company shall enter into any contract or arrangement with a related party with respect to sale, purchase or supply of any goods or materials.

Provided that no contract or arrangement, in the case of a company having a paid-up share capital of not less than such amount, or transactions exceeding such sums as under Rule 15 of the Companies (Meeting of Board and its Powers) Rules, 2014 shall be entered into except with the prior approval of the company by a resolution.

Provided further that no member of the company shall vote on such resolution, to approve any contract

or arrangement which may be entered into by the company, if such member is a related party.

Provided also that nothing in this sub-section shall apply to any transactions entered into by the company in its ordinary course of business other than transactions which are not on an arm's length basis.

Explanation. — In this sub-section, expression "arm's length transaction" means a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.

(2) Every contract or arrangement entered into under sub-section (1) shall be referred to in the Board's report to the shareholders along with the justification for entering into such contract or arrangement.

(3) Where any contract or arrangement is entered into by a director or any other employee, without obtaining consent of Board or approval by a resolution in general meeting under sub-section (1) and if it is not ratified by the Board or, as the case may be, by the shareholders at a meeting within three months from the date on which such contract or arrangement was entered into, such contract or arrangement shall be voidable at the option of the Board or, as the case may be, of the shareholders and if the contract or arrangement is with a related party to any director, or is authorised by any other director, the Directors concerned shall indemnify the company against any loss incurred by it.

(4) Without prejudice to anything contained in sub-section (3), it shall be open to the company to proceed against a director or any other employee who had entered into such contract or arrangement in contravention of the provisions of this section for recovery of any loss sustained by it as a result of such contract or arrangement.

(5) Any director or any other employee of a company, who had entered into or authorised the contract or arrangement in violation of the provisions of this section shall, —

- (i) in case of listed company, be liable to a penalty of twenty-five lakh rupees and
- (ii) in case of any other company, be liable to a penalty of five lakh rupees.

7. In the given situation, XYZ Limited is unlisted public company in which CDE Limited, a listed company holds 50% equity shares. CDE Limited has also appointed two of his directors as directors of XYZ Limited. XYZ Limited has started contract manufacturing for CDE Limited and for the same formal agreement is being done wherein all raw material/part for production shall be procured and supplied by CDE Limited to XYZ Limited. Further, XYZ Limited will be preparing estimated cost sheet based on prevailing cost of raw material/parts, wages and stores/consumable and shall be approved by CDE Limited in advance for every year. XYZ Limited shall be given 30% of cost of production as its contract receipt. In view of above, it can be said that the relationship of XYZ Limited and CDE Limited is that of an associate.

Ind-AS 24, "Related Party Disclosure", requires disclosure to be made separately prescribed categories such as the parent; entities with joint control of, or significant influence over, the entity; subsidiaries; associates; joint ventures in which the entity is a joint venturer; key management personnel of the entity or its parent; and other related parties.

As per Ind-AS 24 Related Party Disclosure, if an entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. At a minimum, disclosures shall include:

- (a) the amount of the transactions.
- (b) the amount of outstanding balances, including commitments, and:

- (i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and
- (ii) details of any guarantees given or received.

Further, examples of transactions that are disclosed if they are with a related party includes purchases or sales of goods (finished or unfinished); purchases or sales of property and other assets; rendering or receiving of services; leases; commitments to do something if a particular event occurs or does not occur in the future, including executory contracts¹ (recognised and unrecognised); settlement of liabilities on behalf of the entity or by the entity on behalf of that related party etc.

Further, disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated.

In the given situation, the auditor is required to verify that whether shareholding is being disclosed appropriately. Further, receipt of advance against supplies of Rs. 2,00,00,000 utilized for replacement of old machinery and no supplies were made to CDE Limited against the said advance, is being disclosed in accordance with IND-AS 24.

Auditor is also required to verify that export order fulfilled by XYZ Limited at the instruction of CDE Limited is prevailing at arm's length price.

Further, in case of pending appeal before CIT (Appeals) auditor is also required to assess and ensure disclosure of contingent liabilities is in accordance with IND-AS 37.

In view of large number of transactions between XYZ Ltd. & CDE Ltd., statutory auditor will have to verify TDS & GST compliances in respect of those transactions.

8. The Assessing Officer has disallowed depreciation on plant and machinery claimed by the company (XYZ Ltd. in the present case) on the ground that arrangement of contract manufacturing has been made by the parties with malafide to claim depreciation whereas the substance of the arrangement is nothing but giving the entire plant on lease.

In the present case, XYZ Ltd. was earlier manufacturing the piston and selling it to CDE Ltd. However, it had entered into an agreement with CDE Ltd. for contract manufacturing. As per the agreement, raw materials/parts of production are provided by the CDE Ltd and XYZ Ltd. is processing those raw materials in its plant and machinery and returning back it to the CDE Ltd. There is no clause of lease in the agreement.

Section 32 imposes a twin requirement of "ownership" and "usage for business" as conditions for claim of depreciation thereunder. As far as usage of the asset is concerned, the section requires that the asset must be used in the course of business. It does not mandate actual usage by the assessee itself.

XYZ Ltd. is entitled to claim depreciation in respect of plant and machinery since it is the only legal owner of plant & machinery and using such plant for purpose of its business i.e., contract manufacturing.

Accordingly, the contentions of the Assessing Officer to disallow depreciation claimed by XYZ Ltd. and assess the income under the head "Income from house property" instead of "Profits and gains of business or profession" are not justified.

PAST PAPERS

Case Study 15

Subjects	Topics Covered	Marks
FR	Ind AS 2, Ind AS 37, Ind AS 38	9
DT	PGBP (Basics), NR Taxation (Section 9)	11
IDT	OIDAR and Export	5

Facts of the Case

1. Mr. HPR and Mr. NPR were batch mates in animation course. While preparing for the final phase of their course, both agreed to explore setting up a joint studio for animation in Haryana.
2. After successfully completing their course and after lots of deliberation, both of them decided to form a Limited Liability Partnership. The main objects of the firm was decided to undertake the business of advertising & publicity, mass communication, graphic designing & exhibition designing Animation (2D/3D), photography for advertising and to carry on business as advertiser, publishers and undertake all such work which falls within the purview of modern methods of advertising, marketing including export market and applied Arts including setting up of a fully equipped Studio for Shooting films and such other business as the partners may from time to time unanimously agree upon.
3. On 20.08.2023 a Limited Liability Partnership (LLP) under the name M/s. HPNR LLP was incorporated. Both Mr. HPR and Mr. NPR were declared as 'Designated Partners'. Their monthly remuneration was fixed at ₹ 1,00,000 per month for each.
4. Both the partners contributed fixed capital of ₹ 25 lacs each. The bank account was opened in the name of the LLP and a commercial space of 1000 sq. ft. was taken on lease by the LLP.
5. Capital contributed was invested in high quality computer hardware systems and software to develop 3D animation. LLP also hired two technical staff at a monthly remuneration of ₹ 35,000 each. They themselves developed a website for the firm with an estimated expense of ₹ 2,50,000.
6. Mr. HPR one of the designated partner, prepared an excel sheet to maintain a table for time allotted and time consumed for every assignment by the partners as well as employees of the firm.
7. As initially there was no assignment available to the Firm, it was decided to utilize the man power to create animated objects which can be sold as such to the buyers or can be used in animation assignments for specific clients.
8. After aggressive marketing through personal contacts by both the partners, a contract to make an animation film from a well-established Health Care Company was secured. The contract was for an amount of ₹ 25 Lacs plus applicable taxes. The Firm completed the assignment and handed over the same to the client. Their job was very well appreciated by the client.
9. In the process of preparing the animation film, the LLP purchased some on-line digital assets and some on-line services from individual professionals for special sound and visual effects. The payments for the above-mentioned on-line purchases of digital assets as well as services were made in foreign currency through Credit Card of one of the partners.
10. In the month of April, 2024, HPNR received a notice from an international designing software company for using its software without any proper license acquired by the LLP from the month of December, 2023. However, HPNR claimed that it is using only the free version of similar software available in the public domain. The software company has sent a notice to the LLP to buy the official copy of their license as

well as pay a compensation of ₹ 5,00,000 for illegal use of their software. The LLP has sent a reply through a lawyer denying any liability towards illegal use of software. The matter was pending as on date.

Multiple Choice Questions

1. M/s. HPNR LLP wants to opt for presumptive taxation under Income Tax Act, 1961. Under which section, HPNR LLP is eligible for same:
 - (a) Section 44AD
 - (b) Section 44ADA
 - (c) Section 44AE
 - (d) None of the above
2. M/s. HPNR LLP is eligible for deduction of interest paid to partners on capital contribution under Income Tax Act, 1961 to the extent of maximum:
 - (a) 15% p.a.
 - (b) 12% p.a.
 - (c) 20% p.a.
 - (d) 14% p.a.
3. The income tax rate applicable to M/s. HPNR will be
 - (a) Slab rate
 - (b) 20%
 - (c) 30%
 - (d) 40%
4. Expenditure incurred on development of the website by M/s. HPNR has to be:
 - (a) Capitalised as an intangible expenditure.
 - (b) Charged to Profit and Loss Account.
 - (c) Charged to Profit and Loss over a period of 5 years.
 - (d) Capitalised as part of PPE.
5. In respect of legal notice received from International Designing Software company claiming a compensation of ₹ 5,00,000, M/s HPNR shall have to:
 - (a) Make a provision of the amount in the books of accounts.
 - (b) Only disclose the same a contingent liability at this stage.
 - (c) Make provision of atleast 50% of the compensation demanded.
 - (d) Neither make any provision nor make any disclosure at this stage.

Descriptive Questions

6. The management of HPNR has approached you to help them in deciding as to how animated objects created by the firm shall be accounted for in the books of accounts and how the same shall be valued for reflected them as on 31.03.2024?
7. You have also been requested to explain whether in respect of payments made for on-line digital assets purchased by the firm and payments made for on-line services taken by the company for special visual effects and sound effects any tax was required to be deducted at source by HPNR ?

8. Whether any GST compliances are required to be made with respect to online digital assets purchased and on-line services availed? Also explain whether use of such online digital assets purchased and online services are utilised for animation products exported outside India will make any difference?

ANSWERS TO THE CASE STUDY 15

Answers to the Multiple Choice Questions

1. (d)
2. (b)
3. (c)
4. (a)
5. (d)

Answers to the Descriptive Questions

6. Animation objects are created and sold to the buyer: Paragraph 6 of Ind AS 2 defines inventories as assets -
- (a) held for sale in the ordinary course of business;
 - (b) in the process of production for such sale; or
 - (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

As the animated objects are held for sale, the animated objects shall be accounted as inventories.

Paragraph 9 of Ind AS 2 states that inventories shall be measured at the lower of cost and net realisable value.

Therefore, the animated objects shall be measured at lower of cost and net realisable value. Further, cost will include the cost of manpower used to create those animated objects.

7. HPNR LLP purchased some online digital assets and some online services from individual professionals for special sound and visual effects. If online digital assets considered to be a computer software, the payment made in respect thereof would be royalty, since consideration is paid for transfer of right to use a computer software. Payment for online services from individual professionals for special sound and visual effects would be fall within the scope of fees for technical services (FTS) whether or not such services are rendered in India.

As per section 9(1)(vi), royalty payable by a person who is a resident in India would be deemed to accrue or arise in India in the hands of the non-resident payee, since royalty is paid in respect of business carried out in India. Likewise, as per section 9(1)(vii), FTS payable by a person who is a resident in India would be deemed to accrue or arise in India in the hands of the non-resident payee, since FTS is paid in respect of business carried out in India.

Thus, payments made for online digital assets and online services would be taxable in hands of non-residents. Accordingly, HPNR would be liable to deduct tax at source on such payments u/s 195.

8. Supply of online digital assets and online services qualifies as supply of online information and database access or retrieval (OIDAR) services.

In the given case, since payment for the online digital assets purchased and online services availed was

made in foreign currency, it has been assumed that the supplier of said services is located outside India. Recipient of services, HPNR LLP, is located in India.

In such case where supplier of OIDAR service is located outside India and recipient is located in India, place of supply is the location of the recipient of said services, viz. India.

Further, tax on supply of a service supplied by any person who is located in a non-taxable territory to any business entity located in the taxable territory is payable under reverse charge by the recipient of such service.

Since in the given case, OIDAR services have been imported by HPNR LLP (being a business entity) from individual professionals (located outside India), tax on such services is payable by HPNR LLP under reverse charge. Thus, HPNR LLP needs to undertake necessary compliances.

Section 24 of the CGST Act provides that, persons who are required to pay tax on inward supplies under reverse charge are required to obtain registration compulsorily irrespective of the quantum of its aggregate turnover. Accordingly, HPNR LLP has to obtain compulsory registration under GST.

In case online digital assets and online services are utilized for animation products exported outside India, the requirement of HPNR LLP to get compulsorily registered as above will remain unchanged.

In case of export of services, the exporter - HPNR LLP - will have an option to either:

- (i) pay IGST on the services exported and claim refund of such IGST paid
- or
- (ii) export such services under bond/Letter of Undertaking without payment of IGST and claim refund of ITC.

PAST PAPERS

Case Study 16

Subjects	Topics Covered	Marks
FR	Ind AS 2, Conceptual Framework for FR under Ind AS	11
DT	Penalty, Tax Audit	4
IDT	Value of Supply (OEM), Job Work	10

Facts of the Case

- Defence Innovators Limited is a public sector undertaking and is engaged in the construction of warships and submarines.
- XYZ Private Limited approached Defence Innovators Limited for construction of "specially designed" ships for it, which will be used by XYZ Private Limited for transportation of specific goods.
- The offer was accepted by the Defence Innovators Limited and both the companies entered into an agreement for the construction and delivery of 3 particular specially designed ships.
- Defence Innovators Limited has agreed for construction of 3 ships on 'Fixed Price' basis with variable component in respect to certain items.

(i) The break-up of the contract price is as under:

S.N.	Cost Element	1 st ship	2 nd ship	3 rd ship	Total
(A)	Fixed cost element	XX	XX	XX	XX
(B)	Variable cost items	XX	XX	XX	XX
(C)	Base and Depot (B & D) spares (Budgetary)				XX
(D)	Grand Total (A+B+C)				XX

Note: The above cost is exclusive of duties and other statutory levies applicable at the time of delivery of the vessel(s) and will be paid at actual.

(ii) Payment Terms:

(a) Fixed price element:

The payment will be made by the buyer against the completion of particular stage.

(b) Variable price element:

The payment will be made at actual with % of profit against the documentary evidence.

(c) Advance of ₹ 5 Lakhs in cash within 10 days of date of signing of contract.

- Base and depot (B & D) spares for all three ships shall be procured by Defence Innovators Limited and will be paid on the cost of the item with certain percentage.
- The contract states that "certain equipment" out of variable cost items, will be supplied by XYZ Private Limited at 'free of cost' for installation on board of ship. It is, therefore, to be noted as under:
 - Some equipments are procured by Defence Innovators Limited in the presence of the XYZ Private Limited's representative for technical scrutiny as well as negotiating the prices. The vendors of these equipment are paid by Defence Innovators Limited. The cost of the equipment alongwith the cost of installation and profit thereon is claimed and reimbursed by XYZ Private Limited to Defence Innovators Limited.

- (ii) And there are certain other equipments for which orders are directly placed and also paid by the XYZ Private Limited. These equipments are known as 'Buyer Furnished Equipment (BFE)' and are delivered to the company 'free of cost' for installing in the ship. The labour cost of Installation of these are already included in the price component of the contract.
7. The period required for construction of one ship was approximately four years.

Multiple Choice Questions

1. For Defence Innovators Limited, a resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise is known as:
 - (a) Asset
 - (b) Income
 - (c) Liability
 - (d) Cash inflow projections
2. In case of Defence Innovators Limited, to determine the value at which inventories are carried in the financial statements, including the ascertainment of cost of inventories and any write-down thereof to net realizable value, company is required to consider:
 - (a) Ind AS 1
 - (b) Ind AS 2
 - (c) Ind AS 7
 - (d) Ind AS 8
3. With reference to advance payment of ₹ 5 Lakhs, Defence Innovators Limited will be required to report it in Tax Audit Form 3CD under:
 - (a) Section 269S8
 - (b) Section 269ST
 - (c) Section 269T
 - (d) No reporting required
4. For receipt of advance in cash, Defence Innovators Limited would be liable to a penalty under Income Tax Act, 1961 of:
 - (a) ₹ 5 Lakhs
 - (b) ₹ 2.5 Lakhs
 - (c) ₹ 50,000
 - (d) No Penalty in this case
5. Under CGST Act, a registered person can send for job work any inputs or capital goods without payment of tax and bring back within prescribed time limit:
 - (a) without payment of tax
 - (b) with payment of tax
 - (c) Neither as per (a) nor (b)
 - (d) Both as per (a) and (b)

Descriptive Questions

6. Whether the cost of Buyer Furnished Equipment's (BFE's) supplied by XYZ Private Limited to Defence Innovators Limited for installing the same in the ships can be considered as 'inventory' by Defence Innovators Limited and then on delivery of ship will be recognised as revenue in its books of account? Elaborate.
7. How BFEs shall be dealt with under GST Act by Defence Innovators Ltd. in its books when it is certain that these shall not be sent back to XYZ Pvt. Ltd. till the constructed ships are delivered? Explain in detail.

ANSWERS TO THE CASE STUDY 16

Answers to the Multiple Choice Questions

1. (a)
2. (b)
3. (b)
4. (a)
5. (a)

Answers to the Descriptive Questions

6. It is to be noted that before any item can be recognised as an inventory, it should meet the definition of 'asset' as given in the Framework for the Preparation and Presentation of Financial Statements, issued by the Institute of Chartered Accountants of India as follows:

"An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity".

The orders in respect of Buyer Furnished Equipment's (BFEs) are directly placed by the buyer and also payment in respect of them is made by the buyer. These are then supplied to the company for installing in the ship and the buyer pays installation charges which are included in the contract price. Thus, the company has neither incurred any cost on BFEs nor any amount is recoverable on account of such equipment except installation charges. Accordingly, such equipments are not 'assets' that may be considered as a part of its contract work-in progress.

In fact, after installation in the ship, BFEs are returned to the buyer after completion of the ship. Thus, these are only held by the company in the capacity of a bailee. Since, it cannot be considered as an 'asset', therefore, it can neither be considered as 'inventory' nor as 'work-in-progress'.

Further, it can also not be considered as a part of sale value or revenue of the company as no consideration would be receivable with respect to the cost of such equipment.

7. As per section 15(2)(b) of the CGST Act, 2017, the value of supply shall include any amount that the supplier is liable to pay in relation to such supply but which has been incurred by the recipient of the supply and not included in the price actually paid or payable for the goods or services or both.

Further, CBIC vide Circular No. 47/21/2018 GST dated 08.06.2018 has clarified that while calculating value of supply made by a component manufacturer using moulds and dies owned by Original Equipment Manufacturers (OEM) sent free of cost (FOC) to him, value of such moulds and dies shall not be added to value of supply made by him because cost of moulds/dies was not to be incurred by component manufacturer and thus, does not merit inclusion in the value of supply in terms of section 15(2)(b).

However, if the contract between OEM and component manufacturer was for supply of components

made by using the moulds/dies belonging to the component manufacturer, but the same have been supplied by the OEM to the component manufacturer on FOC basis, the amortised cost of such moulds/dies shall be added to the value of the components.

In the given case, as per the terms of the contract between supplier – Defence Innovators Limited and recipient - XYZ Private Limited, it is the responsibility of the recipient to supply “Buyer Furnished Equipments (BFEs)” to the supplier, free of cost.

Thus, the value of the BFEs will not be included in the value of the ships supplied by it.

PAST PAPERS

Case Study 17

Subjects	Topics Covered	Marks
FR	Ind AS 10	2
Audit	Audit Strategy, Internal Audit	10
Law	Companies Act (Section 161, Schedule V), IBC (Section 21)	6
SCPM	Pricing, Budget Slack	7

ABOUT YOU

You are an open minded, highly sensible, competent professional with value added; decision making capabilities. You are also a Director on the Board, Chairman and/or Member of Committees of the Board of many listed and unlisted entities. You are also in the Board of SF Limited (SFL) as a Professional Director.

BACKGROUND OF SFL

It is fundamental to any business to keep updating the business strategies and plans to suit the changing business scenario. In the modern marketplace, there is no mercy for the mediocre. The rule applies to all sectors, be it a small scale industry or a big contributor. SFL is one such small scale growing enterprise belonging to SF Group of Companies which has several companies in its umbrella including listed and unlisted public limited/private limited companies engaged in various businesses.

SFL is involved in development of castings applicable for automobiles and tractors to industrial engines, construction equipment and power generation equipment. It meets the stringent requirement of diverse segments. It even caters to the exceptionally high standards of Defence applications. The indigenous expertise that drives the organisation enables it to keep pace with the constantly changing requirements of the market.

It has won the much coveted quality certifications including ISO 9000, QS 9000 and ISO 14001 certifications that endorse its capabilities.

MANAGEMENT OVERVIEW

The top Management of SFL is driven by a highly competent Board of Directors. The Board drives the business plans, operating, investment and financing activities besides taking all key decisions. The Board is supported by Mr. Seshadri, Special Director (Costing and Finance) who has a thorough insight of the day-to-day activities.

CORPORATE CULTURE

While the Company is historically Board managed, nevertheless, it believes in the principle of developing with everyone. SFL looks at its responsibilities to all stakeholder and is equally concerned with society, environment and work force. SFL spends on an average ₹ 5 Lakhs on CSR activities which is the approved budget every year.

BUDGET OVERVIEW

For an efficient functioning of the Company and to have hands on information as to what is happening in the Company on a day to day basis, Budgets are set by the Board which is pushed down to various teams and the actuals are regularly compared with the budgets for taking remedial actions in case of any adverse situations. As compared to earlier years, it was found that of late, the variance between the budget and the actual is widening and has become a cause of concern to the top management. Under the circumstances, it was emphasized that every personnel in the Company should participate in the budgetary process and perhaps even asking every manager to set his own targets and consolidate the same for setting the targets for Company.

YOUR CALL

At the Board Meeting of the Company proposed to be convened on 10th January, 2024, besides approving and taking on record, inter alia, the unaudited financial results of the Company for the third quarter and nine months ended 30.09.2023, certain additional matters are proposed to be discussed as below. You have been specially invited to the said Board Meeting for your valuable inputs.

DISCUSSION - 1

- (a) New venture of online shopping of automobile spares has been proposed to be added by the Company during the current year.

DISCUSSION - 2

- (b) To evaluate the cost and price statement in respect of an enquiry for the supply of 2,50,000 numbers of special type of auto components.

Back Up

The Company has received an enquiry for supply of 2,50,000 numbers of special type of auto components. The Company can execute the assignment provided a capital investment of ₹ 3,00,000 and working capital to the extent of 3 months' cost of sales are made available. The costs estimated are as follows:

Raw Materials	@ ₹ 3.25 per unit
Direct Labour Hours	8,000
Labour Rate	₹ 4.50 per hour
Factory Overheads	₹ 4 per direct labour hour
Selling and Distribution expenses	₹ 30,000

Borrowed funds will be available @ 11.5% on additional capital outlay. The company expects a net Return of 25% on Sales.

DISCUSSION - 3

- (c) To evaluate the requirements of the Companies Act, 2013 regarding appointment of Internal Auditors for the group companies. (This information is sought by the Independent Directors).

Certain Financial Information of Group Companies Figures are in ₹ crores and correspond to the previous year

Name	Nature	Equity Share Capital	Turnover	Loan from Bank and PFI	Public Deposit
ABC Ltd.	Listed	100	190	50	24
XYZ Ltd.	Unlisted Public	60	190	50	24
LMN Ltd.	Unlisted Private	60	190	50	-

OTHER INPUTS FOR DISCUSSION:

Post your introduction meeting with SFL, Mr. Karthik, the Senior Manager (Finance) of SFL explained his expectations from you and has also put forward the following inputs for your suitable advice:

- (i) Despite a robust internal check and internal control system prevailing in the Company, a theft of Cash of ₹ 15 lakhs by the cashier in January 2024 was detected only in May 2024 on which date the final accounts were not yet approved by the Board as the accounts were under audit.
- (ii) Mr. Q, a Director of SFL proceeding on a long foreign tour, appointed Mr. Y as an alternate director to act for him during his absence. The articles of the company provide for appointment of alternate directors. Mr. Q claims that he has a right to appoint an alternate director.

- (iii) Mr. Karthik expressed his apprehension that giving utmost freedom and flexibility- to the employees to set their own targets in the budget setting process would have a potential danger.
- (iv) Mr. Karthik also informed that in view of the excellent contributions for the progress of the Company, there is a proposal to appoint Mr. Seshadri, who is the Special Director (Costing and Finance) of SFL as the Managing Director of two other Companies unrelated to SFL.
- (v) Mr. Karthik also affirmed that there is a Corporate Insolvency Resolution Process going on before the Hon'able NCLT in one of the group companies and he wants to know which of the following statements are correct under Section 21 of the Insolvency and Bankruptcy Code, 2016:
 - (1) A financial creditor or the authorized representative of the financial creditor, if it happens to be a related party of the corporate debtor shall not have any right of representation, participation or voting in a meeting of the committee of creditors.
 - (2) A financial creditor regulated by a financial sector regulator, if it is a related party of the corporate debtor solely on account of conversion or substitution of debt into equity shares or instruments convertible into equity shares prior to the insolvency commencement date shall not have any right of representation, participation or voting in a meeting of the committee of directors.

You are requested to thoroughly go through the following questions and provide the correct answer in your capacity as an advisor. Please note that an advisor cannot afford to do mistakes. Hence, utmost care is required while giving your answer.

Multiple Choice Questions

1. The theft of cash of ₹ 15 lakhs:
 - (a) Need not be adjusted to the reported value of assets, liabilities, incomes or expenses for the year ended 31.03.2024.
 - (b) Need to be adjusted to the reported value of assets, liabilities, incomes or expenses for the year ended 31.03.2024
 - (c) Need to be adjusted to the reported value of assets, liabilities, incomes or expenses only for the year ended 31.03.2025
 - (d) A provision for bad debts should be made in the accounts.
2. With reference to Mr. Karthik's apprehension in para (iii) above, there is potential danger of having:
 - (a) Sheer Failure
 - (b) Non-Performance
 - (c) Resistance
 - (d) Slackness in Budget
3. The contention of Mr. Q to appoint an alternate director is:
 - (a) Correct as the Articles of the Company provide for appointment of alternate Directors.
 - (b) Incorrect as the authority to appoint alternate director has been vested in the board of directors only and that too subject to empowerment by the Articles.
 - (c) Incorrect as the authority to appoint alternate director has been vested in the board of directors only and with approval of shareholders by passing a special resolution.
 - (d) Incorrect as the authority to appoint alternate director has been vested only with the approval of shareholders by passing a special resolution.

4. As per Section V of Part II of Schedule V of the Companies Act, 2013 in respect of managerial remuneration where Mr. Sheshadri is appointed as managerial person in 2 companies, he may draw remuneration provided:
 - (a) Total remuneration drawn from the companies shall be as per their effective capital.
 - (b) Total remuneration drawn from the companies does not exceed the higher maximum limit admissible from anyone of the companies of which he is a managerial person.
 - (c) A person cannot be appointed as managerial person in 2 companies at the same time.
 - (d) Remuneration shall be paid subject to approval of members in general meeting.
5. Under the provisions of the Insolvency and Bankruptcy Code as enshrined in Section 21 of the Code, analyse the correctness of the statements as given in above para (v) in "Other inputs for discussion":
 - (A) Statement 1 is correct whereas, statement 2 is incorrect.
 - (B) Statement 1 is incorrect whereas, statement 2 is correct.
 - (C) Both the statements (Statement 1 and 2) are correct
 - (D) Both the statements (Statement 1 and 2) are incorrect.

Descriptive Questions

6. Considering the inputs in Discussion 1 as an advisor, what factors would be considered by you in formulating the audit strategy of the Company?
7. In the light of the inputs given above in Discussion 2, compute a Cost and Price Statement, indicating the price that should be quoted to the customer.
8. In the light of the inputs given above in Discussion 3, explain which of the group companies are required to appoint an internal auditor under the provisions of the Companies Act, 2013?

ANSWERS TO THE CASE STUDY 17

Answers to the Multiple Choice Questions

1. (b)
2. (d)
3. (b)
4. (b)
5. (a)

Answers to the Descriptive Questions

6. **Formulation of Audit Strategy:** While formulating the audit strategy for a company, following factors may be considered -
General Factors:
 - (i) **Determination of Characteristics of Audit:** Identify the characteristics of the engagement that define its scope.
 - (ii) **Reporting Objectives:** Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required.

- (iii) **Team's Efforts:** Consider the factors that, in the auditor's professional judgment, are significant in directing the engagement team's efforts.
- (iv) **Preliminary Work:** Consider the results of preliminary engagement activities and whether knowledge gained on other engagements performed by the engagement partner for the entity is relevant.
- (v) **Nature, timing and Extent of Resources:** Ascertain the nature, timing and extent of resources necessary to perform the engagement.

Specific Factors for Online Shopping:

The auditor shall also obtain an understanding of the information system including the related business processes due to new venture of online shopping in the following areas:

- (i) The **classes of transactions** in entity's operations that are significant to the financial statements;
- (ii) The **procedures, within both information technology (IT) and manual systems**, by which those transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements;
- (iii) The **related accounting records**, supporting information and specific accounts in the financial statements that are used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information is transferred to the general ledger. The records may be in either manual or electronic form;
- (iv) How the **information system captures events and conditions**, other than transactions, that are significant to the financial statements;
- (v) **Controls surrounding journal entries**, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments.

7. Cost and Price Statement

Particulars		Amount (₹)
Raw Material	$2,50,000 \times ₹ 3.25$	8,12,500
Direct Labour	$8,000 \times ₹ 4.5$	36,000
Factory Overhead	$8,000 \times ₹ 4$	32,000
Selling & Distribution		30,000
Cost of Sale		9,10,500
Add: Interest on investment ($5,27,625 \times 11.5\%$)		60,677
Total Cost		9,71,177
Add Profit (1/3)		3,23,726
Total Sales Value		12,94,903
Units		2,50,000
Rate Per Unit		5.179 or 5.2

*** Investment**

Working Capital ($9,10,500 \times 3/12$)	2,27,625
Fixed Capital	3,00,000
Total	5,27,625

8. **Applicability of Provisions of Internal Audit:** As per section 138 of the Companies Act, 2013, following class of companies shall be required to appoint an internal auditor or a firm of internal auditors, namely:

- (A) every listed company;
- (B) every unlisted public company having-
 - (1) paid up share capital of fifty crore rupees or more during preceding financial year; or
 - (2) turnover of two hundred crore rupees or more during preceding financial year; or
 - (3) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during preceding financial year; or
 - (4) outstanding deposits of twenty five crore rupees or more at any point of time during preceding financial year; and
- (C) every private company having-
 - (1) turnover of two hundred crore rupees or more during preceding financial year; or
 - (2) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during preceding financial year.

In the given case, ABC Ltd. is a listed company. As per section 138 of the Companies Act, 2013, every listed company is required to appoint an internal auditor or a firm of internal auditors. Thus, in view of above, **ABC Ltd. is required to appoint internal auditor.**

Further, XYZ Ltd., is an unlisted public company. The company is having 60 crore as equity share capital which is exceeding the prescribed limit of rupees fifty crore as per section 138. Thus, **XYZ Ltd. is required to appoint internal auditor** as per section 138 of the Companies Act, 2013.

LMN Ltd. is unlisted private company and having 60 crore rupees as Equity Share Capital, 190 crore as turnover and 50 crore rupees loan from Bank and PFI. In view of provisions of section 138 of the Companies Act, 2013 discussed above, all the limits are below prescribed limit for private company. Therefore, **LMN Ltd. is not required to appoint internal auditor.**

It can be concluded that ABC Ltd. and XYZ Ltd. is required to appoint the internal auditor as per the provisions of the Companies Act, 2013 whereas LMN Ltd. is not required to do the same.

PAST PAPERS

Case Study 18

Subjects	Topics Covered	Marks
FR	Ind AS 23, Ind AS 115, Schedule III	16
Audit	Fraud Reporting	2
SCPM	Profit Sharing Plan	7

Facts of the Case

PS Limited (PSL) is manufacturers for Electric circuits, boards and switchgear. Its products are sold to customers through retail network and its distributors are situated across country. The company also exports these products but only to a few countries worldwide. The company is also engaged in taking projects on turn-key basis. The company has plants in Himachal Pradesh, Tamil Nadu, Maharashtra and Andhra Pradesh.

The company has a high reputation amongst its stakeholders viz. shareholders, workers and customers. The attrition rate of employees is also very low compared to other players in the market. The main reason for such low rate is because the company believes in 'family' concept of our country and treats the employees as part of the large family and has several schemes to keep their morale high. Employees are also part of decision making and they are also made to share profit of the company according to a well-defined profit-sharing plan. The terms of the profit sharing plan are as under:

- (a) The profit sharing pool will be the least of the following three limits:
 - (i) 40% of earning before taxes, to the extent it is in excess of the minimum acceptable target profit margin;
 - (ii) 0.65% of gross revenue
 - (iii) absolute amount of ₹ 3.00 Crores
- (b) Minimum acceptable target profit will be equivalent to the average of last three year's net operating profit of industry.
- (c) The individual employee will be entitled to share profit in the pool in proportion to his salary to the total salary of all employees.

The information for the year 31st March, 2024 is as under:

1. The earning before tax of PSL is ₹ 50 Crores.
2. Net Operating Assets employed by PSL is ₹ 130 Crores.
3. During the year, Gross revenue of PSL is ₹ 400 Crores.
4. Total Salary to employees during the year was ₹ 45 Crores.

Industry's average net operating profit of last 3 years is 10% of net operating assets.

During the year ended 31st March 2024, PSL (the company) ordered two aircrafts for convenience of visit by higher officials to its various plants for a total price of ₹ 5 Crores each, on 1st February 2024. These aircrafts will be delivered in September 2026. The company has made a down payment of 50% for each aircraft at the time of placing the order on 1st February 2024. The balance amount is payable on delivery. The advance paid by the company has fully been funded by bank borrowings taken on 1st February 2024. The company has paid interest of ₹ 3,00,000 during the financial year 2023-24. The manufacturer has informed that manufacture of each aircraft, including planning, production of parts and assembly, involves a typical time of 24 to 30 months. The manufacturer will start the manufacturing process for the aircraft from 30th September 2024.

The trade payables of the company consist of outstanding dues of various trade payables as follows - Micro enterprises (₹ 75 crore), Medium enterprises (₹ 50 crore), Small enterprises (₹ 55 crore) and others (₹ 65 crore). Further, out of above trade payables, ₹ 40 Crores are outstanding for more than 6 months as on balance sheet date.

The company PS Limited has taken on contract a turnkey project for ₹ 300 lakh. As per terms of contract, the company will be entitled to get performance bonus @ 1% of contract value and will be based on timing of the completion of the project. On the other hand, if completion gets delayed, there is a penalty clause in contract.

NBV Associates, Chartered Accountants are statutory auditors of PS Ltd. for the year ended 31st March, 2024. CA B.V. is conducting the audit as audit partner. While conducting audit for the year he came to know that a fraud amounting to ₹ 5 Crores being committed by one of the employees.

Multiple Choice Questions

1. Mr. R is one of the employees of PS Limited and is entitled to participate in profit sharing plan. What will be the amount of his share, if his annual salary is ₹ 54 lakh:
 - (a) ₹ 3.12 lakh
 - (b) ₹ 3.00 lakh
 - (c) ₹ 7.00 lakh
 - (d) ₹ 2.60 lakh
2. The Profit Sharing pool of PS Limited will be:
 - (a) ₹ 3.00 Crores
 - (b) ₹ 7.00 Crores
 - (c) ₹ 2.60 Crores
 - (d) ₹ 2.00 Crores
3. The capitalisation of borrowing cost for purchase of aircraft should commence on:
 - (a) 1st February 2024.
 - (b) September 2026 when the aircrafts are delivered.
 - (c) 30th September 2024 when the manufacturing of aircraft is started.
 - (d) 1st April 2024.
4. What amount of trade payables shall be separately disclosed in the Balance Sheet as required by the amended Schedule III of the Company's Act 2013?
 - (a) ₹ 40 crore (Outstanding for more than 6 months).
 - (b) ₹ 130 crore (Dues of Micro and Small Enterprises).
 - (c) ₹ 180 crore (Dues of Micro, Small and Medium Enterprises).
 - (d) No separate disclosure is required.
5. NBV Associates should report the fraud to/in:
 - (a) Audit Committee/Board of Directors of PS Limited and in Auditor's Report.
 - (b) Shareholders of PS Ltd and no further reporting.
 - (c) In Auditor's Report only.
 - (d) Central Government and in Auditor's Report.

Descriptive Questions

6. Explain profit sharing plan, as performance management tool and group incentive plan.
7. Define qualifying asset for capitalising the borrowing cost and explain when the capitalisation should commence and cease.
8. Explain "Variable Consideration" and how it will be accounted for in terms of Ind AS.

ANSWERS TO THE CASE STUDY 18

Answers to the Multiple Choice Questions

1. (a)
2. (c)
3. (c)
4. (b)
5. (d)

Answers to the Descriptive Questions

6. Profit Sharing Plan

Profit Sharing is a group incentive arrangement where cash bonus is paid to worker or employees, calculated based upon the reported profit of concerned division (responsibility centre) of entity or of entity as a whole. Since profit sharing is based upon the profit, hence can be said a compensation plan based upon short-term performance.

Profit share plan must define the percentage of profit to be shared and who are eligible employees for participation and what will the ratio of participation by each employee/worker in the bonus pool and formula for computing each of these percentage or ratio. The criteria for participation in share may be score or salary/wage.

Profit share plan may be used to boost the motivation among the employees to enhance and promote their performance hence profit-sharing plan can be considered as performance management tool. Profit sharing plan can also be considered as pre-stage of Kaizen Costing.

7. Qualifying asset:

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. (Para 5 of Ind AS 23). Financial assets, and inventories that are manufactured, or otherwise produced over a short period of time, are not qualifying assets. Assets that are ready for the intended use for sale when acquired are not qualifying asset.

Though substantial period has not been defined in Ind AS 23, still in general it is considered as 1 year or more or as deemed fit by the entity.

In the given case, aircrafts are qualifying assets as it takes substantial period of time (i.e. 24 to 30 months) to get ready for intended use.

Commencement of capitalisation:

As per paragraph 17 of Ind AS 23, an entity shall begin capitalising borrowing costs as part of the cost of a qualifying asset on the commencement date. The commencement date for capitalisation is the date when the entity first meets all of the following conditions:

- (a) It incurs expenditures for the asset.
- (b) It incurs borrowing costs.
- (c) It undertakes activities that are necessary to prepare the asset for its intended use or sale.

Activities necessary to prepare the asset for its intended use or sale includes technical or administrative work prior to the commencement of physical construction such as the activities associated with obtaining permits prior to starting of physical construction.

However, such activities exclude the holding of an asset when no production or development that changes the asset's condition is taking place.

In the given case, Capitalisation of borrowing cost for purchase of aircrafts should commence on 30th September, 2024, since on this date all aforementioned conditions are satisfied. Hence 30th September, 2024 is the commencement date for capitalisation of borrowing costs and accordingly capitalisation of borrowing cost will commence from 30th September, 2024.

Cessation of capitalisation:

As per para 22 of Ind AS 23, an entity shall cease capitalising borrowing costs when **substantially all the activities** necessary to prepare the qualifying asset for its intended use or sale are **complete**. Sometimes physical construction is complete but routine admin work might continue like decoration, furnishing etc.

Further, as per para 24 of Ind AS 23, when an entity completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity shall cease capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale. If one part is dependent on the other then continue capitalisation of borrowing cost unless the entire asset is substantially completed.

8. Definition of variable consideration

If the consideration promised in a contract includes a variable amount, an entity shall estimate the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer. (Para 50 of Ind AS 115)

An amount of consideration can vary because of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, or other similar items. **The promised consideration can also vary if an entity's entitlement to the consideration is contingent on the occurrence or non-occurrence of a future event.** For example, an amount of consideration would be variable if either a product was sold with a right of return, or a fixed amount is promised as a performance bonus on achievement of a specified milestone. (Para 51 of Ind AS 115)

In some contracts, penalties are specified. In such cases, penalties shall be accounted for as per the substance of the contract. Where the penalty is inherent in determination of transaction price, it shall form part of variable consideration. (Para 51AA of Ind AS 115)

Accounting for variable consideration

Further, para 53 of Ind AS 115 states that an entity shall estimate an amount of variable consideration by using either of the following methods, depending on which method the entity expects to better predict the amount of consideration to which it will be entitled:

- (a) **The expected value** — the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts. An expected value may be an appropriate estimate of amount of variable consideration if an entity has a large number of contracts with similar

characteristics.

- (b) **The most likely amount** — the most likely amount is the **single most likely amount in a range of possible consideration** amounts (ie the single most likely outcome of the contract). The most likely amount may be an appropriate estimate of amount of variable consideration if contract has only two possible outcomes (for example, an entity either achieves a performance bonus or does not).

An entity is required to choose between the expected value method and the most likely amount method. The choice is based on the method which better predicts the amount of consideration to be entitled. That is, the method selected is not meant to be a free choice. Rather, an entity **selects a method that is best suited, based on the specific facts and circumstances of the contract.**

In accordance with the above, in this case, PS Limited should **recognise the amount of revenue only to the extent of ₹ 300 lakh** assuming all the conditions of revenue recognition are met. In this case, the balance amount of performance bonus (as addition to revenue) or penalty (as deduction from revenue) which is linked to future event should be recognised after the completion of the project.

PAST PAPERS

Case Study 19

Subjects	Topics Covered	Marks
FR	Ind AS 113	7
Law	Companies Act (Section 177, 203, 230), LODR (Regulation 18, 21)	18

Facts of the Case:

TP Limited is a company which deals in various commodities. Previous year the company achieved a turnover of ₹ 1000 Crores. The paid up equity capital of the company is ₹ 15 Crores. The Company is a listed public company. The company has its offices in Mumbai, Kolkata, Chennai and Delhi. The Company trades in Commodity "X" which is mainly dealt at Mumbai Market. However, the company also obtains the information from Kolkata Market regarding this product. The company has gathered the following information/data in this regard:

	Market Mumbai	Market Kolkata
Volume (annual, in millions ₹)	30	120
Transactions (per day)	25	65
Price (at period end, ₹)	110	107
Transport costs (₹)	(8)	(4)
Potential fair value (₹)	102	103
Transaction costs (₹)	(3)	(5)
Net proceeds (₹)	99	98

M/s YM Associates, Chartered Accountants are Auditors of the Company. The company has an Audit Committee and a Risk Management Committee in place. Both the committees met twice during the year. Further, in one of the meetings of Audit Committee conducted during the FY 2023-24, the internal control system and auditor's report of TP Ltd. were discussed. Mr. Yasvardhan, audit partner was also present at one of the meeting and the Audit Committee called for the comments of Mr. Yasvardhan if any. Certain important decisions regarding the changes in the internal control system were duly taken by majority voting.

The Company is having Mr Tara Prasad as its Managing Director and Ms. Julie as Company Secretary. The Company has appointed CA. Vinod as CFO who is also CFO in another unlisted company. Ms. Julie resigned from Company Secretary's post on 1st January 2024.

MX Limited is an associate of TP Limited. NCLT has passed an order for conducting meeting of the members for considering the scheme of compromise and arrangement, the necessity of which has arisen on account of certain disputes with the creditors of the company. Company has sent notice of the meeting to all its 1000 members holding total 30 lakh shares. On the date of meeting, only 580 members holding 18 lakh shares attended the meeting and 400 members holding 14 lakh shares voted in favour of the scheme of compromise and arrangement and remaining voted against the scheme.

Multiple Choice Questions

- Is the company justified in holding meeting of its Audit Committee and Risk Management Committee twice in the F.Y. 2023-24?
 - Yes, the company is justified as the meetings of both the committees were held as per the company's requirement and the important matters were duly discussed and conducting a meeting

- involves expense and when all the matters were discussed in two meetings it is wise on the part of the company that they did not hold more meetings.
- (b) No, the company is not justified in holding two meetings of both the committees as the Audit Committee should meet at least four times in a year and Risk management committee can meet once in a year.
 - (c) The company is not justified in holding two meetings of the Audit Committee as an audit committee should meet at least four times in a year; however, the company can hold two meetings of Risk management committee.
 - (d) The company is justified as it is at the discretion of the Board of Directors to hold the meetings of the various committees of the company as per the company's requirement to discuss the matters.
2. With respect to the meeting of Audit Committee attended by Mr. Yasvardhan, what all rights can be exercised by Mr. Yasvardhan?
- (a) Mr. Yasvardhan has right to be heard and to vote in the meeting of Audit Committee of TP Ltd when it considers the auditor's report.
 - (b) Mr. Yasvardhan has right to vote in the meeting of Audit Committee of TP Ltd when it considers the auditor's report.
 - (c) Mr. Yasvardhan, being statutory auditor does not have right to be heard and to vote in the meeting of Audit Committee of TP Ltd even if it considers the auditor's report. Such rights vest with the internal auditors of the company.
 - (d) Mr. Yasvardhan has right to be heard in the meeting of Audit Committee of TP Ltd when it considers the auditor's report but shall not have right to vote.
3. The fair Value of Commodity "X" will be
- (a) ₹ 102
 - (b) ₹ 103
 - (c) ₹ 99
 - (d) ₹ 98
4. TP Limited has violated the provisions of the Companies Act, 2013 by appointing CA. Vinod as its CFO:
- (a) There is no violation of law as whole-time key management personnel can hold office in more than one company even if it is not its Subsidiary company.
 - (b) Yes, there is violation of company law as whole-time key managerial personnel shall not hold office in more than one company except in its subsidiary company at the same time.
 - (c) The appointment of CFO is not a mandatory requirement; hence, appointment of CFO who is also CFO in other company does not violate the provisions of law.
 - (d) There are 2 other whole-time key management personnel and therefore, if one person is holding office in other company, does not violate the provision of law.
5. The vacancy created by resignation of Ms. Julie shall be filled:
- (a) By the board at a meeting of the board within 6 months from the date of such vacancy.
 - (b) By the Managing director within 6 months from the date of such vacancy.
 - (c) By the shareholders in its meeting within 6 months from the date of such vacancy.
 - (d) At will of the board of directors, there is no time limit to fill the vacancy.

Descriptive Questions

6. Explain the constitution of Audit Committee as per the provisions of the Companies Act, 2013 and SEBI (LODR) Regulations 2015.
7. Explain the term 'Fair Value' in terms of Ind AS. Also define the term 'Principal Market' and how it is determined.
8. In terms of case study given, explain whether the scheme got proper approval of the members or not. Also explain the procedure for compromise or arrangements with creditors or members as per the provisions of the Companies Act 2013.

ANSWERS TO THE CASE STUDY 19

Answers to the Multiple Choice Questions

1. (c)
2. (d)
3. (b)
4. (b)
5. (a)

Answers to the Descriptive Questions

6. Constitution of Audit Committee:

I. Audit Committee under Section 177 of the Companies Act, 2013: (i) As per section 177 read with Rule 6 of the Companies (Meetings of Board and its Powers) Rules, 2014, every listed public company and the following classes of companies shall constitute an Audit Committee:

- (a) all public companies with a paid-up capital of ten crore rupees or more;
- (b) all public companies having turnover of one hundred crore rupees or more;
- (c) all public companies, having in aggregate, outstanding loans, debentures and deposits, exceeding fifty crore rupees.

However, following class of unlisted public companies shall not be covered:

- (1) a joint venture;
- (2) wholly owned subsidiary; and
- (3) a dormant company as covered u/s 455.

Explanation- The paid-up share capital or turnover or outstanding loans, debentures and deposits, as the case may be, as existing on the date of last audited Financial Statements shall be taken into account for the purposes of this rule.

Section 139(11) provides that where a company is required to constitute an Audit Committee under section 177, all appointments, including the filling of a casual vacancy of an auditor under this section shall be made after taking into account the recommendations of such committee.

The Audit Committee shall consist of a minimum of three directors with independent directors forming a majority. It may be noted that majority of members of Audit Committee including its Chairperson shall be persons with ability to read and understand financial statement.

- II. **Audit Committee Under LODR Regulations:** Every listed entity shall constitute a qualified and independent audit committee in accordance with the terms of reference, subject to the following:
- The Audit Committee shall have **minimum three directors** as members.
 - Two-thirds** of the members of audit committee shall be **independent directors**.
 - All members** of Audit Committee shall be **financially literate** and **at least one member shall have accounting or related financial management expertise**.
 - The **Chairperson** of the Audit Committee shall be an **independent director** and he/she shall be present at Annual General Meeting to answer shareholder queries.
 - The **Company Secretary** shall act as the **secretary to the committee**.
 - The **Audit Committee at its discretion** shall invite the **finance director** or the head of the finance function, head of internal audit and a representative of the statutory auditor and any other such executives to be present at the meetings of committee.

7. **Definition of fair value**

Ind AS 113 defines fair value as **the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.**

A fair value measurement is for a particular asset or a liability. Therefore, an entity shall take into account the characteristics of the asset or the liability, if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Definition of principal market

Principal market is the market which is **normally the place in which the assets/liabilities are being transacted with highest volume and with high level of activities** comparing with any other market available for similar transactions. If there is principal market, the price in the market must be used even if the prices in the other market are more advantageous.

Determination of fair value in principal market

The transaction costs are not a characteristic of an asset or a liability, but a characteristic of the transaction. Hence, it would not be appropriate to consider any transaction cost further while assessing fair values from such principal markets. It is the cost that would be incurred to transport the asset from its current location to its principal (or most advantageous) market. Hence, **transport cost would be considered, if in case it is an inherent part of the Assets/Liability so transacted e.g. commodity.**

8. **As per section 230(6) of the Companies Act, 2013** where majority of persons at a meeting held representing **3/4th in value**, voting in person or by proxy or by postal ballot, **agree to any compromise or arrangement** and if such compromise or arrangement is **sanctioned by the Tribunal** by an order, the same shall be binding. **The majority of person representing 3/4th Value shall be counted of the following:**
- the **creditors**, or
 - class of creditors or
 - members** or
 - class of members, as the case may be,

The majority is dual, in number and in value. A simple majority of those voting is sufficient. Whereas the 'three-fourth' requirement relates to value. The three-fourth value is to be computed with reference to paid-up capital held by members present and voting at the meeting.

In this case out of 1,000 members (holding 30 lakh shares), 580 members attended the meeting. As 400 members voted in favour of the scheme the requirement relating to majority in number (i.e. 291) is satisfied. 580 members who participated in the meeting held 18,00,000 shares, three-fourth of which works out to 13,50,000 and 400 members who voted for the scheme held 14,00,000 shares. As both the requirements are fulfilled, the scheme is approved by the requisite majority.

Section 230 of Companies Act, 2013 deal with the basic procedures to be followed for any compromise and arrangement, meetings of creditors, members and security holders for approval and powers of NCLT. According to this section:

(1) Power of Tribunal to call for a meeting on an application filed for a compromise/arrangement [Sub-section (1)]: Where a compromise or arrangement is proposed between:

- (a) a company and its creditors or any class of them; or
- (b) a company and its members or any class of them,

the Tribunal may, on the application of the company or of any creditor or member of the company, or in the case of a company going for voluntary liquidation, of the liquidator, appointed under this Act or under the Insolvency and bankruptcy Code, 2016, as the case may be, order a meeting of the creditors or class of creditors, or of the members or class of members, as the case may be, to be called, held and conducted in such manner as the Tribunal directs.

(2) Disclosures by applicant [Sub-section (2)]: The Company or any other person, by whom an application is made, shall disclose to the Tribunal by affidavit:

- (a) all material facts relating to the company, such as the latest financial position of the company, the latest auditor's report on the accounts of the company and the pendency of any investigation or proceedings against the company;
- (b) reduction of share capital of company, if any, included in the compromise or arrangement;
- (c) any scheme of corporate debt restructuring consented to by not less than seventy-five percent of the secured creditors in value, including:
 - (i) a creditor's responsibility statement in the prescribed form;
 - (ii) safeguards for the protection of other secured and unsecured creditors;
 - (iii) report by the auditor that the fund requirements of the company after the corporate debt restructuring as approved shall conform to the liquidity test based-upon the estimates provided to them by the Board;
 - (iv) where the company proposes to adopt the corporate debt restructuring guidelines specified by the Reserve Bank of India, a statement to that effect; and
 - (v) a valuation report in respect of the shares and the property and all assets, tangible and intangible, movable and immovable, of the company by a registered valuer.

(3) Notice of meeting conducted on order of Tribunal [Sub-section (3)]: Where a meeting is proposed to be called in pursuance of an order of the Tribunal, a notice of such meeting shall be sent to:

- all the creditors or class of creditors, and
- to all the members or class of members,
- and the debenture-holders of the company,

- **Sectoral regulators and other authorities u/s 230(5)**

individually at the address registered with the company.

Annexure with Notice: Notice of meeting shall be accompanied by statement disclosing following:

- details of the compromise or arrangement,
- a copy of the **valuation report**, if any, and
- explaining their effect on **creditors, key managerial personnel, promoters and non-promoter members, and the debenture-holders** and
- the effect of the compromise or arrangement on any material interests of the directors of the company or the debenture trustees, and
- **such other matters** as may be as prescribed under Rule 6 of the Companies (Compromises, arrangements and amalgamations) Rules, 2016.

Advertisement of notice: Such notice and other documents shall also be placed on:

- the **website** of the company, if any, and
- in case of a listed company, these documents shall be sent to the Securities and Exchange Board and stock exchange where securities of companies are listed, for placing on their website and
- shall also be **published in newspapers** in such manner as prescribed under Rule 7 of the Companies (Compromises, arrangements and amalgamations) Rules, 2016.

Time period for the receipt of the copies of the compromise or arrangement: Where the notice for the meeting is also issued by way of an advertisement, it shall **indicate the time** within which copies of the compromise or arrangement shall be made available to the concerned persons free of charge from the registered office of the company.

- (4) **Notices to sectoral regulators to make representation, if likely to be affected by the compromise or arrangement [Sub-section (5)]:** A notice along with all the documents in such form as may be prescribed shall also be sent to the Central Government, the income-tax authorities, the Reserve Bank of India, the Securities and Exchange Board, the Registrar, the respective stock exchanges, the Official Liquidator, the Competition Commission of India established under the Competition Act, 2002, if necessary, and such other sectoral regulators or authorities which are likely to be affected by the compromise or arrangement and shall require that representations, if any, to be made by them shall be made within thirty days from the date of receipt of such notice, failing which, it shall be presumed that they have no representations to make on the proposals.
- (5) **The Tribunal may dispense with calling of a meeting of creditor or class of creditors where such creditors or class of creditors, having at least ninety per cent value, agree and confirm, by way of affidavit, to the scheme of compromise or arrangement. [Sub-section (9)]**
- (6) **Vote to the adoption of the compromise or arrangement [Sub-section (4)]:** A notice shall provide that the persons to whom the notice is sent may vote in the meeting either themselves or through proxies or by postal ballot to the adoption of the compromise or arrangement within one month from the date of receipt of such notice:

Provided that any objection to the compromise or arrangement shall be made only by persons holding not less than ten per cent of the shareholding or having outstanding debt amounting to not less than five per cent of the total outstanding debt as per the latest audited financial statement.
- (7) **Binding order of Tribunal [Sub-section (6)]:** Where, at a meeting held, majority of persons representing three-fourths in value of the creditors, or class of creditors or members or class of

members, as the case may be, voting in person or by proxy or by postal ballot, agree to any compromise or arrangement and if such compromise or arrangement is sanctioned by the Tribunal by an order, the same shall be binding on the company, all the creditors, or class of creditors or members or class of members, as the case may be, or, in case of a company being wound up, on the liquidator, "appointed under this Act or under the Insolvency and Bankruptcy Code, 2016, as the case may be," and the contributories of the company.

- (8) **Particulars to be stated in the order [Sub-section (7)]:** An order made by the Tribunal, shall provide for all or any of the following matters, namely:
- (a) **where the compromise or arrangement provides for conversion of preference shares into equity shares,** such preference shareholders shall be given an option to either obtain arrears of dividend in cash or accept equity shares equal to the value of the dividend payable;
 - (b) **the protection of any class of creditors;**
 - (c) **if the compromise or arrangement results in the variation of the shareholders' rights,** it shall be given effect to under the provisions of section 48;
 - (d) **if the compromise or arrangement is agreed to by the creditors under sub-section (6),** any proceedings pending before Board for Industrial and Financial Reconstruction (BIFR) established u/s 4 of the Sick Industrial Companies (Special Provisions) Act, 1985 shall abate;
 - (e) **such other matters** including exit offer to dissenting shareholders, if any, as are in opinion of the Tribunal necessary to effectively implement the terms of compromise or arrangement:
Provided that no compromise or arrangement shall be sanctioned by the Tribunal unless a certificate by the company's auditor has been filed with the Tribunal to the effect that the accounting treatment, if any, proposed in the scheme of compromise or arrangement is in conformity with the accounting standards prescribed under section 133.
- (9) **Filing of order of tribunal with registrar [Sub-section (8)]:** The order of the Tribunal shall be filed with the Registrar by the company within a period of thirty days of the receipt of the order.
- (10) **Exemption in relation to buy-back of securities [sub-section (10)]:** No compromise or arrangement in respect of any buy-back of securities under this section shall be sanctioned by the Tribunal unless such buy-back is in accordance with the provisions of section 68.
- (11) **Inclusion of takeover offer [Sub-section (11)]:** Any compromise or arrangement may include takeover offer made in such manner as may be prescribed.
Provided that in case of listed companies, takeover offer shall be as per the regulations framed by the Securities and Exchange Board.
- (12) **Application to tribunal by aggrieved party [Sub-section (12)]:** An aggrieved party may make an application to the Tribunal in the event of any grievances with respect to the takeover offer of companies other than listed companies in such manner as may be prescribed and the Tribunal may, on application, pass such order as it may deem fit.

Explanation — For the removal of doubts, it is hereby declared that the provisions of section 66 (reduction of share capital) shall not apply to the reduction of share capital effected in pursuance of the order of the Tribunal under this section.

Since reduction of share capital requires an application to Tribunal by company after passing Special Resolution and on confirmation by Tribunal, reduction of share capital gets effected. However, in the case of compromise under section 230 if that results into reduction of capital, compliance of section 66 is not required to be made separately in such cases.

PAST PAPERS

Case Study 20

Subjects	Topics Covered	Marks
FR	Ind AS 116	6
AFM	Portfolio Management (Beta), Mergers (Exchange Ratio)	4
Audit	Professional Ethics	6
IDT	Composition Levy, Registration	9

Facts of the Case:

BMV LLP, a firm of Chartered Accountants has various divisions/verticals. Each division is headed by a Chartered Accountant who is qualified and has done specialised course. Each head is known for his knowledge and integrity amongst professionals and in Industry. BMV is also known as financial analyst as well as consultant for mergers and acquisitions. The firm has been approached by its clients to render professional advice on several issues highlighted in the under mentioned case scenarios:

CASE SCENARIO - 1

Tame Limited is a company engaged in telecommunication services and presently its major presence is in North India. The company wants to expand its business in South. The company has got two options. One is to expand itself by opening its own network which will take substantial time and efforts and results will also be not fast. On the other hand, the company may target to acquire an existing telecom company having sufficient customer base in South and to integrate its North India operation with the acquired company. It will yield quick results.

The company is willing to appoint the firm to identify and to take the process of acquisition forward. After study the M&A vertical of the firm has identified a company M/s Pool Limited which has got presence in South but is not doing too well. The information of both the companies is given below:

	Tame Ltd.	Pool Ltd.
Total Earnings (E) (in lakh)	₹ 1200	₹ 400
Number of outstanding shares (S) (in lakh)	400	200
Price earnings ratio (PIE)	8	7

The PIE ratio of the combined entity is expected to be 10?

CASE SCENARIO - 2

Ms. Devina is fond of making cakes, pickles, papad and other eatables homemade and her friends persuaded her to take it as a venture. Before starting it as a venture, she wants to try it whether she should turn her hobby into a regular business or not. She lives in New Delhi. To start with, she promoted her products through her social media friends and started getting orders from nearby places like Noida (Uttar Pradesh), Faridabad (Haryana); Gurugram (Haryana). All these places fall within 'National Capital Region (NCR). She expects to have monthly turnover of ₹ 10,000.

CASE SCENARIO - 3

M/s GAAR Limited enters into a 3 years lease of an immovable property with M/s GAP Limited for annual lease rental of ₹ 60,000 per annum. There is extension clause in the agreement which provides that lease may be extended to 5 years and in the present circumstances, it is most likely that the lease term will be extended. In case of extended period, the lease rent will be increased by 10%. Lessee's incremental rate of borrowing is 9%.

M/s GAAR Limited has given residual guarantee to M/s GAP Limited of ₹ 50,000. If the lessee terminates the contract at any time before 3 years, the lessee will be required to pay ₹ 30,000 as penalty to the lessor. PV Ratio of 5 years at 9% are as 0.917, 0.842, 0.772, 0.708, 0.650 respectively.

CASE SCENARIO - 4

Mr. B one of the partners of the firm is facing a dilemma as to whether the firm BMV LLP should accept the appointment as Statutory Auditors of M/s Foam Limited wherein Mr. B had sent a communication in writing addressed to the outgoing auditor Mr. Dalai under certificate of posting and the outgoing auditor has sent an acknowledgement vide their official email, but this email address of the outgoing auditor is not registered with the Institute of Chartered Accountants of India. Mr. B is of the opinion that this is not a positive evidence of delivery and violates the code of ethics, if the firm accepts the audit assignment.

CASE SCENARIO - 5

An investor has got investment in 3 stocks and is willing to know the beta of his portfolio. The following information in respect of these 3 stocks is given below:

Security	No. of Shares	Market Price	β
SVL SCL MLS	15000	60	0.90
	8000	35	1.00
	7500	30	1.50

Multiple Choice Questions

- The exchange ratio acceptable to M/s Pool Limited in case scenario - 1 will be:
 - 0.42:1
 - 0.50:1
 - 0.35:1
 - 0.65:1
- Will Ms. Devina in case scenario - 2 be required to take registration under GST Act, 2017 and whether she will be entitled to avail the composition levy scheme under the said Act:
 - She will not be required to take registration as her turnover is less than the basic limit fixed for registration.
 - She will be required to take registration as Composition supplier and will be eligible to take benefit of composition levy scheme.
 - As her sales are inter-state, she will be required to take registration but can take benefit of composition levy scheme.
 - She will be required to take registration and will not be entitled to take benefit of composition levy scheme as her sales are inter-state and when there is inter-state sale, there is neither basic exemption nor composition levy can be availed except for notified supplies.
- What shall be the amount of lease liability and the finance cost for first year of M/s GAAR Limited under case scenario - 3:
 - Lease Liability ₹ 2,41,488 and Finance Cost ₹ 21,733
 - Lease Liability ₹ 3,62,000 and Finance Cost ₹ 32,580
 - Lease Liability ₹ 2,73,988 and Finance Cost ₹ 24,659

- (d) Lease Liability ₹ 3,03,988 and Finance Cost ₹ 27,359
4. With respect to the dilemma being faced by Mr. B partner of the firm in case scenario-4 regarding acknowledgment of the communication from the retiring auditor's vide their official email is not a positive evidence of delivery?
- (a) The dilemma of Mr. B is correct as it is not a positive evidence of delivery.
- (b) The dilemma of Mr. B is not correct as it is a positive evidence of delivery as the same is received from the official email of the outgoing auditor, as per the code of ethics.
- (c) The dilemma of Mr. B is not correct as statutory auditors are not required to communicate with the retiring or outgoing auditors in this case.
- (d) The dilemma of Mr. B is correct as the email address of the outgoing auditor vide which acknowledgement has come is not registered with the Institute of Chartered Accountants of India.
5. What would be the portfolio beta in case scenario - 5 above?
- (a) 1.133
- (b) 1.016
- (c) 1.074
- (d) 1.213

Descriptive Questions

6. Explain about the professional misconduct as defined in Part I of the First Schedule to the Chartered Accountants Act regarding accepting a position as an auditor previously held by another chartered accountant without first communicating with him in writing.
7. Define 'Lease' as per Ind AS and explain its various components.
8. Explain the circumstances when a supplier is required to seek registration under the Goods and Services Tax Act 2017 and can avail the benefit of Composition Scheme.

ANSWERS TO THE CASE STUDY 20

Answers to the Multiple Choice Questions

1. (a)
2. (d)
3. (c)
4. (b)
5. (b)

Answers to the Descriptive Questions

6. As per Clause 8 of Part I of the First Schedule of the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he accepts a position as auditor previously held by another chartered accountant or a certified auditor who has been issued certificate under the Restricted Certificate Rules, 1932 without first communicating with him in writing.

It must be pointed out that professional courtesy alone is not the major reason for requiring a member to communicate with the existing accountant who is a member of the Institute or a certified auditor. The underlying objective is that the member may have an opportunity to know the reasons for the change in order to be able to safeguard his own interest, the legitimate interest of the public and the independence of the existing accountant. It is not intended, in any way, to prevent or obstruct the change. When making inquiry from retiring auditor, one proposed to be appointed or already appointed should primarily find out whether there are any professional or other reasons why he should not accept the appointment.

It is important to remember that every client has an inherent right to choose his accountant also that he may, subject to compliance, with the statutory requirements in the case of limited companies, make a change whenever he chooses, whether or not the reasons which had impelled him to do so are good and valid. The change normally occurs where there has been a change of venue of business and a local accountant is preferred or where the partner who has been dealing with the client's affairs retires or dies; or where temperaments clash or the client has some good reasons to feel dissatisfied. In such cases, the retiring auditor should always accept the situation with good grace.

The existence of a dispute as regards the fees may be root cause of an auditor being changed. This would not constitute valid professional reasons on account of which an audit should not be accepted by member to whom it is offered. However, in case of an undisputed audit fees for carrying out the statutory audit under the Companies Act, 2013 or various other statutes having not been paid, the incoming auditor should not accept the appointment unless such fees are paid. In respect of other dues, the incoming auditor should in appropriate circumstances use his influence in favour of his predecessor to have the dispute as regards the fees settled. **The professional reasons for not accepting an audit would be:**

- (a) **Non-compliance** of the provisions of Sections 139 and 140 of the Companies Act, 2013 as mentioned in Clause (9) of the Part - I of First Schedule to The Chartered Accountants Act, 1949; and
- ~~(b) Non-payment of undisputed Audit Fees by auditees other than in case of Sick Units for carrying out the Statutory Audit under the Companies Act, 2013 or various other statutes; and~~
- (c) **Issuance of a qualified report.**

In the first two cases, an auditor who accepts the audit would be guilty of professional misconduct. As per Council General Guidelines, 2008 the **provision for audit fee in accounts signed by both the auditee and the auditor along with other expenses, if any, incurred by the auditor in connection with the audit, shall be considered as "undisputed audit fee"** and "sick unit" shall mean a unit registered for not less than five years, which has at the end of any financial year accumulated losses equal to or exceeding its entire net worth.

In the last case, however, he may accept the audit if he is satisfied that the attitude of the retiring auditor was not proper and justified. If, on the other hand, he feels that the retiring auditor had qualified the report for good and valid reasons, he should refuse to accept the audit. There is no rule, written or unwritten, which would prevent an auditor from accepting the appointment offered to him in these circumstances. However, before accepting the audit, he should ascertain the full facts of the case. For nothing will bring the profession to disrepute so much as the knowledge amongst the public that if an auditor is found to be "inconvenient" by the client, he could readily be replaced by another who would not displease the client and this point cannot be too over-emphasised.

Sometimes, the retiring auditor fails without justifiable cause except a feeling of hurt because of the change, to respond to the communication of the incoming auditor. So that it may not create a deadlock, the auditor appointed can act, after waiting for a reasonable time for a reply.

Members should therefore communicate with a retiring auditor in such a manner as to retain in their hands positive evidence of the delivery of the communication to the addressee. In the opinion of the Council, the following would in the normal course provide such evidence:

- (a) Communication by a letter sent through "Registered Acknowledgement due", or
- (b) By hand against a written acknowledgement, or
- (c) Acknowledgement of the communication from retiring auditor's vide email address registered with the Institute or his last known official email address, or
- (d) Unique Identification Number (UDIN) generated on UDIN portal (subject to separate guidelines to be issued by the Council in this regard)

7. Definition of lease

A lease is defined as a contract, or part of a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. An entity is required to assess at the inception of a contract, whether the contract is or contains a lease.

Various components of a lease

The component of a lease are:

- (i) A contract
- (ii) Identified Asset
- (iii) Right to control the use
- (iv) Period of time
- (v) Consideration
- (i) **Contract:** Contract may be oral or written.
- (ii) **Identified Asset:** A contract contains a lease only if there is an identified asset. An asset may be identified by being:

- i. explicitly specified in a contract, or
- ii. Implicitly specified at the time the asset it is made available for use by the customer

A customer does not have the right to use the identified assets if, at inception of contract, a supplier has the substantive rights to substitute throughout the period of use. A supplier's right to substitute an asset is SUBSTANTIVE when BOTH the following conditions are met:

- i. The Supplier has practical ability to substitute alternative assets throughout period of use.
- ii. The supplier would benefit economically from the exercise of its right to substitute the asset.

An identified asset must be physically distinct. A physically distinct asset may be an entire asset or a portion of asset.

(iii) **Right to Control:**

- i. For the purpose of assessing the right of use of unidentified asset, an entity shall see whether, throughout the period of use, the customer has both of the following:
 - 1. right to obtain substantially all economic benefits from use of identified asset and
 - 2. right to direct the use of identified asset.
- ii. If the customer has the right to control the use of an identified asset for only a portion of the term of the contract, the contract contains a lease for that of the term.

- (iv) 'A period of time' may be described in terms of use of an identified asset (for example the number of production of units that an item of equipment will be used to produce). It includes any non-consecutive periods of time.

Lease term is a non-cancellable period for which a lessee has the right to use an underlying asset, beginning from the commencement date and includes any rent free periods provided by the lessor to the lessee, together with both:

- i. periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- ii. periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

- (v) **Consideration:** Lease payments are defined as payments made by a lessee to a lessor relating to the right to use an underlying asset during the lease term, comprising the following:

- **fixed payments** (including in substance fixed payments), less any lease incentives
- **variable lease payments** that depend on an Index or a rate the exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- **payments of penalties** for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.
- **Residual value guarantees**

8. As per section 22 of the CGST Act, 2017, every supplier is liable to obtain registration in a State/Union Territory (other than Special Category States of Nagaland, Mizoram, Manipur, Tripura), from where he makes a taxable supply of goods and/or services, if his aggregate turnover in a financial year exceeds the threshold limit of ₹ 20 lakh.

Further, an enhanced threshold limit of ₹ 40 lakh is available as per Notification No. 10/2019 CT dated 07.03.2019 to a supplier engaged exclusively in the supply of goods in specified States. However, this enhanced threshold limit is not available to persons required to take compulsory registration under section 24 of the CGST Act, 2017. One of the specified categories of persons required to obtain registration compulsorily irrespective of the quantum of their aggregate turnover, under said section, is persons making inter-State taxable supply of goods.

In the given case, since Ms. Devina is engaged in the inter-State supply of goods, she is required to obtain registration compulsorily irrespective of her aggregate turnover.

While applying for registration, she also needs to examine whether she is eligible to avail the benefit of the composition scheme.

As per section 10 of the CGST Act, 2017, every registered person is eligible to avail the benefit of the composition scheme if his aggregate turnover, in other than specified Special Category States, in the preceding financial year does not exceed ₹ 1.5 crore, subject to fulfillment of specified conditions.

One of the conditions for availment of composition scheme for goods is that registered person should not be engaged in making any inter-State outward supplies of goods.

Therefore, even though the aggregate turnover of Ms. Devina does not exceed ₹ 1.5 crores in the preceding financial year, she is not eligible to avail the benefit of the composition scheme since she is engaged in making inter-State outward supplies of goods.

PAST PAPERS

Case Study 21

Subjects	Topics Covered	Marks
FR	Ind AS 101, Ind AS 110	12
Audit	Group Audit	4
Law	FEMA (OI Rules, LRS)	9

Facts of the Case:

1. A public limited company (hereinafter referred to as 'the company'), which is a wholly owned subsidiary of a listed company, is in the business of exploration and production of oil and gas and other hydrocarbon related activities outside India.
2. The company operates overseas projects directly and/or through subsidiaries, by participation in various joint arrangements and investment in associates. The company was following Accounting Standards as notified under the Companies (Accounting Standards) Rules, 2006 (ASs) until 31st March, 2016. However, in accordance with the Notification of Ministry of Corporate Affairs, the company has adopted Indian Accounting Standards (Ind ASs) with effect from 1st April, 2016;
3. Mineral rights are granted by the host governments in accordance with the applicable legal and fiscal regime in the host country which are incorporated into the binding contractual arrangements entered into with the host governments. Mineral rights can be granted through direct license or through Production Sharing Agreement (PSA), under which the host government having ownership rights over the hydrocarbons, grants the rights to a company or consortium (usually called contractor) subject to certain obligations/payments by the contractor including sharing of hydrocarbons, with the government or its nominated agency as per principles contained in PSA.
4. The overseas oil and gas operations are generally conducted in joint arrangements with other partners. Main reason for holding mineral rights through jointly controlled entities/subsidiaries is because of host country's regulations and/or various business considerations (strategic/risk management/financing etc.). When the project is already in existence through a corporate structure and the company joins the project later on, the investment in jointly controlled entities/subsidiaries is a legacy issue.
5. Till the financial year 2014-15, the company has been preparing its consolidated financial statements for the group comprising of standalone financial statements of the company, its subsidiaries and jointly controlled entities in accordance with the applicable Accounting Standards (AS).
6. The company accounted for the investments in subsidiaries and jointly controlled entities in its standalone financial statements in accordance with the requirement of Accounting Standard (AS) 13, 'Accounting for Investments'. In consolidated financial statements of the company, the company was consolidating financial statements of its subsidiaries on a line by line basis following the consolidation procedures mentioned in paragraph 13 of Accounting Standard (AS) 21, 'Consolidated Financial Statements'. Similarly, in its consolidated financial statements, the company was reporting its interest in jointly controlled entities using proportionate consolidation as per the requirements of paragraphs 29 to 39 of Accounting Standard (AS) 27, 'Financial Reporting of Interests in Joint Ventures'.
7. Further, the company recognised goodwill in respect of subsidiaries and jointly controlled entities in accordance with the requirements of paragraph 13(b) of AS 21 and paragraph 36 of AS 27 respectively in its consolidated financial statements.

8. The company considered that such goodwill mainly arises due to corporate structure and the line by line consolidation of subsidiaries' I proportionate consolidation of jointly controlled entities' financial statements prepared on historical costs convention which do not take into consideration the valuation of underlying oil and gas reserves for which excess amount (i.e. goodwill calculated as per the relevant AS requirements) has been paid by the company at the time of acquisition.
9. The company further considered that in oil and gas E&P companies, the goodwill generated on acquisition of mineral rights either through jointly controlled entities or subsidiaries, inherently derives its value from the underlying mineral rights and, accordingly, value of such goodwill depletes as the underlying mineral resources are extracted.
10. Therefore, taking a prudent approach and considering the above substance, the company framed the accounting policy for amortisation of the goodwill in respect of its subsidiaries/jointly controlled assets over the life of the underlying mineral rights using UOP method as under: "Goodwill Amortisation: The company amortises goodwill (on consolidation) based on 'Unit of Production Method' considering the related Proved Reserves."
11. This allowed the company to utilise the value of goodwill over the life of mineral rights and completely charging off the goodwill over the life of the reserves.
12. For financial year 2015-16, company has stated that it had availed transition exemption under Ind AS 101, 'First-time Adoption of Indian Accounting Standards' and has not applied principles of Ind AS 103, 'Business Combinations' retrospectively and, therefore, did not fair value the acquisition of shares in joint ventures (jointly controlled entities as per ASs) / subsidiaries which happened before the transition date of 1st April, 2015. Carrying amount of goodwill at the date of transition to Ind AS in accordance with applicable ASs has been taken as carrying value of the goodwill in the opening Ind AS Balance sheet.
13. According to the company, prospectively from the transition date, i.e., 1st April, 2015, acquisition of interest/share in subsidiary is to be accounted for in accordance with Ind AS 103 and acquisition of interest/share in joint venture/associate will be accounted for in accordance with Ind AS 28, 'Investments in Associates and Joint Ventures'.
14. The company understands that paragraph 32(a) of Ind AS 28 specifically prohibits amortisation of goodwill relating to an associate or a joint venture. It is noticed that there is no such specific prohibition laid down by Ind AS 103. It is also noticed that paragraph 10 (b) of Ind AS 36, Impairment of Assets requires testing of goodwill acquired in a business combination for impairment, annually.
15. Accordingly, as per the company, by simple reading of the applicable Ind ASs, it appears that Ind ASs envisage testing of goodwill annually for impairment rather than its amortisation. This seems to align with the concept of fair valuation of acquired assets and liabilities and goodwill/capital reserve being a residual amount. This however may not be the case where goodwill is carried at historical value in the manner as stated above. Accordingly, considering the substance over form of the goodwill to be in the nature of 'acquisition costs' (as discussed in paragraphs 8 to 13 above), the company intends to continue amortisation of the goodwill recognised under ASs in respect of its subsidiaries/ joint ventures (jointly controlled entities under ASs) over the life of the underlying mineral rights using Unit of Production method, under Ind ASs also post transition date in accordance with the same accounting policy as under: "Goodwill amortization: The company amortises goodwill (on consolidation) based on 'Unit of Production Method' considering the related proved reserves."

Multiple Choice Questions

1. As per Ind AS 110 which of the following parent entities are not exempted to present consolidated financial statement:

- (a) If debt or equity instruments are not traded in a public market; it did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and its ultimate or any intermediate parent produces financial statements that are available for public use and comply with Ind AS. Further its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements.
 - (b) An investment entity that is required to measure all of its subsidiaries at fair value through profit & loss account.
 - (c) Subsidiaries to which post-employment benefit plans or other long term employee benefit plans applies.
 - (d) The parent that controls one or more other associate companies.
2. On consolidated financial statements the Auditor issues:
- (a) Independent Auditors Report on Consolidated Financial Statement.
 - (b) Companies (Auditor's Report) Order, 2020 on Consolidated Statement.
 - (c) Independent Auditors Report on Consolidated Financial Statement as well as Companies (Auditor's Report) Order, 2020 on Consolidated Statement.
 - (d) Neither Independent Auditors Report on Consolidated Financial Statement nor Companies (Auditor's Report) Order, 2020 on Consolidated Statement.
3. In the consolidated financial statements the financial statement of parent and group prepared as one entity with respect to:
- (a) assets, liabilities and equity only.
 - (b) income and expenses only.
 - (c) income, expenses and cash flows only.
 - (d) assets, liabilities, equity, income, expenses and cash flows.
4. In preparation of consolidated financial statements, which of the following are examples of permanent consolidation adjustments:
- (a) Determination of goodwill or capital reserve as per applicable accounting standards.
 - (b) Determination of amount of equity attributable to minority/ non-controlling interests.
 - (c) Both (a) and (b).
 - (d) Neither (a) or (b).
5. The general permission is not available to persons (individual) resident in India for purchase/acquisition of securities abroad when such purchase/acquisition is:
- (a) out of the funds held in the RFC account.
 - (b) by way of bonus shares on existing foreign currency shares.
 - (c) by remitting up to the limit prescribed by the Reserve Bank from time to time, per financial year under the Liberalised Remittance Scheme (LRS).
 - (d) None of the above.

Descriptive Questions

6. You have been asked to explain regarding appropriate accounting treatment under Ind AS for

amortisation of the goodwill by the company and that whether the accounting treatment as suggested in paragraph 15 of the case study in respect of amortisation of goodwill by the company is appropriate?

7. What is the process of acquiring of shares of an existing company abroad under the Foreign Exchange Management Act, 1999?

ANSWERS TO THE CASE STUDY 21

Answers to the Multiple Choice Questions

1. (d)
2. (a)
3. (d)
4. (c)
5. (d)

Answers to the Descriptive Questions

6. Point (g) of para C4 of Ind AS 101 states that the carrying amount of goodwill or capital reserve in the opening Ind AS Balance Sheet shall be its carrying amount in accordance with previous GAAP at the date of transition to Ind AS after the two adjustments. One of the adjustment states that the standard requires the first-time adopter to recognise an intangible asset that was subsumed in recognised goodwill or capital reserve in accordance with previous GAAP, the first-time adopter shall decrease the carrying amount of goodwill or increase the carrying amount of capital reserve accordingly (and, if applicable, adjust deferred tax and non-controlling interests)

As per the facts given in para 8 of the case study the entity paid excess amount to avail the rights to use the underlying oil and gas reserves. However, since the rights was not recorded in the books at that time, the value of goodwill subsumed the value of that intangible asset which should now be separately identified in the books. Hence, value of goodwill will be reduced accordingly.

However, regardless of whether there is any indication that the goodwill may be impaired, the first-time adopter shall apply Ind AS 36 in testing the goodwill for impairment at the date of transition to Ind AS and in recognising any resulting impairment loss in retained earnings (or, if so required by Ind AS 36, in revaluation surplus). The impairment test shall be based on conditions at the date of transition to Ind AS. No other adjustments (eg- previous amortisation of goodwill) shall be made to the carrying amount of goodwill/capital reserve at the date of transition to Ind AS.

However, once goodwill is recognised in the opening transition date balance sheet, the entity has to follow the provisions of Ind AS, which states that goodwill is not amortised but rather tested for impairment annually.

Accordingly, the amortization of goodwill based on 'Unit of Production' method is not correct after implementing Ind AS.

7. The following is the process for acquiring of shares of an existing company abroad under the Foreign Exchange Management Act, 1999:
 1. Schedule I of Regulation 3(1)(A) of Foreign Exchange Management (permissible Capital Account Transactions) Regulations, 2000 allows investment by a person resident in India in foreign securities. Thus, a person resident in India is eligible to invest in the foreign securities.

2. As per Regulation of 4 of the Foreign Exchange Management (Permissible capital account transactions) Regulations, 2000, an amount of USD 2,50,000 per financial year can be utilized for making permissible capital account transactions.
3. The total financial commitment made by an Indian entity in all the foreign entities taken together at the time of undertaking such commitment shall not exceed 400 percent of its net worth as on the date of the last audited balance sheet or as directed by the Reserve Bank, in consultation with Central Government from time to time.

PAST PAPERS

Case Study 22

Subjects	Topics Covered	Marks
FR	Ind AS 37	10
DT	PGBP (ICDS X), MAT	15

Facts of the Case:

1. HV Company Limited (hereinafter referred as HVCL) manufactures heavy equipment for construction industry.
2. An order for supply of 90 Nos. of equipment (T-model dumpers) was received from AB Infra Limited (herein after referred as ABIL). The unit price of the equipment was agreed at ₹ 190 lakhs each. 64 Nos. of equipment were supplied during the year 2023-24 and balance quantity remaining to be supplied as on 31.03.2024. HVCL has 51* Nos. of the equipment in its inventory as on 31.03.2024. HVCL considered that the contract was an onerous contract and therefore, the net realisable value of inventory has been taken as value of inventory as on 31.3.2024. One of the terms of the supply order was that the supplier would be responsible for warranty towards technical defects in the equipment supplied during the two years' period from the date of supply.
3. From the details of cost of production and cost of sales, it was pointed out by the auditors of the HVCL that the cost of fulfilling the contract exceeds the economic benefits expected to be received from it. Hence, the contract is onerous and provision towards the same needs to be made.
4. The management of HVCL replied to the auditors that Ind AS 37 defines an onerous contract as a contract in which the unavoidable costs of meeting the obligation under the contract exceeds the economic benefits expected to be received under the contract. The unavoidable costs under a contract reflect the least net cost of exiting from the contract by way of compensation or penalties. As per the terms of the contract, if contractor failed to supply, the customer can purchase the equipment at the risk and cost of the defaulting supplier with forfeiture of security deposit as applicable. As the subject contract is on-going contract, such exiting cost cannot be measured. Unavoidable cost does not include allocated share of cost that will be incurred regardless of whether the entity fulfils the contract or not. Moreover, other expenditure like administrative overheads, R&D, finance charges, head quarter expenditure, sales overheads etc., are of the nature of period cost and the purpose of these expenditure related to the said sales order is already completed in 2023-24 itself with receipt of sale order. Hence, there is no non-compliance of Ind AS 37.
5. Indian Accounting Standard (Ind AS) 37, 'Provisions, Contingent Liabilities and Contingent Assets' defines an onerous contract as, "a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it". Further, as per Ind AS 37, "the unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it." The company believed that unavoidable costs of meeting the obligations under the contract are only costs that: "are directly variable with the contract and therefore incremental to the performance of the contract;" do not include allocated or shared costs that will be incurred regardless of whether the entity fulfils the contract or not; and cannot be avoided by the entity's future actions.
6. The management of HVCL has further submitted to the auditor the details of costs that have been considered for creation of provision towards onerous contract:

- (a) Material cost - includes cost of material procured, cost of freight & insurance incurred for material procurement and handling, loading and unloading charges incurred.
- (b) Labour cost/Factory Overheads - includes salaries and other expenses of direct production department, and also expenses allocated from indirect departments to direct department.
- (c) Material Overheads - Includes salaries and other expenses (including expenses allocated from other departments) booked under departments linked with materials like purchases, stores and quality control.

7. The provision has been made considering the above costs only. For example, the value of provision created for a quantity of 21 Nos. remaining to be produced is as per working shown below:

Particulars	Value (₹ in lakhs)
(i) Cost of production (which includes material cost, labour cost/factory overhead and material overhead)	199.00
(ii) Selling price	190.00
(iii) Differential cost of 9 Lakh per equipment (No. of equipment remaining to be produced 21)	189.00
(iv) Costs incurred towards administrative overheads, finance charges, R & D expenses, sales overhead, head quarter expenditure etc., are considered as period cost and hence not considered for creation of provision.	

8. HVCL has prepared its computation of taxable income for A.Y. 2024-25 declaring an income of ₹ Nil under the normal provisions and Book Profits under section 115JB of the Income Tax Act of ₹ 8.56 Crores. The loss to be returned by the company under normal provisions of the income tax in the return was ₹ 5.23 Crores.

Multiple Choice Questions

1. Under the provision of 115JB, the basic rate of income tax applicable on the Book Profit is:
 - (a) 15%
 - (b) 18.5%
 - (c) 22.5%
 - (d) 25%
2. The company covered under the provisions of Section 115JB requires to upload a report from the Chartered Accountant in:
 - (a) Form-3CA
 - (b) Form-3CEB
 - (c) Form-15CB
 - (d) Form-298
3. As per Ind AS 37, a legal obligation is derived:
 - (a) from legislation.
 - (b) from a contract (through its explicit or implicit terms).
 - (c) from any operation of law.
 - (d) from all of the above.

4. In calculating the Book Profit, deduction is allowed with respect to:
 - (a) brought forward business loss.
 - (b) unabsorbed depreciation.
 - (c) brought forward business loss or unabsorbed depreciation whichever is lower.
 - (d) brought forward business loss or unabsorbed depreciation whichever is higher.
5. As per Ind AS 37, an entity shall recognise:
 - (a) A provision when an entity has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.
 - (b) A provision irrespective of any present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.
 - (c) A contingent liability.
 - (d) A contingent asset.

Descriptive Questions

6. Whether the company's accounting treatment of cost for creation of provision towards onerous contracts is in line with the provisions of Ind AS 37?
7. Please explain how provision for onerous contract made in the books of account have to be dealt with in preparation of computation of taxable income by HVCL?
8. Please also explain how HVCL shall consider the warranty clause in the supplies of equipment made to ABIL in preparation of computation of taxable income?

ANSWERS TO THE CASE STUDY 22

Answers to the Multiple Choice Questions

1. (a)
2. (d)
3. (d)
4. (c)
5. (a)

Answers to the Descriptive Questions

6. As per Ind AS 37, onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable cost under a contract reflects the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation for penalties arising from failure to fulfilling it.
Ind AS 37 provides that the amount recognised shall be the best estimate of the expenditure required to settle the present obligation, which is the amount that an entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time. In case of onerous contracts, that an amount that an entity would rationally pay to settle the obligation

would be the lower of the compensation or penalties arising from failure to fulfil the contracts and excess of unavoidable cost of meeting the obligations under the contract from the economic benefits expected to be received under it.

The cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of both-

- (a) the incremental costs of fulfilling that contract - for example, direct labour and materials; and
- (b) an allocation of other costs that relate directly to fulfilling contracts - for example, an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling that contract among others.

Accordingly, HVCL has correctly measured the cost for creation of provision for onerous contracts by considering material cost, labour cost (to the extent it relates directly to production) and material overheads (to the extent it relates directly to production). However, expenses allocated to this department from indirect departments should be avoided in computing the cost for the purpose of creating provision for onerous contracts.

Further, HVCL is correct that the period cost will not be considered for measurement of cost for the purpose of creation of provision on onerous contracts.

7. ICDS X deals provisions, contingent liabilities and contingent assets except those resulting from executory contracts.

Whereas Ind AS 37 excludes onerous contracts from the definition of executory contracts, in ICDS X there is no such exclusion. Therefore, when executory contracts are excluded from the purview of ICDS X, onerous contracts, which fall within the meaning of executory contracts, are also excluded from the scope of ICDS X.

Accordingly, as per the provisions of the Income-tax Act, 1961, provision for onerous contracts is not allowable as deduction in the hands of HVCL while computing its taxable income.

For computation of book profit under section 115JB for levy of minimum alternate tax (MAT) @15% (plus surcharge, if applicable, and HEC@4%), the amount set aside to provisions made for meeting liabilities, other than ascertained liabilities, has to be added back.

Accordingly, provision for onerous contract made in the books of account as is debited to the Statement of profit and loss of HVCL need not be added back, since it represents provision for an ascertained liability. Hence, such provision is deductible while computing book profit for levy of MAT.

8. As per ICDS X, a provision has to be recognised when:

- (a) a person has a present obligation as a result of a past event
- (b) it is reasonably certain that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (c) a reliable estimate can be made of the amount of the obligation. If these

One of the terms of the supply order is that the supplier, HVCL, would be responsible for warranty towards technical defects in the equipment supplied during the two year period from the date of supply.

Provision for warranty has to be recognized as per ICDS X, if it is reasonably certain, from the statistical data, that an outflow of resources embodying economic benefits will be required to settle the obligation.

If provision for warranty is made on scientific and reliable basis and without such warranty ABIL would not be prepared to buy the equipment, the warranty would become an integral part of the sale price and

hence, the provision for warranty would be allowable as business expenditure.

In this case, since provision of warranty is one of the terms of the supply order, it is evident that ABIL would not be prepared to buy the equipment without such warranty. Accordingly, provision for warranty is allowable while computing taxable income under the provisions of the Income-tax Act, 1961, assuming that it is made on scientific basis.

Also, provision for warranty made on scientific and reliable basis is an ascertained liability, Hence, such provision is also allowable while computing book profit for levy of MAT.

PAST PAPERS

Case Study 23

Subjects	Topics Covered	Marks
FR	Schedule III	6
DT	PGBP (Basics), Tax Audit	15
IDT	Place of Supply (Training), ITC (Basics)	4

Facts of the Case:

- The company has been claiming deduction of employees' contribution to Provident fund irrespective of the fact that the payment was delayed in some months. In one of the assessment year, the assessing officer has disallowed the claim of those months where there were delays in payment. However, the tribunal in appeal filed by the company, it has been allowed. The accountant is in dilemma for assessment year 2024-25 whether he can still continue to claim the same. The accountant of the company provides you the following information regarding employees' as well as employers' contribution to provident fund with it dates of payment. The due date for filing the tax return for the company in this case is 31.10.2024.

Employees' Contribution to PF	Employers' Contribution to PF	Due date for payment	The actual amount paid	The actual date of both payments to the concerned authorities
1,33,000	1,33,000	20.05.2023	2,66,000	13.05.2023
1,34,000	1,34,000	20.06.2023	2,68,000	19.06.2023
1,33,500	1,33,500	20.07.2023	2,67,000	25.07.2023
1,34,000	1,34,000	20.08.2023	2,68,000	08.10.2023
1,33,500	1,33,500	20.09.2023	2,67,000	16.10.2023
1,32,500	1,32,500	20.10.2023	2,65,000	13.10.2023
1,34,500	1,34,500	20.11.2023	2,69,000	20.11.2023
1,33,000	1,33,000	20.12.2023	2,66,000	22.03.2024
1,50,000	1,50,000	20.01.2024	3,00,000	29.03.2024
1,49,000	1,49,000	20.02.2024	2,98,000	29.09.2024
1,47,000	1,47,000	20.03.2024	2,94,000	29.10.2024
1,48,000	1,48,000	20.04.2024	2,96,000	Not Paid

- During the year, company spend ₹ 10 lacs on the CSR Activities and claiming the same as deduction while computing total income under Income Tax Act, 1961.
- The CFO informed the board that the reporting requirement of financial statements has increased tremendously. For many information, ageing analysis has been introduced, more information regarding immovable property, utilization of borrowings, benami properties etc., has been introduced and accordingly scope of CARO has also been enlarged. The chief accountant of the company provides the following details of Trades Payable as at 31.03.2024:

Outstanding payments:

Less than 180 days	₹ 15,00,000
Over 180 days and less than a year	₹ 11,20,000

For a period between 1 to 2 years ₹ 5,00,000

For a period between 2 to 3 years ₹ 3,00,000

GST charged by suppliers is @ 12% which is included in the above outstanding payment. The company is regularly claiming available ITC in their books but has not made any reversal of ITC in respect of outstandings arising during the year. Trade payables in the above is due for payment, are undisputed and payable to non MSMEs.

4. NAN Consultants (Delhi) impart accounting software training to accounts and finance personnel of the company at their Delhi office which is also registered under GST. The agreement to render this service was entered into with its head office at Mumbai.

Multiple Choice Questions

1. The Employees' contribution to provident fund will be deductible to the extent of:
(a) ₹ 16,62,000
(b) ₹ 11,28,000
(c) ₹ 5,34,000
(d) ₹ 15,14,000
2. The Employers' contribution to provident fund will be deductible to the extent of:
(a) ₹ 16,62,000
(b) ₹ 11,28,000
(c) ₹ 5,34,000
(d) ₹ 15,14,000
3. Whether ₹ 10 lacs incurred by the company on CSR is allowed as deduction under Income Tax Act, 1961:
(a) Not allowed.
(b) Fully allowed.
(c) Partially allowed.
(d) None of the above.
4. Whether the company is required to make reversal of Input tax credit (ITC) in the given case study and if yes, then of what amount (ignore interest):
(a) No reversal of ITC is required to be made in the books.
(b) Yes, ₹ 1,34,400
(c) Yes, ₹ 1,12,000
(d) Yes, ₹ 1,20,000
5. With respect to the training imparted by NAN consultants, what should be the place of supply?
(a) Mumbai
(b) Delhi
(c) Mumbai or Delhi at the discretion of the consultant.
(d) In terms of section 12(5), GST is not leviable with respect to training or performance appraisal services. Therefore, the question of place of supply does not arise.

Descriptive Questions

6. In the given case study, as a Tax auditor how will you report in Form 3CD the employees' contribution to provident fund and any disallowance which is to be made as per section 40(a)(ii) of the Income Tax Act, 1961?
7. How will you disclose the information relating to trade payables provided in para no 3 of the case study in the financial statements?

ANSWERS TO THE CASE STUDY 23

Answers to the Multiple Choice Questions

1. (c)
2. (d)
3. (a)
4. (d)
5. (a)

Answers to the Descriptive Questions

6. The auditor is required to report the employee's contribution to provident fund in Form 3CD as under Clause 20(b): Details of contributions received from employees for various funds as referred to in section 36(1)(va):

SN	Nature of fund	Sum received from employees	Due date for payment	The actual amount paid	The actual date of payment to the concerned authorities
1	Employee's Contribution to PF	1,33,000	20.05.2023	1,33,000	13.05.2023
2	Employee's Contribution to PF	1,34,000	20.06.2023	1,34,000	19.06.2023
3	Employee's Contribution to PF	1,33,500	20.07.2023	1,33,500	25.07.2023
4	Employee's Contribution to PF	1,34,000	20.08.2023	1,34,000	08.10.2023
5	Employee's Contribution to PF	1,33,500	20.09.2023	1,33,500	16.10.2023
6	Employee's Contribution to PF	1,32,500	20.10.2023	1,32,500	13.10.2023
7	Employee's Contribution to PF	1,34,500	20.11.2023	1,34,500	20.11.2023
8	Employee's Contribution to PF	1,33,000	20.12.2023	1,33,000	22.03.2024
9	Employee's Contribution to PF	1,50,000	20.01.2023	1,50,000	29.03.2024

10	Employee's Contribution to PF	1,49,000	20.02.2023	1,49,000	29.09.2024
11	Employee's Contribution to PF	1,47,000	20.03.2023	1,47,000	29.10.2024

Further as regards disallowance under section 40(a)(ii) of the Income Tax Act, 1961 no reporting is to be done for the same by tax auditor in Form 3CD but only the amount needs to be disallowed by the assessee per se at the time of filling of the tax return for the respective assessment year.

7. Extracts of Balance Sheet of Majestic Industries Limited as at 31st March, 2024

Particulars	₹
LIABILITIES	
Current liabilities	
(a) Financial Liabilities	
(i) Trade payables	34,20,000
Total liabilities	XXXX
Total equity and liabilities	XXXX

Trade payables

Ageing for trade payables outstanding as at 31st March, 2024 is as follows:

Particulars	Less than 1 year	1-2 years	2-3 years	More than 3 years	Total
Undisputed – Other than MSME	26,20,000	5,00,000	3,00,000	-	34,20,000

Note: The information regarding operating cycle is not provided in the question. It is assumed that all the trade payables are within the scope of operating cycle and hence are classified as current liabilities.

PAST PAPERS

Case Study 24

Subjects	Topics Covered	Marks
FR	Ind AS 2, Ind AS 7, Ind AS 12	14
DT	SFT, TCS, Equalisation Levy	6
Law	Companies Act (Section 177), LODR (Regulation 18: Audit Committee)	5

About You

You are part of a renowned firm of Chartered Accountants based in New Delhi which is engaged in modern fields of practice such as Forensic Audit, International Taxation (Direct and Indirect), Information Systems Audit, Risk Based Audit, Registered Valuers etc.,

About FSL

One of your friends has recommended your name to M/s Forever Source Limited (FSL), a listed entity engaged in the manufacturing and export of speciality chemicals used in textile industry and having annual turnover of ₹ 50 crores.

Issues

- I. Management has finalized financial results for half year ended 30th September 2024. Revenue, net profit and cash profit of the company has increased manifold, hence, the management has decided to buy-back shares of company and has gone ahead with its decision after complying with all the requirements. Company has utilized the balance lying in free reserves and securities premium account for the purpose of buy-back. Following relevant information is available for your kind perusal which is before buy-back:

Particulars	Amount (₹ In Lakh)
EQUITY AND LIABILITIES	
(1) Shareholders' funds	
(a) Share capital	1000.00
(b) Reserves and Surplus	2000.00
Total	3000.00

Company has bought back five percent of its share capital (three percent from open market and balance from Mr. Raman, one of the investors in the company).

- II. Since the company deals in specialty chemicals, different types of inventories are lying with the company. For valuation purposes, the same is classified into four categories (Category 1, Category 2, Category 3 and Category 4). Company has to comply with inventory valuation norms prescribed by IND AS 2 - INVENTORIES. Following information (category wise) is available from the company records.

(Amount in Rupees Thousands)

Inventory Item	Cost	Estimated Sales Price	Selling Cost	Fair Value
Category 1	10,000	9,800	700	9,500
Category 2	16,000	20,000	400	19,600
Category 3	18,000	19,000	400	18,100
Category 4	8,000	9,500	350	9,000

Staff of the Company has valued the inventory at ₹ 52,000 (in 000's) as by every other means (Fair Value

or the selling price) valuation is greater than ₹ 52,000 (in 000's)

- III. Company, to increase its customer reach, keeps on advertising through various modes in national and international market. Recently, one of the friends of Mr. Rohit suggested him to use the online advertisement platform being operated by Worldwide Online Advertisement Agency (WOAA). WOAA do not have any permanent establishment (PE) in India. Mr. Rohit has used the online advertising platform for certain period of time for an agreed consideration of ₹ 2,50,000. WOAA has rendered services as per the terms and conditions and agreed payment has been made by FSL after complying with all the legal requirements as per Income Tax Act, 1961.

Result of using online advertisement has started pouring in. Company has received various enquiries and one enquiry has matured into sales contract of ₹ 75 Lakh (excluding GST @ 18%) with M/s Agro Research Limited (ARL). ARL is a newly incorporated company (during the year 2023-24) and has started its business in month of August 2023 and has a turnover of ₹ 150.00 Lakh only till date. ARL has provided all documents including its PAN to the seller company. The product was supplied in month of September 2023 and the entire contract consideration has also been received in the same month itself.

- IV. On 1st April 2023, FSL has invested in the equity shares of newly formed company DEF Limited (DEF) at a cost of ₹ 1 Lakh to acquire 20% share in the voting power of DEF. As per technical terms, DEF is considered to be an associate of FSL. At the end of F.Y. 2023-24, DEF earned profit of ₹ 10,000 and other comprehensive income of ₹ 2000. In that year, DEF also declared dividend of ₹ 4,000. This transaction has been appropriately reflected in cash flow statement of FSL prepared for the F.Y 2023-24.

During the year ended 31st March 2024, FSL has capitalized development costs which satisfied criteria as per Ind AS 38 'Intangible Assets'. The total amount capitalized was ₹ 16 Lakh. The development project has begun to generate economic benefits for FSL from 01st January 2024. The directors of FSL have estimated that the project would generate economic benefits for five years from that date. The development expenditure is fully deductible against taxable profits for the year ended 31st March 2024.

- V. FSL has an Audit Committee which regularly meets and considers the financial statements. FSL has 6 Directors which consist of 3 independent directors. Audit Committee consists of 3 directors out of which 2 directors are independent directors. All the directors are persons with ability to read and understand the financial statement. Statutory auditors of FSL are invited by the Audit Committee from time to time to attend the meeting. However, statutory auditors are reluctant to attend the meeting.

Note that the company is an Ind AS compliant.

Multiple Choice Questions

- What is the status of reporting requirement of transaction of buy-back of securities done by Forever Source Limited (FSL) under the Income-tax Act 1961?
 - No reporting is required under the Income-tax Act as the same is applicable for companies having share capital of ₹ 100.00 Crores and above.
 - Reporting of ₹ 50.00 lakhs will be done in Statement of Financial Transactions.
 - Reporting of buy back of ₹ 30.00 lakhs will be done in Statement of Financial Transactions.
 - Reporting of ₹ 20.00 lakhs will be done in Statement of Financial Transactions.
- What is your opinion on valuation of inventories done by the company officials?
 - Valuation done by company is correct.
 - Valuation done by company is incorrect and the correct valuation is ₹ 51,100 (in 000's)

- (c) Valuation done by company is incorrect and the correct valuation is ₹ 51,500 (in 000's)
- (d) Valuation done by company is incorrect and the correct valuation is ₹ 51,800 (in 000's).
3. The deferred tax Asset/liability in relation to development cost incurred by the company (assuming tax rate 20%) and its classification while reporting in the financial statements will be:
- (a) Deferred Tax Asset of ₹ 3,60,000 will be recognised as current asset.
- (b) Deferred Tax liability of ₹ 3,04,000 will be recognised as non-current liability.
- (c) Deferred Tax Asset of ₹ 3,04,000 will be recognised as non-current asset.
- (d) Deferred Tax liability of ₹ 3,04,000 will be recognised as current liability.
4. What are the tax liabilities (deduction or collection of tax i.e. TDS/TCS) on Sale/Purchase transaction between Forever Source Limited (FSL) and Agro Research Limited (ARL)?
- (a) TCS is required to be collected by FSL amounting to ₹ 7,500.
- (b) TDS will be deducted by ARL amounting to ₹ 7,500.
- (c) TDS will be deducted by ARL amounting to ₹ 8,850.
- (d) TCS is required to be collected by FSL amounting to ₹ 3,850.
5. What will be the amount of tax leviable on the payment made by First Source Limited (FSL) to Worldwide Online Advertisement Agency (WOAA)?
- (a) TDS will be deducted on payment made to non-resident amounting to ₹ 75,000.
- (b) Equalisation levy amounting to ₹ 15,000 u/s 165 of Finance Act, 2016.
- (c) Equalisation levy amounting to ₹ 5,000 u/s 165 of Finance Act, 2016.
- (d) TDS will be deducted on advertisement u/s 194C amounting to ₹ 5000:

Descriptive Questions

6. In view of reluctance of statutory auditor to attend the Audit Committee meeting in the given case study, you are required to comment on the Role of Auditor in Audit Committee. Also comment whether the constitution of Audit Committee is valid.
7. Give examples of temporary differences transactions that may affect taxable profit or loss of an enterprise.
8. In case investment in DEF Limited has been done in a way other than cash, do you think that transaction would also have been reported in Cash Flow Statement? Which are non-cash transactions relating to investing activities which are not required to be reported in Cash Flow Statement?

ANSWERS TO THE CASE STUDY 24

Answers to the Multiple Choice Questions

1. (d)
2. (b)
3. (b)
4. (d)
5. (b)

Answers to the Descriptive Questions

6. **Role of Auditor in to attend the Audit Committee Meeting:** Regulation 18(1)(f) stipulates that a **representative of the statutory auditor**, when required, shall be invited to the meetings of the **Audit Committee**. Similarly, Section 177 of the Companies Act, 2013 provides the auditors of a company and the key managerial personnel the **right to be heard in the meetings of the Audit Committee when it considers the auditor's report but they shall not have the right to vote**.

The auditor must ensure that he communicates frequently and openly with the Audit Committee on key accounting or auditing issues that, in the auditor's judgment, give rise to a greater risk of material misstatement of the financial statements, and also ensure that he addresses any questions or concerns voiced by the Audit Committee.

He can contribute significantly in assisting and advising the Audit Committee on improving corporate governance, oversight of financial reporting process, implementation of accounting policies and practices, compliance with accounting standards, strengthening of the internal control systems in regard to financial reporting and reporting processes.

The auditor must devote substantial professional time in assisting the management and the Audit Committee to enable them to discharge their functions effectively and in certification of the requirements of corporate governance.

The auditor has to keep in mind that his role is not to drive corporate governance directly. Rather, it is the management's responsibility to do so and, in the process, he should play a significant role in assisting management to ensure better standards of corporate governance.

Composition of Audit Committee: As per section 177 of the Companies Act, 2013, the Audit Committee shall consist of a minimum of three directors with independent directors forming a majority. It may be noted that majority of members of Audit Committee including its Chairperson shall be persons with ability to read and understand, the financial statement.

In the given case, Forever Source Limited, a listed entity, has audit committee which regularly meets and consider the financial statements. The Audit committee of FSL consist of 3 directors out of which 2 directors are independent director which is in compliance with section 177 of the Companies Act, 2013.

It is also required that all members of Audit Committee shall be financially literate. As per fact of the case all the directors of FSL are persons with ability to read and understand the financial statements which is also in compliance with section 177 of the Act, it can be concluded that composition of Audit Committee of FS Limited is valid.

ALTERNATIVE SOLUTION

Composition of Audit Committee: As per Regulation 18(1) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the main features of a qualified and independent audit committee to be set up are as follows:

- (a) The Audit Committee shall have minimum three directors as members.
- (b) At least two-thirds of the members of audit committee shall be independent directors.
- (c) All members of Audit Committee shall be financially literate and at least one member shall have accounting or related financial management expertise.
- (d) The Chairperson of the Audit Committee shall be an independent director and he/she shall be present at Annual General Meeting to answer shareholder queries.
- (e) The Company Secretary shall act as the secretary to the committee.

- (f) The Audit Committee at its discretion shall invite the finance director or the head of the finance function, head of internal audit and a representative of the statutory auditor and any other such executives to be present at the meetings of the committee.

In the given case, Forever Source Limited, a listed entity, has audit committee which regularly meets and consider the financial statements. The Audit committee of FSL consist of 3 directors out of which 2 directors are independent director which is compliance with Regulation 18(1) of the SEBI LODR 2015 as according to the same the Audit Committee shall have minimum three directors as members. At least two-thirds of the members of audit committee shall be independent directors.

Further, it is also given in the Regulation 18(1) i.e. all members of Audit Committee shall be financially literate and at least one member shall have accounting or related financial management expertise. As per fact of the case all directors of FSL are persons with ability to read and understand financial statements which is also in compliance with, however, assuming that one of the director is having accounting or related financial management expertise and Chairperson of the Audit Committee is independent director, it can be concluded that composition of Audit Committee of FS Limited is valid.

7. Examples of temporary differences transactions that affect taxable profit or loss of an enterprise:
1. Interest revenue is received in arrears and is included in accounting profit on a time apportionment basis but is included in taxable profit on a cash basis.
 2. Revenue from the sale of goods is included in accounting profit when goods are delivered but is included in taxable profit when cash is collected. In this case, there is also a deductible temporary difference associated with any related inventory.
 3. Depreciation of an asset is accelerated for tax purposes.
 4. Development costs have been capitalized and will be amortised to the statement of profit and loss but were deducted in determining taxable profit in the period in which they were incurred.
 5. Prepaid expenses have already been deducted on a cash basis in determining the taxable profit of the current or previous periods.
8. Investing transactions that do not require the use of cash or cash equivalents shall be excluded from a statement of cash flows. Such transactions shall be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing activities. Many investing activities do not have a direct impact on current cash flows although they do affect the capital and asset structure of an entity. Such non-cash items will not form part of the cash flow statement.

Accordingly, in case investment in DEF Limited has been done in a way other than cash, then that transaction would not be reported in the Statement of Cash Flows.

Examples of non-cash transactions relating to investing activities which are not required to be reported in the Statement of Cash Flows are:

- (a) the acquisition of assets by assuming directly related liabilities;
- (b) the acquisition of assets by means of a lease;
- (c) the acquisition of an entity by means of an equity issue;

PAST PAPERS

Case Study 25

Subjects	Topics Covered	Marks
AFM	Business Valuation (Chop Shop, Enterprise Value), Mergers (Reverse)	11
Audit	SA 240	8
DT	Tax Audit	2
Law	Companies Act (Section 180); LODR (Regulation 29)	4

M/s HK & Co., based in New Delhi, is a leading firm of Chartered Accountants having clients from all verticals of business and service industry. Firm has 20 partners having professional experience of more than three decades.

During the month of July 2024, different engagement teams handled various assignments, and CA H Kumar has been asked to review and guide the engagement teams in the following assignment.

Assignment with the firm: JK Limited (JKL)

JK Limited is interested in acquiring the running enterprise rather than starting a new project. The company has its interest in one of the divisions of M/s ARP Limited (a listed entity) (ARP). M/s ARP Limited is a multi-industry company having its presence from auto components to textile mills to food processing business. All these businesses are under the same roof i.e. ARP Limited. Shares of ARP Limited are actively traded and current market price is ₹ 15 per share. Summarized Balance sheets of ARP Limited and JK Limited are as follows:

(Amount in rupees thousands)

	ARP Limited	JK Limited
Non-Current Assets	1000	600
Current Assets:		
Trade Receivables	500	100
Cash and Cash Equivalents	500	50
Total	2000	750
Shareholders' Funds	800	500
Long Term Debt	200	50
Current Liabilities and Provisions	1000	200
Total	2000	750

Shareholders' funds of ARP Limited represent 70,000 shares of ₹ 10 each and rest is retained earnings/reserves and surplus. Data pertains to the entire company and not of a particular division. Segment wise valuation will lead to higher valuation of the company. Hardware division of the ARP Limited will be bought for ₹ 60 Crores and for this acquisition, funds will be borrowed by the management of JK Limited.

One of the verticals of JKL is engaged in export of gold jewellery and ornaments. JKL has a paid up Equity share capital of ₹ 4 lakh divided into 40 thousand equity shares of ₹ 10 each. Results for half year ended 30th September 2024 has indicated 15% growth in revenue and 20% in profits as compared to results of half year ended 30th September 2023. Order book of the company is strong enough to maintain this growth for next five years. After looking at the financial results for the half year ended 30th September 2024, the management has decided to recommend interim dividend of ₹ 2 per equity share. Accordingly, the board meeting has been called and resolution has been passed with record date set as 23rd October 2024.

Another vertical of JKL is engaged in the manufacturing and exports of drilling machinery. The company has made the following cash payments during the audit period 2023-24 to the local transporters for carrying finished goods from factory premises to the container freight station (CFS):

- (i) Payment of 6 invoices of ₹ 4,000 each made in cash to Mr. X on 04th July 2023.
- (ii) Payment of 2 invoices of ₹ 21,000 each made in cash to Mr. Y on 05th July 2023 and 06th July 2023 respectively.
- (iii) Payment of ₹ 40,000 made in cash to Mr. Z on 07th July 2023 against an invoice for expenses booked in F.Y. 2022-23.

Further management of JKL has decided to buy a sick company, Machine Industries Limited (MIL) having negative net worth. Financial consultants were hired to give their opinion on the decision and all of them have recommended to JKL to merge itself with the Machine Industries Limited (MIL) rather than merge MIL to JKL. However, management is not inclined to take this step and still undecided on the method of merger.

Further another vertical of JKL is engaged in agricultural operations. Your audit manager CA Ms. Shweta is doing the statutory audit of JKL. During the course of audit, she overheard that there has been some mis-happening in the Company and the management has got an investigation done. There is suspicion of some fraud having taken place. She has requested the management to provide the details of such investigation but the response of the management has been evasive. She requested the management to provide the representation of management in respect of fraud. However, she did not get any response.

Multiple Choice Questions

1. By which date JKL should have recommended the dividend as per Listing Obligations and Disclosure Requirements (LODR)? (Assume no holiday in the month of Oct. 2024)
 - (a) 08th October 2024
 - (b) 17th October 2024
 - (c) 12th October 2024
 - (d) 20th October 2024
2. Considering the balance sheet of J K Limited (JKL), what is the maximum amount that management can further borrow as per the provisions of the Companies Act, 2013?
 - (a) ₹ 550 thousands being the consolidated amount of capital invested in the form of shareholders' funds and Long term debt.
 - (b) ₹1,500 thousands being three times of shareholders' funds.
 - (c) ₹ 450 thousands being the shareholders' funds as reduced by existing debt.
 - (d) ₹ 250 thousands being the shareholders' funds as reduced by total existing debt and current liabilities and provisions.
3. Which approach can be used by JK Limited (JKL) to value division of ARP Limited considering the fact that segment wise valuation of ARP Limited will lead to overall higher valuation of the company?
 - (a) Valuation using Net Book Value.
 - (b) Valuation by multiples.
 - (c) Valuation using Chop Shop method.
 - (d) Valuation using balance sheet approach.
4. As a tax auditor, which of the cash payments made by JKL given in case study above will be reported by

tax auditor in Form 3CA-3CD?

- (a) (i), (ii) and (iii)
 - (b) (i) and (iii)
 - (c) (ii) and (iii)
 - (d) Only (iii)
5. The primary responsibility for the prevention and detection of fraud rests with:
- (a) Auditor and management.
 - (b) Management and those charged with governance.
 - (c) Auditor and those charged with governance.
 - (d) All of the above.

Descriptive Questions

- 6. You are required to guide CA Ms. Shweta how she should approach in case of JKL when the management has neither provided the investigation report nor any representation in respect of suspected fraud.
- 7. Calculate Enterprise value of ARP Limited using entity value as the base under relative valuation method.
- 8. Explain the concept of reverse merger and advise the management of JKL the benefits, if any, in case merger of JKL with Machine Industries Limited (MIL) is done following the suggestion of financial consultants in the given case study.

ANSWERS TO THE CASE STUDY 25

Answers to the Multiple Choice Questions

- 1. (d)
- 2. (c)
- 3. (c)
- 4. (d)
- 5. (b)

Answers to the Descriptive Questions

6. **Auditor's Responsibilities Relating to Fraud:** As per SA 240 on "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements", the auditor is responsible for obtaining reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error.

As per SA 580 "Written Representations", if management modifies or does not provide the requested written representations, it may alert auditor to possibility that one or more significant issues may exist.

In the given case, CA. Sweta came to know that management has got an investigation done as there is suspicion of fraud taken place. She requested the management to provide details of such investigation and representation of management in respect of fraud, however she did not get any response.

In the instant case, auditor observed that there was a special audit conducted at instance of management on a possible suspicion of fraud. Therefore, the auditor requested for special audit report which was not

provided by the management despite of many reminders. The auditor also insisted for written representation in respect of fraud on/by company. For this request also management remained silent.

It may be noted that, if management does not provide one or more of the requested written representations, the auditor shall discuss the matter with management; re-evaluate the integrity of management and evaluate the effect that this may have on the reliability of representations (oral or written) and audit evidence in general; and take appropriate actions, including determining the possible effect on the opinion in the auditor's report.

Further, as per section 143(12) of the Companies Act, 2013, if an auditor of a company, in the course of the performance of his duties as auditor, has reason to believe that an offence involving fraud is being or has been committed against the company by officers or employees of the company, he shall immediately report the matter to the Central Government (in case amount of fraud is ₹ 1 crore or above) or Audit Committee or Board in other cases (in case the amount of fraud involved is less than ₹ 1 crore) within such time and in such manner as may be prescribed.

The auditor is also required to report as per Clause (xi) of Paragraph 3 of CARO, 2020, Whether any fraud by the company or any fraud on the company by its officers or employees has been noticed or reported during the year; If yes, the nature and the amount involved is to be indicated.

If, as a result of a misstatement resulting from fraud or suspected fraud, the auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit, the auditor shall:

- (i) Determine the professional and legal responsibilities applicable in the circumstances, including whether there is a requirement for the auditor to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities;
- (ii) Consider whether it is appropriate to withdraw from the engagement, where withdrawal from the engagement is legally permitted; and
- (iii) If the auditor withdraws:
 - (1) Discuss with the appropriate level of management and those charged with governance, the auditor's withdrawal from the engagement and the reasons for the withdrawal; and
 - (2) Determine whether there is a professional or legal requirement to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities, the auditor's withdrawal from the engagement and the reasons for the withdrawal.

7. Enterprise Value of ARP Limited

	₹
Market Value of Equity Shares (70,000 x ₹ 15)	10,50,000
Add: Long Term Debt	2,00,000
Less: Cash and Cash Equivalents	5,00,000
Enterprise Value	7,50,000

8. In ordinary case, company taken over is the smaller company; in a 'reverse takeover', a smaller company gains control of a larger one. The concept of takeover by reverse bid, or of reverse merger, is thus not the usual case of amalgamation of a sick unit which is non-viable with a healthy or prosperous unit but is a case whereby the entire undertaking of the healthy and prosperous company is to be merged and vested in the sick company which is non-viable. A company becomes a sick industrial company when there is erosion in its net worth. This alternative is also known as taking over by reverse bid.

Reverse merger leads to the following benefits for acquiring company:

- Easy access to capital market.
 - Increase in visibility of the company in corporate world.
 - Tax benefits on carry forward losses acquired (public) company.
 - Cheaper and easier route to become a public company.
-

PAST PAPERS

Case Study 26

Subjects	Topics Covered	Marks
FR	Ind AS 24	2
DT	Residential Status, Capital Gains, Tax Audit	14
Law	Companies Act (Section 149, 202)	9

GSV Associates is a firm of Chartered Accountants. The firm is noticed with the following issues relating to their clients.

Facts of the case

- Happy Happy Limited is listed with the Bombay Stock Exchange. The Directors of the company want to appoint Mr. Shyamlesh as an independent director at the forthcoming Annual General Meeting (AGM) to be held on September 24, 2024. Mr. Sanjay, son-in-law of Mr. Shyamlesh, is a Managing Partner of Sanjay and Associates LLP, firm of Lawyers. Mr. Sanjay is acting as a legal advisor to Generic Laboratory Limited, an Associate Company of Happy Happy Limited. It is to be noted that Adv. Sanjay charged consultation fees from Generic Laboratory Limited as given below in rupees:

Year	Fees	Gross turnover of Sanjay and Associates
2021-22	2,00,00,000	40,00,00,000
2022-23	10,00,00,000	50,00,00,000
2023-24	0.00	45,00,00,000

- Mr. Shyam Lal is millionaire and is fond of travelling and has investments in various countries. He has been in India for 300 days during last 4 years i.e. 2019-20, 2020-21, 2021-22 and 2022-23. During previous year 2023-24, he has been in India for 75 days. He has income from sources in India aggregating to ₹ 25.00 lakh. Mr. Shyam Lal is not liable to tax in any other country or territory by reason of his domicile or residence or any other criteria of similar nature. He thinks that since he is in India for 75 days only, he cannot be resident in India. However, he has heard that law in India is changed and so he approached CA. Vivek with the above information for determination of his correct residential status as per Income-tax.
- The firm is presently doing 200 tax audits which include 50 audits of clients who offer their income on presumptive basis. During the year, the firm is approached by other clients for whom the firm has been rendering consulting services to undertake their tax audits. Partners seek your expert view how many more tax audits may be added by the firm.
- Mr. V. Kumar has sold his residential property for a total consideration of ₹ 3.75 crores on 15th January 2024 (the date on which transfer got completed). He paid brokerage of ₹ 12.00 lakh and actual cost of acquisition in 1995 was ₹ 20.00 lakh and thereafter in 2011-12 there has been further improvement costing ₹ 30.00 lakh. The fair market value determined as on 1st April 2001 comes to ₹ 24.40 lakh. Mr. Kumar has purchased a flat on 30th November 2023 for his residence for ₹ 1.00 crore and has incurred further cost on stamp duty, furnishing etc. ₹ 33.00 lakh. He also deposited ₹ 50.00 lakh in 54EC Capital Gains Bond. Cost inflation index for F.Y. 2011-12 was 184 and for F.Y. 2023-24 was 348. Mr. Kumar approached CA. Vivek for computation of his Capital Gain from sale of his residential property.
- Mr. Manish, an article of the firm approached CA Sushil with the following complex web of relationship with different entities to understand whether they are related parties as per Ind AS.

Company 'A' is the subsidiary of company 'B'. Company 'B' is the subsidiary of company 'C'. Company 'D' is the subsidiary of company 'A'. Company 'X' is the associate of company 'D' and company 'Y' is the Joint Venture (JV) of Company 'X'.

6. Z Limited has removed its Managing Director Mr. Keshav Prasad and is required to compensate him for loss of office. Mr. Keshav Prasad vacated the office of Managing Director on 31.05.2023 though his original tenure of appointment with Z Limited was to continue up to 31.12.2025. He had joined on 1st April 2021. He has drawn remuneration during the last three years per month as under:
- | | |
|--|-----------|
| 2021-22 | ₹ 20 lakh |
| 2022-23 | ₹ 25 lakh |
| 2023-24 (upto 31 st May 2023) | ₹ 30 lakh |

Multiple Choice Questions

- You are required to identify the correct statement from those given below:
 - Happy Happy Limited can appoint Mr. Shyamlesh as an Independent Director irrespective of the fact that Mr. Sanjay, his relative, is Legal Advisor to Generic Laboratory Ltd. which is its Associate Company.
 - Happy Happy Limited cannot appoint Mr. Shyamlesh as an Independent Director as he is relative of Mr. Sanjay, who is Managing Partner of the firm which is legal advisor to Generic Laboratory Ltd., its Associate Company, irrespective of the amount of fees charged by Mr. Sanjay from its Associate Company.
 - Happy Happy Limited cannot appoint Mr. Shyamlesh as an Independent Director as he is relative of Mr. Sanjay, Managing Partner of the firm which is Legal Advisor to Generic Laboratory Ltd., its Associate Company, and the fees charged by Mr. Sanjay exceeds the percentage as specified in the Companies Act, 2013, during one year out of the three immediately preceding financial years.
 - Happy-Happy Limited can appoint Mr. Shyamlesh as an Independent Director even though his son in law Mr. Sanjay is the Managing Partner of the firm which is Legal Advisor to Generic Laboratory Ltd., its Associate Company, as Mr. Sanjay did not charge any fee during the immediately preceding financial year.
- The residential status of Mr. Shyamlal will be
 - Resident
 - Non-resident
 - Not-ordinarily resident as he is not a resident of any other country based on domicile and his income excluding, income from foreign sources exceeds ₹ 15 lakh.
 - Not-ordinarily resident as he is having income above ₹ 15 lakh.
- GSV Associates can accept further audit under section 44AB of
 - 90 audits
 - 40 audits
 - Nil
 - 60 audits
- For reporting purposes as per Ind AS, which are the related parties of company 'C'?
 - A, B, D

- (b) A, B, D, X
 - (c) A, B, D, Y
 - (d) A, B, D, X, Y
5. The maximum amount of compensation to which Mr. Keshav Prasad is entitled for premature termination of his office as Managing Director shall be -
- (a) ₹ 715.48 lakh
 - (b) ₹ 930 lakh
 - (c) Nil
 - (d) ₹ 697.50 lakh

Descriptive Questions

- 6. Explain 'not-ordinarily resident' status of an Individual.
- 7. Compute the capital gain in respect of property sold in point (4) of the case study.
- 8. Explain the reasons for which a Managing Director or the whole time director may be denied the compensation for loss of office.

ANSWERS TO THE CASE STUDY 26

Answers to the Multiple Choice Questions

- 1. (c)
- 2. (b) or (c)
- 3. None of the options is correct.
- 4. (b)
- 5. (a)

Answers to the Descriptive Questions

- 6. As per section 6(6), an individual is said to be not-ordinarily resident in India in any previous year, if such individual satisfies any one of the following conditions:
 - (i) He has been a non-resident in India in any 9 out of the 10 previous years preceding the relevant previous year, or
 - (ii) He has been in India for a period of 729 days or less during the 7 previous years preceding the relevant previous year, or
 - (iii) He is an Indian citizen or person of Indian origin (who, being outside India, comes on a visit to India in any previous year) having total income, other than the income from foreign sources [i.e., income which accrues or arises outside India (other than income derived from a business controlled in or profession set up in India) and which is not deemed to accrue or arise in India], exceeding ₹ 15 lakhs during the previous year, who has been in India for 120 days or more but less than 182 days during that previous year, or
 - (iv) He is an Indian citizen who is deemed to be resident in India under section 6(1A).
- 7. Computation of capital gains of Mr. V. Kumar

Particulars	₹	₹
Sale Consideration		3,75,00,000
Less: Brokerage		12,00,000
Net sale consideration		3,63,00,000
Less: Indexed cost of acquisition [₹ 24,40,000, being higher of Fair market value on April 1, 2001 and ₹ 20,00,000, being actual cost of acquisition x 348/100]	84,91,200	
Less: Indexed cost of improvement [₹30,00,000 x 348/184]	<u>56,73,913</u>	<u>1,41,65,113</u>
		2,21,34,887
Less: Exemption under section 54 [₹1 crore + ₹ 33 lakhs]	1,33,00,000	
Purchase of residential house within the stipulated time (within one year before or two years after the date of sale)		
Less: Exemption under section 54EC, assuming invested within six months from the date of transfer	<u>50,00,000</u>	<u>1,83,00,000</u>
Long term capital gains [Since the property is held for more than 24 months]		38,34,887

8. Prohibition on payment of compensation for loss of office of Managing Director or Whole-time director or Manager [Section 202 of the Companies Act, 2013]: No payment of compensation shall be made in the following cases -

- (i) where the director resigns from his office as a result of the reconstruction of the company, or of its amalgamation and is appointed as managing or whole-time director, manager or other officer of the reconstructed company or of the body corporate resulting from the amalgamation;
- (ii) where the director resigns from his office otherwise than on the reconstruction of the company or its amalgamation i.e. resigns on his own;
- (iii) where the office of the director is vacated under section 167(1);
- (iv) where the company is being wound up, (by an order of the Tribunal or voluntarily), due to the negligence or default of the director;
- (v) where the director has been guilty of fraud / breach of trust / of gross negligence / gross mismanagement in relation to the conduct of the affairs of the company or any subsidiary company or holding company thereof; and
- (vi) where the director has instigated / has taken part directly or indirectly in bringing about, the termination of his office.

PAST PAPERS

Case Study 27

Subjects	Topics Covered	Marks
FR	Ind AS 102	2
DT	PGBP	5
IDT	Import & Export under GST (Merchant Exporter)	7
Law	Companies Act (Section 186), FEMA (Export Regulation)	4
SCPM	Pricing	7

Fashion India Limited (FIL), based in Chandigarh is one of the globally leading textile manufacturing company in India since last 40 years and is driven by its differentiation strategy based on innovation, branding & sustainability. As a leading textile company in India, FIL's key focus is on the domestic market with sustainable textiles and on building a strong B2C presence while continuing to grow its export business. The Company's manufacturing facilities, located in India, are equipped to deliver high-quality products as per international standards. The strong, ethical and compliant corporate governance mechanism is one of the core aspects of its policy structure. Management of the Company consists of well qualified and experienced professionals who are responsible for driving growth whilst ensuring compliance with the laws of land.

Due to competition in the market, the Company continuously reviews its product range and enhances its existing products by developing new models to meet the demands of its customers. FIL's research and development team developed a new product "Gladden" which has lifelong anti-microbial properties and odour prevention benefits and can keep the linens fresh for a longer time. This new product was approved by the management in July 2023 and was launched in December 2023. Gladden is now about to enter the maturity stage of its life cycle. Research by the marketing team indicates that demand of the product 'Gladden' in the domestic market is price sensitive. The likely market responses are as follows:

Selling price per unit (₹)	1,550	1,400	1,325	1,260	1,100
Sales demand per week (units)	6,000	8,500	10,500	11,750	12,500

The variable cost per unit for manufacturing 'Gladden' is ₹ 850 and the attributable fixed cost is ₹ 2,50,000 including all overheads and administrative expenses. Also, the price charged by competitors is in the range of ₹ 1,250.

The Production department believes that for producing "Gladden" existing machinery cannot be used and a specific type of machinery is required. The required machinery is being manufactured in India only by two companies namely RFD Ltd. (a company engaged in the manufacturing and exports of textile machinery) and SED Ltd. (a subsidiary of German company engaged in manufacturing all types of machinery according to the requirements of customer). Upon evaluation, FIL concluded that as RFD Ltd takes a period of 2 to 3 months, they would approach RFD Ltd for buying the machinery. An agreement to purchase the machinery was entered on August 10, 2023 with a clause that FIL will have to settle the consideration of machinery purchased by issuing its equity shares. FIL agreed to the clause and order was confirmed. Machinery was supplied vide invoice dated October 25, 2023 and delivered on November 1, 2023. Agreed purchase consideration was ₹ 150 Lakhs and the fair value of the machinery supplied was estimated to be ₹ 160 Lakhs. As agreed, FIL issued 1,00,000 equity shares of face value ₹ 100 each to RFD Ltd.

One of the product, 'Slimmer' introduced in the year 2017, is at the end of its life cycle and Company's revenue from it is declining at a very fast pace. The Company's marketing team in Mumbai has been approached by M/s

Tulip Exports Limited (TEL), a merchandise exporter, to buy 500,000 units of its product 'Slimmer' at the rate of ₹ 750 each. Historically, the Company did not venture into such type of business and whenever goods were exported, the same was done directly and not through any merchant exporter. One of the clauses of purchase, imposed by TEL is that the product will be supplied by FIL at the concessional rate of GST (normal GST rate is 5%). This proposal was discussed and approved by the management and the legal team was entrusted to ensure all the legal compliances pertaining to offer of TEL would be satisfactorily vetted. Specified goods were supplied vide invoice dated June 1, 2024 and received by TEL in its warehouse for further packing on June 5, 2024. Payment for goods was received as per the agreed terms on June 15, 2024. During the Statutory Audit, the statutory auditors sought evidence of goods exported to TEL (which were supplied at concessional rate). FIL replied to the auditor that, TEL neither supplied any export proof to them nor they have demanded it.

M/s Cotton Garments Inc. (buyer) from (a US based company dealing in high end garments) was regularly getting customer queries about availability of "Gladden" in its retail stores. Senior Management of Cotton Garments Inc. contacted FIL for supply of 10,000 units. Price per unit agreed was ₹ 1500, making total contract value ₹ 1.5 crores as per contract dated December 1, 2023. As Cotton Garments Inc. was professionally managed, during the finalization of the purchase agreement, a clause was inserted stating that if goods were not supplied within 3 months (March 1, 2024), FIL will pay interest at the rate of LIBOR + 100 basis points on the advance of 1 crore given on December 31, 2023. FIL could only supply 2,000 units of Gladden on time and could not supply remaining 8,000 units due to paucity of raw material. Management of FIL met the top leaders of Cotton Garments Inc. and explained the reasons for not being able to supply the remaining units and requested for waiver of interest. However, the management of Cotton Garments Inc. waived the interest with a condition that the remaining advance be returned to them immediately. FIL requested for a period till January 31, 2025, to which buyer agreed.

FIL earned good profits by launching the product "Gladden" and overall profitability was also good for the financial year 2023-24. As a result, the management decided to pay interest of 3 years upfront on the debentures outstanding in books of accounts (with a balance maturity period of 3 years). Total interest payment amounted to ₹ 600 Lakhs. While preparing financial statements for the year ended March 31, 2024, the management treated 2/3rd interest as deferred revenue expenditure and recorded an expense of ₹ 200 Lakhs only for the financial year 2023-24. The statement of Profit and Loss of the Company reflected a profit of ₹ 2,000 Lakhs before adjustment of interest of ₹ 200 Lakhs and charge of depreciation on new machinery purchased (depreciation rate - 15%). The final profit for tax purposes was yet to be computed by the Finance team of the Company.

As FIL is having surplus funds, one of its directors, Mr. S proposed an investment of ₹ 100 Lakhs in equity shares of reputed companies as part of Company's investment plan. For seeking approval for the said proposal, the board meeting of the Company was called which was attended by five directors out of seven directors and the proposal was agreed by only three directors present.

Multiple Choice Questions

1. Which of the above five selling prices should be charged for product 'Gladden' in domestic market and what will be the status of established selling price when it moves from growth stage to maturity stage?
 - (a) Selling price to be adopted is ₹ 1,325 and price is likely to be reduced gradually when the product moves from growth stage to maturity stage.
 - (b) Selling price to be adopted is ₹ 1,550 and price is likely to remain constant when the product moves from growth stage to maturity stage.
 - (c) Selling price to be adopted is ₹ 1,260 and price is likely to be in line with the price charged by competitors.

- (d) Selling price to be adopted is ₹ 1,325 and price is unlikely to be reduced and likely to be fairly constant when the product moves from growth stage to maturity stage.
2. As per Ind AS 102 - Share Based Payment, what should be the price and the date for recording the machinery purchased from RFD Ltd.?
- (a) ₹ 150 Lakhs on November 1, 2023
- (b) ₹ 160 Lakhs on November 1, 2023
- (c) ₹ 100 Lakhs on November 1, 2023
- (d) ₹ 150 Lakhs on October 25, 2023
3. By which date FIL should have exported all the goods and whether it is possible to refund advance outstanding on January 31, 2025 without intervention of any authority as per Foreign Exchange Management Act, 1999?
- (a) FIL should have exported all the goods by December 31, 2024 and no permission from any authority is needed to refund the advance amount on January 31, 2025
- (b) FIL should have exported all the goods by December 1, 2024 and no permission from any authority is needed to refund the advance amount on January 31, 2025.
- (c) FIL should have exported all the goods by December 31, 2024 and permission from Reserve Bank of India is needed to refund the advance amount on January 31, 2025.
- (d) FIL should have exported all the goods by December 1, 2024 and permission from Reserve Bank of India is needed to refund the advance amount on January 31, 2025.
4. As the investment proposal of Mr. S was approved by only three directors out of five directors present in the board meeting:
- (a) The Company can go ahead with such investment plan, as majority of the directors present at the board meeting agreed to the proposal of investing funds amounting to ₹ 100 Lakhs in equity shares of reputed companies.
- (b) The Company cannot invest funds amounting to ₹ 100 Lakhs in equity shares of reputed companies as all the 5 directors present at the meeting did not agree to such investment plan.
- (c) The Company cannot invest funds amounting to ₹ 100 Lakhs in equity shares of reputed companies as the total strength of 7 directors must attend the board meeting and all must consent to such investment plan.
- (d) The Company cannot invest amounting to ₹ 100 Lakhs in equity shares of reputed companies as the investment plan did not receive the consent of 3/4th majority of the directors present i.e., four out of present.
5. Which of the following statements is not correct in relation to transaction entered between TEL and FIL?
- (a) Goods need to be exported by December 31, 2024 and TEL needs to provide copy of shipping bill or bill of export to FIL along with proof of export general manifest.
- (b) TEL shall be registered with an Export Promotion Council and can export the goods only under LUT/bond and cannot export on payment of IGST.
- (c) TEL needs to indicate the GSTIN of FIL and the tax invoice number issued by FIL in shipping bill or bill of export.
- (d) FIL will be eligible for refund of ITC on account of inverted tax structure as per GST Act.

Descriptive Questions

6. Compute the profit of FIL for tax purposes, along with detailed notes, considering all the eligible deductions based on the facts mentioned in the case study.
7. One of the Marketing Managers believes that a product can also be sold below marginal cost. Is his view appropriate? Indicate the situations where pricing below marginal cost can be adopted.
8. "Historically, FIL had not exported through a merchant exporter." Explain meaning of Merchant exporter. Under what circumstances goods can be supplied to merchant exporter at concessional rate of GST?

ANSWERS TO THE CASE STUDY 27

Answers to the Multiple Choice Questions

1. (a)
2. (b)
3. (c)
4. (b)
5. (a)

Answers to the Descriptive Questions

6. Computation of Profit of FIL

	Particulars	₹ (in lakh)
	Net profit as per Statement of Profit and Loss	2,000
Less:	Upfront interest on debentures of 3 years [U/s 36(1)(iii), the entire amount of interest paid upfront in respect of debentures issued for purposes of business or profession, is allowable as deduction]	(600)
Less:	Normal depreciation on new machinery [₹ 150 lakhs x 15% x 50% since machinery is purchased and used for less than 180 days]	(11.25)
Less:	Additional depreciation on new machinery [₹ 150 lakhs x 20% x 50% since machinery is purchased and used for less than 180 days]	(15)
	Profits and Gains from Business or Profession	1,373.75

7. Pricing Below Marginal Cost

Yes, the views of the Marketing Managers is appropriate.

Firm may also be justifiable to sell the product at a price below marginal cost for a limited period provided the following conditions prevail:

- a. Where materials are of perishable nature.
- b. Where stocks have accumulated in large quantities and the market prices have fallen. This will save the carrying cost of stocks.
- c. To popularize a new product.
- d. Where such reduction enables the firm to boost the sales of other products having a larger profit margin.

8. Meaning of Merchant Exporter

Merchant exporter means a person engaged in trading activity and exporting or intending to export goods.

Circumstances when goods can be supplied to Merchant exporter at concessional rate of GST.

Goods can be supplied to merchant exporter at concessional rate of GST if following conditions are fulfilled:

- (a) the registered supplier (manufacturer) shall supply the goods to the registered recipient (merchant exporter) on a tax invoice;
- (b) the registered recipient shall export the said goods within a period of 90 days from the date of issue of a tax invoice by the registered supplier;
- (c) the registered recipient shall indicate the GSTIN of the registered supplier and the tax invoice number issued by the registered supplier in respect of the said goods in the shipping bill or bill of export;
- (d) the registered recipient shall be registered with an Export Promotion Council;
- (e) the registered recipient shall place an order on registered supplier for procuring goods at concessional rate and a copy of the same shall also be provided to the jurisdictional tax officer of the registered supplier;
- (f) the registered recipient shall move the said goods from place of registered supplier –
 - i. directly to the Port, Inland Container Depot, Airport or Land Customs Station from where the said goods are to be exported; or
 - ii. directly to a registered warehouse from where the said goods shall be moved to the Port, Inland Container Depot, Airport or Land Customs Station from where the said goods are to be exported;
- (g) if the registered recipient intends to aggregate supplies from multiple registered suppliers and then export, the goods from each registered supplier shall move to a registered warehouse and after aggregation, the registered recipient shall move goods to the Port, Inland Container Depot, Airport or Land Customs Station from where they shall be exported;
- (h) in case of situation referred to in condition (g), the registered recipient shall endorse receipt of goods on the tax invoice and also obtain acknowledgement of receipt of goods in the registered warehouse from the warehouse operator and the endorsed tax invoice and the acknowledgment of the warehouse operator shall be provided to the registered supplier as well as to the jurisdictional tax officer of such supplier; and
- (i) after goods have been exported, the registered recipient shall provide copy of shipping bill or bill of export containing details of GSTIN and tax invoice of the registered supplier along with proof of export general manifest or export report having been filed, to the registered supplier as well as jurisdictional tax officer of such supplier.

Merchant exporters may exclude commercially sensitive information while providing copies of shipping bills to registered suppliers.

PAST PAPERS

Case Study 28

Subjects	Topics Covered	Marks
FR	Ind AS 8, Ind AS 37	6
Audit	Professional Ethics	4
DT	MAT, SFT	4
IDT	Job Work	5
Law	Companies Act (Section 197)	6

Power Equipment Limited (PEL), headquartered in New Delhi, is engaged in production of various electrical, electronic, and mechanical equipments for various sectors, including transmission, transportation, oil & gas and other allied industries. PEL is also engaged in the designing, engineering, manufacturing, construction, testing, commissioning and servicing of a wide range of products, systems and services for the core sectors of the economy. The Company has capacity to deliver 10,000 MW power equipment p.a. to address the growing demand for power generation equipment.

The Company has also started exporting its power and industry segment products and services since year 2020. Till now, Company mainly carried out its operations using internal funds, bank borrowing and unsecured loans. Newly appointed CFO of the Company, Mr. Guru in his first meeting with board of directors, proposed an IPO to get the Company's shares listed on the stock exchanges in India, rather than increasing debt.

Management was convinced with the presentation given by Mr. Guru and was positive of the recommendations made by him. Consultants were appointed to assist the Company for preparation and necessary filings for IPO as the management knew that it is a technical process and requires preparedness in terms of business model, listing down Company's strengths and weaknesses, reason for public issues, arranging for various permissions, disclosures to be made in various documents etc. Consultants worked day and night to meet the deadline and were ready with draft prospectus and other documents. The documentation and draft prospectus included certification of current and past years' financial statements. Since Mr. Guru had joined recently as CFO of the Company, he was apprehensive about signing the documents containing financial information relating to earlier periods. When he expressed his apprehension, the management suggested that he could appoint a CA Firm, to review the documents he was supposed to sign-off, which would provide him additional comfort.

Accordingly, Mr. Guru took help of M/s RP & Associates, Chartered Accountants (an independent CA Firm) to review and validate the details disclosed in the financial information prepared for the purposes of IPO. Further, this review also included evaluation of non-compliances, if any, relating to direct taxes, indirect taxes, corporate laws and other financial regulations. After carrying out a detailed review, M/s RP & Associates, informed Mr. Guru about the following issues:

Issue 1

PEL regularly sent material to its job worker, ABC for technical work relating to high end electric wires. As and when required, the Company also gets certain machinery parts manufactured by job worker JHN for which dies & moulds are sent to JHN by PEL. As on March 31, 2024, the following data was made available by department handling GST for the Company:

S.N.	Particulars	Taxable value ₹ (Excl. GST)	Date of sending	Date of receipt by Job worker	Status as on March 31, 2024

1	Material sent to ABC	2,50,000	March 25, 2023	March 28, 2023	Material lying with job worker
2	Material sent to ABC	1,50,000	March 28, 2023	April 2, 2023	--do--
3	Moulds & dies Supplied to JHN	5,00,000	March 1, 2023	March 12, 2023	Lying with job worker

Both moulds and material sent to job workers attract goods and service tax at the rate of 18%

Issue 2

PEL has adopted Ind AS for the financial year 2023-24 and also calculated minimum alternate tax. Mr. Guru asked for details on the basis of which MAT was determined. DGM (Accounts), Mr. Rajan has provided the following information for the same:

Transition date: April 1, 2023

Convergence amount i.e. amount adjusted in other equity on convergence date ₹ 120 Lakhs

Adjustment to be made in book profit of year of convergence and each of following five years ₹ 20 Lakhs each.

Both Mr. Guru and CA firm are skeptical about the data provided by Mr. Rajan relating to MAT computation.

Issue 3

During the financial year 2023-24, the Company received the following amounts by issuing share capital and debentures:

Transaction	₹ Lakhs	Towards
A	11.50	Shares
B	9.50 + 1.50 as application money	Shares
C	25.00	Debentures
D	9.75	Shares (Other than the amount of ₹ 2.25 Lakhs received on account of renewal of Debentures)

In relation to above, the Company has not filed any statement with Income tax department, as the management believes that no obligation arises for filing any statement relating to transactions of shares and debentures issued.

Issue 4

Company has made the following payments to various directors:

Name of Director	₹ Lakhs	Nature of a payment
Promoter directors (3)	15	Sitting fee for attending four board meetings (equal payment to all three directors)
Shobhit - Independent Director	3	Sitting fee for attending four board meetings
Ms. Seema - Woman independent Director	3	Sitting fee for attending four board meetings

Company has received a notice from Registrar of Companies that sitting fee paid is not as per the provisions of the Companies Act, 2013.

Issue 5

The Company has entered into a contract with a government corporation to supply certain equipment for ₹ 500 lakhs. There has been a short supply in the market and cost of the equipment had also increased. If the Company makes the supply, it will incur a loss of ₹ 50 lakhs. The penalty for non-performing of the contract is expected to be ₹ 30 lakhs. The supply is required to be made by June 30, 2024.

Issue 6

PEL while preparing financial statements for the financial year 2022-23, made an error by not recording the clearing and forwarding expenses amounting to ₹ 20 crores, pertaining to exports made during the said year. While preparing financial statements for financial year 2023-24, management has corrected error by recording those expenses as current year expenses. Tax team pointed out that these expenses will be disallowed while computing income of Company as prior period expenses. Management agreed to it stating this action of paying taxes by recording in current year will save them from any non-compliance from accounting perspective and also at the end of current year, the balances of clearing and forwarding agent will be reflected appropriately.

Issue 7

After a detailed discussion about the issues in the financial statements, Mr. Guru and Mr. RP partner of M/s RP & Associates, had a casual chat about general matters.

During the conversation, Mr. RP mentioned to Mr. Guru that CA Safe, partner of Safe CA LLP a Chartered Accountant firm, which the Company was evaluating to appoint internal auditors was well known to him through his common friend. He asked Mr. Guru, whether he was aware about the case filed against Mr. Safe for forgery of his uncle's Will. Mr. Guru said he was aware about the case and that the Court had pronounced Mr. Safe guilty of forgery, however, it was his personal matter and had no impact on his professional work.

Multiple Choice Questions

1. Mr. Guru is of the opinion that all job work transactions outstanding on March 31, 2024 attract GST liability. Which of the following statements is correct?
 - (a) Yes, GST will apply on all three transactions as specified period has elapsed and total GST liability will be ₹ 1,62,000.
 - (b) Yes, GST will apply on transactions of material only as specified period has elapsed and total GST liability will be ₹ 72,000. Transaction of moulds & dies are excluded from the provisions.
 - (c) Yes, GST will apply on first transaction of material and transaction of moulds & dies, as specified period has elapsed and total GST liability will be ₹ 1,35,000
 - (d) Yes, GST will apply but only on first transaction of material as for transaction amounting to ₹ 1,50,000, specified period has not elapsed and transaction of moulds & dies are excluded from the provisions. Total GST liability will be ₹ 45,000.
2. Whether the data provided by Mr. Rajan is inappropriate as regards the terms he has used in relation to MAT computation?
 - (a) Yes, April 1, 2023 is convergence date and not transition date. Also adjustment in the book profits need to be made of transition amount and not of convergence amount. The adjustment amount and period is correctly mentioned.
 - (b) Yes, April 1, 2023 is correctly mentioned as transition date. Adjustment in book profits needs to be made of transition amount and not of convergence amount. The adjustment amount is ₹ 24 Lakhs as adjustment will be made in five years including year of convergence.
 - (c) Yes, April 1, 2023 is convergence date and not transition date. Adjustment in book profits needs to be made of convergence amount, as correctly mentioned. The adjustment amount and period is correctly mentioned.
 - (d) Yes, April 1, 2023 is convergence date and not transition date. Adjustment in the book profits needs to be made of transition amount and not of convergence amount. The adjustment amount is ₹ 24 Lakhs as adjustment will be made in five years including year of convergence.

3. Is the management's contention that no obligation arises for filing any statement in relation to transactions of shares and debentures issued appropriate?
 - (a) Management's contention is incorrect, as Statement of financial transactions is required to be filed and all the transactions of shares and debentures issued, are to be reported.
 - (b) Management's contention is incorrect, as Statement of financial transactions is required to be filed and the transactions of shares issued (A and D) are to be reported.
 - (c) Management's contention is incorrect, as Statement of financial transactions is required to be filed and only the transactions of shares (A, B and D) issued are to be reported.
 - (d) Management's contention is incorrect, as Statement of financial transactions is required to be filed and the transactions of shares and debentures issued (A, B and C) are to be reported.
4. Whether the sitting fee paid by Company to its directors as per the provisions of Companies Act, 2013?
 - (a) No, sitting fee paid by Company to Independent directors cannot be less than that payable to other directors. Sitting fee paid to the other directors is in line with provisions of Companies Act, 2013.
 - (b) No, sitting fee paid by Company to woman director cannot be less than those paid to other directors. Sitting fee paid to the other directors is in line with provisions of Companies Act, 2013.
 - (c) Sitting fee paid to directors cannot exceed ₹ 1 Lakh per meeting and sitting fee paid to independent directors and women directors cannot be less than that payable to other directors.
 - (d) No, sitting fee paid by Company to Independent and woman directors cannot be less than that payable to other directors. Sitting fee paid to the other directors is in line with provisions of Companies Act, 2013.
5. What should have been the management's action on recording of clearing and forwarding expenses pertaining to the financial year 2022-23, while preparing the financial statements for the year ended March 31, 2024, to comply with the Indian Accounting Standards?
 - (a) Management is correct in its action and there is no non-compliance.
 - (b) Management should have corrected the previous year figures in the financial statements for the year ending March 31, 2024.
 - (c) Management should have corrected the previous year figures to correct the error and it needs to prepare third balance sheet at the beginning of the preceding period.
 - (d) Management should have corrected the previous year figures to correct the error and it needs to prepare third balance sheet at the end of the preceding period.

Descriptive Questions

6. PEL proposed to pay 5% of net profits as commission to its directors (other than managing and whole time directors). Comment whether PEL can pay such commission, as per the Companies Act, 2013.
7. Instead of sending material for job work, if capital goods were sent to the job worker, would any GST liability arise as on March 31, 2024? On what date goods will be deemed to be supplied in case of capital goods sent to job work are not received within the stipulated time period? Which document needs to be issued when goods are sent for job work and how many copies of that document are required to be made?
8. In the background of facts mentioned in the issue 5 above, explain the accounting for such contracts, with reference to the relevant Ind AS.
9. In the background of provisions of the Chartered Accountants Act, 1949, explain the types of misconduct. Also, comment whether Mr. Safe is guilty of any professional misconduct.

ANSWERS TO THE CASE STUDY 28

Answers to the Multiple Choice Questions

1. (b)
2. (d)
3. None of the options are correct
4. (c)
5. (b)

Answers to the Descriptive Questions

6. Whether PEL can pay 5 % of the Net Profits as commission to its Directors?

Provision: Under Section 197 (1) of the Companies Act, 2013 (the Act), the limit of total managerial remuneration payable by a public company, to its directors, including managing director and whole-time director, and its manager in respect of any financial year shall not exceed eleven per cent of the net profits of that company for that financial year computed in the manner laid down in section 198.

Further, the third proviso to Section 197 (1) of the Act provides that **except with the approval of the company in general meeting by a special resolution**, the remuneration payable to directors who are neither managing directors nor whole-time directors shall not exceed one per cent of the net profits of the company, if there is a managing or whole- time director or manager.

Whereas in any other case, the remuneration payable to directors shall not exceed three per cent of the net profits.

Conclusion: Therefore, in the given case, the commission of 5% is beyond the limit specified, and the same should be approved by the members by passing a special resolution.

7. On what date goods will be deemed to be supplied in case of capital goods sent to job work are not received within the stipulated time period?

Capital goods [other than moulds and dies, jigs and fixtures, or tools] sent to a job-worker are required to be returned to the principal within 3 years from the date of sending such goods to the job-worker.

Thus, no GST liability would arise as on March 31, 2024 if capital goods were sent to the job worker as the period of 3 years have not elapsed on March 31, 2024.

If capital goods sent for job work are not received back by the principal within a period of three years of being sent out, it shall be deemed that such capital goods had been supplied by the principal to the job worker on the day when the said capital goods were sent out.

Since capital goods sent to job work are not received back, within specified time limit, it shall be deemed to be a supply from Principal [PEL] to the Job worker [ABC] from the day when it was sent for Job Work.

Documents that needs to be issued and number of copies

The inputs or capital goods shall be sent to the job worker under the cover of a delivery challan issued by the principal. Three copies of delivery challan are required to be made. Along with the delivery challan, an e-way bill is also required to be issued.

8. Ind AS 37 "Provisions, Contingent Liabilities and Contingent Assets" defines an onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Paragraph 68 of Ind AS 37 states that the **unavoidable costs under a contract reflect the least net cost of exiting from the contract**, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it.

In the instant case, cost of fulfilling the contract is ₹ 50 lakhs and cost of exiting from the contract by paying penalty is ₹ 30 lakhs.

In accordance with the above reproduced paragraph, it is an **onerous contract as cost of meeting the contract exceeds the economic benefits**.

Since the supply is required to be made by 30th June, 2024, the **provision should be recognised in the financial statements ended on 31st March, 2024 at the best estimate of the unavoidable cost**, which is **lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it, i.e., at ₹ 30 lakhs (lower of ₹ 30 lakhs and ₹ 50 lakhs)**.

9. Types of Misconduct: Professional or Other Misconduct

According to **Section 22 of the Chartered Accountants Act, 1949 (the Act)** for the purposes of this Act, the expression "professional or other misconduct" shall be deemed to include any act or omission provided in any of the Schedules, but nothing in this section shall be construed to limit or abridge in any way the power conferred or duty cast on the Director (Discipline) under sub-section (1) of Section 21 of the Act to inquire into the conduct of any member of the Institute under any other circumstances.

A member is liable to disciplinary action under Section 21 of the Chartered Accountants Act, 1949 if he is found guilty of any Professional or Other Misconduct.

1. **Professional Misconduct: Professional misconduct has been defined in part I, II and III of the First Schedule; and part I and II of the Second Schedule.** A member who is engaged in the profession of accountancy whether in practice or in service should conduct/restrict his actions in accordance with the provisions contained in the respective parts of the schedules. If the member is found guilty of any of the acts or omissions stated in any of the respective parts of the Schedule, he/she shall be deemed to be guilty of professional misconduct.
2. **Other Misconduct: Other misconduct has been defined in part IV of the First Schedule and part III of the Second Schedule.** These provisions empower the Council to inquire into any misconduct of a member even it does not arise out of his professional work. This is considered necessary because a chartered accountant is expected to maintain the highest standards of integrity even in his personal affairs and any deviation from these standards, even in his non-professional work, would expose him to disciplinary action. **For example, a member who is found to have forged the will of a relative would be liable to disciplinary action even though the forgery may not have been done in the course of his professional duty.**

Whether Mr. Safe is guilty of professional Misconduct?

In the given situation, a case was filed against Mr. Safe, for forgery of his uncle's will. Contention of Mr. Guru that court has pronounced Mr. Safe guilty of forgery, however, it was his personal matter and no impact on professional work is not tenable and **CA. Safe will be held guilty of other misconduct**.

PAST PAPERS

Case Study 29

Subjects	Topics Covered	Marks
FR	Ind AS 23, Ind AS 33	8
DT	Deductions (Section 80M), Transfer Pricing	8
Law	LODR (Regulation 6, 29, 31, 32)	7
SCPM	Standard Costing	2

G K N H & Co. LLP, Chartered Accountants (Firm), a five-decade old CA firm is headquartered in Mumbai and has offices across key cities in India. It caters to clients across diverse market segments including Industrial, Infrastructure, Consumer Products, Financial Services, Technology, Media and Entertainment and Telecommunications. It is led by a robust team comprising 15 Partners with rich experience, supported by over 100 talented professionals focused on providing high-quality audits, integrated with strong technical expertise, technology and data driven insights. The firm has established a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and regulatory legal requirements, and that the reports issued by the firm or engagement partners are appropriate in the circumstances.

Benz India Limited (BIL), a listed entity engaged in the manufacturing and exports of speciality chemicals, has appointed the firm as its auditor for the financial year 2023-24, after its auditor resigned due to some negative media reports about BIL. Managing partners of the firm accepted the audit after internal discussions and assigned the engagement to its senior most partner, CA K who has prior experience of handling these types of assignments. CA K along with his audit team planned and commenced the audit for completing the work on time. The audit team drilled records, documents filed with legal authorities and stock exchanges and books of accounts maintained at the head office and identified the following five key areas at the initial stages of the audit. The following key areas were identified for review by the audit team, for their discussions with CA K:

Area 1

BIL submitted to stock exchanges that it has constructed a new building for its factory premises. The new building construction started on April 1, 2023 and was completed by March 31, 2024. The expenditure incurred is as follows:

April 2023 - ₹ 1.50 Crores

August 2023 - ₹ 1.50 Crores

October 2023 - ₹ 3.50 Crores

January 2024 - ₹ 1.00 Crore

To finance the construction of building, BIL obtained a specific loan of ₹ 3.00 Crores from its banker at an interest rate of 10% per annum, which was spent in April and August as mentioned above. The Company's other outstanding loans were ₹ 20.00 crores at an interest rate of 11% per annum and ₹ 10.00 crores at an interest rate of 12% per annum. Company has capitalized interest of ₹ 80.99 Lakhs in its books of accounts.

Area 2

During the financial year 2023-24, the share capital of the Company changed as follows:

Date	Particulars	No. of Shares
April 1, 2023	Opening balance of outstanding equity shares	10,00,000

April 1, 2023	Opening balance of outstanding preference shares of ₹ 10 each	1,00,000
July 1, 2023	Issue of equity shares	1,00,000
January 1, 2024	Buy back of equity shares	50,000
January 1, 2024	Redemption of preference shares at ₹ 15 each	100,000
March 31, 2024	Closing balance of outstanding equity shares	10,50,000

Net profit as per the Statement of Profit and Loss Account is ₹ 735.00 Lakhs and retained earnings was ₹ 2,495 Lakhs after adjusting premium of ₹ 5.00 Lakhs charged to it. EPS calculated by the Company is ₹ 70.00.

Area 3

The management has requested us to provide certification in relation to compliance of Corporate Governance matters listed in SEBI (LODR) regulations. Though the other areas of certification seem to be complied with, certain non-compliances were noted in relation to formation of various committees and the audit team listed the following for further discussions:

Name of Committee	Chaired by	Meetings during year
Audit Committee	Ms. Samantha - a non-executive director	3
Nomination & remuneration committee	Mr. John - an independent director	1
Stakeholders relationship committee	Mr. Pawan - a non-executive director	1

Area 4

BIL has supplied 10,000 MT of Chemical to Sysma Inc. in London during the financial year 2023-24. Price per MT was ₹ 2,000. Management has treated this transaction as normal exports and was confident that this view will be accepted as it is by Income Tax department as well. While reviewing the financial statements, it was found that:

Book value of assets of BIL: ₹ 500 Crores

Market value of assets of BIL: ₹ 750

Crores Liabilities outstanding in books: ₹ 135 Crores (excluding contingent liabilities of ₹ 15 Crores)

Sysma Inc. has advanced loan of ₹ 260 crores to BIL and further CHEM Ltd. (a foreign company) hold 25% share capital of both BIL and Sysma Inc.

Area 5

During the year, BIL has received dividends from the following:

Name of Company	Status	₹ Lakhs
TIL Limited	Domestic company	50
MIL Limited (100% subsidiary)	Domestic company	20
Forge Limited	Foreign company	65
Benz Trust	Resident	15

On June 30, 2024 BIL declared and distributed dividend amounting to ₹ 200 Lakhs to its shareholders.

BIL's legal team is of the view that it can claim deduction for dividends u/s 80 M of the Income-tax Act, 1961 for an amount of ₹ 20 Lakhs, being dividend received from the subsidiary and Company followed the recommendation of legal department.

Area 6

The Company wants to analyze its overheads and provides you the following information:

Particulars	Budgeted	Actual
Overheads (₹)	6,000	5,800
Output (units)	3,000	3,200
Customer's deliveries (nos.)	30	28

The overhead relates to deliveries to customers.

Multiple Choice Questions

- Whether BIL has correctly capitalized interest as per the Ind AS 23, assuming that expenditure is incurred at the beginning of the month?
 - Interest amount capitalized ₹ 80.99 Lakhs is correct.
 - Interest amount capitalized should have been ₹ 52.66 Lakhs
 - Interest amount capitalized should have been ₹ 51.05 Lakhs
 - Interest amount capitalized should have been ₹ 47.66 Lakhs
- Whether view of legal department is correct about the deduction available to the Company u/s 80M of the Income-tax Act, 1961?
 - Deduction recommended is wrong, as the correct eligibility is ₹ 135.00 Lakhs
 - Deduction recommended is wrong, as the correct eligibility is ₹ 70.00 Lakhs
 - Deduction recommended is wrong, as the correct eligibility is ₹ 85.00 Lakhs
 - Deduction recommended is wrong, as the correct eligibility is ₹ 150.00 Lakhs
- Which of the following statement appropriately indicates the transaction between BIL and Sysma Inc as per the provisions of Income-tax Act, 1961?
 - BIL and Sysma Inc will be deemed to be associated enterprises as substantial voting power is controlled by CHEM Ltd, even though loan advanced by Sysma Inc is less than specified percentage of market value of total assets of BIL and thus transfer pricing provisions will get attracted for the transaction.
 - BIL and Sysma Inc will not be deemed to be associated enterprises as substantial voting power is not controlled by CHEM Ltd and also loan advanced by Sysma Inc is less than specified percentage of market value of total assets of BIL and thus transfer pricing provisions will not get attracted for the transaction.
 - BIL and Sysma Inc will be deemed to be associated enterprises as loan advanced by Sysma Inc is more than specified percentage of book value of total assets of BIL even though, substantial voting power is not controlled by CHEM Ltd and thus transfer pricing provisions will get attracted for the transaction.
 - BIL and Sysma Inc will be deemed to be associated enterprises as loan advanced by Sysma Inc is more than specified percentage of book value of total assets of BIL and substantial voting power is also controlled by CHEM Ltd and thus transfer pricing provisions will get attracted for the transaction.
- What qualifications will you recommend to the auditor that should be given in relation to certification of compliance of corporate governance conditions?
 - Audit Committee and Stakeholders relationship committee is not chaired by Independent Director.
 - Audit Committee is not chaired by Independent Director and also number of meetings held are less

- than the number of times prescribed.
- (c) Audit Committee and Stakeholders relationship committee is not chaired by Independent Director and also number of meetings are less than the number of times prescribed.
 - (d) Stakeholders relationship committee is not chaired by an executive director and all the committees have met less than the number of times prescribed.
5. Considering the details mentioned in Area 6 above, the expenditure and efficiency variance will be
- (a) Expenditure variance ₹ 200 (A) and Efficiency variance ₹ 800 (F)
 - (b) Expenditure variance ₹ 800 (F) and Efficiency variance ₹ 200 (A)
 - (c) Expenditure variance ₹ 200 (F) and Efficiency variance ₹ 800 (A)
 - (d) Expenditure variance ₹ 800 (F) and Efficiency variance ₹ 200 (F)

Descriptive Questions

6. (a) Recompute the EPS of the Company for the financial year 2023-24
- (b) Shares are usually included in the weighted average number of shares from the date consideration is receivable. What will be the date of inclusion in the following circumstances?
- (i) shares issued on the voluntary reinvestment of dividend on ordinary or preference shares
 - (ii) shares issued as a result of the conversion of a debt instrument to ordinary shares
 - (iii) shares issued in place of interest or principal on other financial instruments
 - (iv) shares issued as consideration for the acquisition of an asset other than cash
7. If BIL and Sysma Inc are covered under transfer pricing and arm's length price is required to be determined for their transactions, what will be the factors for the purpose of selecting the most appropriate method for determining most reliable measure of an arm's length price?
8. For shares issued during year, whether Company is required to submit any statement to Stock exchange under SEBI (LODR) Regulations 2015? Which authority of the Company should review those filings?

ANSWERS TO THE CASE STUDY 29

Answers to the Multiple Choice Questions

- 1. (b)
- 2. (d)
- 3. (c)
- 4. (b)
- 5. (a)

Answers to the Descriptive Questions

6. (a) EPS calculated by BIL is based on normal addition and subtraction of equity shares. However, as per weighted average concept as discussed in Ind AS 33, one has to find out for how many months each share was actually held during the year.

Further, BIL had 1,00,000 preference shares at ₹ 10 each. ₹ 5,00,000 premium on redemption of preference shares is charged to retained earnings. No amount is recorded in the statement of profit

and loss for this transaction. However, for EPS purposes, ₹ 5,00,000 is charged to the statement of profit or loss for the period of the transaction.

Computation of weighted average number of shares for calculation of EPS

Date	Particulars	No of shares	No of months shares were outstanding	Weighted average no of shares
1 st April, 2023	Opening balance of outstanding equity shares	10,00,000	12	10,00,000
1 st July, 2023	Issue of equity shares	1,00,000	9	75,000
1 st January, 2024	Buy back of shares	(50,000)	(3)	(12,500)
31 st March, 2024	Closing balance of outstanding equity shares	10,50,000		10,62,500

Revised Profit and loss for calculation of EPS = ₹ 7,35,00,000 – ₹ 5,00,000 = ₹ 7,30,00,000

Revised EPS = Earnings per Share/Weighted average number of shares

= ₹ 7,30,00,000/10,62,500

= ₹ 68.71 per share

(b) The date for inclusion in weighted average number of shares under following situation are:

S.N.	Situation	Date for consideration in weightage number of shares
(i)	Shares issued on the voluntary reinvestment of dividend on ordinary or preference shares	The date when dividend are reinvested
(ii)	Shares issued as a result of the conversion of a debt instrument to ordinary shares	The date that interest ceases to accrue
(iii)	Shares issued in place of interest or principal on other financial instruments	The date that interest ceases to accrue
(iv)	Shares issued as consideration for the acquisition of an asset other than cash	The date on which the acquisition is recognised

7. For the purpose of selecting the most appropriate method for determining most reliable measure of arm's length price, the following factors should be taken into account.

- The nature and class of the international transaction;
- The class, or classes of associated enterprises entering into the transaction and the functions performed by them taking into account assets employed or to be employed and risks assumed by such enterprises;
- The availability, coverage and reliability of data necessary for application of the method;
- The degree of comparability existing between the international transaction and the uncontrolled transaction and between the enterprises entering into such transactions;
- The extent to which reliable and accurate adjustments can be made to account for difference, if any, between the international transaction and the comparable uncontrolled transaction or between the enterprises entering into such transactions;
- The nature, extent and reliability of assumptions required to be made in application of a method.

8. Yes, as per the SEBI (LODR) Regulations, 2015, company is required to submit the following statements as regards the shares issued during the year to the stock Exchange:

Prior Intimation for alteration of securities [Regulation 29(3) of SEBI (LODR) Regulations, 2015

1. The listed entity shall give intimation to the stock exchange(s) at least 11 working days before any of the following proposal is placed before the board of directors:

Any alteration in the form or nature of any of its securities that are listed on the stock exchange or in the rights or privileges of the holders thereof.

Any alteration in the date on which, the interest on debentures or bonds, or the redemption amount of redeemable shares or of debentures or bonds, shall be payable.

2. **Regulation 31(1): Holding of Specified Securities and Shareholding Pattern.**

A listed entity shall submit a statement showing holding of securities and shareholding pattern separately for each class of securities:

- (a) One day prior to listing of its securities on the stock exchange(s);
- (b) On a quarterly basis, within 21 days from the end of each quarter; and,
- (c) Within 10 days of any capital restructuring of the listed entity resulting in a change exceeding 2% per cent of the total paid-up share capital.

3. **Regulation 32(1): Statement of Deviation(S) Or Variation(S)**

A listed entity shall submit to the stock exchange the following statement(s) on a quarterly basis for public issue, rights issue, preferential issue etc.,

- (a) indicating deviations, if any, in the use of proceeds from the objects stated in the offer document or explanatory statement to the notice for the general meeting, as applicable;
- (b) indicating category wise variation (capital expenditure, sales and marketing, working capital etc.) between projected utilization of funds made by it in its offer document or explanatory statement to the notice for the general meeting, as applicable and the actual utilization of funds.

Authority of the Company who reviews those filings: As per Regulation 6, a listed entity shall appoint a qualified company secretary as the compliance officer who shall be responsible for ensuring that correct procedures have been followed that would result in correctness of information filed by listed entity under the regulations.

PAST PAPERS

Case Study 30

Subjects	Topics Covered	Marks
FR	Ind AS 40, Ind AS 115	4
AFM	Forex (Fate of Forward), Security Valuation (Bond Valuation)	10
Audit	Reporting	2
DT	IFOS (Section 115BBH – Virtual Digital Asset)	7
Law	Companies Act (Section 180)	2

Make in India initiative of Government of India has attracted investments from various corporates around the world and has given impetus to the indigenous entrepreneurs. Inspired by this initiative and a change in government policies, Mr. Shyam, Mr. Abraham and Ms. Kavita who have studied together in IIT, had formed a company SAK Private Limited (SAK). SAK has been in the business of manufacturing and export of foot wear including premium sports shoes. It has become a known name in the last decade and is on a growth trajectory. Ms. Devika, Chartered Accountant, has been their CFO since the Company was founded and was a trusted advisor of the founder promoters. While finalizing accounts for the financial year 2023-24, she has doubts in respect of certain matters and approached you for your opinion.

- I. The Company has a property with a carrying value of ₹ 50 Lakhs which was purchased in June 2019. For purchasing this property, the Company had issued share capital which was subscribed by two other companies. The Company received a show cause notice from Initiating Officer (IO) under the Prohibition of Benami Property Transactions Act, 1988 for treating the said property as benami property.
- II. The Company has offered discount voucher on sale of its sports shoes for every sale of ₹ 1500 on sales made through its retail outlet. This discount voucher entitles the holder to a discount of 30% which can be used for any future purchase up to ₹ 1500 in next 60 days. During the coming 60 days, the Company also intends to offer a general festival discount of 15% on all sales. This 15% discount cannot be used in addition to 30% discount voucher. The Company estimates that there is 80% likelihood that a customer will redeem the voucher and on an average a customer will purchase additional products worth ₹ 750.
- III. The Company purchased a building for ₹ 20 lakhs on April 1, 2021 and was using it as its corporate office. The life of the building was estimated to be 20 years. On March 31, 2023, the fair value of the building was ₹ 16.40 lakhs, and the remaining useful life of the building was also estimated to be 20 years. The Company has been following the cost model for accounting of its property, plant and equipment and follows straight line method for depreciation. During the year, the Company shifted its corporate office to a bigger place and decided to let out the old property. The property has been given on rent to a multinational company on October 1, 2023.
- IV. The Company has made purchases and sales of Bitcoins, during the year as under:

Date	Particulars	Units	Amount ₹
June 15, 2023	Purchase	5,000	50,000
July 15, 2023	Sale	2,500	22,500
July 20, 2023	Sale	2,500	28,750
August 1, 2023	Purchase	10,000	1,50,000
August 16, 2023	Sale	5,000	77,500
August 31, 2023	Sale	4,000	56,000

- V. The Company is planning to invest its surplus funds in the bonds and provides the following information:
Face Value ₹ 10,000 to be redeemed at par at maturity. Coupon rate 9% per annum Years to maturity 7 years Yield to maturity (YTM) 10%

Years	1	2	3	4	5	6	7
PVIF (10%, n)	0.909	0.826	0.751	0.683	0.621	0.564	0.513

- VI. The Company had applied to bank for a loan. Credit team of bank while reviewing the loan application has observed that the Company already has machinery and building term loan accounts, though all of them were regular and no default of any nature has occurred. The only issue was, whether the boards of directors have the power to borrow more funds without any approval from the shareholders as per the provisions of the Companies Act, 2013. For this purpose, Company's financial statements were analyzed with the Following details –

Particulars	₹ Lakhs
Share capital	100
Reserves and Surplus	250
Share premium	10
Secured loans	133
Cash credit limit	125
Unsecured loans	225

- VII. Meanwhile, Shyam reached out to CFO with a personal query. His son Rohan wanted to pursue post graduate degree in hotel management from a leading university A in Switzerland. With his efforts, he was able to secure admission in other university B and response from university A was awaited. As per rules of University A, if Rohan gets admission he will be required to deposit the first year fee by December 1, 2024. Shyam got forward contract from BAZ Bank Limited on September 1, 2024 for fee amount i.e. 8,000 Swiss Francs @ of ₹ 30.00 expiring on December 1, 2024. On November 1, 2024, Rohan got news that University A has not given admission to him. Though he was disappointed but was happy with University B. Shyam now went to bank and cancelled the forward contract on November 1, 2024. The rates prevailing were

		November 1, 2024	December 1, 2024
Spot	CHF 1 =	₹ 30.30	₹ 30.35
One-month forward		₹ 30.45	₹ 30.55

Multiple Choice Questions

- In respect of notice received for benami property, the Company is required to make the following compliance:
 - The board of directors is required to make a disclosure in its Directors' Report.
 - The Company is required to make the disclosure in notes to financial statements as additional regulatory information and Directors Report. The Statutory Auditors are not required to make any specific comments.
 - The Company is required to make a disclosure in notes to financial statements as additional regulatory information and the Statutory Auditors are also required to report in Company (Auditors' Report) Order, 2020.
 - Neither the Company nor the Statutory Auditors are required to report.

2. Determine how many performance obligations the Company has and what will be the allocated transaction price?
 - (a) Two performance obligations, allocated price for sports shoes sale is ₹ 1,415 and discount voucher ₹ 85.
 - (b) One performance obligation, allocated price for sports shoes sale is ₹ 1,500.
 - (c) Two performance obligations, allocated price for sports shoes sale is ₹ 1,275 and discount voucher ₹ 225.
 - (d) Two performance obligations, allocated price for sports shoes sale is ₹ 1,320 and discount voucher ₹ 180.
3. At which value, on change in use of property, Investment property is recognized on the date of change and the depreciation to be charged in statement of profit and loss for the year ending March 31, 2024?
 - (a) ₹ 17.50 lakhs, depreciation ₹ 1,00,000
 - (b) ₹ 17.55 lakhs, depreciation ₹ 90,000
 - (c) ₹ 15.94 lakhs, depreciation ₹ 92,000
 - (d) ₹ 15.99 lakhs, depreciation ₹ 82,000
4. Whether the contention of bank that the Directors of the Company cannot borrow further money from the bank, for importing machinery is correct considering the requirements of Companies Act, 2013?
 - (a) Bank's contention is correct as the borrowings excluding cash credit has exceeded the maximum permissible limit ₹ 350 Lakhs.
 - (b) Bank's contention is correct as the total borrowings has exceeded the maximum permissible limit of ₹ 350 Lakhs.
 - (c) Bank's contention is incorrect as the borrowings excluding cash credit are within the permissible limit of ₹ 700 Lakhs.
 - (d) Bank's contention is partially correct as the borrowings excluding cash credit are ₹ 358 Lakhs and maximum permissible limit is ₹ 360 Lakhs.
5. What would be the loss incurred by Shyam on cancellation of the forward contract on November 1, 2024.
 - (a) ₹ 3,600
 - (b) ₹ 2,800
 - (c) ₹ 4,400
 - (d) ₹ 2,400

Descriptive Questions

6. With reference to information given in point V above:
 - (a) Compute the current market price of the bond
 - (b) Explain Maculay's duration and compute the duration.
7. Explain 'Virtual Digital Asset' as per the Income-tax Act, 1961 and the taxability of such assets. Also, compute the tax liability of SAK for the sale and purchase of bitcoins made during the year.

ANSWERS TO THE CASE STUDY 30

Answers to the Multiple Choice Questions

1. (c)
2. (a)
3. (b)
4. (d)
5. (a)

Answers to the Descriptive Questions

6. (a) **Current Market Price of Bond**

= Interest x PVIFA (10%, 7 Yrs) + Maturity value x PVIF (10%, 7)

= ₹ 10,000 x 9% x 4.867 + ₹ 10,000 x 0.513

= ₹ 4,380.30 + ₹ 5,130 = ₹ 9,510.30 or ₹ 9,510

- (b) **Macaulay Duration** measures the number of years required to recover the true cost of a bond, considering the present value of all coupon and principal payments received in the future.

Duration of bond

Year	Cash flow (A)	PVIF @ 10% (B)	A x B = C	Proportion of Bond value (D)	C x D
1	900	0.909	818.10	0.086	0.086
2	900	0.826	743.40	0.078	0.156
3	900	0.751	675.90	0.071	0.213
4	900	0.683	614.70	0.065	0.260
5	900	0.621	558.90	0.059	0.295
6	900	0.564	507.60	0.053	0.318
7	10900	0.513	5591.70	0.588	4.116
Total			9510.30		5.444

Duration of Bond is 5.44 Years.

7. **Virtual Digital Asset means**

- (a) **any information or code or number or token** (not being Indian currency or foreign currency), - generated through cryptographic means or otherwise, by whatever name called, - providing a digital representation of value exchanged with or without consideration, - with the promise or representation of having inherent value, or - functions as a store of value or a unit of account including its use in any financial transaction or investment, but not limited to investment scheme; and - can be transferred, stored or traded electronically;
- (b) **a non-fungible token or any other token of similar nature**, by whatever name called;
- The non-fungible token means such digital asset as may be notified by the Central Government. Accordingly, the Central Government has, vide notification no. 75/2022 dated 30.6.2022, specified a token which qualifies to be a virtual digital asset as non- fungible token. However, it

shall not include a non-fungible token whose transfer results in transfer of ownership of underlying tangible asset and the transfer of ownership of such underlying tangible asset is legally enforceable.

- (c) any other digital asset, as may be notified by the Central Government.

However, the Central Government may, by notification, exclude any digital asset from the definition of virtual digital asset subject to specified conditions.

Accordingly, the Central Government has, vide notification no. 74/2022 dated 30.6.2022, notified that the following virtual digital assets would be excluded from the definition of virtual digital asset-

- (i) Gift card or vouchers, being a record that may be used to obtain goods or services or a discount on goods or services;
- (ii) Mileage points, reward points or loyalty card, being a record given without direct monetary consideration under an award, reward, benefit, loyalty, incentive, rebate or promotional program that may be used or redeemed only to obtain goods or services or a discount on goods or services;
- (iii) Subscription to websites or platforms or application

Taxability of virtual digital assets -

Where the total income of an assessee includes any income from the transfer of any virtual digital asset, such income would be taxed @30% under section 115BBH. In computing the income from transfer of virtual digital asset, no deduction would be allowed under any provisions of the Act in respect of any expenditure or allowance except cost of acquisition, if any. Further, no set off of any loss is allowed to the assessee from such income.

Computation of tax liability of SAK

Particulars	Amount (in ₹)
Sale consideration [22,500 + 28,750 + 77,500 + 56,000]	1,84,750
Less: Cost of acquisition [50,000 + 9,000 x 1,50,000/10,000]	1,85,000
Loss on sale of Bitcoins [Neither set off of loss nor carry forward of such loss is allowed]	(250)

Note: As per section 115BBH, no set off of any loss is allowed in computing the income from virtual digital asset and no set off of loss from transfer of the virtual digital asset is allowed against any other income computed under any provisions of the Act. The main solution has been worked on the view that there is no restriction in set off of loss from the transfer of a virtual digital asset against the income from the transfer of same virtual digital asset. However, it is possible to take a view that set off of loss from the transfer of virtual digital asset is neither allowed against the same virtual digital asset nor against another virtual digital asset. Accordingly, due credit may be given to any candidate who has answered on this basis. In such a case, the alternative answer would be:

Computation of tax liability of SAK

Particulars	Amount (in ₹)
Sale of 2,500 units of Bitcoins on 15.7.2023	
Sale consideration	22,500
Less: Cost of acquisition [50,000 x 2,500/5,000]	25,000

Loss on sale of Bitcoins [Neither set off of loss nor carry forward of such loss is allowed]	2,500
Sale of 2,500 units of Bitcoins on 20.7.2023	
Sale consideration	28,750
Less: Cost of acquisition $[50,000 \times 2,500/5,000]$	25,000
Gain	3,750
Sale of 5,000 units of Bitcoins on 16.8.2023	
Sale consideration	77,500
Less: Cost of acquisition $[1,50,000 \times 5,000/10,000]$	75,000
Gain	2,500
Sale of 4,000 units of Bitcoins on 31.8.2023	
Sale consideration	56,000
Less: Cost of acquisition $[1,50,000 \times 4,000/10,000]$	60,000
Loss on sale of Bitcoins [Neither set off of loss nor carry forward of such loss is allowed]	4,000
Total gain on transfer of virtual digital asset $[3,750 + 2,500]$	6,250

PAST PAPERS

Case Study 31

Subjects	Topics Covered	Marks
FR	Ind AS 110	4
Audit	SA 250, SA 299	7
DT	TDS, Total Income of Individual	8
IDT	Value of Supply	2
Law	LODR (Regulation 17), FEMA (Current A/c Transaction)	4

CA Gudia is a qualified Chartered Accountant and in practice since year 2007 and has set up her own practice in Ludhiana, Punjab. She did her training from M/s H Singh & Associates, Chartered Accountants, Delhi. CA H is son of sitting Member of Parliament, so good contacts and professional services have helped M/s H Singh & Associates earn and grow good number of clients in all fields of professional services.

CA Gudia was in good books of managing partner, so she got good exposure of various high profile assignments (like auditing listed companies, forensic audit of large borrowers of various nationalized and private sector banks, international taxation, corporate governance issues etc.). But the area which was close to her heart was rendering consultancy to high net -worth individuals (HNIs). She was so interested in this area that she kept herself updated on these issues on daily basis and knew that India is a preferred destination for HNIs and so decided to practice mainly in consultancy field. Her major expertise is in the field of consultancy to her clients regarding Foreign Exchange related matters (whether under FEMA or Indirect Taxation), Income tax matters including international taxation, Investment decision making and corporate matters pertaining to these areas. One of her colleague during training times, landed a good job in a top listed company of India. Since she was in regular touch with CA Gudia, she referred many clients to her.

Over a period of time, CA Gudia had a flourishing practice and she appointed four other Chartered Accountants as assistants. Every week CA Gudia, had a meeting with her team of CAs for updates on issues with various clients. In one such weekly meeting, the following issues relating to key clients of the firm were discussed:

Client 1

XYZ Ltd, a listed company is a paper manufacturing company based at Surat, Gujrat, which has been in business for more than half a century. The Company has a good reputation in industry and was founded by Mr. Hanum in the year 1973. As years passed by, the Company has now gone global and has been in exports also. Presently, his grandson, Mr. Devesh an MBA from IIM Bangalore, is leading the business, as its Managing Director. CA Gudia is the Company's consultant on various tax and accounting issues. Mr. Devesh approaches CA Gudia for seeking advice on various accounting and taxation related matters in the business. XYZ Ltd acquired 80% shares in its foreign subsidiary, QR Ltd, four years ago. In the current year, the Company sold its entire investment in QR for ₹ 3,000 lakhs. The net assets of QR Ltd are ₹ 2,500 lakhs and the non-controlling interest in QR is ₹ 500 lakhs. The cumulative exchange differences that have arisen during the Company's ownership were gains of ₹ 500 lakhs, resulting in foreign currency translation reserve in respect of the subsidiary QR Ltd, having a credit balance of ₹ 400 lakhs, while the cumulative amount of exchange differences that have been attributed to the non-controlling interest is ₹ 100 lakhs.

The Company has a total number of 11 directors and Mr. Rakha, the Chairperson of the Board is a non-executive director. Out of 11 directors, 5 were independent directors. During the year, the Company also received a Show Cause Notice from the State Pollution Control Board and the Company was in the process of responding to the same.

Client 2

Alphan Ltd imported machinery costing ₹ 70 lakhs from a reputed manufacturer of Malaysia. In accordance with the terms of payment, the Company was required to pay the cost of machinery in 6 equal monthly installments. The Company paid the installments as per terms and the machinery was delivered and installed at their new factory site.

Client 3

Duno Ltd declared and paid an interim dividend for the half year ended September 30, 2023. Dividend was paid to shareholders including NRIs and foreign company after deducting TDS @10%. The following data was available for dividend payments:

Resident Shareholders: ₹ 50 Lakhs (before TDS deduction) and TDS deducted ₹ 5 Lakhs. Non-Resident Shareholders - John: ₹ 25 Lakhs (before TDS deduction) and TDS deducted ₹ 2.5 Lakhs.

During the year, Duno Ltd in order to increase sales of its product Polycotton, launched a mass advertising campaign. For the purpose of online advertisement, it utilized the services of Tel Inc (USA based online advertising company and not having any permanent establishment in India) and Superb (UK based online advertising company and not having any permanent establishment in India) which also owns and operates a digital platform. During the month ended October 31, 2023, the Company made payment of ₹ 2.50 Lakhs to Tel Inc and ₹ 0.75 Lakhs to Superb. Tax amounting to ₹ 0.975 Lakhs was withheld by the Company on these payments u/s 195 of the Income-tax Act, 1961.

Client 4

Raj, a HNI entered into agreement with Tanu, to purchase a vacant plot in Kochi. The following are the details of the transaction:

Consideration agreed - ₹ 260 Lakhs Stamp duty value - ₹ 285 Lakhs Date of transfer - October 10, 2023

He enquired with his friends and colleagues and decided to enter into an agreement with Manu for construction of house on his plot. The following are the details of the agreement:

Total contract value - ₹ 175.00 Lakhs (Ready to move in house will be provided by contractor and Raj will only install TV and CCTV cameras at his own expense).

Construction will be completed in 11 months and payment terms will be 30% advance and balance in ten equated monthly payments.

Client 5

For visit to London, Ranjan will be getting the tickets booked and asked his travel agent M/s PTG Holidays to submit quotations. After going through the quotations of various airlines, flight of British Airways was selected and travel agent submitted the fare break up as follows:

Basic air fare:	₹ 45,000
Convenience fee:	₹ 1,500
Airport charges:	₹ 1,000
Misc. charges:	₹ 500
Total:	₹ 48,000

As regards foreign currency to be carried during his visit, Ranjan had US \$10,000 (in hand, out of currency left during his short visit of 5 days to US in July 2023). Ranjan decided to get those USDs converted into GBP from Yono Forex Services. He expects to receive 7,800 GBP on conversion of currencies. Rate he is getting for conversion are: US \$ Rate = ₹ 75 and GBP Rate = ₹ 95

Client 6

CA Gudia's firm was appointed as a joint auditor of Zemka Limited, along with M/s ABC & Co., and M/s KAP & Co. The scope of audit was agreed upon with other joint auditors as per the relevant Auditing Standards. As the Company has a substantial amount involved in property, plant and equipment (PPE), it was decided that all the three auditors will verify the records relevant to PPE. While forming an opinion, CA M, partner of M/s ABC & Co., was having a different opinion on PPE but CA N, partner of M/s KAP & Co., and CA Gudia were having same opinion. CA M wants to qualify capitalisation of post-acquisition costs incurred on PPE, whereas CA N and CA Gudia are of the opinion that the accounting treatment followed by the Company is correct.

Client 7

Mr. Siraj was an old friend of CA Gudia, whose income-tax returns were prepared and filed by CA. Gudia's office. Apart from remuneration from employment, he also had a part-time business. He had earned well for himself and had two properties. One is self-occupied and second one was let out for part of year. He also invested in shares and had capital gains during year. He provided following information for year ended March 31, 2024:

- a. He received Salary of ₹ 45,000 per month from his employer.
 - b. In business, he suffered a loss of ₹ 1,00,000.
 - c. He has paid interest of ₹ 2,50,000 for property 1 which was self-occupied.
Second property was let out for 3 months @ ₹ 25,000 per month. For this property, he has paid interest of ₹ 3,00,000.
 - d. He earned interest from the saving bank of ₹ 15,000 and on Fixed deposits of ₹ 45,000
 - e. During the year, he was having long-term capital gain of ₹ 50,000 and Short-term capital loss of ₹ 10,000.
- He has no other tax savings during the year and does not opt for Section 115BAC.

Multiple Choice Questions

1. Whether the tax deducted by the Company on payments to resident shareholders, John, Tel Inc. and Superb is deducted correctly?
 - (a) Yes, except for TDS on payment to John which should have been ₹ 5.00 Lakhs.
 - (b) Yes, except for TDS on payment to John which should have been ₹ 7.50 Lakhs.
 - (c) No, TDS on payment to John should have been ₹ 5.00 Lakhs and payments to Tel Inc and Superb are liable for equalisation levy.
 - (d) No, TDS on payment to John should have been ₹ 5.00 Lakhs and payments to Tel Inc is liable for equalisation levy. Payments to Superb are neither liable for tax deduction nor for equalisation levy.
2. Raj is not sure as to whether the transactions entered into with Tanu and Manu attract any tax withholding provisions?
 - (a) Tax is required to be deducted @ 1% on consideration payable to Tanu and 5% on payment to be made to Manu. Raj is required to obtain TAN to comply these provisions.
 - (b) Tax is required to be deducted @ 1% on stamp duty value of transaction with Tanu and @ 5% on payment to be made to Manu. Raj is not required to obtain TAN to comply these provisions.
 - (c) Tax is required to be deducted @ 1% on consideration payable to Tanu and @ 1% on payment to be made to Manu. Raj is not required to obtain TAN to comply these provisions.
 - (d) Tax is required to be deducted @ 1% on consideration payable to Tanu but not on payment to be made to Manu. Raj is not required to obtain TAN to comply these provisions.

3. Is XYZ Ltd compliant with the requirements of appointment of independent directors?
 - (a) No, there is no non-compliance, as independent directors were more than 2 directors specified in the Companies Act, 2013.
 - (b) Yes, there is non-compliance, as there should have been more than 6 independent directors specified in Regulation 17 and Regulation 17A.
 - (c) No, there is no non-compliance, as there are 5 independent directors, which is more than 1/3 of the total directors in accordance with Regulations 17.
 - (d) Yes, there is non-compliance, as all the directors should have been independent directors except the Chairman of the company.
4. As per the facts indicated under Client 2 above, relating to import of machinery from Malaysia by Alphan Ltd and its payment of cost in 6 equal monthly installments, which of the following statements is correct?
 - (a) Import of machinery is a 'Capital Account' transaction since the imported machinery is a fixed asset and shall be used for a long period by the Company.
 - (b) Import of machinery is a 'Current Account' transaction since machinery shall be used in the production of saleable items by the Company.
 - (c) Import of machinery is a 'Current Account' transaction since a short-term credit facility in the ordinary course of business was availed by the Company.
 - (d) Import of machinery is a 'Capital Account' transaction since a long-term credit facility was availed by the company and the payment was made in more than three months.
5. What will be the valuation under GST, on which GST will be paid for the transactions with PTG Holidays and Yono Forex Services?
 - (a) ₹ 4,800 and ₹ 7,500
 - (b) ₹ 2,250 and ₹ 7,500
 - (c) ₹ 2,400 and ₹ 14,820
 - (d) ₹ 4,500 and ₹ 7,410

Descriptive Questions

6. As a joint auditor of Zemka Ltd, how should CA. Gudia address the disagreement with other joint auditors? Explain in the background of relevant Standards on Auditing.
7. Compute the total income of Mr. Siraj for the financial year 2023-24.
8. Compute the gain from disposal of shares of QR Ltd, which XYZ Limited has to record in its Consolidated Financial Statements.
9. As the Statutory Auditor of the XYZ Limited, what audit procedures should CA Gudia perform for the Show Cause Notice received from the State Pollution Board?

ANSWERS TO THE CASE STUDY 31

Answers to the Multiple Choice Questions

1. (d)
2. (b)

3. (c)
4. (c)
5. (d)

Answers to the Descriptive Questions

6. **Difference of Opinion Among Joint Auditors:** SA 299 on, "Joint Audit of Financial Statements" deals with the professional responsibilities, which the auditors undertake in accepting such appointments as joint auditors. In respect of the work divided amongst the joint auditors, each joint auditor is responsible only for the work allocated to him, whether or not he has made a separate report on the work performed by him. On the other hand the joint auditors are jointly and severally responsible in respect of the audit conducted by them as under:

- (i) in respect of the audit work which is not divided among the joint auditors and is carried out by all of them;
- (ii) in respect of decisions taken by all the joint auditors under audit planning in respect of common audit areas concerning the nature, timing and extent of the audit procedures to be performed by each of the joint auditors;
- (iii) in respect of matters which are brought to the notice of the joint auditors by any one of them and on which there is an agreement among the joint auditors;
- (iv) for examining that the financial statements of the entity comply with the requirements of the relevant statute;
- (v) for ensuring presentation and disclosure of the financial statements as required by the applicable financial reporting framework;
- (vi) for ensuring that the audit report complies with the requirements of the relevant statutes, the applicable Standards on Auditing and the other relevant pronouncements issued by ICAI.
- (vi) it is the separate and specific responsibility of each joint auditor to study and evaluate the prevailing system of internal control relating to the work allocated to him, the extent of enquiries to be made in the course of his audit;
- (vii) the responsibility of obtaining and evaluating information and explanation from the management is generally a joint responsibility of all the auditors;
- (viii) each joint auditor is entitled to assure that the other joint auditors have carried out their part of work in accordance with the generally accepted audit procedures and therefore it would not be necessary for joint auditor to review the work performed by other joint auditors.

Where, in the course of the audit, a joint auditor comes across matters which are relevant to the areas of responsibility of other joint auditors and which deserve their attention, or which require disclosure or require discussion with, or application of judgment by other joint auditors, the said joint auditor shall communicate the same to all the other joint auditors in writing prior to the completion of the audit.

Normally, the joint auditors are required to issue common audit report, however, where the joint auditors are in disagreement with regard to the opinion or any matters to be covered by the audit report, they shall express their opinion in a separate audit report. A joint auditor is not bound by the views of the majority of the joint auditors regarding the opinion or matters to be covered in the audit report and shall express opinion formed by the said joint auditor in separate audit report in case of disagreement. In such circumstances, the audit report(s) issued by the joint auditor(s) shall make a reference to the separate audit report(s) issued by the other joint auditor(s). Further, separate audit

report shall also make reference to the audit report issued by other joint auditors. Such reference shall be made under the heading "Other Matter Paragraph" as per Revised SA 706, "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report".

In the instant case, there are three auditors, namely, CA. Gudia's Firm, M/s. ABC & Co. and M/s. KAP & Co., jointly appointed as an auditor of ZEMKA Ltd. The scope of audit was agreed upon with other joint auditors in accordance with relevant Standards on Auditing. It was decided all three auditors to verify the records relevant to PPE as substantial amount was involved in the same. CA. M partner of M/s. ABC & Co. was having different opinion whereas CA. Gudia and CA. N partner of M/s. KAP & Co were having same opinion.

Hence, as per SA 299, Mr. M is suggested to express his own opinion through a separate report whereas CA. Gudia and CA. N may provide their joint report for the same.

7. Computation of total income of Siraj

	Particulars	Amount (in ₹)	Amount (in ₹)
I	Salaries		
	Salary from employer [₹45,000 x 12]	5,40,000	
	Less: Standard deduction under section 16(ia)	<u>50,000</u>	
		4,90,000	
	Less: Set off of loss from house property to the extent of ₹ 2,00,000 under section 71(3A)	<u>(2,00,000)</u>	2,90,000
II	Income from house property		
	Self occupied property		
	Net annual value	Nil	
	Less: Deduction under section 24 of interest on loan of ₹ 2,50,000 to the extent of	<u>2,00,000</u>	
		(2,00,000)	
	Let out property		
	Net annual value [₹25,000 x 3]	75,000	
	Less: Deduction under section 24		
	(a) 30% of NAV 22,500		
	(b) Interest on loan <u>3,00,000</u>	<u>(3,22,500)</u>	
		(2,47,500)	
	Loss under the house property	(4,47,500)	-
III	Profit and gains from business or profession		
	Business loss	(1,00,000)	-
IV	Capital Gains		
	Long term capital gains	50,000	
	Less: Set off of short term capital loss	<u>(10,000)</u>	
		40,000	
V	Less: Set off of business loss to the extent of ₹ 40,000	<u>(40,000)</u>	-
	Income from other sources		
	Interest from saving bank	15,000	

Interest on fixed deposits	45,000	
	60,000	
Less: Set off of balance business loss	(60,000)	
Gross Total income		2,90,000
Less: Deduction under section 80TTA		10,000
Total Income		2,80,000

8. Paragraph 25 of Ind AS 110 states that, "if a parent loses control of a subsidiary, the parent:

- de-recognises the assets and liabilities of the former subsidiary from the consolidated balance sheet.
- recognises any investment retained in the former subsidiary at its fair value when control is lost and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant Ind AS.
- recognises the gain or loss associated with the loss of control attributable to the former controlling interest.

Paragraph B98(c) of Ind AS 110 states that, on loss of control over a subsidiary, a parent shall reclassify to profit or loss, or transfer directly to retained earnings if required by other Ind AS, the amounts recognised in other comprehensive income in relation to the subsidiary on the basis specified in paragraph B99 of Ind AS 110.

As per paragraph B99 of Ind AS 110, if a parent loses control of a subsidiary, the parent shall account for all amounts previously recognised in other comprehensive income in relation to that subsidiary on the same basis as would be required if the parent had directly disposed of the related assets or liabilities.

Therefore, if a gain or loss previously recognised in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the parent shall reclassify the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses control of the subsidiary.

In view of the basis in its consolidated financial statements, XYZ Ltd. shall reclassify the foreign currency translation reserve of ₹ 400 lakhs attributable to the owners of the parent to statement of profit or loss as per paragraph 48 of Ind AS 21, which specifies that the cumulative amount of exchange differences relating to the foreign operation, recognised in OCI, shall be reclassified from equity to profit or loss on the disposal of foreign operation.

This is reflected in the gain on disposal. Remaining ₹ 100 lakhs relating to the NCI is included as part of the carrying amount of the NCI that is de-recognised in calculating the gain or loss on the loss of control of subsidiary, but is not reclassified to profit or loss in pursuance of paragraph 48B of Ind AS 21, which provides that the cumulative exchange differences relating to that foreign operation attributed to NCI shall be de-recognised on disposal of the foreign operation, but shall not be reclassified to profit or loss.

The impact of loss of control over QR Ltd. on the consolidated financial statements of XYZ Ltd. is summarized below:

(Rupees in lakhs)

Particular	Amount (Dr)	Amount (Cr)	P&L Impact
Gain/Loss on Disposal on Investments			
Bank	3,000		
Non-controlling interest (De-recognised)	500		

To Gain on Disposal (P&L) balancing figure		1,000	1,000
To De-recognition of total net assets of subsidiary		2,500	
Foreign currency translation reserve reclassified to profit or loss			
Foreign currency translation reserve (FVOCI)	400		
To Profit and loss		400	400
Total			1,400

9. Audit Procedures that should be followed for the show cause notice received from the State Pollution Board

When Non-Compliance is Identified or Suspected:

In the given situation, XYZ Ltd., is a listed company, has received a Show Cause Notice from the State Pollution Board and the Company was in the process of responding to the same. As a Statutory Auditor of XYZ Limited, CA. Gudia is required to perform certain audit procedures in this context.

When the auditor becomes aware of the existence of, or information about, the following matters, it may be an indication of non-compliance with laws and regulations like investigations by regulatory organisations and government departments or payment of fines or penalties.

As per SA 250, Considerations of Laws and Regulations in an audit of financial statements, if the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain:

- (a) An understanding of the nature of the act and the circumstances in which it has occurred; and
- (b) Further information to evaluate the possible effect on the financial statements.

If the auditor suspects there may be non-compliance, the auditor shall discuss the matter with management and, where appropriate, those charged with governance.

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

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

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

Section - IV

RTP

(2 Case Studies)

RTP

Case Study 1

Subjects	Topics Covered	Marks
FR	Ind AS 115	3
Audit	Risk Assessment, Professional Ethics	4
IDT	Value of Supply	2
Law	Companies Act (Section 161), LODR (Regulation 17A)	7
SCPM	Balanced Scorecard, Kano Model, Porter's Five Forces Model	9

Civil Aviation Industry and Company Outlook

Aviation industry has the power to change the economic landscape of a country. Connectivity is important for generation of economic growth, trade, and tourism. Millions depend on this industry for their employment, either directly or indirectly. In the recent past, the entire industry worldwide was crippled by the COVID-19 pandemic. The years 2020 and 2021 proved to be the most trying and difficult period for all companies within this industry.

"When everything seems to be going against you, remember that the airplane takes off against the wind, not with it". Who should know better than Krishna Gupta who is the Managing Director of KG Airlines, one of India's leading airlines? The quote hangs on the wall at the entrance to KG Airlines' headquarters in Gurugram.

It has taken few years to rebound back to normal scale of business operations. With the impact of COVID-19 subsiding and the easing of travel restrictions, there has been a rebound passenger traffic.

Indian economy is being considered as one of the fastest growing economies, with projections for a GDP growth of 7% year on year. Private consumption, growing economic activity in both manufacturing and service sectors has spurred growth since 2022. Post pandemic, with the easing of restrictions on civil aviation that appetite of consumers to travel has increased manifold.

In India, the passenger traffic has increased since 2022. With rise in disposable incomes, rapid urbanisation and increase in working class population, the growth in the demand for air travel is expected to persist. Tier 2 and Tier 3 cities are also expected to play a pivotal role due to greater spread of economic activity and increasing population in these cities. The government is focussed on building and expanding modern infrastructure facilities across the country in order to support the domestic civil aviation industry. Almost 100 more new airports will be operational by 2028 giving scope for development of new regional route that can provide excellent connectivity within India. It is expected that domestic aviation requires at least 4,000 fleets within the next two decades in order to meet the anticipated growth in demand.

KG Airlines

Founded in 1996 by Krishna Gupta of KG Partners and D Gupta, KG Airlines has evolved into a significant player in the aviation industry. KG Partners holds a 59% stake in KG Airlines, while D Gupta's Singapore company, DG Assets, owns 41%. In August 1999, KG Airlines placed a firm order for fifty A320-200 aircraft, with plans to commence operations in mid-2000. The airline received its inaugural aircraft on 10 August 2000, nearly a year after the initial order. The maiden flights connected New Delhi to Mumbai. By the close of 2022, KG Airlines boasted a fleet of 270 aircraft, and an additional 40 were acquired in December 2023, solidifying its presence in the aviation market. Presently, KG Airlines serves approximately 49 cities across 25 states, carrying a total of 90 million passengers. Traded under the symbol "KGA" on NSE, KG's Board of Directors operates from its Gurugram office. A concise overview of the Board of Directors' profiles is provided in Annexure A.

Selection of Business Model

The growth trajectory of the industry holds significant potential. Several Board meetings have taken place in the past three months to discuss the optimal strategies for expanding KG Airlines' business. During the meeting, enthusiastically, Managing Director exclaimed, "The future abounds with enticing opportunities, catering to both full-service airlines, boasting premium offerings and employing a product differentiation strategy, and low-cost airlines, capitalizing on a cost advantage strategy." Many business propositions for both these models were prepared, analysed, and discussed in depth.

After thorough study and deliberation, it was decided that KG Airlines had better prospects by developing as a low-cost airline. The focus for the next few years will be on the domestic civil aviation sector.

Transitioning to a new business model, KG Airlines has redefined its mission, vision, and purpose as under–

The Mission – "KG Airlines is on a mission to provide connectivity with speed and reliability, making travel hassle free and affordable for our guests."

The Vision – "To be a leader in aviation by offering unmatched connectivity in and with India. Speed in and out of India with ease."

The Purpose – "Be our Guest, we connect you to your world."

The airline aims to build a loyal customer base by (1) providing affordable rates, (2) on-time performance and (3) courteous and hassle-free service. These are reassurances that KG Airlines wishes to provide its customers (guests/ passengers).

Moreover, KG Airlines also envisions growth in size and scale. With 100 more airports coming up within India, KG Airlines aims to increase its fleet size by leasing aircrafts, develop more routes and provide unmatched connectivity to its customers. The expansion project is expected to be substantial, with an initial investment of at least a few hundred crore of Indian Rupees.

Operational Challenges in the Airline Industry

The management at KG Airlines soon realizes that there are multiple roadblocks to this expansion project. Increase in fleet size, development of more routes and providing unmatched connectivity all require one key element – more aircrafts. Unfortunately, in the current global scenario due to disruptions in the supply chain, aircrafts are in short supply. Moreover, the compounding effect of rising operational costs is exerting substantial pressure on margins, and the availability of spare parts poses a significant challenge for KG Airlines.

Aircraft and spare parts availability: One of the key impacts of the pandemic has been the disruption in supply chain in aircraft manufacturing and subsequent shortage of engines worldwide. Manufacturers have been unable to keep pace with growing global demand from airline companies. Market expansion plans by operating new routes have been delayed due to unavailability of additional aircrafts. Therefore, many airlines are extending the existing leases of their current fleet in order to keep up with the operations.

Over and above this, many of the existing aircrafts have had to be grounded due to unavailability of spare parts. Therefore, there has been a shortfall in the deployment of capacity to meet customer demand on many routes.

Due to lop-sided demand-supply of aircrafts, aircraft lessors, who supply the aircrafts on lease, have been increasing the lease rental. This has increased the cost of operations substantially.

Increase in the cost of operations: Jet fuel prices have been very volatile and has been on an upward trend in the recent years. Consequently, KG Airlines regularly monitors the fuel prices and assesses their impact on profitability. But it has not taken use of financial instruments to hedge the exposure.

Another critical cost component for KG Airlines is the cost of leasing and operating aircrafts, which includes lease rental, maintenance and depreciation/amortization. As mentioned earlier, these costs are also on the rise.

In addition to fuel and aircraft-related costs, there is a high demand for pilots, as well as flight and cabin crew members. Consequently, flight crew salaries and expenses have been on the rise.

The cumulative effect of increasing operational costs, including high fuel costs, lease rentals, and personnel costs, has exerted immense pressure on operating margins.

Margins under pressure: The senior management has emphasized the necessity to pass on the increased costs to the customer. However, operating in an intensely competitive market presents a challenge, as there is a limit to how much ticket fares can be raised without losing competitiveness. This is particularly crucial for KG Airlines, which, as a low-cost carrier, has engaged in code-sharing arrangements with partner airlines on specific routes to meet the rising demand and generate profits.

Maintaining profitability in the market-driven passenger ticket fare environment requires KG Airlines to focus on driving cost efficiency. Consequently, the airline has observed a gradual depletion of its cash reserves due to these factors.

Operational Highlights of KG Airlines

Particulars	FY 2023	FY 2022
Available Seat Kilometers (ASK) (in million)	1,14,000	70,400
Revenue Passenger Kilometers (in million)	94,000	52,000
Passenger Load Factor (%)	82.45%	73.86%
Cost per Available Seat Kilometer (CASK)	4.85	4.65
Revenue per Available Seat Kilometer (RASK)	4.80	3.70
Passenger traffic	90 million	75 million
Average % of scheduled flights cancelled *	1.00%	0.45%
On Time Performance (OTP)** in %	88%	80%
Number of unresolved customer complaints	10	4

*Reasons for increase in flight cancellation were primarily on account of mechanical faults and software glitches that need to be fixed along with unavailability of spare parts. In addition to technical and commercial reasons for cancellations, flights were also cancelled due to non-availability of requisite staff, particularly pilots and cabin crew. The staff attrition rate at KG Airlines has increased from 10% in 2022 to almost 15% this year. HR exit interviews have indicated that low pay scales as compared to market rates, combined with long work hours, are the primary reason for employee attrition.

Whenever a flight is cancelled, the airline has to arrange for an alternate flight or provide a refund to the passenger. In exceptional cases, compensation may have to be paid to the passenger.

** On Time Performance (OTP) is compiled at four metro airports: Mumbai, Delhi, Hyderabad, and Bangalore. For delays beyond 2 hours, airlines have to pay compensation ranging from ₹ 5,000 to ₹ 20,000 for domestic flight.

Turnaround time is the time between aircraft landing and take-off. The turnaround process is a joint effort of both the ground team and the flight crew. Besides loading and unloading of passengers, aircrafts are cleaned, inspection and maintenance work is carried out. Aircrafts are also refuelled during this time. The average turnaround time is approximately 1 hour for each aircraft. A fast turnaround time ensures that the aircraft is available for the next travel leg quickly, thereby improving asset utilization. Hence, efficiency in these operations will impact revenue generation. Faster the turnaround time of planes on the ground better the prospects for revenue generation.

At the same time, in the pursuit of fast turnaround time, it is critical not to compromise on aircraft safety.

Incidents related to safety issues are taken seriously not just by company but also by Director General of Civil Aviation (DGCA), regulatory authority in India. Hence, safety record is also paramount to business operations.

An analysis at KG Airlines of the recent reports for delays in turnaround time and safety incident records has indicated a shortage of technical staff to inspect, detect and report faults in aircraft. The existing staff is overworked. Hence, KG Airlines plans to hire additional 100 engineers across India who can be trained at their internal training department.

As mentioned above, the number of passengers flown by KG Airlines have grown from 75 million in 2022 to 90 million in 2023. Until now there have been only few airlines within the civil aviation industry in India. KG Airlines has managed to capture majority of the traffic in certain routes. However, with the expected potential for growth within the industry, there may be more airlines that may be able to operate in these routes. Therefore, it is very important for KG Airlines to perform efficiently and manage its routes effectively.

Fare Structure in Airline Operations

A ticket worth ₹ 10,000 is sold at 5% discount per passenger. GST rate @5% is collected on this sale. Aviation security fee is charged at ₹ 500 per passenger and user development fee is charged at ₹ 250 per passenger. Airlines collect the aviation security fee from passengers when they book their tickets. This is passed to the government. This fee is used to fund the security arrangements at airports around the country. User development fee or Passenger service fee are levied by the airline when passengers book the ticket. They are then passed onto the airport operator like the government owned Airport Authority of India (AAI) or to other private operators who have the license to operate the airport. In return for this collection service the airline is compensated at the rate of ₹ 5 per passenger from whom these fees are recovered.

The financial statements of KG Airlines are prepared in accordance with the Indian Accounting Standards (Ind AS). This commitment to compliance is evident in the extracts extracted from 'Management's Responsibility for Financial Statements,' which are provided in Annexure-B.

Strategy

To operate as a low cost, high efficiency airline, KG Airlines has the following strategy in place:

Fleet management: The fleet will be of single type of aircraft to reduce maintenance and operational costs. Planes will be leased rather than bought outright. Economy seat will be the only seat class offered.

Building digital capabilities: Digitalize processes to make them efficient, error free and cost effective. KG Airlines already has an online booking and check in system in places. It plans to encourage passengers to utilize these tools to plan their travel. These measures will reduce reliance on human intervention and can help rationalize cost. Human resources freed up from digitalization can be used for other value adding activities. Also, commission paid to travel agents can be saved by introducing online booking services. Digitalizing processes can also aid the company's capabilities to scale up its operations in future. While the digitalization of processes brings significant benefits, scheduled maintenance activities remain crucial for ensuring the efficiency and safety of airline operations.

Ancillary services: Inflight entertainment, food and beverage will be charged extra and not included in the ticket cost. KG Airlines aims to generate additional revenue through an attractive choice of in-flight entertainment, food and beverage based on popular demand. For this, it can partner with renowned in-flight service providers as well as food and beverage suppliers who can cater to wide range of customer preferences. By charging premium rates for these ancillary services, KG Airlines can improve its revenue yield.

Managing customer loyalty: KG Airlines' management is keen on getting recognition by winning high profile awards for various services as well as by getting above average ratings from various rating agencies. On time performance, customer satisfaction, value for money are criteria which are considered for awards and ratings.

The management has realized that value for money is partly driven by the redemption choices that customer loyalty programs offer. If passengers are allowed to redeem reward points towards another flight ticket, it takes away the opportunity to earn regular revenue. This is because, a seat in a flight has to be offered at a discounted rate while outside this program it would have earned the regular full ticket revenue. On routes that have a high passenger traffic, this would be a source of loss of regular revenue to the airline.

At the same time attractive loyalty reward programs are the best way to build and retain customer bases. While reward points are being granted, it was found that passengers were not completely satisfied with the range of choices offered for redemption. There has been huge number of unredeemed reward points. To bring a quick churn in redemption of reward points, thereby increasing customer satisfaction, KG Airlines plans to partner with stores in the airport which can accept passenger loyalty points. The passenger can redeem points from the program at these stores and get good value for money. At the same time, KG Airlines does not compromise on avenues to earn entire ticket fare of a seat.

Workforce management: High attrition rate of 15% is impacting operations. HR exit interviews indicate long work hours, low pay scale and lesser opportunities for career growth as primary reasons for high attrition. KG Airlines plans to have tie ups with training colleges and other technical institutes where technical staff and crew members can be trained in the latest developments in aviation. This will allow for personnel growth and improve staff morale. Attractive pay package, reward and recognition programs based on performance track record is being worked out to curb attrition. Improve amenities like staff mess, transportation from work to home, recreation rooms, off-site team building events are being planned out.

Performance Measurement System

The management has recognised that, with an increase in size and scale, the need arises to develop and align resources (people, technology, and processes) to deliver on the three reassurances provided to customers, which are stated above. In the highly competitive airline industry, the top management of KG Airlines desires a comprehensive view of its business regularly. Hence, they have adopted the Balanced Scorecard to access to information in a crisp and concise manner.

Given the challenges of rising costs, decreased profit margins and other business uncertainties, the airline aims to adopt "operational efficiency and performance" as its strategic theme for the coming years. A Balanced Scorecard is being prepared to understand the current performance across the four perspectives: financial, customer, internal business processes, and learning & growth.

Annexure-A: Board of Directors

Jai Kumar, Chairman and Non-Executive Independent Director	A business leader, technocrat and academic, having worked in Australia, Europe, and Asia through a career spanning over 30 years.
Ana Maria, Non-Executive Independent Director	With more than 25 years of extensive experience, Ana holds the position of Managing Partner at a renowned law firm. Her broad and varied representation of public and private corporations, alongside other entities, before various National Courts, Tribunals, and Legal Institutions has earned her acclaim on both national and international fronts.
K. Srinath, Non-Executive Independent Director	Srinath, who founded a technology company during his early twenties, has a track record of developing numerous successful businesses. In 2021, he sold his business interests and was later invited to serve as a non-executive board member for KG in 2022.
Krishna Gupta, Promoter and Managing Director	Krishna is also the Group Managing Director of KG Partners. He holds a degree in electrical engineering from the MIT.

M. Sridharan, Non-Executive Director	Sridharan, currently serving as a Governance Consultant, brings extensive experience collaborating with government, regulatory bodies, investment institutions, and banks.
Harsh Mittal, Non-Executive Director	Harsh, is a fellow member of the Institute of Chartered Accountants of India and is a graduate in Economics from Delhi University.
Markus J., Non-Executive Director	Markus, an aviation industry veteran, with an illustrious career spanning over 36 years.
K.B. Chakraborty, Independent Director*	K.B. had a successful career as a marketing executive, serving as Marketing Director of a major quoted engineering company until he retired in 2015. K.B. is fellow of CSEP. He is also Independent Director on Boards of several companies.
Ravi Kishan (Retd.)	Ravi trained as a commercial pilot. He flew long-haul flights with a major airline for much of his career, before being promoted to chief pilot. He retired from flying in 2022. He was then invited to join KG's Board.

*K.B. was appointed as a casual vacancy director on 3rd September 2023. His appointment was subsequently approved by the members in the immediate next general meeting.

Annexure-B: Extracts from Management's Responsibility for Financial Statements

The Company's Board of Directors is responsible for matters stated in section 134(5) of the Act with respect to preparation of these individual financial statements that give a true and fair view of financial position, financial performance, in accordance with Ind AS 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---- 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.

Multiple Choice Questions

- Aircrafts operated by KG Airlines, whether owned or leased require periodic maintenance. These are high value costs. As of the reporting date, provisions need to be made for these expenses based on number of variable factors and assumptions, likely utilization of the aircraft, expected cost of these high value maintenance on a future date, condition of the aircraft engine etc. Due to the complexity and subjectivity of these conditions, auditors rely on management judgement in order to quantify the amount of provision to be made. This would be an example of which type of risk in a statutory audit:
 - Inherent risk
 - Control risk
 - Detection risk
 - Contract risk
- The Cashier committed fraud and absconded with the proceeds. The Chief Accountant was unaware of when the fraud occurred. During the audit, the auditor failed to discover the fraud. However, after completion of the audit, the Chief Accountant discovered the fraud, and an investigation indicated that the auditor did not exercise proper skill and care, performing the work in a desultory and haphazard manner.

Which of the following statements accurately characterize the situation and the subsequent action:

- The auditor exhibited due diligence and careful conduct

- (ii) Clause (7) of Part I of Second Schedule to Chartered Accountants Act, 1949 and SA 240 are relevant in this situation
- (iii) The auditor failed to plan and perform the audit with an attitude of professional skepticism
- (iv) A Chartered Accountant in practice will be deemed guilty of professional misconduct based on clause (7) of Part II of the second schedule to Chartered Accountants Act, 1949
- (a) Only (iv)
- (b) Both (ii) & (iv)
- (c) Both (ii) & (iii)
- (d) Both (i) & (iii)
3. KG Airlines has decided to remove of expiration date on the frequent flyer miles. It has done this to improve customer satisfaction of its flyers. Using the Kano Model, which of the following attributes of the Kano Model does this pertain to:
- (a) Threshold attribute
- (b) Performance attribute
- (c) Reverse quality
- (d) Delight attribute
4. Assuming that Mr. Stephen is eligible to be appointed as a director. In line with requirements, KG Airlines aimed to fill up the vacancy caused by resignation of Mr. K.B. Chakraborty by nominating Mr. Stephen as an Independent Director. However, Mr. Ravi Kishan, a Board Director objected, contending that Mr. Stephen lacks eligibility for the Board position due to already occupancy of a position of independent director in 3 listed entities. Evaluate Mr. Ravi's claim regarding Mr. Stephen's suitability for the position of Independent Director on the Board.
- (a) Yes, contention of Mr. Ravi Kishan is correct regarding Mr. Stephen that he is ineligible to be appointed being Independent Director in already 3 listed entities. Mr. Stephen cannot be appointed in KG Airlines.
- (b) No, contention of Mr. Ravi Kishan is incorrect regarding Mr. Stephen's appointment as he eligible to be appointed in maximum twenty companies. Mr. Stephen can be appointed in KG Airlines.
- (c) No, contention of Mr. Ravi Kishan is not correct regarding Mr. Stephen's appointment as he eligible to be appointed in maximum ten public companies. Mr. Stephen can be appointed in KG Airlines.
- (d) No, contention of Mr. Ravi Kishan is incorrect regarding Mr. Stephen's appointment, as he eligible to be appointed in maximum seven listed entities. Mr. Stephen he can be appointed in KG Airlines.
5. Given are few parameters that need to be considered while using Porter's Five Forces Model. Match the parameter to the appropriate category of the model:

Parameter	Porter's Five Forces
a. Congestion in airports due to non-availability of parking space.	i. Threat of substitutes
b. Reduced need to travel due to remote working capabilities	ii. High supplier power
c. Low switching costs to choose between airlines	iii. Threat of new entrants
d. Favourable government policies towards investments in aviation sector	iv. High customer power

Options

- (a) a- ii, b- i, c- iv and d- iii

- (b) a- ii, b- iv, c- i and d- iii
- (c) a- iii, b- iv, c- i and d- ii
- (d) a- iii, b- iv, c- ii and d- i

Descriptive Questions

6. CONSTRUCT a Balanced Scorecard table for KG Airlines, identifying two goals along with corresponding performance measures for each perspective. EVALUATE the relevance of these goals and performance measures to KG Airlines.
7. On 19th October 2023 Mr. K.B. resigned after working about 45 days as a director. The Board wishes to fill up the said vacancy by appointing Mr. Stephen in the capacity of independent director in the forthcoming meeting of the Board. The Board Meeting is scheduled on 31st December 2023.
 - (a) ADVISE the Board, keeping in view the provisions of the Companies Act, 2013, with respect to appointment of Mr. Stephen.
 - (b) FIND the maximum time period within which the proposed appointment of Mr. Stephen can be made in the company.
8. To recognize ticket sales from the flights KG Airlines operates, you are required to answer the following questions:
 - (a) DETERMINE the transaction price of KG Airlines in the given case, as per Ind AS 115. How should it recognize revenue of tickets related to scheduled future flights?
 - (b) Does KG Airlines have to pay GST on airport levies like user development fee, passenger service fee, etc. collected from the passengers? Briefly DISCUSS.
 - (c) Does KG Airlines have to pay GST on the collection charges of ₹ 5 charged for the collection service provided by the airline to the airport operators? Briefly DISCUSS.

ANSWERS TO THE CASE STUDY 1

Answers to the Multiple Choice Questions

1. (a) Inherent risk.

Reason: Inherent risk is the susceptibility of an assertion to a misstatement that could be material, either individually or when aggregated with other misstatements. Provision for high value maintenance cost is dependent on complex and subjective conditions. The provision is based on the management's judgement. If any assumption or judgement is incorrect, the risk of material misstatement is high. This is an inherent risk.

2. (c) Both (ii) & (iii).

Reason: In the given case, in the course of audit, auditor failed to discover the fraud. It is clearly given that investigation indicated that the auditor did not exercise reasonable skill and care and performed his work in a casual and unmethodical manner.

According to Clause (7) of Part I of Second Schedule of Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he "does not exercise due diligence or is grossly negligent in the conduct of his professional duties".

As per SA 240, "The auditor's responsibilities relating to fraud in an audit of financial statements",

it can be concluded that the auditor did not plan and perform the audit with an attitude of professional skepticism. Thus, having regard to this and a fraud has actually taken place during the year, committed by the absconding cashier, it is reasonable to think that prima facie there is a case against the auditor for gross negligence.

From facts given in the case and by applying Clause (7) of Part I of Second Schedule to Chartered Accountants Act, 1949 and SA 240, it is clear that the auditor is guilty of professional misconduct.

3. (d) delight attribute of the Kano Model.

Reason: In general, frequent flyer miles have expiration dates, before which they can be redeemed. Removal of this expiration date is something that customers/flyers would not be expecting.

4. (d) No, contention of Mr. Ravi Kishan is incorrect regarding Mr. Stephen's appointment, as he eligible to be appointed in maximum seven listed entities. Mr. Stephen can be appointed in KG Airlines.

Reason: As per Regulation 17A of the SEBI (LODR) Regulations 2015, the directors of listed entities shall with respect to the maximum number of holding of directorships, can be at any point of time, be not more than seven listed entities. Provided that a person shall not serve as an independent director in more than seven listed entities.

Notwithstanding the above, any person who is serving as a whole time director/managing director in any listed entity shall serve as an independent director in not more than three listed entities.

5. (a) a- ii, b- i, c- iv and d- iii

Reason: Congestion in airports due to non-availability of parking space → High supplier power.

Reduced need to travel due to remote working capabilities → Threat of substitutes.

Low switching costs to choose between airlines → High customer power.

Favourable government policies towards investments in aviation sector → Threat of new entrants.

Answers to the Descriptive Questions

6. **Balanced Scorecard Table for KG Airlines, a low-cost high efficiency airline**

Perspective	Strategic Objective	Measure	Relevance to KG Airlines
Financial Perspective	Goal-1 To lower costs, improve cost structure, and increase asset utilization	• Lease Cost per annum • Maintenance Cost per annum • Cost per Available Seat Kilometer (CASK) • Cost per Available Seat Kilometer - Ex Fuel (CASK-Ex)	Input Costs like cost of fuel, leasing and labour form a major portion of operating expenses. To navigate the volatility of fuel prices, the airline must vigilantly monitor and proactively secure competitive rates for procurement, utilizing financial instruments to hedge against exposure. In pursuit of its expansion project, KG Airlines has chosen to lease planes, deeming it a more viable option given the airline's low cash reserves. Nevertheless, opting for an outright purchase, although more cost-effective in the long run, involves a significant upfront expenditure or necessitates debt servicing for acquisition. CASK is currently ₹ 4.83 and likely to increase unless KG Airlines manages its cost structure

			efficiently. To achieve this efficiency, the airline is focusing on eliminating non-value-adding costs. This includes standardizing seats, exploring e-commerce channels, and charging customers separately for extra amenities like in-flight entertainment. Furthermore, KG Airlines has standardized planes that it operates in order to reduce operational costs like maintenance costs. KG Airlines' strategy is to win market through cost leadership. Hence, maintaining a lower cost structure is paramount importance to the airline.
	Goal-2: To boost revenue and broaden revenue streams	• Revenue per average seat kilometre (RASK) • % revenue generated from ancillary activities • % revenue generated from new routes	KG Airlines wishes to build a loyal customer base by offering affordable ticket rates priced attractively in this competitive market. This will be possible only if costs can be managed efficiently. The RASK is currently at ₹ 4.80, which is lower than CASK ₹ 4.85. This implies that the airline is not making sufficiently money to cover its costs. Therefore, the airline should pass on some of the increase in costs to the passenger without impacting demand. Simultaneously, it should monitor and enhance the profitability of its current customer base. Route planning should be done to optimize revenue generation. This will require KG Airlines to explore opportunities to improve revenue streams (eliminate unprofitable routes, determine new routes, markets and code sharing partners, refer internal perspective). Moreover, KG Airlines can improve the value provided to customers by enhancing ancillary services, including inflight entertainment, food and beverage offerings, and the sale of mementos, among others. This would make the overall bundle more appealing and potentially increase ancillary income.
Customer Perspective	Goal-1: Customer retention, new customer acquisition	• Number of repeat customers • Number of high-profile awards won/ Latest rankings • Number of new customers	Implementing a robust Customer Relationship Management (CRM) system is crucial for managing the number of repeat customers. Attractive customer loyalty programs with different redemption options play a key role in retaining the customer base. Customers will be motivated to travel again with KG Airlines to earn enough points for redemption. Moreover, KG Airlines plan to bring higher churn in redemption

			of reward points by partnering with airport stores is a win-win strategy to ensure customer satisfaction while maintaining profitability. In addition, enhancing the brand image through winning high-profile awards for various services and securing above-average ratings from rating agencies contributes to both retaining and expanding the customer base. Besides, offering better connectivity through route planning at attractive prices will help to grow market share and acquire newer customers.
	Goal-2: Customer Satisfaction	• Number of flights cancelled • 'On time performance" (OTP) statistics • Compensation for flight delays and cancellations • Unresolved customer complaints	Average % of scheduled flight cancelled increased from 0.45% in 2022 to 1% in 2023. This impacts customer satisfaction. Despite this challenge, OTP statistics has shown improvement in 2023 compared to the previous year. Improving On-Time Performance is essential to enhance customer experience and satisfaction. However, it is necessary to keep compensation for flight delays and cancellations at minimum. Building robust capabilities in operations will reduce instances of cancellation and delays. Moreover, unresolved customer complaints have become important concerns that demand attention from higher management. The volume of these unresolved complaints has seen an increase in 2023. Integrating these initiatives into a holistic approach is crucial for ensuring a positive overall customer experience and satisfaction.
Internal perspective	Goal-1: Flight Operations (Cycle time optimization)	• 'On the ground' (turnaround) time • No. of instances of serious lapses in flight safety • Maintenance frequency rate	Fast and efficient turnaround times are critical for asset utilization to generate revenue. At the same time, flight safety is paramount to running airline operations. KG Airlines has responsibility towards society to ensure that safety standards are met. Given that the number of flights is likely to increase from the current number of 310 and passenger traffic is expected to rise, any incidents of flight safety concerns must be given high priority and resolved effectively. To address this, increasing capacity of on-ground technical staff by KG Airlines, such as hiring additional 100 engineers, will help to improve flight operations.
	Goal-2: Digitalisation (to	• Ratio of online booking vs.	Online booking and check-in capability will improve business operations efficiencies.

	develop the online booking & check-in system)	booking through travel agents • Percentage downtime of website	To ensure effectiveness, digital capabilities must be able available at all times to the customers. Therefore, downtime has to be reduced. Given that KG Airlines expects passenger traffic to grow in the coming years, digitalizing can help it scale up operations. Furthermore, Digitalizing can also help rationalize operational costs. This is because it frees up personnel for value additive tasks and saves commission that need to be paid to travel agents (financial perspective).
	Goal-3: Route Network Redesign	• Passenger Load Factor • Number of Routes expected to be withdrawn (loss making) • Number of New Routes • % of Load for New Route • Time period to break-even	To foster additional growth, the airline can redesign its network and may also explore potential regional routes and engage in code-sharing partnerships with other airlines. <u>Shortage of aircrafts, high lease rental and other operational costs need to be considered</u> while determining route network.
	Learning & Growth	Goal-1: Staff Motivation and Loyalty • Staff attrition rate • Staff absentee rate • The number of days absent per employee • Employee Feedback Score	KG Airlines should allow for personal growth of employees to combat staff attrition and staff absenteeism. Staff attrition rate increased from 10% to 15% this year. To mitigate concerns related to dissatisfaction arising from prolonged work hours and a perceived low pay scale, implementing <u>a diverse approach can be important.</u> Firstly, adopting a performance-based attractive pay package can serve as a powerful motivation, aligning financial rewards with individual and team accomplishments. Secondly, creating a workplace environment with ample amenities, favourable to employee well-being, further contributes to job satisfaction by addressing the physical and mental aspects of the work experience. Thirdly, incorporating team- building exercises can enhance collaboration, and overall workplace synergy, helping mitigate the challenges associated with extended work hours.
	Goal-2:	• Strategic Skill	KG Airlines should improve and maintain its

	Functional excellence and Leadership skills	Ratio • Number of days' training per ground crew member • Number of training programs	strategic skill ratio (a metric that quantifies the proportion of strategic skills possessed by a workforce in comparison to the entire skill set) through training and development programs. If ground crew are better trained or multiskilled, they can reduce the number of minutes that the plane stays on the ground, which will result in fewer planes being required and therefore lower costs. Tie up with institutes for training on latest developments in aviation and other programs will allow for personal growth and career development. This will retain skilled high performing staff.

Note: Two goals, each with two corresponding performance measures, are sufficient. Additional performance measures have been included to ensure comprehensive coverage across various scenarios.

7. **Section 161(4) of the Companies Act, 2013** provides that if the office of any director appointed by the company in general meeting is vacated before his term of office expires in the normal course, the resulting casual vacancy may, in default of and subject to any regulations in the articles of the company, be filled by the Board of Directors at a meeting of the Board which shall be subsequently approved by members in the immediate next general meeting.

Further, any person so appointed shall hold office only up to the date up to which the director in whose place he is appointed would have held office if it had not been vacated.

In view of the above provisions, in the given case, the appointment of Mr. K.B. Chakraborty in place of the deceased director Mr. Rai was in order. In normal course, Mr. K.B. Chakraborty could have held his office as director up to the date to which Mr. Rai would have held the same.

However, Mr. K.B. Chakraborty resigned on 19th October 2023 and again a vacancy has arisen in the office of director owing to resignation of Mr. K.B. Chakraborty who was appointed by the board and approved by members to fill up the casual vacancy resulting from Mr. Rai's demise. Vacancy arising on the Board due to vacation of office by the director appointed to fill a casual vacancy in the first place, does not create another casual vacancy as section 161(4) clearly mentions that such vacancy is created by the vacation of office by any director appointed by the company in general meeting. Hence, the Board cannot fill the vacancy arising from the resignation of Mr. K.B. Chakraborty who was appointed to fill as a casual vacancy.

In fact, here the vacancy caused by the resignation of Mr. K.B. Chakraborty will result in an intermittent vacancy. This vacancy can be filled as per Rule 4 of the Companies (Appointment and Qualification of Directors) Rules, 2014 read with Section 149(4) of the Companies Act, 2013.

Following are the answers:

- (a) Accordingly, in the light of the said provisions, the Board may however appoint Mr. Stephen as a director in any capacity either independent or non-independent, as an additional director under section 161(1) of the Companies Act, 2013 provided the articles of association authorise the Board to do so, in which case Mr. Stephen will hold the office up to the date of the next annual general meeting or the last date on which the annual general meeting should have been held,

whichever is earlier. His appointment, if required, can be regularised in the subsequent general meeting of the Company pursuant to Section 149 and other related provisions of the Act.

- (b) Whereof, there is an intermittent vacancy of an independent director, it shall be filled-up by the Board at the earliest but not later than immediate next Board meeting or three months from the date of such vacancy, whichever is later.

Here, Board may fill up the vacancy caused by the resignation of Mr. K.B. Chakraborty by appointing Mr. Stephen in the capacity of an independent director within 3 months from date of vacancy (i.e., by 18th of January 2024) or immediate next Board meeting (i.e. 31st December 2023), whichever is later. Hence the maximum time period within which the proposed appointment of Mr. Stephen can be made is, latest by 18th January 2024.

8. (a) Revenue recognition for KG Airlines will be based on Ind AS 115 "Revenue from Contracts with Customers". Paragraph 47 of Ind AS 115, inter alia states that an entity shall consider the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. Amounts collected on behalf of third parties are not economic benefits which flow to the entity. Therefore, they are excluded from revenue.

As per Ind AS 115, each booking is a contract that the passenger enters into with KG Airlines. Passenger revenue should be recognized on flown basis i.e., when KG Airlines provides the transportation to the passenger. This is when service is rendered to the passenger. Revenue should be recognized on net of discounts given to the passengers, amount collected on behalf of third parties, applicable taxes, and airport levies such as passenger service fee, user development fee, etc., if any. Fees charged for cancellation of flight tickets are recognised as revenue on rendering of the said service.

Here, the revenue from sale of ticket that should be reflected in the Statement of profit and loss of KG Airlines would be ₹ 9,500 which would be the airfare charges of ₹ 10,000 per passenger less 5% discount given to the passenger which is ₹ 500.

Particulars	Amount (₹)
Airfare charges	10,000
Less: Discount @5%	500
Net ticket fare (revenue)	9,500
Add: GST @5% on net ticket fare	475
Add: Aviation security fee	500
Add: User development fee	250
Total amount collected from passenger	10,725

Note: Since, Goods and Service Tax (GST) @5% is payable to the government, it does not form part of revenue. Similarly, aviation security fee and user development fee are payable to the government and airport operator respectively. Here, the airline acts only as an agent to collect the money from the passenger and pass it on to the government or the airport operator. No service is rendered by the airline to the passenger on this behalf. Therefore, no revenue should be recognized for aviation security fee or user development fee by KG Airlines.

However, since the airport operator on whose behalf the user development fee is collected, compensates KG Airlines for ₹ 5 per passenger flown, it would be recognised as revenue in the

books of KG Airlines. Hence, the total revenue of ₹ 9,505 would be reflected in the Statement of profit and loss separately as 'revenue from sale of tickets' and 'other operating revenue'.

Revenue from sale of tickets that relate to scheduled future flights will be recognised as "unearned revenue", forming part of current liabilities. Depending on the facts and circumstances relating to the contract, the liability recognised represents the entity's obligation to either transfer goods or services in the future or refund the consideration received. In either case, the liability shall be measured at the amount of consideration received from the customer.

- (b) **Services provided by an airport operator to passengers against consideration in the form of UDF and PSF are liable to GST.** PSF and UDF are levied by the airport operators but are collected by the airlines. These charges are collected by the airline as an agent of passengers and is not a consideration for any service provided by the airlines.

Thus, the amount so recovered by airlines will be excluded from the value of supplies made by the airline to its passengers. In other words, the airline shall not be liable to pay GST on the PSF and UDF (for airport services provided by airport operator), provided the airline satisfies the conditions prescribed for a pure agent under Rule 33 of the CGST Rules, 2017. **It is the airport operator which is liable to pay GST on UDF and PSF.**

The airline should separately indicate actual amount of PSF and UDF and GST payable on such PSF and UDF by the airport operator, in the invoice issued by airlines to its passengers.

Thus, KG Airlines is not liable to pay GST on airport levies like user development fee, passenger service fee, etc. collected from the passengers.

- (c) **Yes, KG Airlines is liable to pay GST on the collection charges of ₹ 5 charged for the collection service provided by the airline to the airport operators.** The collection charges paid by airport operator to airlines are a consideration for the services provided by the airlines to the airport operator and KG Airlines shall be liable to pay GST on the same.

RTP

Case Study 2

Subjects	Topics Covered	Marks
FR	Ind AS 20	5
Audit	SA 320, SA 540	10
DT	Transfer Pricing	2
IDT	Value of Supply (Section 15), ITC (Basics)	4
Law	Companies Act (Section 188), FCRA (Section 16)	4

Para 1

Yantra Pedasu Ltd. (YPL) is an unlisted public company, incorporated since 2005, engaged in the steel business, with nine directors in its board. There is a company in Singapore named, SYD Pte Ltd. (SPL) in which it acquired 54% stake during financial year 2022-23 and thereby it became its first subsidiary company. Mr. Sunil Verma has been appointed for second consecutive term of five years as managing director of YPL. He has a daughter named, Mrs. Sunita, who is residing in Singapore since last 6 years and she was appointed as the director in SPL, during financial year 2023-24, at a monthly remuneration of SGD 60,000 equivalent to ₹ 3 lakhs.

Para 2

For financial year 2023-24, YPL appointed Chappan & Co. as its statutory auditor in place of its previous auditor. All the formalities as prescribed by section 139 & 140 of the Companies Act, 2013, were complied with by YPL in relation to such appointment. Also, Chappan & Co. made a written communication vide a registered post acknowledgment due to the previous auditor before accepting such appointment.

CA Kailash Chappan, one of the senior partners of the firm, was appointed as the engagement partner by Chappan & Co. on such audit assignment of YPL. While conducting the audit of YPL, CA Kailash observed that there were certain accounting estimates made in relation to certain items of financial statements that might give rise to significant risks and thereby he performed substantive procedures in accordance with the requirements of SA 330, "The Auditor's Responses to Assessed Risks".

Further, CA Kailash determined that there were certain factors that indicated existence of certain transactions entered into by YPL for which misstatements of lesser amounts than materiality for financial statements as a whole could reasonably be expected to influence economic decisions of users taken on the basis of the financial statements and accordingly, CA Kailash lowered his materiality level determined for such transactions.

Apart from conducting the audit assignment, CA Kailash also used to solve the concerns raised by the accountant of YPL with respect to GST and Income tax matters. One such concern raised by the accountant to him was with respect to ITC availment under GST, which is briefed as under:

'The balance of ITC with YPL after discharging the GST liability for April month was ₹ 60,00,000. The eligible ITC reflected in GSTR-2B with respect to May month of YPL was ₹ 56,00,000 whereas the input tax paid by it on invoices received during the May month was ₹ 75,00,000 and the output tax liability for May month for ₹ 110 lakhs. So he was not sure about the amount of ITC to be availed for May month for which he consulted CA Kailash and after following his advise, the GST liability for May month was discharged by YPL fully through its balance in electronic credit ledger only.

Para 3

YPL provides donation every year as a part of its CSR activities to a charitable trust named, Shiksha Kalyan Trust (SKT) engaged in activities of providing education to poor children. The average net profit of YPL for the

past three years was ₹ 88 crore. Accordingly, during current financial year i.e. during F.Y. 2023-24, it made a donation of ₹ 2 crore to SKT as its CSR spend. SPL, its subsidiary company also proposed to make donation to such trust in India during the same financial year. However, SKT's certificate of registration under the Foreign Contribution (Regulation) Act, 2010, would expire on 20th December, 2023 and it had not applied for renewal of certificate before that as the Head accountant believed that they could apply for renewal of registration within one year from the expiry date as per the law and hence pending but the trustees decided to make an application for renewal for certificate sooner, so that the trust can accept donation from SPL and the same was done as per the relevant legal provisions

Para 4

YPL bought a machinery from Dusham Ltd. for its business, for which YPL received a government grant of ₹ 6 lakhs, the details of which are as follows:

Particulars	(₹)
List price of machinery (exclusive of taxes and discount)	30,00,000
Corrugated Boxes used for packing the equipment (not included in price above)	60,000
Discount @ 2% is offered on the list price of the machine (recorded in the invoice of machine)	-

As a part of its policy, YPL depreciates all its plant and machinery at 20% per annum on straight-line basis and also it does not claim depreciation on GST component included in the price of plant and machinery.

Para 5

On 24th January, 2024, YPL supplied 2000 MT steel pipes to SPL @ ₹ 1 lakh/MT on CIF basis. Insurance and Freight of ₹ 11,000/MT were included in it. Also, on 5th February, 2024, it made a supply of 3000 MT steel pipes to another Singapore based company, Unno Pte Ltd. (UPL) @ ₹ 95,000/MT on FOB basis for which payment was to be made of SGD 5,70,00,000 in 3 months and so in order to protect itself from exchange rate fluctuations, YPL hedged receipt of such foreign currency in the forward market.

Multiple Choice Questions

- With reference to the information given under Para 5, what amount of additional tax needs to be paid by YPL if it does not want to repatriate the excess money with respect to supply of steel pipes to SPL?
 - ₹ 22,46,400
 - ₹ 25,15,970
 - ₹ 31,20,000
 - No need to pay additional tax as the amount of primary adjustment does not exceed the prescribed limit.
- With reference to the information given under Para 1, whether any formalities would have been complied by YPL with respect to appointment of Mrs. Sunita as a director in SPL?
 - No, as such appointment did not amount to appointment of Mrs. Sunita to an office or place of profit in SPL.
 - Yes, as Mrs. Sunita was a related party to YPL and she would be drawing a monthly remuneration exceeding ₹ 2.5 lakhs in its subsidiary company.
 - No, as even though Mrs. Sunita was a related party to YPL but she would be drawing remuneration from SPL, its subsidiary company and not YPL, itself.
 - No, as such provisions with respect to related party are not applicable in relation to a foreign subsidiary company.

3. With reference to the information given under Para 2, how much balance in electronic credit ledger would have been available with YPL after discharging its GST liability for May month for which CA Kailash was consulted?
 - (a) ₹ 11,60,000
 - (b) ₹ 7,10,000
 - (c) ₹ 8,80,000
 - (d) ₹ 28,75,000
4. With reference to the information given under Para 3, till what time period, SKT had to make an application for renewal of its certificate so that it might be accepted and the application should have been accompanied with what amount of fees?
 - (a) Such application needs to be made within 3 months before date of expiry and the total fees payable with such application shall be ₹ 5,000.
 - (b) Such application needs to be made within 6 months before date of expiry and the total fees payable with such application shall be ₹ 5,000.
 - (c) Such application needs to be made by 31st March, 2023 and the total fees payable with such application shall be ₹ 1,500.
 - (d) Such application needs to be made by 20th December, 2024 and the total fees payable with such application shall be ₹ 6,500.
5. With reference to the information given under Para 4, what shall be the value of supply for the machinery supplied by Dusham Ltd. to YPL?
 - (a) ₹ 30,60,000
 - (b) ₹ 25,00,000
 - (c) ₹ 35,00,000
 - (d) ₹ 30,00,000

Descriptive Questions

6. With reference to the accounting estimates (given under Para 2) that might give rise to significant risks, what CA Kailash should have evaluated in addition to performing procedures as per SA 330?
7. With reference to the information given under Para 2, what kind of factors might be there that would have indicated existence of certain transactions entered into by YPL for which CA Kailash was required to lower his materiality?
8. With reference to the information given under Para 4, show the statement of profit and loss and balance sheet extracts in respect of grant received by YPL for first year under both the methods as per Ind AS 20?

ANSWERS TO THE CASE STUDY 2

Answers to the Multiple Choice Questions

1. (b) ₹ 25,15,970

Reason: As per section 92CE of the Income-tax Act, 1961, the assessee is required to carry out secondary adjustment where the primary adjustment to transfer price exceeds ₹ 1 crore and primary adjustment is made in respect of A.Y. 2017-18 and onwards. Where, as a result of primary

adjustment to the transfer price, there is an increase in the total income of the assessee, the excess money or part thereof which is available with the AE needs to be repatriated.

In a case where the excess money or part thereof has not been repatriated within the prescribed time, the assessee has the option to pay additional income-tax @ 20.9664% (i.e., tax @ 18% plus surcharge @ 12% plus cess @ 4%) on such excess money or part thereof, as the case may be.

YPL and SPL are associated enterprise since YPL is the holding company of SPL. As the similar goods were sold by YPL to UPL, an unrelated party, CUP method can be applied for determining the ALP. While applying Comparable Uncontrolled Price (CUP) method, the price in comparable uncontrolled transaction needs to be adjusted to account for difference, if any, between the international transaction and uncontrolled transaction and the price so adjusted shall be the ALP.

Hence, the ALP of steel pipes would be:

	(₹)
Price per MT of steel pipes to UPL	95,000
Add: Cost of insurance and freight per M.T.	11,000
Arm's length Price per M.T.	1,06,000

Primary adjustment needs to be made to the total income of YPL for P.Y. 2023-24, which shall be $2000 \text{ MT} \times (\text{₹ } 1,06,000 - \text{₹ } 1,00,000) = \text{₹ } 1,20,00,000$.

Here, amount of primary adjustment is ₹ 120 lakhs (as calculated above). Accordingly, amount of additional tax that needs to be paid by YPL would be ₹ 120 lakhs $\times$ 20.9664% = ₹ 25,15,970 (rounded off) if it does not want to repatriate excess money for supply of steel pipes to SPL.

2. (b) Yes, as Mrs. Sunita was a related party to YPL and she would be drawing a monthly remuneration exceeding ₹ 2.5 lakhs in its subsidiary company.

Reason: Section 188 of the Companies Act, 2013, along with Rule 15 of the Companies (Meetings of Board and its Powers) Rules, 2014 contain provisions which regulate 'related party transactions'. Further, Section 2(76) of the Act defines who is a 'related party'. As per Section 2(76), 'related party', with reference to a company, means a director or his relative;

Where the transaction or transactions to be entered into as contract or arrangement is for **appointment to any office or place of profit in the company**, its subsidiary company or associate company at a monthly remuneration exceeding ₹ 2.5 lakh as mentioned in clause (f) of sub-section (1) of Section 188, approval by an ordinary resolution is required.

The expression "office or place of profit" means any office or place —

- (1) where such office or place is held by a director - if the director holding it receives from the company anything by way of remuneration over and above the remuneration to which he is entitled as director, by way of salary, fee, commission, perquisites, any rent-free accommodation, or otherwise;
- (2) where such office or place is held by an individual other than a director or by any firm, private company or other body corporate - if the individual, firm, private company or body corporate holding it receives from the company anything by way of remuneration, salary, fee, commission, perquisites, any rent-free accommodation, or otherwise.

Mrs. Sunita, was the relative of a director of YPL and she was appointed as the director in its subsidiary company, SPL, at a monthly remuneration of ₹ 3 lakhs during F.Y. 2023-24, the remuneration of which she was entitled to as a related party to the director of YPL holding a place of profit in SPL as its director and no information is given that anything over and above such

remuneration was paid or to be paid her. Accordingly, such appointment of her would amount to appointment to an office or place of profit in SPL w.r.t. YPL and accordingly, the required formalities would need to be complied with by YPL with respect to such appointment of Mrs. Sunita as a director in SPL, i.e. this contract shall be entered into with the prior approval of the company (YPL) by passing an ordinary resolution.

3. (b) ₹ 7,10,000

Reason: ITC on all invoices/debit notes which are uploaded by the suppliers in their GSTR-1s can be availed in full. The recipient gets details of tax invoices and debit notes uploaded by the suppliers in their GSTR-1s, in his (recipient's) GSTR-2B.

However, in respect of invoices/debit notes the details of which are not uploaded by the suppliers in their GSTR-1s (and hence cannot be seen in GSTR-2B of the recipient), ITC cannot be availed in terms of Rule 36(4) of CGST Rules, 2017.

The balance of ITC with YPL after discharging the GST liability for April month was ₹ 60,00,000.

The eligible ITC reflected in GSTR-2B with respect to May month of YPL was ₹ 56,00,000 whereas the input tax paid by it on invoices received during the May month was ₹ 75,00,000.

Thus, total ITC available for discharging liability for May month = ₹ 60,00,000 + ₹ 56,00,000 = ₹ 1,16,00,000 and the output tax liability for May month for ₹ 110 lakhs. So, the balance in electronic credit ledger that would have been available with YPL after discharging its GST liability for May month would be ₹ 1,16,00,000 - ₹ 1,08,90,000 = ₹ 7,10,000

As per rule 86B, where the value of taxable supply (other than exempt supply and zero-rated supply) in a month exceeds ₹ 50 lakh, amount available in electronic credit ledger can be utilized only to the extent of 99% of the output tax liability while discharging such tax liability. Balance 1% of the output tax liability needs to be discharged from electronic cash ledger.

4. (b) Such application needs to be made within 6 months before date of expiry and the total fees payable with such application shall be ₹ 5,000.

Reason: As per the provisions of the FCRA Act, 2010, if the validity of the certificate of registration of a person has ceased in accordance with the provisions of Rule 12, a fresh request for the grant of a certificate of registration may be made by the person to the Central Government as per the provisions of rule 9.

(1) Period for applying for renewal of certificate: Every person who has been granted a certificate, shall have such certificate renewed within six months before the expiry of the period of the certificate.

(2) Filing of an application to CG: An application for renewal of the certificate of registration shall be made to the Central Government in electronic form in Form FC-3C accompanied with an affidavit executed by each office bearer, key functionary and member in Proforma 'AA' appended to these rules within six months before date of expiry of certificate of registration.

Every person seeking renewal of the certificate of registration under section 16 of the Act shall open an FCRA Account and mention details of account in his application for renewal of registration.

An application made for renewal of certificate of registration shall be accompanied by a fee of Rs. five thousand, which shall be paid through payment gateway specified by Central Government:

No person whose certificate of registration has ceased to exist shall either receive or utilise the foreign contribution until the certificate is renewed.

If no application for renewal of registration is received or the application is not accompanied by requisite fee before the expiry of the validity of the certificate of registration, the validity of the certificate of registration shall be deemed to have ceased from the date of completion of the period of five years from the date of the grant of certificate of registration.

SKT's certificate of registration under the FCRA Act, 2010, was expiring on 20th December, 2023 and they had to apply for renewal of certificate as against what the Head accountant believed. Accordingly, it had to make an application for renewal of its certificate by 20th December, 2023 so that it might be accepted and the application shall be accompanied with fees of ₹ 5,000.

5. (d) ₹ 30,00,000

Reason: Computation of value of taxable supply for Dusham Ltd.

Particulars	(₹)
List price of equipment (exclusive of taxes and discount)	30,00,000
Add: Corrugated Boxes used for packing the equipment (refer section 15(2)(c) of the CGST Act, 2017)	60,000
Less: Discount @ 2% is offered on the list price of the machine (recorded in the invoice of the machine) (refer section 15(3)(a) of the CGST Act, 2017)	(60,000)
Value of taxable supply	30,00,000

Note: The government grant has been received by YPL, so there will be no impact on value of taxable supply due to it for Dusham Ltd.

Answers to the Descriptive Questions

6. As per SA 540, 'Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures', for accounting estimates that give rise to significant risks, in addition to other substantive procedures performed to meet requirements of SA 330, auditor shall evaluate the following:

- How management has considered alternative assumptions or outcomes, and why it has rejected them, or how management has otherwise addressed estimation uncertainty in making the accounting estimate.
- Whether the significant assumptions used by management are reasonable.
- Where relevant to the reasonableness of the significant assumptions used by management or the appropriate application of the applicable financial reporting framework, management's intent to carry out specific courses of action and its ability to do so.

In the given instance, CA Kailash should have evaluated the aforesaid points, in addition to performing procedures as per SA 330.

7. As per SA 320, 'Materiality in Planning and Performing an Audit', factors that may indicate existence of one or more classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements include the following:

- Whether law, regulations or applicable financial reporting framework affect users' expectations regarding the measurement or disclosure of certain items (for example, related party transactions, and the remuneration of management and those charged with governance).
- The key disclosures in relation to the industry in which the entity operates (for example, research and development costs for a pharmaceutical company).

- Whether attention is focused on a particular aspect of the entity's business that is separately disclosed in the financial statements (for example, a newly acquired business).

In the given instance, factors, as aforesaid, might be there that would have indicated existence of certain transactions entered into by YPL for which CA Kailash was required to lower his materiality as for such transactions, misstatements of lesser amounts than materiality for the financial statements as a whole could also reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

8. (a) When grant is treated as deferred income

Statement of profit and loss – An extract

	(₹)
Depreciation (₹ 30,00,000 x 20%)	6,00,000
Government grant credit (W.N.1)	1,20,000

Balance Sheet – An extract

	(₹)	(₹)
Non-current assets		
Property, plant and equipment	30,00,000	
Less: Accumulated depreciation	(6,00,000)	24,00,000
		????
Non-current liabilities		
Government grant	(4,80,000 – 1,20,000)	3,60,000
Current liabilities		
Government grant	(6,00,000 x 20%)	1,20,000
		????

Working Note:

1. Government grant deferred income account

	(₹)		(₹)
To Profit or loss (6,00,000 x 20%)	1,20,000	By Grant cash received	6,00,000
To Balance c/f	4,80,000		
	6,00,000		6,00,000

(b) When grant is deducted from cost of the asset

Statement of profit and loss – An extract

	(₹)
Depreciation [(₹ 30,00,000 – ₹ 6,00,000) x 20%]	4,80,000

Balance Sheet – An extract

	(₹)	(₹)
Non-current assets		
Property, plant and equipment (30,00,000 – 6,00,000)	24,00,000	
Less: Accumulated depreciation	(4,80,000)	19,20,000

Section - V

MTP

(15 Case Studies)

MTP

Case Study 1

Subjects	Topics Covered	Marks
FR	Ind AS 16, Ind AS 21, Ind AS 38	18
SCPM	Basics, Breakeven Point	7

Akhil, Nikhil and Sahil are partners of Soil Elements LLP. They have started a new business in 2022 based on their experience of more than 10 years in chemicals industry.

Soil Elements LLP is based on the concept that soil quality in terms of fertility and its nutritional values to the plant differ every few yards even in the same plot of land. So, the partners at Soil Elements will do essential testing of soil, plant stem, leaf and the fruit on non-invasive and non-destructive basis. The test results and analysis will help the farmers in optimal use of plant nutrients in order to not only maximise the yield but also to preserve the soil fertility from excess use of fertilisers which deplete the soil fertility.

Precision farming is a new concept in the field of agriculture which aims at providing the essential nutrients to plants based on the need both in terms of nature and quantity of such nutrient. Agriculturally advanced countries like Israel, parts of USA and Netherlands have achieved much more through precision farming than just a traditional farming.

India has been an agrarian economy since eons. In the recent years the agricultural land has been shrinking due to construction and many other reasons but the population is increasing faster than the shrinkage of fertile land. In such a situation, India has no option but to indulge in precision farming sooner than later.

You're a CA friend of Sahil who has approached you with his other partners to help them out with the finances and initial handholding in accounts.

Based on your multiple meetings with the partners and potential vendor partners of the LLP, you've gathered the following additional information about the business.

Farmers will be on-boarded through Mobile Application which will be able to capture location-mapped images of farmland, display information about their sample results and get important news on weather in their area.

Samples will be collected by the sales representatives from the farms based on specific guidelines by the LLP.

Samples are tested, analysed and reported based on special purpose machines (SPMs) which are imported from Netherlands. Each SPM will cost 96,000 Euros. The cost of shipping and installation would be around 10% of the cost of the machine. SPM, in order to be usable in the business should be calibrated for each category of plants like Mango. The cost of calibration varies based on the duration of the plant, season of the year and its target market like exports or domestic as follows:

Crop/Plant	Duration	Season of the year	Target Market	Cost (₹)
Mango	Perennial	Summer	Domestic	5 Lacs
Mango	Perennial	Summer	Exports	8 Lacs
Tomato	6 to 9 months	All season	Domestic	3 Lacs
Tomato	6 to 9 months	All season	Exports	7 Lacs
Pomegranate	Perennial	Winter & Summer	Domestic	6 Lacs
Pomegranate	Perennial	Winter & Summer	Exports	9 Lacs
Grapes	Perennial	Feb to April	Domestic	4 Lacs
Grapes	Perennial	Feb to April	Exports	6 Lacs

Calibration exercise of each domestic SPM takes about 6 months' time. The partners have decided to focus only on perennial crops in domestic markets except for Mango as Export market is far more attractive for Mango. Accordingly, 3 SPMs were ordered. 1 Euro was equal to ₹ 79.12 on the date of order when 50% payment was done. The remaining 50% payment was done after receiving the machines in India when the exchange rate was ₹ 80.24.

You were invited by the partners for the meeting with potential vendors for Mobile App development. Going through multiple meetings, finally a vendor by name Indosys is selected on the following terms:

3 resources will be allocated by Indosys to Soil Elements who will be directly reporting to Nikhil. Anurag from Indosys will be the project manager and single point of contact (SPOC) for the App Development.

Average resource cost of Indosys is ₹ 75,000 per month per head. The Application is expected to be ready in 4 months as per the Statement of Work (SOW) signed by the parties. The profit margin of Indosys is 40% for all domestic projects. Once the application is ready, the ongoing support will be provided by Indosys through an Annual Maintenance Contract (AMC) which is usually 5% of the development cost.

Miscellaneous fixed assets (MFA) like Office furniture, computers, laptops etc. is expected to cost ₹ 5 lacs.

Budget for each sales representative salary is ₹ 25,000 p.m. per head and 6 people will be hired initially from 1st October, 2022 and this headcount is expected to remain the same for first 6 months. This headcount is expected to increase by 6 every 6 months in the first 3 years and then stabilize at that level for year 4 and year 5. Salary increment every year can be assumed at 10%.

Office rent and other overheads are expected to be ₹ 80,000 p.m. One-time cash outflow for Office Rent Deposit is ₹ 3 Lacs. The partners have agreed to remain unpaid for initial 3 years. From year 4 and 5, each partner will draw a remuneration of ₹ 2 lacs p.m. as salary.

Akhil is in-charge of the marketing campaign. Marketing budget given by him is as follows: (₹)

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5
Van Campaign	5 Lacs	10 Lacs	10 Lacs	12 Lacs	15 Lacs
Wall Painting	3 Lacs	5 Lacs	6 Lacs	8 Lacs	10 Lacs
Farmers Meeting	3 Lacs	4 Lacs	5 Lacs	6 Lacs	8 Lacs
Marketing collaterals	1 Lac	1.5 Lacs	2 Lacs	3 Lacs	3 Lacs

Van Campaigning, Wall Painting and Farmers meetings these are some of the age-old marketing practices for agricultural business. Even though farmers in recent times have started using smart phones and internet, these practices are still yielding results, especially for new brands coming into the market. Moreover, these practices also ensure continuity of employment opportunities for people engaged in painting etc. who normally live nearby major village clusters.

The revenue model of the firm has been kept simple for now. Farmers need to subscribe the test-packages through mobile application. Anyone can download the App but only paid members will be able to access advanced features like taking geo-location based pictures of the land, requesting for test reports etc.

The subscription plans of the firm are as follows (per sample basis):

2-test package	₹ 2,000
8-test package	₹ 5,000
16-test package	₹ 10,000

Barely, 3 months into the operations, the firm has already started getting attracted towards angel investors in Mumbai, Bangalore and Chennai. As a finance consultant you have advised your friend Sahil to wait for some

more time before actually responding to any investors or trying to approach one on his own.

This is so because with time the valuations get better and better. Also, if there are any issues in the minimum viable product (MVP) during the trial run, the same can be fixed and a new version can be launched in the market.

During the first year of operations, the LLP incurred the following cost: Direct Cost – ₹ 19,00,000, Indirect Cost – ₹ 75,32,500 (which includes depreciation and amortization of intangible asset)

Multiple Choice Questions

1. The Mobile Application that is being developed by Soil Elements LLP can be classified as _____ subject to criteria in the specified IND AS. Successful trial of on-boarding a few pilot customers has been done by the firm.
 - (a) R & D cost.
 - (b) Intangible Asset.
 - (c) Revenue Expenditure.
 - (d) Deferred Revenue Expenditure.
2. The special purpose machines imported from the Netherlands, can't put to use directly without calibrating the same for crop-specific pre-set information and conditioning. Cost of calibration should be treated as.
 - (a) Revenue expenditure.
 - (b) Calibration expenses.
 - (c) Capitalized as part of SPM cost in PPE.
 - (d) Deferred Revenue Expenditure.
3. There has been a fluctuation in the foreign exchange rate of Euro. What will be the treatment of foreign exchange difference between the time of order and the time of balance payment for SPMs?
 - (a) Will be treated as exchange loss and debited to P&L Account.
 - (b) Will be ignored.
 - (c) Will be treated as part of preliminary expenses to be written off over next 5 years.
 - (d) Will be added to the cost of SPM to be capitalized.
4. In year 3, the firm is approached by an investor for 10% stake and with an exit plan of 5 years from there. If the investment is to be taken from the investor what is the first compliance required?
 - (a) Private Placement Offer.
 - (b) Increase in contribution.
 - (c) Conversion of LLP into company.
 - (d) Filing of PAS-3 and PAS-4 with the Registrar of Companies (RoC).
5. What is the total cost of calibration of SPMs purchased?
 - (a) ₹ 15 Lacs
 - (b) ₹ 16 Lacs
 - (c) ₹ 17 Lacs
 - (d) ₹ 18 Lacs

Descriptive Questions

6. What is the cost of SPM used for Mango, if all the SPMs were funded by bank (invoice value only) at a cost of 10% p.a.? Assuming that it took 13 months for the machines to get ready for the intended use?
7. Special Purpose Machines (SPM) have been the major capex for the firm. What are the disclosure requirements as per relevant IND ASs in respect of SPMs?
8. If the firm wants to achieve break even in the first year of operation, what would be break-even no. of farmers subscribing to the App? Assume that each farmer will buy 10 numbers of only the 2-test package in the first year?

ANSWERS TO THE CASE STUDY 1

Answers to the Multiple Choice Questions

1. (b) Intangible Asset

Reason: Para 8 of IND AS 38 defines an intangible asset as an identifiable non-monetary asset without physical substance.

Further, para 21 and 22 give guidance on recognition of intangible asset. Accordingly, an intangible asset shall be recognised if and only if-

- (i) It is probable that the expected future economic benefit that are attributable to the asset will flow to the entity; and
- (ii) The cost of the asset can be measured reliably.

In the instant case, the App is going to be used as a sales channel and the economic benefits are expected to flow to the company for more than one accounting period. The cost of developing the App can be measured reliably.

2. (c) Capitalized as part of SPM cost in PPE.

Reason: Para 16 of Ind AS 16 says that-

The cost of an item of property, plant and equipment comprises:

- (i) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- (ii) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Since the imported equipment can't be put to use directly without calibration by the company, the cost of such calibration can be capitalized as part of the main asset.

3. (a) Will be treated as exchange loss and debited to P&L Account.

Reason: Although the cost of exchange difference is associated with the property plant & equipment (PPE), it is a matter of payment schedule and hence does not impact the usability of the concerned asset, hence such cost cannot be capitalized as part of the asset.

4. (c) Conversion of LLP into company

Reason: Since a LLP can't issue shares or other securities, the first compliance required is to convert the LLP into a company limited by shares.

5. (d) ₹ 18 Lacs

Reason: Domestic and Perennial combination – Pomegranate ₹ 6 lacs + Grapes ₹ 4 Lacs = ₹ 10 Lacs

Exports and Perennial combination – Mango ₹ 8 Lacs

So, total cost of calibration = ₹ 18 lacs

Answers to the Descriptive Questions

6. Cost of SPM for Mango

Euro	96000
Exchange rate on the transaction date	₹ 79.12
INR cost	75,95,520
Add: Cost of shipping & installation	7,59,552
Calibration cost (as given)	8,00,000
Borrowing cost @ 10% for 13 months	8,22,848
Total cost capitalized for SPM Mango	99,77,920

(Calculation of borrowing cost = $75,95,520 \times 10\% \times 13/12$)

As per Para 21 of Ind AS 21 the exchange rate on the date of transaction shall be used for translation in the functional currency. Further, as per Appendix B of Ind AS 21, date of advance payment will be the date of transaction.

7. As per IND AS 16, the following disclosures are made in respect of each class of Property Plant & Equipment:

Special Purpose Machine

Gross carrying amount is determined based on cost of purchase as increased by the cost of making the asset ready to use. These costs are as follows:

- (a) Cost of shipping and installation at the place of business.
- (b) Cost of calibrating the SPM for the desired level of performance of the machine to suit the business requirement.
- (c) Borrowing cost which is incurred wholly for the purpose of buying the SPM and since the same was required to be calibrated for a period of 13 months, it satisfied the criteria of qualifying asset as per IND AS 23
- (d) The assets in this class are depreciated over the useful life from the date of being ready to use.
- (e) The method of depreciation used is straight line method.

8. Operational break-even level in year 1:

Year -1 will operationally break-even at a revenue of ₹ 94.33 Lacs (adding all the costs) which means total no. of packages that need to be subscribed are:

₹ 94.33 Lacs/₹ 2000 = 4716.5 – since fractional package can't be subscribed, this number would be 4717 packages.

So, if each farmer buys on an average 10 packages, then the no. of farmers would be approximately: $4717/10 = 471.7$ or 472 farmers.

MTP Case Study 2

Subjects	Topics Covered	Marks
DT	PGBP (Basics)	8
IDT	ITC (Basics)	2
SCPM	Make or Buy/Outsourcing, Customer Profitability Analysis	15

GLA Enterprises Pvt Ltd. (GLA) is a company based out of Pune. It manufactures and sells a part of certain component used in car assembly. The part sold by GLA is known as SBH-201 in trade terms. Usually, order for annual requirement is obtained from the customer by February every year and accordingly the production planning happens at GLA.

For FY 2023-24, the company has received an order of 30,000 units from Tada Motors, to be supplied evenly on monthly basis. Another order for the similar part known as MBH-198 is for 15,000 units from Force Motors.

A common component which is required in both the orders is currently procured from an outside vendor at a price of ₹ 760 per unit. The unit information about the two products is as follows:

Particulars	Selling price per unit	Contribution per unit
SBH-201	₹ 10,000	₹ 2,400
MBH-198	₹ 9,800	₹ 2,200

Until last year, only Tada Motors used to purchase the product. Since the company had a success in converting another customer (Force Motors), the FY 23-24 would be quite different. The production manager is of the opinion that if the requirement is for 50,000 units, we can produce that component in-house and it will lead to better quality and faster output. He also estimated the following unit costs to implement the in-house production option:

Direct material – ₹ 340, Direct labour – ₹ 310, Factory overheads (60% variable) – ₹ 150

Total unit cost = ₹ 800

Since, the component is an internal matter of the company, it has no impact on the selling price and does not result any additional cost of marketing.

The selling price quoted above are all-inclusive price of the parts to be supplied to the respective customers at their premises on monthly basis.

The premises of Tada Motors are situated at Chinchwad which is 35 km away from the factory of the company and that of Force Motors is in Chakan which is 55 km away. The monthly transportation cost for the company for Tada Motors' order is ₹ 5,950 p.m. and for Force Motors' order is ₹ 9,350 p.m.

Apart from transportation, other overheads incurred in servicing the customers are as follows:

Particulars	Tada Motors	Force Motors
Quarterly meeting	₹ 1,000	None
Annual meeting	₹ 5,000	₹ 4,000
Coordinator's salary* (based on time allocation estimate)	₹ 12,000 per month	₹ 18,000 per month

*One full-time resource is employed for coordination at a monthly salary of ₹ 30,000. This person directly reports to the director of the company.

The company's directors are in advanced stage of negotiation and discussion with other customers regarding

its product and why they should choose the company instead of their competitors.

While the discussions are going on, the company has called you for the meeting with the board of directors. You're a CA who's working as a business consultant to the company. One of the agenda items in the board meeting is also to close the audit points raised by the company's auditor for the financial year ended on 31st March 2024.

Other items in the agenda include consultancy regarding some financial decisions to be taken by the company which have long term implications on the financials of the company.

During FY 2023-24, the following points were observed by the auditor:

1. GST input credit was wrongly claimed on food bills of directors who were travelling for customer meetings etc. The total amount of such ITC was ₹ 6,145 for the year.
2. Employer's contribution to EPF of ₹ 3,15,000/- for the month of March 2024, was deposited on 29th July, 2024. The net profit is arrived at after debiting this amount.
3. During the year, the company had incurred Repair & Maintenance cost of ₹ 2 lacs on the Plant & Machinery of which expenses worth ₹ 1.5 lacs were of capital nature but the entire amount was debited to P&L account.
4. The payment of ₹ 30 Lakhs to a contractor for processing raw material made during the year without deduction of tax is debited to statement of profit and loss. This amount includes ₹ 20 Lakhs for purchase of material and ₹ 10 Lakhs towards labour charges which is separately shown in bills submitted.
5. A sundry creditor whose amount of ₹ 32 Lakhs was outstanding since long time, has been settled for ₹ 26 Lakhs on 31.03.2024 based on compromise settlement. The amount waived has been credited to the statement of profit and loss.

Multiple Choice Questions

1. What remedy is available for the wrongly claimed ITC in GST returns?
 - (a) It can be reversed in subsequent GST returns.
 - (b) Since the amount is small, it can be ignored.
 - (c) In the annual return and reconciliation statement it needs to be shown and GST to be paid on the same.
 - (d) Revised returns can be filed for the respective months.
2. Employer's contribution to EPF as stated in point no (2) is:
 - (a) Allowed as deduction as it has been deposited before due date of filing of return under section 139(1).
 - (b) ₹ 3,15,000 shall be deemed to be income of the company u/s 2(24)(x). The same will not be allowed as deduction in computation of income chargeable to tax.
 - (c) ₹ 3,15,000 cannot be allowed as deduction even if remitted to respective authorities within the due date of filing return of income u/s 139(1).
 - (d) ₹ 3,15,000 shall not be allowed as a deduction because it is paid beyond the due date prescribed under the EPF Act.
3. What is the impact of capital expense being debited to P&L account as given in point no. 3 of case study?
 - (a) Value of P&M will go up and profit will increase (loss will decrease).
 - (b) Value of P&M will go up and profit will decrease (loss will increase).

- (c) Value of P&M will come down and profit will increase (loss will decrease).
 (d) Value of P&M will come down and profit will decrease (loss will increase).
4. What is the amount of disallowance for TDS non-compliance from the facts given in point no. 4 in case study?
- (a) ₹ 3 Lakhs
 (b) ₹ 10 Lakhs
 (c) ₹ 30 Lakhs
 (d) ₹ 9 Lakhs
5. From facts given in case study point no. 5, ₹ 6 Lakhs credited to statement of profit and loss would -
- (a) not be taxable since it is a capital receipt.
 (b) be taxable under the head PGBP.
 (c) be taxable under the head Capital Gain.
 (d) be exempt under Section 10.

Descriptive Questions

6. Whether the current practice of procuring the component from third party vendor is better than in-house production of the component to be used in the company's products, in financial terms? Evaluate. All working should form part of the answer.
7. A third customer and a couple of others are in the pipeline and due for conversion any time soon. The management wants to know the customer-level profitability of Tada Motors and Force Motors so that they can take a suitable decision regarding the price to be quoted to the potential new customers. Derive customer profitability based on the available information. Make suitable assumptions if necessary. All working should form part of the answer.
8. A delivery van of the kind the company uses for supplying its finished goods to two companies currently, is available at a finance cost of 8% p.a. for a price of ₹ 6 Lacs to be repaid over 4 years. The same vehicle can be used for picking-up material from vendors who are currently charging the cost of transport in the purchase price. The overall cost reduction if the goods are picked-up from vendor premises within Pune city would be ₹ 2,15,000 p.a. according to purchase manager of the company. If a full-time driver is employed to drive the delivery van at a salary of ₹ 15,000 p.m. (CTC), he could be deployed for both incoming and outgoing material within the city and also for petty transport needs whenever required. If the life of the vehicle is 7 years and the cost of running, repairs and maintenance is ₹ 30 per km of full-load, should the company buy such a vehicle instead of outsourcing the same? EMI amount for ₹ 1 Lac for 4 years at 8% interest rate is 2441.3.

ANSWERS TO THE CASE STUDY 2

Answers to the Multiple Choice Questions

1. (c) In annual return and reconciliation statement it needs to be shown and GST to be paid on the same.
Reason: Since wrong claim of ITC pertains to various months throughout the year, it is not appropriate to reverse the entire credit in a particular month. Moreover, format of annual return has specific provision for reconciliation wherein adjustments like these can be made and the GST amount can be paid at the time of annual return.

2. (a) Allowed as deduction as it has been deposited before due date of filing of return under section 139(1).
Reason: As per Section 43B, Employer's contribution to EPF is allowable as deduction, since the same has been deposited on or before the due date of filing of return under section 139(1).
3. (d) Value of P&M will come down and profit will decrease (loss will increase).
Reason: When a capex (capital expenditure) is treated as opex (operating expenditure), the value of assets will come down (as that portion of expense is reduced from the block of capital assets) and profit will come down (in case of loss, it will further increase) to that extent.
4. (a) ₹ 3 Lakhs
Reason: Section 40(a)(ia) of Income Tax Act provides for disallowance of expenses attracting TDS if TDS provisions are not complied with on those expenses. Under this section, 30 % of any sum paid to any resident on which tax is deductible is disallowed if tax is not deducted at source. In this case, TDS provisions under Section 194C are attracted on labour charges which are shown separately in the bills.
5. (b) be taxable under the head PGBP.
Reason: Waiver of ₹ 6 Lakhs from the sundry creditors is a benefit in respect of a trading liability by way of remission or cessation thereof and is taxable under section 41(1).

Answers to the Descriptive Questions

6. Evaluation of cost-benefit analysis in a make or buy decision:

In-house production cost

Particulars	Cost p/u
Direct material	340
Direct labour	310
Variable factory overheads (60% of 150)	90
Total variable cost per unit	740

Since, only variable cost matters in this decision-making, the cost of in-house production works out to ₹ 740 per unit which is lower than the buying cost of ₹ 760 per unit.

It means that for every lot of 50,000 units of production, the company can make an additional profit of ₹ 10 Lacs (₹ 20*50,000 units) by making the component in-house rather than buying it from third party vendors.

Hence, the management is advised to go for the option of in-house production.

7. Decision Support on pricing based on customer profitability

Particulars	Tata Motors	Force Motors
Order size(units) (A)	30,000	15,000
Selling price p/u (B)	10,000	9,800
Annual revenue (A) x (B) = (C)	30,00,00,000	14,70,00,000
Contribution p/u (D)	2,400	2,200
Annual contribution (A) x (D) = (E)	7,20,00,000	3,30,00,000
Transportation cost (F)	71,400	1,12,200

Quarterly meeting cost (G)	4,000	-
Annual meeting cost (H)	5000	4,000
Coordinator's salary (I)	1,44,000	2,16,000
Net annual contribution (E) - (F) to (I)	7,17,75,600	3,26,67,800
Margin of net contribution (I)/(A)	23.93%	22.22%

Although there are some minor cost factors after the gross contribution, the main difference is due to lower selling price for Force Motors. The net contribution margin ranges from 22% to 24% which should be a guiding factor for the pricing of new orders from new customers.

8. Advice on outsourcing vs. own operation of transport services:

Direct amount paid to third-party transport operator = ₹ 5,950 + ₹ 9,350 = ₹ 15,300

Annual cost = 15,300 x 12 = ₹ 1,83,600

Now, let's look at the cost of operating own-transport service:

EMI on loan = 2441.3 x 6 = ₹ 14,647.8 per month.

For 4 years the total EMI = 7,03,094.4 Say – 7,03,100

If the cost is ₹ 6 lacs, the interest element is ₹ 1,03,100

Life of the vehicle is 7 years, so annual depreciation is ₹ 85,714 and equalised cost of finance = ₹ 14,729 per annum.

Annual cost of ownership of vehicle = ₹ 1,00,443

In addition, the cost of a full-time driver = ₹ 1,80,000 per annum.

So, the fixed cost per annum comes to ₹ 2,80,443

Since there's a saving of ₹ 215,000 due to reduction of cost of purchase when the inward transport is done by the company, the fixed cost of ownership per annum will be less than that in the case of outsourcing.

In this decision, variable cost does not play a role since it depends on the no. of shipments and the distance travelled, the more the no. of trips the more savings because the cost of hiring will always involve the variable cost plus a certain percentage towards recovery of fixed cost of the vendor and a profit margin.

In this case, the management is advised to go for purchase of its own delivery van.

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Case Study 3

Subjects	Topics Covered	Marks
FR	Ind AS Applicability	4
Audit	Internal Audit, Professional Ethics	7
DT	Verification of Return, Assessment Procedure (Special Audit)	10
IDT	Registration	4

Cheerful & Healthy Limited is a company involved in manufacturing business of various types of cupboards and tables. Mr. X is one of the directors of the company. Mr. Y is brother of Mr. X, and is director in another company namely, Calm & Helpful Private Limited which is involved in manufacturing business of chairs and dining tables. Both the companies are registered in India. The following is the paid-up share capital and turnover of both the companies for the financial year 2022-23:

Name of the Company	Paid up share capital	Turnover
Cheerful & Healthy Limited	₹ 94 cr.	₹ 250 cr.
Calm & Helpful Private Limited	₹ 105 cr.	₹ 272 cr.

Cheerful & Healthy Limited is an unlisted public limited company and Calm & Helpful Private Limited is an unlisted company.

Cheerful & Healthy Limited consisted of 10 directors and 1 managing director, whereas Calm & Helpful Private Limited consisted of 4 directors.

During the financial year 2023-24, the Assessing officer of Cheerful & Healthy Limited, issued a direction for Special Audit of books of accounts of the company. The direction was issued after considering the whole situation and obtaining the previous approval of Principal Chief Commissioner of Income Tax. Further the company was also given a proper opportunity of being heard. After hearing about Special Audit, Mr. H who was one of the directors of the said company had following perceptions and queries relating to conduct of such special audit of books of accounts of the company:

- (1) Special Audit was not required for the company as its books of accounts have already been audited according to the provisions of Companies Act, 2013.
- (2) In case Special audit is required for the company then, whether such audit would be conducted by a Chartered Accountant who would be appointed by Assessing Officer?
- (3) Whether expenses relating to Special Audit of the company would be decided by the Assessing Officer?
- (4) After Expenses relating to Special Audit have been decided, whether they would be paid by the company?

Seven years back (i.e. on 01/04/2017), the net worth of Cheerful & Healthy Limited and Calm & Helpful Private Limited was ₹ 297 cr. and ₹ 209 cr. respectively. Further, Cheerful & Healthy Limited also had a subsidiary by the name of Extremely Capable Limited which was an unlisted public limited company.

Mr. X and Mr. Y while enjoying tea-time in the evening were discussing about the appointment of tax auditor and internal auditor to upgrade their knowledge. Mr. X was of the opinion that tax auditor of a company can only be appointed by members of that company in general meeting. Further, Mr. Y added that internal auditor of a company can also be appointed as tax auditor of that company.

Cheerful & Healthy Limited has two offices, one office known as the main office in State N of India and other office known as branch office in State W of India. The manufacturing business of various types of cupboards

and tables is being done from main office as well as from branch office. While discussing about the GST registration requirement of the company with brother, Mr. Y, Mr. X was of the opinion that the company must obtain registration for the purpose of Goods and Services Tax, only for the main office located in State N of India and not for the branch office located in State W of India.

Further, his brother, Mr. Y added that Permanent Account Number is not required for the purpose of obtaining registration for Goods and Services Tax.

Multiple Choice Questions

1. During the financial year 2023-24, Cheerful & Healthy Limited is required to appoint an internal auditor because of which of the following reason:
 - (a) Cheerful & Healthy Limited is an unlisted public company having paid up share capital of more than ₹ 5 crores during the financial year 2022-23.
 - (b) Cheerful & Healthy Limited is an unlisted public company having paid up share capital of more than ₹ 30 crores during the financial year 2022-23.
 - (c) Cheerful & Healthy Limited is an unlisted public company having paid up share capital of more than ₹ 45 crores during the financial year 2022-23.
 - (d) Cheerful & Healthy Limited is an unlisted public company having paid up share capital of more than ₹ 50 crores during the financial year 2022-23.
2. Calm & Helpful Private Limited is required to appoint an internal auditor during the financial year 2023-24 because:
 - (a) Calm & Helpful Private Limited is a private company having a turnover of more than ₹ 45 crores during the financial year 2022-23.
 - (b) Calm & Helpful Private Limited is a private company having a turnover of more than ₹ 105 crores during the financial year 2022-23.
 - (c) Calm & Helpful Private Limited is a private company having a turnover of more than ₹ 180 crores during the financial year 2022-23.
 - (d) Calm & Helpful Private Limited is a private company having a turnover of more than ₹ 200 crores during the financial year 2022-23.
3. Who is authorized for the purpose of verifying the Return of Income of Cheerful & Healthy Limited:
 - (a) Managing Director of Cheerful & Healthy Limited.
 - (b) Managing Director and Any two of the directors of Cheerful & Healthy Limited.
 - (c) Managing Director and Any three of the directors of Cheerful & Healthy Limited.
 - (d) Managing Director and Any four of the directors of Cheerful & Healthy Limited.
4. Suppose that Managing Director and five directors of Cheerful & Healthy Limited are on a visit outside India and none of them can verify the Return of Income of the company. In such situation who among the remaining five directors of Cheerful & Healthy Limited is authorized to verify the Return of Income of the company:
 - (a) Any 2 of the remaining 5 directors of Cheerful & Healthy Limited.
 - (b) Any 4 of the remaining 5 directors of Cheerful & Healthy Limited.
 - (c) Any 1 of the remaining 5 directors of Cheerful & Healthy Limited.
 - (d) Any 3 of the remaining 5 directors of Cheerful & Healthy Limited.

5. For Calm & Helpful Private Limited, who will be authorized to verify the Return of Income:
- Any 3 directors of Calm & Helpful Private Limited.
 - Any 2 directors of Calm & Helpful Private Limited.
 - Each one of the 4 directors of Calm & Helpful Private Limited.
 - Any 1 director of Calm & Helpful Private Limited.

Descriptive Questions

6. Provide an answer to the following questions relating to Special Audit of Cheerful & Healthy Limited:
- Chartered Accountant for the purpose of Special Audit would be appointed by whom?
 - The books of accounts have already been audited according to the provisions of Companies Act, 2013. Can Special Audit still be conducted?
 - Expenses relating to Special Audit would be decided by whom?
 - After the expenses related to Special Audit have been decided then they would be paid by whom?
7. After reading and understanding the information provided in the case study, answer the questions that follow:
- Are Indian Accounting Standards applicable on Cheerful & Healthy Limited from 01/04/2017?
 - From 01/04/2017 what can be said about the applicability of Indian Accounting Standards on Calm & Helpful Private Limited?
 - From point of view of Extremely Capable Limited, are Indian Accounting Standards applicable?
 - What would happen regarding applicability of Indian Accounting Standard on Cheerful & Healthy Limited for the financial statements relating to financial year 2023-24?
8. Mr. X and Mr. Y had certain opinions on appointment of tax & internal auditor. After reading and understanding those opinions answer the following questions:
- Is it correct that tax auditor of a company can only be appointed in general meeting of that company by the members of that company? Explain your answer with the help of a reason.
 - The opinion that internal auditor of a company can also be appointed as tax auditor of that given company, is correct or not? Give reason for your answer.
9. Mr. X and Mr. Y had certain opinions on GST registration.
- Is the opinion of Mr. X in this regard correct? Provide proper explanation for your answer.
 - Are the thoughts of Mr. Y appropriate? Give reason to justify your answer.

ANSWERS TO THE CASE STUDY 3

Answers to the Multiple Choice Questions

1. (d) Cheerful & Healthy Limited is an unlisted public company having paid up share capital of more than ₹ 50 crores during the financial year 2022-23.

Reason: According to Section 138 of the Companies Act, 2013 (prescribed in Rule 13 of Companies (Accounts) Rules, 2014) each and every unlisted public company which has a paid-up share capital of ₹ 50 crores or more during the preceding financial year is required to appoint an internal auditor.

2. (d) Calm & Helpful Private Limited is a private company having a turnover of more than ₹ 200 crores during the financial year 2022-23.

Reason: According to Section 138 of the Companies Act, 2013 (prescribed in Rule 13 of Companies (Accounts) Rules, 2014) each and every private company which has a turnover of ₹ 200 crores or more during the preceding financial year is required to appoint an internal auditor.

3. (a) Managing Director of Cheerful & Healthy Limited.

Reason: According to Section 140 of the Income Tax Act, 1961 if a company has a managing director then that managing director is authorized to verify the Return of Income of that company.

4. (c) Any 1 of the remaining 5 directors of Cheerful & Healthy Limited.

Reason: According to Section 140 of the Income Tax Act, 1961 if because of certain reasons which are unavoidable, the managing director of a company is unable to verify the return of income of that company then any one of the director of that company can verify the return of income of that company.

5. (d) Any 1 director of Calm & Helpful Private Limited.

Reason: According to Section 140 of the Income Tax Act, 1961 any company which does not have a managing director then any one of the director of that company is authorized for the purpose of verifying the return of income of that company.

Answers to the Descriptive Questions

6. **The answers relating to Special Audit of Cheerful & Healthy Limited are provided as follows:**

- (a) According to Section 142 of the Income Tax Act, 1961, the Chartered Accountant for the purpose of Special Audit would be **nominated by Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner.**
- (b) **Special Audit can still be conducted** because according to Section 142 of the Income Tax Act, 1961 even if books of accounts of a financial year of assessee have been audited under any law then also Assessing Officer of that assessee can direct such assessee for Special Audit of books of accounts for that financial year.
- (c) **Expenses relating to Special Audit would be decided by Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner** according to the Section 142 of the Income Tax Act, 1961.
- (d) According to Section 142(2D) of the Income Tax Act, 1961 after the expenses relating to Special Audit have been decided then they shall be **paid by the Central Government.**
7. (a) From 01/04/2017 the Indian Accounting Standards are **applicable on Cheerful & Healthy Limited** because on 01/04/2017 it was an unlisted company having net worth of ₹ 297 crore (ie. more than or equal to ₹ 250 crore). According to rule 4 of the Companies (Indian Accounting Standards) Rules, 2015, Indian Accounting Standards are applicable from 01/04/2017 on each and every unlisted company having a net worth of more than or equal to ₹ 250 crore.
- (b) Indian Accounting Standards are **not applicable on Calm & Helpful Private Limited** from 01/04/2017 because on 01/04/2017, Calm & Helpful Private Limited was an unlisted company having net worth of ₹ 209 crore which was less than ₹ 250 crore. According to rule 4 of the Companies (Indian Accounting Standards) Rules, 2015, from 01/04/2017 Indian Accounting Standards are applicable on each and every unlisted company which has a net worth of more than or equal to ₹ 250 crore.

- (c) From 01/04/2017, Indian Accounting Standards are applicable on Extremely Capable Limited because according to rule 4 of the Companies (Indian Accounting Standards) Rules, 2015, Indian Accounting Standards are applicable from 01/04/2017 on that company which is subsidiary of that unlisted company which has a net worth of more than or equal to ₹ 250 crore on 01/04/2017. On 01/04/2017 Cheerful & Healthy Limited was an unlisted company, which had a net worth of ₹ 297 crore which is more than ₹ 250 crore. Thus, Extremely Capable Limited being a subsidiary of Cheerful & Healthy Limited, is also required to apply Indian Accounting Standards.
- (d) Indian Accounting Standards would be applicable on financial statements of Cheerful & Healthy Limited for the financial year 2023-24 as well because according to rule 3 of the Companies (Indian Accounting Standards) Rules, 2015 on applicability of Accounting Standards, a company which follows the Indian Accounting Standards (Ind AS) in accordance with the provisions of rule 4 shall follow such standards only.
8. (a) The opinion that tax auditor of a company can only be appointed in general meeting of that company by the members of that company is incorrect because it is not necessary that appointment of tax auditor of a company is made by members of that company in general meeting, such appointment can also be made by Board of Directors or it can also be made by officer if such officer has been authorized by Board of Directors of that company.
- (b) It is incorrect that internal auditor of a company can also be appointed as tax auditor of that company because internal auditor of a company in no situation can be appointed as tax auditor of that company.
9. (a) Two different registrations for the purpose of Goods and Services Tax should be obtained by Cheerful & Healthy Limited, one for the main office located in State N of India and another for the branch office located in State W of India because according to Section 25(2) read with Rule 11 relating to Registration of the CGST Act, a company having different branch offices in different States of India is required to obtain different registrations for Goods and Services Tax for each of its branch office in different State of India.
- (b) Permanent Account Number is required for the purpose of obtaining registration for Goods and Services Tax because according to Section 25(6) and Section 25(7) relating to Registration of the CGST Act, every person shall have a Permanent Account Number in order to be eligible for grant of registration.

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Case Study 4

Subjects	Topics Covered	Marks
FR	Ind AS 28, Ind AS 111	10
Audit	Reporting	5
DT	Buyback	4
IDT	Supply (Basics)	2
Law	Companies Act (Section 180, 186)	4

1. Prag Bhara Ltd. (PBL) is an unlisted company engaged in the business of crude oil extraction, with six directors in its board. It has a joint venture company, Vasudhara (P) Ltd. (VPL) in which it is having 50% share in its equity, with a co-venture company, Samya Ltd.
2. Both the companies had acquired shares worth ₹ 2.80 crores each of VPL and were further required to contribute a sum of ₹ 20 lakhs each by acquiring further shares of equivalent value of VPL as there was a 'cash call' from the operating member, Samya Ltd. for purchasing a machinery for VPL.

The financial data of both the companies as per the latest audited financial statements is as follows:

Particulars	Prag Bhara Ltd. (₹ in lakhs)	Samya Ltd. (₹ in lakhs)
Authorised Share Capital	1,500	500
Equity Share Capital (Face-value: ₹ 100 per share)	1,200	350
Less: Unpaid Calls	100	50
General Reserve	350	150
Profit & Loss A/c	80	40
Securities Premium	170	-
Dividend equalisation reserve	50	20
Debenture redemption reserve	100	-
Secured Debts (Note)	600	80
Unsecured Debts	400	20

Note: Includes a loan of ₹ 50 lakhs taken for 5 months on 25th March 2024, repayable on demand.

Both the companies contributed to the cash call on 5th April 2023, as aforesaid, and acquired further shares in VPL. On 18th April 2023, machinery worth ₹ 40 lakhs was purchased out of such money by the operating member, Samya Ltd., for VPL which was to be used in the oil production after its installation.

On 4th December 2023, PBL sold one of its machineries to VPL at its market value of ₹ 16,00,000. The asset's carrying value in the books of accounts of PBL was ₹ 20,00,000.

3. On 1st April 2023, PBL invested in the equity shares of Kwick Tiles Ltd. (KTL) at a cost of ₹ 64 lakhs by acquiring 25% share in the voting power of KTL. PBL concluded that KTL is an associate company of it. As of that date, the carrying value of the net assets of KTL was ₹ 2 crore and the fair value was ₹ 2.4 crore. At the end of the year, KTL earned a profit of ₹ 9 lakhs and other comprehensive income of ₹ 4 lakhs. In that year, KTL Ltd. also declared a dividend to the extent of ₹ 3 lakhs.
4. On 19th July 2023, there was a board meeting held of the directors of PBL in which there was a resolution

passed for borrowing a sum ₹ 2 crore from a Jharkhand Co-op Ltd., a scheduled bank, for financing its capital expenditure on its new project. Also, the board passed a resolution to buy-back 1 lakh shares of the company @ ₹ 180 per share from a specified group of shareholders. Such shares were issued @ 150 per share to such shareholders by the company, four years back.

5. For the F.Y. 2023-24, M/s Tripathi & Associates were the statutory auditors of the Samya Ltd. During the course of audit, the audit team was unable to obtain sufficient appropriate audit evidence about a single element of the consolidated financial statements i.e. auditor was unable to obtain audit evidence about financial information of a joint venture investment (in VPL) carried at ₹ 3 crores on Group's consolidated balance sheet that represented over 70% of the entity's net assets because the audit team was not allowed access to management and auditors of VPL, including VPL auditors' audit documentation.

Multiple Choice Questions

1. With reference to Para 3, what shall be the closing balance of investment in KTL in the books of PBL at the end of the year?
 - (a) ₹ 63,25,000
 - (b) ₹ 66,50,000
 - (c) ₹ 67,25,000
 - (d) ₹ 68,00,000
2. With reference to Para 2, whether Saniya Ltd. would have taken any approval for making further investment in VPL by acquisition of its equity shares?
 - (a) Board resolution with unanimous approval would have been passed and there was no requirement to pass special resolution in the GM of the company as the specified limit had not been exceeded.
 - (b) Board resolution with unanimous approval would have been passed and there was no requirement to pass special resolution in the GM of the company as the VPL is its joint venture company.
 - (c) Board resolution with unanimous approval would have been passed as well as a special resolution in the GM of the company would have been passed as the specified limit had been exceeded.
 - (d) Board resolution with approval of majority directors would have been passed and there was no requirement to pass special resolution in the GM of the company as the specified limit had not been exceeded.
3. With reference to Para 4, what maximum amount the board of PBL could have resolved to borrow without having to obtain approval of the company by special resolution?
 - (a) ₹ 9 crore
 - (b) ₹ 7.5 crore
 - (c) ₹ 8 crore
 - (d) ₹ 7 crore
4. With reference to Para 4, What shall be the amount of capital gain taxable in hands of shareholders of PBL on the buy-back of shares by PBL?
 - (a) ₹ 30,00,000
 - (b) Nil
 - (c) ₹ 1,50,00,000
 - (d) ₹ 1,80,00,000

5. With reference to Para 4, what shall be the amount of tax payable by PBL on the buy-back of its shares if the net taxable income for P.Y. 2023-24 is ₹ 1.5 crore?
- Not taxable in the hands of company but taxable in the hands of shareholders.
 - ₹ 6,67,680
 - ₹ 18,63,680
 - ₹ 6,98,880

Descriptive Questions

6. (i) Referring Para 3, calculate the goodwill/capital reserve on the date of acquisition of share in KTL and PBL's share in the profit and other comprehensive income for the year.
- (ii) Pass necessary entries in the books PBL to account for the investment in associate, KTL.
7. (i) Referring Para 2, determine how PBL should account for the sale transaction of machinery to VPL in its books.
- (ii) Examine applicability of GST in case of cash contribution made by co-ventures in the JV and used it for purchasing the machinery? Also, discuss in which scenario, GST would have been applicable?
8. Referring Para 5, what kind of opinion should the statutory auditors issue in the case of Samya Ltd.? Please draft the same.

ANSWERS TO THE CASE STUDY 4

Answers to the Multiple Choice Questions

1. (b) ₹ 66,50,000

Reason: Closing balance of investment in KTL at the end of the year –

	₹
Cost of acquisition of investment (including goodwill of ₹ 4 lakhs)	64,00,000
Add: Share in profit of KTL	2,25,000
Add: Share in OCI of KTL	1,00,000
Less: Share in dividend of KTL (₹ 3,00,000 x 25%)	(75,000)
Closing balance of investment	66,50,000

2. (a) Board resolution with unanimous approval would have been passed and there was no requirement to pass special resolution in the GM of the company as the specified limit had not been exceeded.

Reason: As per Section 186 of the Companies Act, 2013, a company is permitted to enter into transactions of giving loan or guarantee or providing security or acquiring of securities (i.e. shares, debentures, etc.), in aggregate, upto 60% of its paid-up share capital (both equity and preference), free reserves and securities premium or 100% of its free reserves and securities premium, whichever is more. **Prior approval is required by a special resolution for exceeding limit.**

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 i.e. unanimous approval is required.

However, where a loan or guarantee is given or where a security has been provided by a company to its wholly owned subsidiary company or a joint venture company, or acquisition is made by a

holding company, by way of subscription, purchase or otherwise of, the securities of its wholly owned subsidiary company, the requirement of passing a special resolution as required by Section 186 (3) shall not apply.

In the given instance, board resolution with unanimous approval would have been passed and there was no requirement to pass special resolution in the GM of Samya Ltd. as the specified limit had not been exceeded, as tabulated below:

Particulars	Samya Ltd. (₹ in lakhs)
Equity Share Capital	350
Less: Unpaid Calls	50
Add: General Reserve	150
Add: Profit & Loss A/c	40
Add: Dividend equalisation reserve	20
Total (a)	510
60% of (a) (b)	306
Total free reserves (c)	210
Higher of (b) & (c)	306
Investment already made + proposed to be made (₹ 280 lakhs + ₹ 20 lakhs)	300

3. (c) ₹ 8 crore

Reason: According to the provisions of Section 180(1)(c) of the Companies Act, 2013, the borrowings should not exceed the aggregate of the paid-up share capital, free reserves and securities premium. While calculating the limit, the temporary loans obtained by the company from its bankers in the ordinary course of business will be excluded.

In the given instance, the aggregate of the paid-up share capital, free reserves and securities premium of PBL is tabulated below:

Particulars	Prag Bhara Ltd. (₹ in lakhs)
Equity Share Capital (Face-value: ₹100/share)	1200
Less: Unpaid Calls	100
Add: General Reserve	350
Add: Profit & Loss A/c	80
Add: Securities Premium	170
Add: Dividend equalisation reserve	50
Total	1750
Loans already taken (₹ 600 lakhs + ₹ 400 lakhs - ₹ 50 lakhs, as it is a temporary loan)	950
Further borrowings that can be done without passing of special resolution	800

4. (b) Nil

Reason: Section 10(34A) exempts any income arising to an assessee, being a shareholder, on account of buy back of shares by the company as referred to in section 115QA.

5. (d) ₹ 6,98,880

Reason: As per section 115QA of the Income Tax Act, 1961, PBL shall pay tax @ 23.296% on the distributed income as follows:

Distributed Income = Buy back price – issue price (including premium) = 1,00,000 shares × (₹180 per share - ₹ 150 per share) = ₹ 30,00,000

Tax payable = ₹ 30,00,000 × 23.296% = ₹ 6,98,880

Answers to the Descriptive Questions

6. (i) (1) Goodwill/capital reserve on the date of acquisition

The cost of the investment is higher than the net fair value of the investee's identifiable assets and liabilities. Hence there is goodwill. Amount of goodwill is calculated as follows:

	₹
Cost of acquisition of investment	64,00,000
PBL's share in fair value of net assets of KTL on the date of acquisition (₹ 2.4 crore × 25%)	(60,00,000)
Goodwill	4,00,000

Above goodwill will be recorded as part of carrying amount of the investment.

(2) Share in profit and other comprehensive income of KTL

	₹
Share in Profit of KTL (₹ 9 lakh × 25%)	2,25,000
Share in OCI of KTL (₹ 4 lakhs × 25%)	1,00,000

(ii) Following entries would be passed in the books of PBL:

Particulars	Debit (₹)	Credit (₹)
1) Initial entry to record investment done in associate		
Investment in KTL A/c	64,00,000	
To Bank A/c		64,00,000
2) Recording of share in the profit of the associate		
Investment in KTL A/c	2,25,000	
To Share in profit of investee (P&L)		2,25,000
[PBL share in profit would be ₹ 2,25,000 (₹ 9 lakh × 25%)]		
3) Recording of share in the other comprehensive income (OCI) of the associate		
Investment in KTL A/c	1,00,000	
To Share in OCI of investee (OCI)		1,00,000
[PBL share in OCI would be ₹ 1 lakh (₹ 4 lakhs × 25%)]		
4) Recording of dividend distributed by associate		
Dividend Receivable A/c	75,000	
To Investment in KTL A/c		75,000
[PBL share in dividend would be ₹ 75,000 (₹ 3 lakhs × 25%)]		

7. (i) PBL should record full loss of ₹ 4,00,000 (20,00,000 – 16,00,000) in its books as that would represent impairment loss because market value has actually declined. This loss would have been recorded even if PBL would have first impaired the asset and then sold to VPL at zero profit/loss.

Following entry should be passed in the books of PB:

Particulars	Debit (₹)	Credit (₹)
Bank A/c	16,00,000	
Loss on sale of asset A/c	4,00,000	
To Asset A/c		20,00,000

- (ii) (a) In the given instance, cash calls will not be subject to GST since the operating member is not carrying out an activity for another for consideration. Here, the money paid for purchase of machinery is merely in the nature of capital contribution and is therefore a transaction in money.
- (b) GST would have been applicable in the case if the operating member, Samya Ltd. had used its own machinery for oil production, then it would have amounted to providing of 'service' within the scope of 'supply' because here operating member would have been recovering the cost appropriated towards machinery & services from other JV member in the participating interest ratio. [Circular No. 35/9/2018 GST dated 05.03.2018].
8. M/s Tripathi & Associates are unable to obtain sufficient appropriate audit evidence about the financial information of a joint venture investment that represents over 70% of the entity's net assets. The possible effects of this inability to obtain sufficient appropriate audit evidence are both material and pervasive to the consolidated financial statements.

Therefore, the statutory auditor should issue a disclaimer of opinion.

The relevant extract of the Disclaimer of Opinion Paragraph and Basis for Disclaimer of Opinion paragraph is as under:

Disclaimer of Opinion

We do not express an opinion on the accompanying financial statements of Samya Ltd. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

The Group's investment in its joint venture Vasudhara (P) Ltd. is carried at ₹ 3 crores on the Group's consolidated balance sheet, which represents over 70% of the Group's net assets as at March 31, 2024. We were not allowed access to the management and the auditors of Vasudhara (P) Ltd., including Vasudhara (P) Ltd.'s auditors' audit documentation. As a result, we were unable to determine whether any adjustments were necessary in respect of the Group's proportional share of Vasudhara (P) Ltd.'s assets that it controls jointly, its proportional share of Vasudhara (P) Ltd.'s liabilities for which it is jointly responsible, its proportional share of Vasudhara (P) Ltd.'s income and expenses for the year, (and the elements making up the consolidated statement of changes in equity) and the consolidated cash flow statement.

MTP

Case Study 5

Subjects	Topics Covered	Marks
IDT	ITC (Basics & Blocked Credit)	9
Law	Companies Act (Section 196, 198, 201, Schedule V)	12
SCPM	Outsourcing, Activity Based CVP Analysis	4

Para 1

HappyHomes Limited, a listed Company, manufactures and sells various kinds of kitchen solutions to ideally suit the varying modern-day needs of homeowners. They provide customized solutions for modular kitchens which may be stainless steel, acrylic or any other finish required by the customers. Their range of modular kitchens is distributed in the supply chain via an integrated channel of suppliers and distributors to reach to the homeowners globally. Quality, elegance and reliability are the three elements that make their kitchen solutions stand out from the competitors worldwide.

During the current year, the Company decided to appoint Mr Happy as the Managing Director of HappyHomes Limited for a period of ten years. However, the Company Secretary, Mr. CS informed the Board of Directors that as per the provisions of the Companies Act, 2013, the Managing Director cannot be appointed for a period exceeding 5 years. So, it was decided that two separate Board approvals and two separate general meeting resolutions would be passed to appoint the Managing Director for a total period of 10 years. Mr. CS objected to this proposal as well and suggested that a gap should be maintained between the two approvals/resolutions to comply with the provisions of the Companies Act, 2013. Finally, after considering all the provisions of the Act, Mr Happy was appointed as Managing Director by the approval of the Board of Directors at a meeting and approval by shareholders by a resolution at the next general meeting of the Company. Mr. Happy was entrusted with substantial powers of management of the affairs of the Company. The remuneration to be paid to the managerial persons was calculated based on Part II of Schedule V and was decided to be paid on the basis of specified percentage of the net profits.

HappyHomes Limited wanted to appoint Mr. Joy as the whole-time director of the Company but he was disqualified for appointment under section 196(3) of the Companies Act, 2013, which states that no company shall appoint or continue the employment of any person as managing director, whole-time director or manager who is below the age of 21 years or has attained the age of 70 years. Mr. Joy had attained the age of 70 years a few months back and so a meeting was held with the statutory auditors of HappyHomes Limited, JAY & Company to find a solution to this issue. The auditors informed the Company that where a person has attained the age of seventy years, he may still be appointed as whole-time director if a special resolution is passed in this respect. So, all the required procedures were followed to appoint Mr. Joy as the whole-time director of the Company. An explanatory statement was annexed to the notice for such motion which indicated the justification for appointing Mr. Joy as whole-time director. However, the special resolution could not be passed in the general meeting but the votes cast in favour of the motion exceeded the votes casted against the motion. JAY & Company was again consulted and as per their suggestion, an application was made by the Board to the Central Government that such appointment would be most beneficial to the company. The appointment was finally regularized by the approval of the Central Government.

Para 2

HappyHomes Limited had obtained GST registration in all the states in which the company has its head office and branches. ITC is availed on all inputs, input services and capital goods used for purposes of business after

consulting with JAY & Company so that no ineligible ITC is claimed. ITC was also availed on inputs and capital goods sent for job work. During the month of December, the Company decided to participate in the Christmas carnival held on the eve of Christmas. A stall was booked and it was decided that free gifts would be distributed to all the visitors at the carnival.

A gift set consisting of a fork, spoon and knife made of steel would be presented to every visitor who left his name and number with the sales representative at the stall. The Company had initially decided to manufacture these sets in-house. However, an incremental analysis was conducted to assess the benefits of outsourcing the gift sets. While considering the decision to outsourcing, the management also considered qualitative aspects like quality of goods, reliability of suppliers, impact on the customers and suppliers etc. Finally, the decision taken was in favour of outsourcing the gift sets from a known and reliable supplier. The sets were received from the supplier in time and the Company claimed ITC on the GST paid on them.

The carnival was a huge success and the footfall was very high. Except for a few, all the sets were distributed. After carnival was over, sales representatives tried to tally the balance sets with the total sets brought at the carnival less the number of visitors in the register, and realised that there was a shortfall of a large number of sets. Apparently, the same were stolen by people who had already taken one set as a gift and wanted few more. The necessary entries for theft and other expenses were passed in books of account of HappyHomes Limited.

Para 3

The management of HappyHomes Limited held a meeting with JAY & Company, to discuss the best techniques for analysing its activities and obtaining more information on the business operations along with cost prediction and improved cost management. JAY & Company suggested the activity based CVP analysis which used multiple cost drivers to estimate the costs for the coming periods. The suggestion of JAY & Company was followed, and a better prediction of costs and a much more complete picture of break-even analysis was available to management as compared to the traditional CVP analysis that the Company was earlier following. The activity-based costing also helped the Company to improve cost management and decision-making.

Para 4

Happy Homes Limited provides the following information pertaining to GST paid on inward supplies during the month of April (current financial year):

S.N.	Items	GST paid in (₹)
(i)	Life Insurance premium paid by the company for the life insurance of factory employees as per the policy of the company. There is no legal obligation for such insurance for employees.	2,00,000
(ii)	Raw materials purchased for which invoice is missing but delivery challan is available	69,000
(iii)	Truck purchased for delivery of finished products	80,000
(iv)	Works contractor's service used for repair of factory building which is debited in the profit and loss account of company	40,000
(v)	Company purchased the capital goods for ₹ 5,00,000 and claimed depreciation of ₹ 56,000 (@ 10%) on the full amount of ₹ 5,60,000 under Income Tax Act, 1961	60,000

Other information:

- In the month of September of previous financial year, HappyHomes Ltd. availed ITC of ₹ 1,40,000 on purchase of raw material which was directly sent to job worker's premises under a challan on 25th September (previous financial year). The said raw material has not been received back from the job worker up to 30th April (current financial year).
- All the above inward supplies have been used in the manufacture of taxable goods.

Para 5

The following particulars (after giving effect to all the line items given therein) are extracted from the statement of profit and loss of Happy Homes Limited for the year ended 31st March 2024:

Sr.no.	Particulars	Amount (₹)
1	Gross Profit	80,00,000
2	Profit on sale of godown (Cost ₹ 10,00,000 and written down value ₹ 6,00,000)	6,00,000
3	Salaries & wages	3,00,000
4	Sundry Repairs to Fixed Assets	75,000
5	Subsidy from the government	4,00,000
6	Compensation for breach of contract	2,00,000
7	Depreciation	1,60,000
8	Loss on sale of long-term investments	4,00,000
9	Interest on unsecured loans	60,000
10	Interest on debentures issued by the company	90,000
11	Repair Expenses to fixed assets (Capital in nature)	5,00,000
12	Net Profit	18,00,000

Multiple Choice Questions

- In your opinion, is the contention of Mr. CS correct with reference to Para (1)?
 - Yes, the Managing Director cannot be appointed for a term exceeding five years at a time but two separate approvals/resolutions can be passed one after the other to appoint him for ten years.
 - Yes, the Managing Director cannot be appointed for a term exceeding five years at a time and no re-appointment can be made earlier than one year before the expiry of his term.
 - Yes, the Managing Director cannot be appointed for a term exceeding five years at a time and no re-appointment can be made earlier than two years before the expiry of his term.
 - Yes, the Managing Director can be appointed for a term exceeding five years at a time after taking the approval of the Central Government within ninety days of such appointment.
- With reference to Para (1), which of the following statements is not correct for seeking approval from the Central Government for appointment of Mr. Joy?
 - Application in Form No. MR-2 within a period of ninety days from the date of such appointment.
 - Special Notice to Members.
 - Publication of Notice.
 - Attaching of Notice with the Application.
- With reference to Para (2), what should be the treatment of ITC availed in the books of account on the sets brought at the carnival and not in stock at the end?
 - ITC availed in books of account should be reversed for sets distributed as gifts as it was a voluntary act on the part of the Company, but since the theft of the sets was an involuntary act on the part of the Company, ITC can be availed.
 - ITC availed in books of account is eligible for both sets distributed as gifts and sets stolen since both the acts have happened in the normal course of business.

- (c) ITC availed in books of account should not be reversed for sets distributed as gifts, but for the sets stolen, ITC should be reversed since stolen sets will not lead to any future benefit, in the form of increase in sales, for the Company.
 - (d) ITC availed in books of account should be reversed for both sets distributed as gifts and sets stolen since no tax is paid on outward supply.
4. HappyHomes Limited decided to outsource the sets distributed in the Christmas carnival. When do you think a Company should not opt for outsourcing, in the context of Para (2)?
- (a) If the return on the necessary investment to be made to manufacture, is not attractive enough.
 - (b) If adequate managerial manpower is not available to take charge of the extra work of manufacturing.
 - (c) If transport and other infrastructure facilities are not adequately available.
 - (d) If there is risk of technological obsolescence for the component such that it does not encourage capital investment in the component.
5. As referred under Para (3), HappyHomes Limited followed the activity-based costing method for analysis of its activities. Which of the following is not a classification of this method?
- (a) Fixed and variable activities.
 - (b) Product sustaining activities.
 - (c) Facilities level activities.
 - (d) Batch-level activities.

Descriptive Questions

6. With reference to Para (4), compute the amount of net ITC available with HappyHomes Ltd. for April with necessary explanations for treatment of various items as per the provisions of the CGST Act. Subject to the information given, assume that all other conditions necessary for availing ITC have been fulfilled.
7. Considering the information given in Para (5), you are required to calculate the overall managerial remuneration payable under section 197 of the Companies Act, 2013 subject to the provisions under Schedule V to the said Act.

ANSWERS TO THE CASE STUDY 5

Answers to the Multiple Choice Questions

1. (b) Yes, the Managing Director cannot be appointed for a term exceeding five years at a time and no re-appointment can be made earlier than one year before the expiry of his term.
- Reason:** Section 196 of the Companies Act, 2013 contains the provisions for appointment of Managing Director, Whole Time Director or Manager. According to the sub-section (2),
- a. No company shall appoint or re-appoint any person as its managing director, whole-time director or manager for a term exceeding five years at a time.
 - b. It is further provided that no re-appointment shall be made earlier than one year before the expiry of his term.
2. (b) Special Notice to Members.

Reason: Section 201 of the Companies Act, 2013 contains provisions which need to be followed

for seeking approval from the Central Government if an application is made under Section 196 for the appointment of a person as Managing Director who has attained the age of seventy years but in whose case the appointment could not be regularised by passing a special resolution though votes cast in favour of the motion exceeded the votes cast against the motion. Non-passing of special resolution as before also contravenes Schedule V. Accordingly, for regularizing the appointment the company would apply to the Central Government for approval based on the fact that majority of the shareholders are in favour of such appointment as they find this appointment to be most beneficial to the company. It may be noted that now no approval is required for managerial remuneration in any case.

The process for seeking approval as given in Section 201 and Rule 7 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 is stated as under:

- (i) **Making of Application for Approval:** Every application made to the Central Government under Section 196 shall be in Form No. MR-2 as prescribed by Rule 7 and shall be accompanied by the specified fee. Rule 7 also requires that every such application shall be made to Central Government within a period of ninety days from date of such appointment.
- (ii) **General Notice to Members:** Before any application is made by a company to the Central Government under section 196, a general notice to the members of the company shall be issued by or on behalf of company, indicating the nature of application proposed to be made.
- (iii) **Publication of Notice:** Such notice shall be published:
 - at least once in a newspaper in the principal language of the district in which the registered office of the company is situated and circulating in that district; and
 - at least once in English in an English newspaper circulating in that district.
- (iv) **Attaching of Notice with the Application:** The copies of the notices, together with a certificate by company as to the due publication thereof, shall be attached to the application.

3. (d) ITC availed in books of account should be reversed for both sets distributed as gifts and sets stolen since no tax is paid on outward supply.

Reason: Clause (h) of section 17(5) of CGST Act provides that ITC in respect of goods that are disposed of by way of gift or free samples is not available. Also, ITC is blocked on lost goods, stolen goods, destroyed goods and goods that are written off. This is because principally, ITC is available only for payment of tax on output supply. If no tax is payable on output supply, ITC on inputs/input services/capital goods relating to such output supply is not eligible. Hence, ITC on gifts and free samples is blocked as no tax is payable on its outward supply. In case of lost/destroyed/stolen written off goods also, ITC is not available as these goods cannot be said to have been used for making a taxable supply.

4. (c) If transport and other infrastructure facilities are not adequately available.

Reason: A firm generally decides to outsource:

- If it costs less rather than to manufacture it internally;
- If the return on the necessary investment to be made to manufacture is not attractive enough;
- If the company does not have the requisite skilled manpower to make;
- If the concern feels that manufacturing internally will mean additional labour problem;
- If adequate managerial manpower is not available to take charge of the extra work of manufacturing;

- If the component shows much seasonal demand resulting in a considerable risk of maintaining inventories;
- If transport and other infrastructure facilities are adequately available;
- If the process of making is confidential or patented;
- If there is risk of technological obsolescence for the component such that it does not encourage capital investment in the component.

5. (a) Fixed and variable activities.

Reason: Activity Based CVP Analysis- CVP analysis would indicate how many units need to be sold, such that the contribution can cover such fixed expenses (overheads) to arrive at the break- even point. This approach would be accurate as long as majority of the activities have costs as the volume driver. In such cases, the critical activity level for break-even can be clearly identified. However, there are certain activities that are not related to volume of production at all. They occur irrespective of volume of production. Such activities can be identified using the activity-based costing approach. Analysis of an organization's activities based on activity-based costing method can be broadly classified into:

- Unit level (output) activities:** Activities performed each time a product is manufactured. As explained above, this varies in direct proportion to the volume of production. The cost driver would be the production volume.
- Batch-level activities:** Certain activities are done for "a batch of production" rather than for "a unit volume of output". Examples are set-up activities or processing purchase orders (material procurement). An example of setup in a manufacturing context is changing machine specifications to meet product specifications.
- Product sustaining activities:** These are activities performed to support production or sale of a specific type of product. Examples of such activities would be designing a product, designing production processes, drawing process charts, maintaining product specifications, developing special testing routines or technical enhancements (engineering change orders) or advertising for a particular product.
- Facilities level activities:** Activities performed for the general operations of business. They cannot be traced to any particular product. Examples include depreciation of factory building or the rent paid on it, insurance on the building, costs of training employees etc.

Answers to the Descriptive Questions

6. Computation of ITC available with HappyHomes Ltd. for the month of April

Particulars	ITC (₹)
Life Insurance premium paid by the company on the life of factory employees [Note 1]	Nil
Raw materials purchased [Note 2]	Nil
Trucks purchased for delivery of output goods [Note 3]	80,000
Work contractor's service [Note 4]	40,000
Capital goods purchased in respect of which depreciation is claimed on the tax component [Note 5]	Nil
Goods sent to job worker's premises [Note 6]	-
Total ITC available	1,20,000

Notes:

- (1) ITC on life insurance service is available only when it is obligatory for an employer to provide said services to its employees under any law for the time being in force. Since it is not obligatory for the employer in the instant case and thus, ITC thereon is blocked [Second proviso to section 17(5)(b)].
- (2) ITC cannot be taken since invoice is missing and delivery challan is not a valid document to avail ITC [Section 16(2)(a)].
- (3) Section 17(5)(a) blocks ITC in respect of only those motor vehicles which are used for transportation of persons albeit with certain exceptions. Thus, ITC on motor vehicles used for transportation of goods is allowed.
- (4) ITC is blocked on works contract services when supplied for construction of an immovable property. However, "construction" includes only that repairs which are capitalized along with the said immovable property.

In this case, since repairs of building is debited to P & L Account, the same does not amount to 'construction' and hence ITC thereon is available [Section 17(5)(c)].

- (5) ITC is not available when depreciation has been claimed on the tax component of the cost of capital goods under the Income-tax Act [Section 16(3)].
- (6) The principal is entitled to take ITC of inputs sent for job work even if the said inputs are directly sent to job worker. However, where said inputs are not received back by the principal within a period of 1 year of the date of receipt of inputs by the job worker, it shall be deemed that such inputs had been supplied by the principal to the job worker on the day when the said inputs were received by the job worker [Sub-sections (2) and (3) of section 19].

Hence, the ITC taken by HappyHomes Ltd. in the month of September last year is valid and since one year period has yet not lapsed in April, there will be no tax liability on such inputs.

7. The managerial remuneration shall be computed in accordance with the provisions laid down in section 198 of the Companies Act 2013.

Particulars	Amount (₹)
Net profit	18,00,000
Less: Capital profits on sale of building (Note 1)	2,00,000
Salaries & Wages (Note 2)	-
Sundry repairs to fixed Assets (Note 2)	-
Subsidy from the government (Note 3)	-
Compensation from breach of contract (Note 2)	-
Depreciation (Note 2)	-
Interest on unsecured loans (Note 2)	-
Interest on debentures (Note 2)	-
Add: Repair expenses to fixed assets (Capital in Nature) (Note 5)	5,00,000
Loss on Sale of long-term Investments (Note 4)	4,00,000
Net profits as per section 198	25,00,000

Therefore, the overall maximum managerial remuneration shall be 11% of the Net profits computed in accordance with section 198 i.e. $11\% \times 25,00,000 = ₹ 2,75,000$.

Notes:

1. As per section 198(3), credit shall not be given for profits from the sale of any immovable property or fixed assets of a capital nature comprised in the undertaking or any of the undertakings of the company, unless the business of the company consists, whether wholly or partly, of buying and selling any such property or assets; provided that where the amount for which any fixed asset is sold exceeds the written-down value thereof, credit shall be given for so much of the excess as is not higher than the difference between the original cost of that fixed asset and its written-down value.

Accordingly, the calculation of capital profit is computed as under:

Profit = Selling Price – Written down value

6,00,000 = Selling Price – 6,00,000. Therefore, Selling Price = 12,00,000.

Capital profit = 12,00,000 – 10,00,000 (original cost) = 2,00,000 .

2. According to section 198 (4), the following sums shall be deducted:
 - a. All the usual working charges – salaries and wages are considered as usual working charges.
 - b. Expenses on repairs, whether to immovable or to movable property, provided the repairs are not of a capital nature.
 - c. Any compensation or damages to be paid in virtue of any legal liability including a liability arising from a breach of contract.
 - d. Interest on debentures issued by the company.
 - e. Interest on unsecured loans and advances.
 - f. Depreciation to the extent specified in section 123.

Since all of the above charges are already deducted while arriving at net profit, no effect will be given.

3. According to section 198 (1), credit shall be given for bounties and subsidies received from any government, or any public authority constituted or authorised in this behalf, by any government, unless and except in so far as the Central Government otherwise directs.
4. According to section 198(5), Loss of a capital nature including loss on sale of the undertaking or any of the undertakings of the company or any part thereof shall not be deducted. In the given question, the said investments are long term investments and capital in nature and accordingly added back to net profit as it is already deducted while arriving at net profit.
5. According to section 198(4), expenses on repairs, whether to immovable or to movable property is deducted only for repairs which are not capital in nature. Accordingly, we have added back to the net profit.

MTP Case Study 6

Subjects	Topics Covered	Marks
FR	Ind AS 12	5
Audit	Professional Ethics	2
DT	Charitable Trust	5
IDT	OIDAR, GST Exemption	7
Law	Companies Act (Section 181), FCRA (Section 2(1)(j))	6

- Supatra Foundation is a public charitable trust registered under section 12AB of the Income Tax Act, 1961. The trust is engaged in various social activities such as uplifting of poor people, advancement of orphaned children, conducting public awareness programmes, educational programmes, public health camps, sports training camps, etc.

Mr. Sameer Devan who is a Chartered Accountant by profession, serves as an honorary leader of the said trust.

- The founder and director of Jas Jagish Ltd., Mr. Rajat Bhatia, was quite moved while reading a newspaper article on the philanthropic activities being carried out by Supatra Foundation and decided that his company should give some donations to the said trust and accordingly Jas Jagish Ltd. donated a sum of ₹ 24 lakhs during the F.Y. 2023-24, with a specific direction that such donation shall form part of the corpus of the trust. The average net profits of the company during the preceding three financial years was ₹ 4 crore.

For F.Y. 2023-24, Jas Jagish Ltd.'s profit before tax according to Ind-AS was ₹ 2 crore and taxable profit was ₹ 2.08 crore. The difference between these amounts arose due to reasons, as follows:

- On 1st February, 2024, it acquired a machine for ₹ 2.4 crore. Depreciation was charged on the machine on a monthly basis for accounting purpose. Under the tax law, the machine was to be depreciated for 6 months. The machine's useful life was 10 years according to Ind-AS as well as for tax purposes.
- In the F.Y. 2023-24, donation of ₹ 24 lakhs was given to Supatra Foundation out of which ₹ 16 lakhs was not deductible for tax purposes, as per the provisions of section 80G of the Income Tax Act, 1961.

- Nishalya Ltd., an associate company of Jas Jagish Ltd., 53% of which shares are held by Trium Inc., a USA based company, made a donation of ₹ 5 lakhs to Supatra Foundation as a voluntary contribution, on the suggestion of Mr. Rajat.

One of the directors of the said company also proposed donating a sum of ₹ 2 lakhs, as a voluntary contribution to an electoral trust vide an account payee cheque during F.Y. 2023-24, but it was not approved by the board of the company.

- For the previous year ending 31.3.2024, Supatra Foundation derived gross income of ₹ 1.5 crore, which consisted of the following:

Particulars	(₹ in lakhs)
Income from properties held by trust (net)	50
Voluntary contributions received	50

Voluntary contributions received with a specific direction that such donation shall form part of the corpus of the trust	70

The trust applied a sum of ₹ 80 lakhs towards charitable purposes during the financial year under consideration. Total corpus donations of ₹ 70 lakhs received during the year were invested in modes specified under section 11(5) of the Income Tax Act, 1961.

5. There was a change in the accountant of Supatra Foundation during the month of March, 2024. The old accountant, Mr. Suraj, apart from maintaining the books of accounts of the trust had also been managing all the GST related work of the trust. The new accountant, Mr. Dhiman was properly trained by Mr. Suraj, before he left his job. However, Mr. Dhiman had required assistance from Mr. Suraj in computing the GST liability of the trust for the month of March, 2024, in respect of transactions, as follows:

Particulars	(₹ - exclusive of GST)
Amount received for renting of commercial property owned by the trust	80,000
Fees received for a badminton training camp organized for 2 weeks for children under 18 years	60,000
Educational programme organized for persons under the age of 65 years residing in a rural area	30,000
Consultancy services received for purpose of providing charitable activities from a firm based in Germany	45,000
Web-hosting services received from GoDaddy Inc., a USA based company. Such website was created for raising charitable funds by the trust.	20,000

The trustee of the said trust made a proposal to Mr. Harsh Vora, proprietor of Vora & Associates, for auditing the books of accounts of the said trust for the financial year 2023-24.

Mr. Harsh is also a partner in VKS & Co. whose another partner, Mr. Kushal Sena, is an employee of the said trust. Some certification work was also offered by the trust to him.

Multiple Choice Questions

- Contribution by Jas Jagish Ltd., as referred under Para 2, is in excess of ₹ for which it would require prior permission of the company.
 - ₹ 16 lakhs, due to which an ordinary resolution would have been required to be passed.
 - ₹ 4 lakhs, due to which an ordinary resolution would have been required to be passed.
 - ₹ 8 lakhs, due to which a special resolution would have been required to be passed.
 - ₹ 4 lakhs, due to which a special resolution would have been required to be passed.
- Would your answer in Q. no. 1 change if Jas Jagish Ltd. was a private limited company and whether any permission was required by Mr. Sameer for holding such position in the trust? (Refer Para 1 & 2)
 - No, the answer will remain the same and Mr. Sameer was not required to take any permission for holding such position in the trust.
 - Yes, as in such case, there would be no requirement to take any prior approval of the company for making such contribution and Mr. Sameer was not required to take any permission for holding such position in the trust.
 - Yes, as in such case, there would be no requirement to take any prior approval of the company for making such contribution without any limit and Mr. Sameer was required to take prior permission of the ICAI for holding such position in the trust.

- (d) No, the answer will remain the same and Mr. Sameer was required to take prior permission of the ICAI for holding such position in the trust.
3. With reference to Para 5, whether GoDaddy Inc. would be required to take GST registration?
- (a) Yes, provided GoDaddy Inc. also provide such services to non-registered persons in India.
- (b) Yes, provided GoDaddy Inc. would be compulsorily required to take GST registration irrespective of whether it provide such services to non-registered persons in India or not.
- (c) No, as in case of such services, the recipient is required to discharge the GST liability on reverse charge basis.
- (d) No, as such service providers are specifically exempted from taking GST registration.
4. Whether Mr. Harsh can accept the auditorship of Supatra Foundation as discussed under Para 5?
- (a) Yes, as there are no restrictions in accepting such auditorship in the given case.
- (b) Yes, by taking prior permission of the ICAI
- (c) No, as his partner is an employee of the said trust.
- (d) Yes, if his partner is a part-time employee in the said trust.
5. Whether the electoral trust could have accepted donation from Nishalya Ltd. had its board approved for the said donation? (Refer para 3)
- (a) Yes, as the said contribution was to be made vide an account payee cheque.
- (b) No, it was prohibited to accept such donation.
- (c) Yes, as it was to be received from a company registered in India and such contribution was to be made vide an account payee cheque.
- (d) No, prior approval of Electoral Commission of India is required in such case.

Descriptive Questions

6. Referring Para 2, prepare necessary entries in respect of Jas Jagish Ltd. as at 31st March 2024, taking current and deferred tax into account. The tax rate is 25%. Also prepare the tax reconciliation in absolute numbers as well as the tax rate reconciliation.
7. Referring Para 4, determine the taxable income of Supatra Foundation.
8. Referring Para 5, determine the GST payable in cash of Supatra Foundation for the month of March, if rate of GST is 18% assuming that the opening balance of ITC for relevant tax period is ₹ 30,000 and the time of supply of such transactions falls in March month.

ANSWERS TO THE CASE STUDY 6

Answers to the Multiple Choice Questions

1. (b) ₹ 4 lakhs, due to which an ordinary resolution would have been required to be passed.
- Reason:** Section 181 of Companies Act, 2013, applicable to both public and private companies, empowers Board of Directors to contribute to bona fide charitable & other funds up to a particular limit which if exceeded needs to be permitted by company through passing an ordinary resolution.
- Limit on contribution by the Board of Directors:** The Board is empowered to contribute any amount in any financial year if aggregate amount of such contribution does not exceed five percent of the average net profits of the company for the three immediately preceding financial years.

Where the above limit is exceeded: In case the aggregate contribution amount in any financial year is beyond the limit specified for the Board, prior permission of the company in general meeting shall be required for such contribution.

Here, the average net profits of Jas Jagish Ltd. during the preceding 3 financial years was ₹ 4 crore and it donated a sum of ₹ 24 lakhs i.e. it donated in excess ₹ 4 lakhs [(4 crore*5%) – 24 lakhs], due to which an ordinary resolution would have been required to be passed.

2. (a) No, the answer will remain the same and Mr. Sameer was not required to take any permission for holding such position in the trust.

Reason: Section 181 of the Companies Act, 2013, applicable to both public and private companies, so, the answer will remain the same as aforesaid

Permission granted generally: Members of the Institute in practice be generally permitted to engage in the certain categories of occupations, for which no specific permission from the Council would be necessary in individual cases.

One such category prescribed is honorary office leadership of charitable-educational or other non-commercial organisations. Accordingly, Mr. Sameer was not required to take any permission for holding such position in the trust.

3. (a) Yes, provided GoDaddy Inc. also provide such services to non-registered persons in India.

Reason: As per section 24(11) of the CGST Act, every person supplying online information and data base access or retrieval (OIDAR) services from a place outside India to a person in India, other than a registered person would be required to take GST registration in India.

GoDaddy Inc., a USA based, company provides web-hosting services in India i.e. online information and data base access or retrieval (OIDAR) services. It would be required to take GST registration only if it provides such services to non-registered persons in India as well.

4. (c) No, as his partner is an employee of the said trust.

Reason: The Council of the ICAI has decided not to permit a Chartered Accountant in employment to certify the financial statements of the concern in which he is employed, or of a concern under the same management as the concern in which he is employed, even though he holds certificate of practice and that such certification can be done by any Chartered Accountant in practice. This restriction would not however apply where the certification is permitted by any law. **The Council has also decided that a Chartered Accountant should not by himself or in his firm name:**

- accept the Auditorship of a college, if he is working as a part-time lecturer in the college.
- accept the Auditorship of a Trust where his partner is either an employee or trustee of Trust.

5. (b) No, it was prohibited to accept such donation.

Reason: The electoral trust shall not accept contributions from a foreign source as defined in section 2(1)(j) of the Foreign Contribution (Regulation) Act, 2010.

Foreign Source [Section 2(1)(j)]

Foreign Source includes— a company within the meaning of the Companies Act, 1956 (presently, the Companies Act, 2013) and more than one-half of the nominal value of its share capital is held, by a Foreign company.

Here, 53% shares of Nishalya Ltd. are held by Trium Inc., a USA based company and so it is a foreign source and accordingly the electoral trust was prohibited from accepting donation from it.

Answers to the Descriptive Questions

6. Current tax = Taxable profit x Tax rate = ₹ 2.08 crore x 25% = ₹ 52 lakhs

Computation of Taxable Profit:

		₹ in lakhs
Accounting profit		200
Add: Donation not deductible		16
Less: Excess Depreciation (12-4)		(8)
Total Taxable profit		208
	₹ in lakhs	₹ in lakhs
Profit & loss A/c Dr.	52	
To Current Tax		52

Deferred tax:

Machine's carrying amount according to Ind AS = ₹ 236 lakhs (₹ 240 lakhs – ₹ 4 lakhs) Machine's carrying amount for taxation purpose = ₹ 228 lakhs (₹ 240 lakhs – ₹ 12 lakhs)

Deferred Tax Liability = ₹ 8 lakhs x 25%

		₹ in lakhs
Profit & loss A/c Dr.	2	
To Deferred Tax Liability		2

Tax reconciliation in absolute numbers:

	₹ in lakhs
Profit before tax according to Ind AS	200
Applicable tax rate @ 25%	
Tax	50
Expenses not deductible for tax purposes (₹ 16 lakhs x 25%)	4
Tax expense (Current and deferred)	54

Tax rate reconciliation:

Applicable tax rate	25%
Expenses not deductible for tax purposes	2%
Average effective tax rate	27%

7. **Computation of taxable income of public charitable trust**

Particulars	(₹ in lakhs)
(i) Income from properties held by trust (net)	50
(ii) Voluntary contributions received	50
(iii) Voluntary contributions received with a specific direction that such donation shall form part of the corpus of the trust (See note below)	-
	100
Less: 15% of income eligible for retention/accumulation without any conditions	(15)
	85

Less: Amount applied for the objects of the trust	80
Taxable Income	5

Note: As per section 11(1)(d), voluntary contributions made with a specific direction that they shall form part of the corpus of the trust is an exempted income. However, in order to avail the exemption, such corpus donations should be invested or deposited by the trust in one or more of the forms or modes specified in section 11(5). Since the trust has invested the corpus donation of ₹ 40 lakhs in the specified mode, the same will be exempt.

8. **Computation of net GST liability of Supatra Foundation for March**

Particulars	Note	(₹)
Amount received for renting of commercial property owned by the trust	1	80,000
Fees received for a badminton training camp organized for 2 weeks for children under 18 years	2	Exempt
Educational programme organized for persons under the age of 65 years residing in a rural area	3	30,000
Value of Taxable Supply		1,10,000
GST payable @ 18% on forward charge basis		19,800
Less: ITC		(19,800)
Net GST payable		Nil
Services to be taxed on reverse charge basis		
Consultancy services received for purpose of providing charitable activities from a firm based in Germany	4	Exempt
Web-hosting services received from GoDaddy Inc., a USA based company	5	20,000
GST payable @ 18% on reverse charge basis i.e. GST payable in cash		3,600

Notes:

- Rent of commercial property owned by trust is liable to GST.
- As per Entry 80 of Notification No. 12/2017-CT (Rate), such services are exempt.
- Taxable, as not covered by Entry 66 of Notification No. 12/2017-CT (Rate), as educational programme organized for persons over the age of 65 years residing in a rural area is exempt.
- As per Entry 10 of Notification No. 9/2017-IT (Rate), such import of services is exempt.
- Web-hosting services amount to online information and database access or retrieval services as per section 2(17) of the IGST Act, 2017 and are taxable on reverse charge basis as Supatra Foundation is not a non-taxable online recipient.

Also, such services are not exempt as per Entry 10 of Notification No. 9/2017-IT (Rate).

MTP

Case Study 7

Subjects	Topics Covered	Marks
FR	Ind AS 113	4
DT	Double Tax Relief, Transfer Pricing	17
Law	Companies Act (Section 210)	4

Para 1

Waqt (P) Ltd. incorporated in the year 2008 initially as private company, got itself converted into public company (unlisted) in the year 2012, with increase in its operations. At present, the company has nine directors in its board engaged in the textile business with paid-up share capital of ₹ 180 crore having 3000 members and its turnover as per the previous year audited balance sheet was ₹ 198 crore. The company is registered under GST.

Para 2

The company filed intimation with the Central Government that the affairs of the company ought to be investigated and accordingly, the Central Government passed an order of investigation and appointed three persons as the inspectors to investigate into the affairs of Waqt Ltd. Before appointing such inspectors, the Central Government required Waqt Ltd. to provide security of such amount, as prescribed, for the payments and costs of the investigation.

During the pendency of such investigation, Waqt Ltd. wanted to terminate Mr. Raghu, an employee of the company, as he had disclosed certain information to the inspectors which the management were upset about. The company filed the application to tribunal for approval of such termination. However, as the company did not receive any reply from the tribunal within thirty days of filling the application, it considered it as a deemed approval and terminated Mr. Raghu.

Para 3

Waqt Ltd. owns 500 ordinary shares in Utpal Ltd., an unquoted public company. Utpal Ltd. has a total share capital of 20,000 shares with nominal value of ₹ 10. Utpal Ltd.'s after-tax maintainable profits are estimated at ₹ 14,00,000 per year. An appropriate price/earnings ratio determined from published industry data is 15, before lack of marketability adjustment.

Waqt Ltd.'s management estimates that the discount for the lack of marketability of Utpal Ltd.'s shares and restrictions on their transfer is 20%. The fair value of Utpal Ltd.'s net assets including those recognised in its balance sheet and those that are not recognised is ₹ 1,75,00,000. Waqt Ltd. values its holding in Utpal Ltd.'s shares based on earnings.

However, one of the directors of Waqt Ltd., Mr. Mahipal Sena, suggested estimating the fair value of the shares it owns in Utpal Ltd. using a net asset valuation technique, using which, if there can be a higher valuation of such investment in the books of Waqt Ltd.

Para 4

Waqt Ltd., filed its return of income for A.Y. 2024-25, on 25th November, 2024, on the basis of following particulars of income earned by it during the P.Y. 2023-24:

Particulars	₹ (in lakhs)
Income from business carried on in India	3500

Dividend received from Tim Inc. incorporated in Australia (gross) (Note 1)	400
Income from supplies made to YT Corp., a UK based company (Note 2)	1600
Rent Income from a house property situated in Ireland (gross) (Note 3)	500
Income from supplies made to Leon Co., a Japan based company (Note 4)	1900

Note 1: India has a Double Tax Avoidance Agreement with Australia for such dividend income which provides for taxation on Residence Rule basis @ 40%.

Note 2: Waqt Ltd. had determined the Arm's Length Price (ALP) for the transaction of such supplies in accordance with the Unilateral Advance Pricing Agreement (APA) entered into with the Board.

Waqt Ltd. had applied to Director General of Income-tax (International Taxation) for Advance Pricing Agreement during P.Y. 2023-24, along with the request for rollback before entering into such transaction for supplies with YT Corp., its associated enterprise.

However, due to application of rollback provisions, income for P.Y. 2021-22 was getting reduced to ₹ 6,300 lakhs from ₹ 6,600 lakhs originally declared in return. The income adjusted by Transfer Pricing Officer for that year in the return was ₹ 6,900 lakhs.

Note 3: India has no Double Tax Avoidance Agreement with Ireland for such rent income and such income was taxed in Ireland @ 20%. Also, a municipal tax of ₹ 25 lakhs was paid for which no deduction was allowed in Ireland.

Note 4: The supplies made by Waqt Ltd. to Leon Co. constituted 92% of its raw material requirements and the transactions were denominated in Indian rupees.

Multiple Choice Questions

1. In respect of Para 2, what procedure Waqt Ltd. should have followed for filing such intimation regarding investigation with the Central Government and whether the Central Government was bound to pass such order?
 - (a) Waqt Ltd. should have passed a special resolution for filing such intimation and the Central Government was bound to pass such order.
 - (b) Waqt Ltd. should have passed a special resolution for filing such intimation and the Central Government was not bound to pass such order.
 - (c) Waqt Ltd. should have passed an ordinary resolution for filing such intimation and the Central Government was bound to pass such order.
 - (d) Waqt Ltd. should have obtained applications from 100 members or member(s) holding 10% of total voting power, whichever is lower, for filing such intimation and the Central Government was not bound to pass such order.
2. In respect of Para 2, what amount of security would have been paid by Waqt Ltd. regarding the investigation going on by the inspectors?
 - (a) ₹ 10,000
 - (b) ₹ 25,000
 - (c) ₹ 15,000
 - (d) ₹ 20,000
3. In terms of Para 3, what shall be the fair value of Waqt Ltd.'s investment in Utpal Ltd.'s shares, considering the method of Earnings- based valuation?

- (a) ₹ 4,37,500
 (b) ₹ 3,50,000
 (c) ₹ 4,20,000
 (d) ₹ 5,25,000
4. In continuation to MCQ no. 3, what would be the fair value of Waqt Ltd.'s investment in Utpal Ltd.'s shares as per the method suggested by Mr. Mahipal?
- (a) ₹ 4,37,500
 (b) ₹ 3,50,000
 (c) ₹ 4,20,000
 (d) ₹ 5,25,000
5. With reference to Para 4, the approval of which authority would have been taken by the board for entering into an Unilateral APA with Waqt Ltd. and what amount of additional fees would have been paid by Waqt Ltd. for the request of rollback?
- (a) Approval of Principal Chief Commissioner of Income Tax would have been taken and additional fees of ₹ 2 lakhs would have been paid by Waqt Ltd. for the request of rollback.
 (b) No approval of any authority is required and also no additional fees would have been paid by Waqt Ltd. for the request of rollback as such request was made along with application for Advance Pricing Agreement for which fees would have been paid.
 (c) Approval of Central Government as well as competent authority of UK would have been taken and additional fees of ₹ 5 lakhs would have been paid by Waqt Ltd. for the request of rollback.
 (d) Approval of Central Government would have been taken and additional fees of ₹ 5 lakhs would have been paid by Waqt Ltd. for the request of rollback.

Descriptive Questions

6. Referring Para 4, compute total income and tax liability of Waqt Ltd. for Assessment Year 2024-25, if it does not opt for section 115BAA or section 115BAB of the Income Tax Act, 1961 and its total income for P.Y. 2021-22 was ₹ 41 crores, assuming that the international transactions undertaken by it are at arm's length price. Ignore MAT provisions. Assume applicable tax rate is 25%.
7. With reference to Para 4, due to application of rollback provisions, income for P.Y. 2021-22 was getting reduced to ₹ 6,300 lakhs. In this case, how the rollback provisions would be applied?

ANSWERS TO THE CASE STUDY 7

Answers to the Multiple Choice Questions

1. (b) Waqt Ltd. should have passed a special resolution for filing such intimation and the Central Government was not bound to pass such order.
Reason: Section 210 of the Companies Act, 2013:
 Investigation in the opinion of Central Government [Sub-section (1)]:
 Where the Central Government is of the opinion, that it is necessary to investigate into the affairs of a company, it may order an investigation into the affairs of the company. Central Government may order to investigate, inter-alia, on intimation of a **special resolution** passed by a company

that the affairs of the company ought to be investigated;

Thus, Waqt Ltd. should have passed a special resolution filing such intimation and the Central Government was not bound to pass such order of investigation.

2. (c) ₹ 15,000

Reason: According to the Companies (Inspection, investigation and inquiry) Rules, 2014:

The Central Government may before appointing an inspector under sub-section (3) of Section 210 of the Companies Act, 2013, require the applicant to give a security not exceeding 25,000 rupees for payment of the costs and expenses of investigation as per the criteria given in the said rule.

In case if turnover as per the previous year's balance sheet is more than ₹ 50 crore and up to ₹ 200 crore then the amount of security required is ₹ 15,000.

Waqt Ltd.'s turnover as per the previous year balance sheet was ₹ 198 crore and accordingly, the amount of security required to be paid was ₹ 15,000.

3. (c) ₹ 4,20,000

Reason: An earnings-based valuation of Waqt Ltd.'s holding of shares in Utpal Ltd. would be calculated as follows:

Particulars	Figures
Utpal Ltd.'s after-tax maintainable profits (A)	₹ 14,00,000
Price/Earnings ratio (B)	15
Adjusted discount factor (C) (1- 0.20)	0.80
Value of Utpal Ltd. (A) x (B) x (C)	₹ 1,68,00,000

Value of a share of Utpal Ltd. = ₹ 1,68,00,000 ÷ 20,000 shares = ₹ 840

The fair value of Waqt Ltd.'s investment in Utpal Ltd.'s shares is estimated at ₹ 4,20,000 (that is, 500 shares × ₹ 840 per share).

4. (a) ₹ 4,37,500

Reason: Share price = ₹ 1,75,00,000 ÷ 20,000 shares = ₹ 875 per share. The fair value of Waqt Ltd.'s investment in Utpal Ltd. shares is estimated to be ₹ 4,37,500 (500 shares × ₹ 875 per share).

5. (d) Approval of Central Government would have been taken and additional fees of ₹ 5 lakhs would have been paid by Waqt Ltd. for the request of rollback.

Reason: Section 92CC of the Income Tax Act, 1961, and Rule 10MA of the Income Tax Rules, 1962:

The Advance Pricing Agreement shall be entered into by the Board with the applicant after its approval by the Central Government.

Additional Fees for filing application for rollback provision: The applicant may furnish along with the application for Advance Pricing Agreement, the request for rollback provision in Form No. 3CEDA with proof of payment of an additional fee of ₹ 5 lakh.

Answers to the Descriptive Questions

6. Computation of Total Income of Waqt Ltd.

Particulars	₹ (in lakhs)	₹ (in lakhs)
Income from House Property [House situated in Ireland]		
Gross Annual Value	500	

Less: Municipal Taxes	(25)	
Net Annual Value	475	
Less: Deduction under section 24 – 30% of NAV	(142.5)	332.5
Profits and Gains of Business or Profession		
Income from business carried on in India	3,500	
Income from supplies made to YT Corp., a UK based company	1,600	
Income from supplies made to Leon Co., a Japan based company	1,900	7,000
Income from Other Sources		
Dividend received from a Tim Inc. incorporated in Australia (Note)	400	400
Total Income		7,732.5

Computation of tax liability of Waqt Ltd.

Particulars	₹ (in lakhs)
Tax on total income [25% of ₹ 7,732.5 lakhs]	1,933.125
Add: Surcharge @ 12%	231.975
Add: Health and Education cess @ 4% (on ₹ 2,165.1)	86.604
	2,251.704
Less: Deduction under section 91 (See Working Note below)	(66.5)
Tax Payable	2,185.204

Working Note: Calculation of Rebate under section 91 of the Income Tax Act, 1961

	₹ (in lakhs)
Average rate of tax in India [i.e., ₹ 2,251.704/₹ 7,732.5 x 100]	29.12%
Tax rate in Ireland	20%
Doubly taxed income pertaining to Ireland	
Rent Income from a house property	332.5
Deduction under section 91 on ₹ 332.5 lakhs @ 20% [being the lower of average Indian tax rate (29.12%) and foreign tax rate (20%)]	66.5

Note: As per Section 90(2) of the Income Tax Act, 1961, where the Central Government has entered into an agreement with the Government of any country outside India or specified territory outside India, as the case may be, under sub-section (1) for granting relief of tax, or as the case may be, avoidance of double taxation, then, in relation to the assessee to whom such agreement applies, the provisions of this Act shall apply to the extent they are more beneficial to that assessee.

Here, Dividend income was taxable at 40% as per DTAA but as per provisions of Income Tax Act, 1961, tax rate is lower, so accordingly rate as per DTAA is not applied in computing the tax liability.

7. Rule 10MA(3)(ii) of the Income Tax Rules, 1962 provides that **rollback provision shall not be provided** in respect of an international transaction for a rollback year if the application of rollback provision has the effect of reducing the total income or increasing the loss, as the case may be, of the applicant as declared in the return of income of the said year.

It is clarified that in case the terms of rollback provisions contain specific agreement between the Board and the applicant that the agreed determination of ALP or the agreed manner of determination of ALP is subject to the condition that the ALP would get modified to the extent that it does not result in reducing

the total income or increasing the total loss, as the case may be, of the applicant as declared in the return of income of the said year, the rollback provisions could be applied.

For example, if the declared income is ₹ 100, the income as adjusted by the TPO is ₹ 120, and the application of the rollback provisions results in reducing the income to ₹ 90, then the rollback for that year would be determined in a manner that the declared income ₹ 100 would be treated as the final income for that year.

In the given case, the declared income is ₹ 6,600 lakhs, the income as adjusted by the TPO is ₹ 6,900 lakhs, and the application of the rollback provisions results in reducing the income to ₹ 6,300 lakhs, then as per the aforesaid legal provisions, rollback for P.Y. 2021-22 would be determined in a manner that the declared income i.e. ₹ 6,600 lakhs would be treated as the final income for that year.

MTP

Case Study 8

Subjects	Topics Covered	Marks
DT	Equalisation Levy	10
IDT	ECO, TCS	6
Law	Companies Act (Section 202, 203)	9

Para 1

Apsflon Ltd. is engaged in the business of furniture, and it is having the status of unlisted public company with ROC. Being registered under GST, the company is having seven directors on its board and paid-up share capital of ₹ 20 crore.

Para 2

During the F.Y. 2023-24, it decided to appoint Mr. Himanshu as its Managing Director, a whole-time KMP, for a period of 3 years with effect from 1st May, 2023.

Mr. Himanshu fulfils all the conditions as specified under Schedule V to the Companies Act, 2013. The terms of his appointment are as under:

- (i) Salary - ₹ 40,000 per month;
- (ii) Commission, as may be decided by the Board of Directors of the company by passing a board resolution for the same;
- (iii) Perquisites;
 - Free Housing,
 - Medical reimbursement upto ₹ 2,000 per month,
 - Leave Travel concession for the family,
 - Club membership fee,
 - Personal Accident Insurance of ₹ 5 lakh,
 - Gratuity, and Provident Fund as per Company's policy.

The Board of Directors of the company came to know about certain questionable transactions entered into by Mr. Himanshu and therefore, terminated his services as Managing Director from 1st March, 2024. The average per month remuneration of Mr. Himanshu was ₹ 50,000.

Mr. Himanshu termed his removal as illegal and claimed compensation from the company. Meanwhile the company paid a sum of ₹ 4 lakhs on adhoc basis to Mr. Himanshu pending settlement of his dues and the vacancy caused due to removal of Mr. Himanshu was filled up by the Board on 31st May, 2024.

Para 3

Fsell Inc., a non-resident entity, provided a platform for persons resident in India to sell their goods online to all the customers' worldwide, in consideration of a commission amount.

Supplies made by persons resident in India during December, 2023 Quarter through its platform were ₹ 230 crores for which it charged commission of ₹ 12 crores including commission of ₹ 8 lakhs paid by Apsflon Ltd. which was claimed by it in calculating the income amount.

The consideration for such supplies is received by Fsell Inc. and remitted to the suppliers, after deducting its

commission, as per the contractual arrangement with them.

The amount of equalisation levy, as applicable, for the December' 2023 Quarter, was deposited to the credit of Government on 31st January, 2024.

Para 4

Apsflon Ltd. uses such e-commerce platform provided by Fsell Inc. to provide supplies within India only. During the month of December, 2023, it made following supplies:

S.N.	Particulars
(i)	Supply of goods valued ₹ 35 lakhs out of which goods valued ₹ 3 lakhs were returned in the same month and 2 lakhs in the next month
(ii)	Supply of repairing services valued ₹ 4 lakhs
(iii)	Supply of carpentering services valued ₹ 2 lakhs

There are other suppliers also who provide only carpentering services similar to the one as provided by Apsflon Ltd., as aforesaid, through Fsell Inc., to customers within India. However, such suppliers are not registered under GST.

Para 5

At the time of filing GSTR-8 by Fsell Inc. for the month of December, 2023, its accountant discovered that there was a discrepancy in the GSTR-8 filed for the month of November, 2023 on 10th December, 2023, due to which there was a shortfall in the TCS credited by it to the Government by ₹ 5,00,000.

The GSTR-8 of Fsell Inc. for the month of December, 2023, was filed on 5th January, 2024 by rectifying the error made during the month of November, 2023 and paying the requisite amount of shortfall in tax along with the interest, as applicable on the same.

Multiple Choice Questions

- With reference to Para 2, by what date, the Board of Apsflon Ltd. was required to fill the vacancy caused due to removal of Mr. Himanshu and what would be your answer, in case, if Apsflon Ltd. was a government company?
 - By 1st July, 2024, such vacancy was required to be filled and in other case, by 1st September, 2024, such vacancy was required to be filled, respectively.
 - By 1st September, 2024, such vacancy was required to be filled and in other case, there was no requirement to fill such vacancy.
 - By 1st July, 2024, such vacancy was required to be filled and in other case, there was no requirement to fill such vacancy.
 - In both cases, such vacancy was required to be filled by 1st September, 2024.
- With reference to Para 4, what amount of tax to be collected at source by Fsell Inc. from Apsflon Ltd. for the month of December, 2023, under GST considering all the supplies being inter-state taxable supplies?
 - Nil
 - ₹ 34,000
 - ₹ 38,000
 - ₹ 36,000
- How Fsell Inc. would be registered under GST?

- (a) Two separate registrations would have been taken i.e. as a regular tax payer and as a person required to collect tax at source, respectively.
- (b) Only one registration would have been taken i.e. as a person required to collect tax at source.
- (c) Only one registration would have been taken i.e. as a regular tax payer.
- (d) Only one registration would have been taken for serving as both i.e. as a regular tax payer as well as a person required to collect tax at source, respectively.
4. With reference to Para 5, what amount of interest would have been required to be paid by Fsell Inc. for the discordancy noticed?
- (a) ₹ 6,411
- (b) ₹ 15,000
- (c) ₹ 3,945
- (d) ₹ 8,559
5. With reference to Para 3, who was required to deposit the amount of equalisation levy with the Central Government for the December' 2023 Quarter and how much interest amount shall be payable for late deposit, if any?
- (a) Fsell Inc. was required to deposit the amount of equalisation levy and interest payable shall be ₹ 72,000.
- (b) Service recipients were required to deduct and deposit the amount of equalisation levy and interest payable shall be ₹ 72,000.
- (c) Fsell Inc. was required to deposit the amount of equalisation levy and interest payable shall be ₹ 24,000.
- (d) Service recipients were required to deduct and deposit the amount of equalisation levy and interest payable shall be ₹ 24,000.

Descriptive Questions

6. Referring Para 2, discuss whether:
- (i) The company is bound to pay compensation to Mr. Himanshu and, if so, how much?
- (ii) The company can recover the amount of 4 lakhs paid on the ground that Mr. Himanshu is not entitled to any compensation, because he is guided by corrupt practices.
7. How much amount of equalisation levy needs to be deposited for December Quarter and also by what date it needs to be deposited, in case if: - (i) Fsell Inc. has PE in India (ii) Fsell Inc. does not have PE in India.

ANSWERS TO THE CASE STUDY 8

Answers to the Multiple Choice Questions

1. (b) By 1st September, 2024, such vacancy was required to be filled and in other case, there was no requirement to fill such vacancy.

Reason: Filling of Vacancy of Key Managerial Personnel (KMP)

Section 203(4) of the Companies Act, 2013: If the office of any whole-time KMP is vacated, the resulting vacancy shall be filled-up by the Board at a meeting of the Board within a period of six

months from the date of such vacancy.

In case of Government companies, sub-section (4A) states that the provisions of sub-section (1), (2), (3) and (4) of this section shall not apply to a managing director or Chief Executive-Officer or manager and in their absence, a whole-time director of the Government company.

The sub-section (4A) will be applicable on the Government company only if it has not committed a default in filing its financial statements under section 137 or annual returns under section 92 with the Registrar.

Thus, by 1st September, 2024, such vacancy was required to be filled i.e. 6 months from 1st March, 2024, and in other case, there was no requirement to fill such vacancy as provisions relating to casual vacancy of a managing director do not apply to a Government company if it is regular in filing its returns with the Registrar.

2. (d) ₹ 36,000

Reason: For the purpose of section 52 of the CGST Act, 2017, TCS is required to be collected, on the net value of taxable supplies (other than services notified under section 9(5) of CGST Act, 2017) made through E-commerce operator by other suppliers where the consideration is to be collected by the ECO, at the rate of 1%.

Carpentering service is a service notified under section 9(5) of CGST Act, 2017.

During the month of December, 2023, Apsflon Ltd. made following supplies using the platform provided by Fsell Inc.:

- (i) Supply of goods valued ₹ 35 lakhs out of which goods valued ₹ 3 lakhs were returned in the same month and 2 lakhs in the next month
- (ii) Supply of repairing services valued ₹ 4 lakhs and;
- (iii) Supply of carpentering services valued ₹ 2 lakhs.

Accordingly, TCS @ 1% on net value of taxable supplies made by Apsflon Ltd. = 1% of (₹ 35 lakhs - ₹ 3 lakhs + ₹ 4 lakhs) = 1% of ₹ 36 lakhs = ₹ 36,000.

3. (a) Two separate registrations would have been taken i.e. as a regular tax payer and as a person required to collect tax at source, respectively.

Reason: As per Section 24 of the CGST Act, 2017, a person is liable for mandatory registration under GST, inter-alia, if:

- (i) Every ECO (Electronic Commerce Operator) who is required to collect tax at source under section 52,
- (ii) persons who are required to pay tax under section 9(5).

Here, it is given, Apsflon Ltd. uses e-commerce platform of Fsell Inc. to provide carpentering service which is one of the services notified under section 9(5) of CGST Act, 2017 and for which Fsell Inc. shall be liable to pay GST as per 9(5) of CGST Act, 2017.

Accordingly, Fsell Inc. would be registered under GST by obtaining two separate registrations i.e. as a regular tax payer and as a person required to collect tax at source, respectively.

4. (a) ₹ 6,411

Reason: As per Section 52(6) of the CGST Act, 2017:

If after submission of GSTR-8, the ECO discovers any discrepancy therein on his own - not being the result of any scrutiny, audit, inspection or enforcement proceedings - he should rectify such

discrepancy in GSTR-8 to be filed for the month during which such discrepancy is noticed, subject to payment of interest under section 50.

Here, at the time of filing GSTR-8 by Fsell Inc. for December, 2023, its accountant discovered that there was a discrepancy in the GSTR-8 filed for the month of November, 2023 on 10th December, 2023, due to which there was a shortfall in the TCS credited by it to the Government by ₹ 5,00,000.

The GSTR-8 of Fsell Inc. for the month of December, 2023, was filed on 5th January, 2024 by rectifying the error made during the month of November, 2023.

Accordingly, interest paid would be ₹ 5,00,000 * 26 days/365 days (i.e. from 10th December to 5th January) * 18% = ₹ 6411.

5. (c) Fsell Inc. was required to deposit the amount of equalisation levy and interest payable shall be ₹ 24,000.

Reason: As per section 165A of the Finance Act, 2016:

The amount of equalisation levy to be deposited by Fsell Inc. is ₹ 12 crores × 2% = ₹ 24,00,000. Such amount is to be deposited by 7th January, 2024, with the credit of the Central Government as per Section 166A of the Finance Act, 2016 which was deposited on 31st January, 2024.

Thus, interest payable shall be: ₹ 24 lakhs * 1% = ₹ 24,000

Answers to the Descriptive Questions

6. According to Section 202 of Companies Act, 2013, compensation can be paid only to a Managing Director, Whole-time Director or Manager. Amount of compensation cannot exceed remuneration which he would have earned if he would have been in the office for the unexpired term of his office or for 3 years whichever is shorter. No compensation shall be paid, if the director has been found guilty of fraud or breach of trust or gross negligence in the conduct of the affairs of the company.

In light of the above provisions of law, the company is not liable to pay any compensation to Mr. Himanshu, if he has been found guilty of fraud or breach of trust or gross negligence in the conduct of affairs of the company. But it is **not proper** on the part of the company to withhold the payment of compensation on the basis of mere allegations.

The compensation payable by the company to Mr. Himanshu would be ₹ 13 lakhs calculated at the rate of ₹ 50,000 per month for unexpired term of 26 months.

Regarding ad-hoc payment of 4 Lakhs, it will not be possible for the company to recover the amount from Mr. Himanshu in view of the decision in case of Bell vs. Lever Bros. (1932) AC 161 where it was observed that a director was not legally bound to disclose any breach of his fiduciary obligations so as to give the company an opportunity to dismiss him. In that case the Managing Director was initially removed by paying him compensation and later on it was discovered that he had been guilty of breaches of duty and corrupt practices and that he could have been removed without compensation.

7. As per Section 165A of the Finance Act, 2016, there shall be charged an equalisation levy at the rate of **two percent of the amount of consideration received or receivable** by an e-commerce operator from e-commerce supply or services made or provided or facilitated by it:
- (i) to a person resident in India; or
 - (ii) to a non-resident in the specified circumstances as referred to in sub-section (3); or
 - (iii) to a person who buys such goods or services or both using internet protocol address located in India.

The equalisation levy under sub-section (1) shall not be charged:

- (a) where the e-commerce operator making or providing or facilitating e-commerce supply or services has a **permanent establishment in India** and such e-commerce supply or services is effectively connected with such permanent establishment;
- (b) where the equalisation levy is **leviable under section 165**; or
- (c) **sales, turnover or gross receipts**, as the case may be, of the e-commerce operator from the e-commerce supply or services made or provided or facilitated as referred to in sub-section (1) is **less than two crore rupees during the previous year**.

- (i) **Fsell Inc. has a PE in India**

Equalisation levy would not be attracted assuming the supply of online advertisement services Fsell Inc. to Apsflon Ltd. is effectively connected with the P.E. of Fsell Inc. in India.

- (ii) **Fsell Inc. does not have a PE in India**

Fsell Inc. has provided services in form of an online platform for sale of goods to the persons resident in India for which the consideration charged in form of commission is ₹ 12 crores for December' 2023 Quarter i.e. the gross receipt of Fsell Inc. in the P.Y. 2023-24 exceeds ₹ 2 crores.

Accordingly, the amount of equalisation levy to be deposited by Fsell Inc. is ₹ 12 crores × 2% = ₹ 24,00,000. Such amount is to be deposited by 7th January, 2024, with the credit of the Central Government as per Section 166A of the Finance Act, 2016.

MTP Case Study 9

Subjects	Topics Covered	Marks
FR	Ind AS 40, Ind AS 116	11
DT	TDS (Section 194DA, 194I)	12
Law	Companies Act (Section 152, 169)	2

Para 1

Asayam Ltd.'s registered office is situated in Uttar Pradesh and is registered under GST in the state of Uttar Pradesh, West Bengal and Maharashtra, respectively. It is mainly engaged in the business of automobiles and spare parts from its branches located in the aforesaid states for which it has obtained registration under GST.

With effect from 24th September 2023, Mr. Jayprakash Sharma was appointed as the nominee director by the board of Asayam Ltd., as a representative of VPL Bank, which made his nomination for such appointment. Also, it was proposed to remove Mr. Rajveer Sena, an independent director, who was currently holding such office for the 8th consecutive year.

The company is an unlisted public company having twelve directors in its board which includes two independent directors and a woman director. Also, there is a managing director, chief financial officer and whole-time company secretary appointed as key managerial personnel by the company.

Para 2

Few employees of Asayam Ltd. had taken life insurance policies from HMFL Pramerica Life Insurance Co. Ltd. for which the maturity proceeds were due to be received during F.Y. 2023-24, details of which are as follows:

Name of Employee	Policy taken on	Annual Premium (₹)	Date on which amount due to be received	Amount to be received (₹ in lakhs)	Sum Assured (₹ in lakhs)
Mr. Shyam	01.04.2020	60,000	31.03.2024	3.5	3.2
Mr. Rahul	31.10.2011	38,000	31.03.2024	4.2	3.7
Mr. Kalpesh	01.06.2016	35,000	01.06.2023	3.7	3.6
Mr. Daman	01.02.2021	25,000	01.02.2024	0.90	0.85

Para 3

Asayam Ltd. enters into a ten-year lease contract of one of its office building floor located in Bamrauli area of Allahabad, with Havanti Ltd., engaged in the similar line of business. Under the lease:

Asayam Ltd. receives annual lease payments of ₹ 1,50,000, payable at the end of the year and expects the residual value of the said floor to be ₹ 5,00,000 at the end of the 10-year lease term.

Havanti Ltd. provides a residual value guarantee that protects Asayam Ltd. from the first ₹ 3,00,000 of loss for a sale at a price below the estimated residual value at the end of the lease term (i.e., ₹ 5,00,000)

The floor included in the office building has an estimated remaining economic life of 15 years, a carrying amount of ₹ 10,00,000 and a fair value of ₹ 11,10,000.

The lease neither transfers ownership of the underlying asset to Havanti Ltd. at the end of the lease term nor contain an option to purchase the underlying asset. The interest rate implicit in the lease is 10.078%.

Para 4

Havanti Ltd. also took on hire machinery from Asayam Ltd. with effect from 1st September, 2023, on hire

charges of ₹ 18,000 per month, by entering into an agreement for the same.

The lease rent of building floor and hire charges of machinery for the financial year 2023-24, respectively, were credited by Havanti Ltd. to the account of Asayam Ltd. in its books of account on 31.3.2024.

Havanti Ltd. is able to claim higher deduction in respect of lease rentals paid to Asayam Ltd. rather than in case of depreciation, if it would have purchased the said building floor instead of taking the same on lease.

Multiple Choice Questions

1. With reference to Para 3, at what amount, Asayam Ltd. shall present the building floor in the balance sheet given under lease at the end of year 1, in accordance with relevant Ind AS?
 - (a) ₹ 11,10,000
 - (b) ₹ 10,71,866
 - (c) ₹ 10,33,400
 - (d) ₹ 9,23,400
2. With reference to Para 3, whether the property given under lease by Asayam Ltd. to Havanti Ltd. can be classified as an 'Investment property' as per Ind AS 40 and whether Havanti Ltd. shall be considered to be deemed owner of the said property for the purpose of the provisions of the Income Tax Act, 1961?
 - (a) The said property shall be classified as an 'Investment property' by Asayam Ltd. and Havanti Ltd. shall be considered to be deemed owner of the said property for the purpose of the provisions of the Income Tax Act, 1961.
 - (b) The said property shall be classified as an 'Investment property' by Asayam Ltd. and Havanti Ltd. shall not be considered to be deemed owner of the said property for the purpose of the provisions of the Income Tax Act, 1961.
 - (c) The said property cannot be classified as an 'Investment property' by Asayam Ltd. and Havanti Ltd. shall not be considered to be deemed owner of the said property for the purpose of the provisions of the Income Tax Act, 1961.
 - (d) The said property cannot be classified as an 'Investment property' by Asayam Ltd. and Havanti Ltd. shall be considered to be deemed owner of the said property for the purpose of the provisions of the Income Tax Act, 1961.
3. With reference to Para 4, what amount of tax shall be deducted by Havanti Ltd. in respect of transaction(s) with Asayam Ltd.?
 - (a) ₹ 10,020
 - (b) ₹ 27,600
 - (c) ₹ 17,520
 - (d) No TDS is deductible
4. With reference to Para 3 & 4, whether grandfathering would be available to Asayam Ltd. in respect of the lease contract entered into with Havanti Ltd. and would the lease rent payment be disallowed as expense under General Anti-Avoidance Rules (GAAR) to Havanti Ltd., in terms of provisions of the Income Tax Act, 1961, respectively?
 - (a) Grandfathering would be available to Asayam Ltd. and GAAR provisions would not apply in case of Havanti Ltd.
 - (b) Grandfathering would not be available to Asayam Ltd. and GAAR provisions would not apply in

case of Havanti Ltd.

- (c) Grandfathering would be available to Asayam Ltd. and the Revenue need not invoke GAAR in case of Havanti Ltd., though GAAR and SAAR can co-exist as per clarification given in the CBDT Circular.
- (d) Grandfathering would not be available to Asayam Ltd. and GAAR provisions would apply in case of Havanti Ltd.
5. With reference to Para 1, whether Mr. Jayprakash can be considered as a director liable to retire by rotation and how Mr. Rajveer Sena can be removed by the company?
- (a) Mr. Jayprakash can be considered as a director liable to retire by rotation, only if he is designated so, and Mr. Rajveer can be removed by the company by passing of special resolution.
- (b) Mr. Jayprakash cannot be considered as a director liable to retire by rotation and Mr. Rajveer can be removed by the company by passing of ordinary resolution.
- (c) Mr. Jayprakash can be considered as a director liable to retire by rotation, only if he is designated so, and Mr. Rajveer cannot be removed by the company.
- (d) Mr. Jayprakash cannot be considered as a director liable to retire by rotation and Mr. Rajveer can be removed by the company by passing of special resolution.

Descriptive Questions

6. With reference to Para 3, how should the Asayam Ltd. account for the lease entered with Havanti Ltd. in its books of accounts?
7. With reference to Para 2, examine the applicability of the provisions of TDS in cases of employees of Asayam Ltd. in respect of life insurance policies taken by them.

ANSWERS TO THE CASE STUDY 9

Answers to the Multiple Choice Questions

1. (b) ₹ 10,71,866

Reason: Lessor recognise assets held under a finance lease in the balance sheet and present them as a receivable at an amount equal to the net investment in the lease under Ind AS 116.

Here, Asayam Ltd. shall recognise the building floor held under a finance lease in the balance sheet because the sum of the present value of lease payments amounts to substantially all of the fair value of the underlying asset and present it as a receivable at an amount equal to the net investment in the lease under Ind AS 116 at the end of year 1 at ₹ 10,71,866, calculated as follows:

Year	Annual Rental Payment	Annual Interest Income	Net investment at the end of the year
Initial net investment	-	-	11,10,000
1	1,50,000	1,11,866 (11,10,000*10.078%)	10,71,866 (11,10,000-1,50,000+1,11,866)

2. (c) The said property cannot be classified as an 'Investment property' by Asayam Ltd. and Havanti Ltd. shall not be considered to be deemed owner of the said property for the purpose of the provisions of the Income Tax Act, 1961.

Reason: (i) As per Ind AS 40: The property leased to another entity under a finance lease is not an investment property and are therefore is outside the scope of this Standard.

Accordingly, the said property cannot be classified as an 'Investment property' by Asayam Ltd. as Ind AS 40 is not applicable when the lease has been classified as finance lease by Asayam Ltd. as the sum of the present value of lease payments amounts to substantially all of the fair value of the underlying asset.

(ii) As per Section 27(iib) of the Income Tax Act, 1961,

A person who acquires any rights in or with respect to any building or part thereof, by virtue of any transaction as is referred to in section 269UA(f) i.e. transfer by way of lease for not less than 12 years, shall be deemed to be the owner of that building or part thereof.

Here, Havanti Ltd. shall not be considered to be deemed owner of the said property as per provisions of the Income Tax Act, 1961, as the office floor has been leased for period of 10 years i.e. for less than 12 years.

3. (c) ₹ 17,520

Reason: As per section 194-I dealing with deduction of tax at source from payment of rent, the rate of TDS applicable is 2% for machinery hire charges and 10% for building lease rent. The scope of the section includes within its ambit, rent for machinery, plant and equipment. Tax is required to be deducted at source from payment of rent, by whatever name called, under any lease, sub-lease, tenancy or any other agreement or arrangement for the use of building and machinery, irrespective of whether such assets are owned or not by the payee.

The limit of ₹ 2,40,000 for tax deduction at source will apply to the aggregate rent of all the assets. Even if two separate agreements are entered into, one for lease of building and another for hiring of machinery, rent and hire charges under the two agreements have to be aggregated for the purpose of application of the threshold limit of ₹ 2,40,000.

In this case, since the payment for lease rent and hire charges credited to the account of Asayam Ltd., the payee, aggregates to ₹ 2,76,000 (₹ 1,50,000 + ₹ 1,26,000 (18,000 x 7)), tax is deductible at source under section 194-I. Tax is deductible @10% on ₹ 1,50,000 (lease rent of building) = ₹ 15,000 and @ 2% on ₹ 1,26,000 (hire charges of machinery) = ₹ 2,520 i.e. ₹ 17,520, in total.

4. (b) Grandfathering would not be available to Asayam Ltd. and GAAR provisions would not apply in case of Havanti Ltd.

Reason: (i) As per Clarifications on certain queries about implementation of General Anti-Avoidance Rules (GAAR) [Circular No.7 of 2017 dated 27-1-2017]:

Grandfathering is available in respect of income from transfer of investments made before 1st April, 2017. As per Accounting Standards, 'investments' are assets held by an enterprise for earning income by way of dividends, interest, rentals and for capital appreciation. Lease contracts and loan arrangements are, by themselves, not 'investments' and hence grandfathering is not available.

(ii) GAAR provisions would not apply in case of lease rental payments by Havanti Ltd. as it merely makes a selection out of the options available to it.

5. (d) Mr. Jayprakash cannot be considered as a director liable to retire by rotation and Mr. Rajveer can be removed by the company by passing of special resolution.

Reason: (i) Nominee director on the Board of a company cannot be considered as a director liable to retire by rotation.

Here, Mr. Jayprakash Sharma being appointed as the nominee director by the board of Asayam Ltd. cannot be considered as a director liable to retire by rotation.

(ii) Also, it was proposed to remove Mr. Rajveer Sena, an independent director, who was currently holding such office for the 8th consecutive year.

As per section 169 of the Companies Act, 2013, An independent director re-appointed for second term under Section 149(10) shall be removed by the company only by passing a special resolution.

Here, it is given that Mr. Rajveer Sena, an independent director, was currently holding such office for the 8th consecutive year and accordingly, it can be understood that he was re-appointed for second term, so, he can be removed by the company only by passing a special resolution.

The Director to be removed shall be given a reasonable opportunity of being heard before his removal.

Answers to the Descriptive Questions

6. Asayam Ltd. shall classify the lease as a FINANCE LEASE because the sum of the present value of lease payments amounts to substantially all of the fair value of the underlying asset.

At lease commencement, Asayam Ltd. accounts for the finance lease, as follows:

Net investment in the lease	Dr.	₹ 11,10,000 (a)	
Cost of goods sold	Dr.	₹ 9,23,400 (b)	
To Revenue			₹ 10,33,400 (c)
To Property held for lease			₹ 10,00,000 (d)

To record the net investment in the finance lease and derecognise the underlying asset.

- (a) The net investment in the lease consists of:

- (1) the present value of 10 annual payments of ₹ 1,50,000 plus the guaranteed residual value of ₹ 3,00,000, both discounted at the interest rate implicit in the lease, which equals ₹ 10,33,400 (i.e., the lease payment) (Refer note 1) AND
- (2) the present value of unguaranteed residual asset of ₹ 2,00,000, which equals ₹ 76,600 (Refer note 2).

Note that the net investment in the lease is subject to the same considerations as other assets in classification as current or non-current assets in a classified balance sheet.

- (b) Cost of goods sold is the carrying amount of the building floor of ₹ 10,00,000 (less) the present value of the unguaranteed residual asset of ₹ 76,600.
- (c) Revenue equals the lease receivable.
- (d) The carrying amount of the underlying asset

At lease commencement, Lessor recognises selling profit of ₹ 1,10,000 which is calculated as = lease payment of ₹ 10,33,400 – [carrying amount of the asset (₹ 10,00,000) – net of any unguaranteed residual asset (₹ 76,600)], which equals ₹ 9,23,400]

Year 1 Journal entry for a finance lease

Cash	Dr.	₹ 1,50,000 (e)	
To Net investment in the lease			₹ 38,134 (f)
To Interest income			₹ 1,11,866 (g)

- (e) Receipt of annual lease payments at the end of the year.

- (f) Reduction of the net investment in the lease for lease payments received of ₹ 1,50,000, net of interest income of ₹ 1,11,866
- (g) Interest income is the amount that produces a constant periodic discount rate on the remaining balance of the net investment in the lease. Please refer the computation below:

Year	Annual Rental Payment	Annual Interest Income (h)	Net investment at the end of the year
Initial net investment	-	-	11,10,000
1	1,50,000	1,11,866	10,71,866
2	1,50,000	1,08,023	10,29,888
3	1,50,000	1,03,792	9,83,681
4	1,50,000	99,135	9,32,816
5	1,50,000	94,009	8,76,825
6	1,50,000	88,366	8,15,192
7	1,50,000	82,155	7,47,347
8	1,50,000	75,318	6,72,664
9	1,50,000	67,791	5,90,455
10	1,50,000	59,545*	5,00,000(i)

* Figure has been rounded off for equalization

- (h) Interest income equals 10.078% of the net investment in the lease at the beginning of each year. For e.g., Year 1 annual interest income is calculated as ₹ 11,10,000 (initial net investment) x 10.078%.
- (i) The estimated residual value of the building floor at the end of the lease term.

Working Notes:

1 Calculation of net investment in lease:

Year	Lease Payment (A)	Present value factor @ 10.078% (B)	Present value of lease payments (A x B = C)
1	1,50,000	0.908	1,36,200
2	1,50,000	0.825	1,23,750
3	1,50,000	0.750	1,12,500
4	1,50,000	0.681	1,02,150
5	1,50,000	0.619	92,850
6	1,50,000	0.562	84,300
7	1,50,000	0.511	76,650
8	1,50,000	0.464	69,600
9	1,50,000	0.421	63,150
10	1,50,000	0.383	57,450
10	3,00,000	0.383	1,14,800*
			10,33,400

* Figure has been rounded off for equalization of journal entry

2 Calculation of present value of unguaranteed residual asset

Year	Lease Payment (A)	Present value factor @ 10.078% (B)	Present value of lease payments (A x B = C)
10	2,00,000	0.383	76,600

7. (i) Mr. Shyam:

Since the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, the maturity proceeds of ₹ 3.50 lakhs are not exempt under section 10(10D) in the hands of Mr. Shyam.

Therefore, tax is required to be deducted @ 5% under section 194DA on the amount of income comprised therein i.e., on ₹ 1,10,000 (₹ 3,50,000, being maturity proceeds - ₹ 2,40,000, being the aggregate amount of insurance premium paid).

(ii) Mr. Rahul:

Since the annual premium is less than 20% of sum assured in respect of a policy taken before 1.4.2012, the sum of ₹ 4.20 lakhs due to Mr. Rahul would be exempt under section 10(10D) in his hands.

Hence, no tax is required to be deducted at source under section 194DA on such sum payable to Mr. Rahul.

(iii) Mr. Kalpesh:

Since the annual premium is less than 10% of sum assured in respect of a policy taken after 1.4.2012, the sum of ₹ 3.70 lakhs due to Mr. Kalpesh would be exempt under section 10(10D) in his hands.

Hence, no tax is required to be deducted at source under section 194DA on such sum payable to Mr. Kalpesh.

(iv) Mr. Daman:

Even though the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, and consequently, the maturity proceeds of ₹ 90,000 would not be exempt under section 10(10D) in the hands of Mr. Daman, the tax deduction provisions under section 194DA are not attracted since the maturity proceeds are less than ₹ 1 lakh.

MTP

Case Study 10

Subjects	Topics Covered	Marks
FR	Ind AS 19	4
DT	Assessment Procedure (Section 132)	7
IDT	Value of Supply	10
Law	FEMA (Section 13, General Guidelines for Import)	4

Para 1

Pranidhan Ltd. is registered under GST in West Bengal and Uttar Pradesh and is engaged in the business of cloth garments, both in form of whole-sale and trading across India, by itself and through its related entities.

The company is having its registered office in Kolkata, and it is an unlisted public company, with paid-up share capital of ₹ 30 crore and 600 members as its equity shareholders.

Para 2

The business premises of Pranidhan Ltd. and the residence of its directors at Kolkata, were searched under section 132 of the Income Tax Act, 1961 by the DDI Kolkata. The search was concluded by executing last authorisation for search on 13th July, 2023, and following were also seized besides other papers and records:

- (i) Papers found in the drawer of an accountant relating to Deshavart Ltd., Jaipur, indicating details of various business transactions. However, Pranidhan Ltd. is not having any direct or indirect connection of any nature with these transactions and Deshavart Ltd. and its directors.
- (ii) Cash of ₹ 40 lakhs from the bedroom of Mr. Prasidh Dave, a director of Pranidhan Ltd., which was claimed by him to be of his brother residing in different city.
- (iii) Papers recording certain transactions of income and expenses having direct nexus with the business of the company for the period from 16.4.2022 to date of search. It was admitted by the director that the transactions recorded in such papers have not been incorporated in the books.

Para 3

During the F.Y. 2023-24, Mr. Prasidh, was required to travel to USA for a private visit to meet his relatives abroad for which he purchased tickets, including the return ticket, from Disha Travels, an air travel agent, for ₹ 2 lakhs in which the basic air fare component was 65%.

Further for the purpose of such journey to USA, Mr. Prasidh also purchased 16,000 US \$ at the rate of ₹ 74.50 per USD from Stambh Forex Private Limited, a money changer, registered under GST in West Bengal. RBI reference rate for USD for that day was not available.

On his return, Mr. Prasidh was left over with 2,000 US \$ originally purchased by him from India and he had also received a sum of 6,000 US \$ and ₹ 50,000 as gifts from his relatives residing in USA.

Mr. Prasidh sold 8,000 US \$ brought by him to India to Stambh Forex Private Limited at the rate of ₹ 74 per US \$. RBI reference rate for US \$ on that day was ₹ 74.60.

Mr. Jatin Saxena, another director of Pranidhan Ltd. had also remitted an amount in pounds equivalent to 2,55,000 US \$, in parts, for maintenance of his close relatives residing in UK through his two normal bank accounts in India. Such remittance was made by him without taking approval from any relevant authority.

Para 4

On 1st April 2023, the fair value of the assets of Pranidhan Ltd.'s defined benefit plan were valued at ₹ 21,20,000 and the present value of the defined obligation was ₹ 22,05,000.

On 31st March, 2024, the plan received contributions from Pranidhan Ltd. amounting to ₹ 5,05,000 and paid out benefits of ₹ 3,35,000. The current service cost for the financial year ending 31st March, 2024, is ₹ 5,20,000.

An interest rate of 5% is to be applied to the plan assets and obligations. The fair value of the plan's assets at 31st March, 2024 was ₹ 24,60,000, and the present value of the defined benefit obligation was ₹ 28,00,000.

Multiple Choice Questions

- With reference to Para 4, how much total amount should be recognised in the statement of profit and loss, by Pranidhan Ltd. with respect to plan assets and the defined benefit obligation?
 - (₹ 7,60,000)
 - (₹ 5,24,250)
 - (₹ 6,52,300)
 - (₹ 5,20,000)
- With reference to Para 4, how much total amount should be recognised in the other comprehensive income, by Pranidhan Ltd. with respect to plan assets and the defined benefit obligation?
 - (₹ 2,35,750)
 - (₹ 1,21,300)
 - (₹ 2,77,700)
 - (₹ 2,40,000)
- With reference to Para 3, what shall be the value of taxable supply as per relevant CGST Rules for Disha Travels in respect of tickets sold to Mr. Prasidh?
 - ₹ 20,000
 - ₹ 6,500
 - ₹ 13,000
 - ₹ 1,30,000
- With reference to Para 3, how much excess Indian currency can be said to have been brought by Mr. Prasidh into India from USA and whether any declaration needs to be given in case of the USD currency notes brought into India by Mr. Prasidh to the Custom Authorities? Answer in terms of Foreign Exchange Management Act (FEMA), 1999.
 - Mr. Prasidh has brought in excess ₹ 25,000 in India and in case of USD currency notes brought into India, he is not required to provide declaration to Custom Authorities but to the Authorised Dealer.
 - Mr. Prasidh has brought such amount of Indian currency which is within the limits in India and in case of USD currency notes brought into India, he is not required to provide declaration to Custom Authorities.
 - Mr. Prasidh has brought in excess ₹ 40,000 in India and in case of USD currency notes brought into India, he is not required to provide declaration to Custom Authorities but to the Authorised Dealer.
 - Mr. Prasidh has brought in excess ₹ 25,000 in India and in case of USD currency notes brought into India, he needs to provide declaration to Custom Authorities.
- With reference to Para 3, what could be the maximum amount of penalty, if any, that could be levied

upon Mr. Jatin in respect of foreign exchange remitted by him? Answer in terms of Liberalised Remittance Scheme.

- (a) ₹ 2,00,000
- (b) An amount in INR equivalent to \$ 15,000
- (c) An amount in INR equivalent to \$ 5,000
- (d) No penalty is leviable as the remittances were made for a permissible current account transaction.

Descriptive Questions

6. With reference to Para 3, determine the value of supply for Stambh Forex Private Limited at the time of USD sold as well as purchased to/from Mr. Prasidh, in terms of rule 32(2)(a) and rule 32(2)(b) of the CGST Rules?
7. With reference to Para 2, answer the following in terms of Income Tax Act, 1961:
 - (a) What action the DDI shall be taking in respect of seized papers relating to Deshavart Ltd., Jaipur?
 - (b) Whether the contention raised by Mr. Prasidh as to cash money found from his bedroom will be acceptable?
 - (c) What presumption shall be drawn in respect of the papers which indicate transactions not recorded in the books?

ANSWERS TO THE CASE STUDY 10

Answers to the Multiple Choice Questions

1. (b) (₹ 5,24,250)

Reason: Reconciliation of Plan assets and Defined benefit obligation

	Plan Assets	Defined benefit obligation
	₹	₹
Fair value/present value as at 1 st April 2023	21,20,000	22,05,000
Interest @ 5%	1,06,000	1,10,250
Current service cost		5,20,000
Contributions received	5,05,000	-
Benefits paid	(3,35,000)	(3,35,000)
Return on gain (assets) (bal. fig.)	64,000	-
Actuarial Loss (bal. fig.)	-	2,99,750
Closing balance as at March 31, 2024	24,60,000	28,00,000

In the Statement of Profit and loss, the following will be recognised:

	₹
Current service cost	(5,20,000)
Net interest on net defined liability (₹1,10,250 – ₹1,06,000)	(4,250)
	<u>(5,24,250)</u>

2. (a) (₹ 2,35,750))

Reason: Reconciliation of Plan assets and Defined benefit obligation

	Plan Assets	Defined benefit obligation
	₹	₹
Fair value/present value as at 1 st April 2023	21,20,000	22,05,000
Interest @ 5%	1,06,000	1,10,250
Current service cost		5,20,000
Contributions received	5,05,000	-
Benefits paid	(3,35,000)	(3,35,000)
Return on gain (assets) (bal. fig.)	64,000	-
Actuarial Loss (bal. fig.)	-	2,99,750
Closing balance as at March 31, 2024	24,60,000	28,00,000

Defined benefit re-measurements recognised in Other Comprehensive Income:

Loss on defined benefit obligation	(2,99,750)
Gain on plan assets	64,000
	(2,35,750)

3. (c) ₹ 13,000

Reason: As per rule 32(3) of CGST Rules, the value of the supply of services in relation to booking of tickets for travel by air provided by an air travel agent is 5% of the basic fare in case of domestic bookings, and 10% of the basic fare in case of international bookings.

Here, the value of taxable supply for Disha Travels in respect of tickets sold to Mr. Prasidh will be 10% of basic fare contained in international booking i.e. 10% of (65% of ₹ 2 lakhs) = ₹ 13,000.

4. (d) Mr. Prasidh has brought in excess ₹ 25,000 in India and in case of USD currency notes brought into India, he needs to provide declaration to Custom Authorities.

Reason: As per General Guidelines for Imports under FEMA, 1999:

Import of Foreign Exchange into India: A person may –

- Send into India, without limit, foreign exchange in any form (other than currency notes, bank notes and travelers cheques);
- Bring into India from any place outside India, without limit, foreign exchange (other than unissued notes); subject to the condition that such person makes, on arrival in India, a declaration to the Custom Authorities at the Airport in the Currency Declaration Form (CDF) annexed to these Regulations;
- Provided further that it shall not be necessary to make such declaration where the aggregate value of the foreign exchange in the form of currency notes, bank notes or travelers cheques brought in by such person at any one time does not exceed USD 10,000 (US Dollars ten thousand) or its equivalent and/or the aggregate value of foreign currency notes (cash portion) alone brought in by such person at any one time does not exceed USD 5,000 (US Dollars five thousand) or its equivalent.
- Thus, in case of USD currency notes of \$ 6,000 brought into India, Mr. Prasidh needs to provide declaration to the Custom Authorities, as aforesaid.

Import of Indian Currency and Currency Notes

- Any person resident in India who had gone out of India on a temporary visit, may bring into

India at the time of his return from any place outside India (other than from Nepal and Bhutan), currency notes of Government of India and Reserve Bank of India notes up to an amount not exceeding ₹ 25,000 (Rupees twenty five thousand only).

- (ii) A person may bring into India from Nepal or Bhutan, currency notes of Government of India and Reserve Bank of India for any amount in denominations up to ₹ 100/-
- (iii) Mr. Prasad has brought in excess ₹ 25,000 in India as he was allowed to import only ₹ 25,000 but he brought ₹ 50,000 in India.

5. (b) An amount in INR equivalent to \$ 15,000

Reason: Under the Liberalised Remittance Scheme (LRS), all resident individuals, including minors, are allowed to freely remit up to USD 250,000 per financial year (April – March) for any permissible current or capital account transaction or a combination of both.

No approval is required where any remittance has to be made from an RFC account.

During the year, Mr. Jatin had remitted an amount in pounds equivalent to 2,55,000 US \$, in parts, for maintenance of his close relatives (i.e. a permissible current account transaction) in UK through his normal bank account in India.

Thus, Mr. Jatin has drawn \$ 5,000 in excess of the prescribed limit of \$ 2,50,000 for which penalty leviable would be upto three times of the sum involved, as it is quantifiable and if it is a continuing offence, further penalty upto ₹ 5,000 per day after first day during which the contravention continues. As per Section 13 of the FEMA, 1999 i.e. maximum penalty that can be levied would be an amount in INR equivalent to \$ 15,000 (\$ 5,000 × 3).

Answers to the Descriptive Questions

6. Rule 32(2) of the CGST Rules prescribes the provisions for determining the value of supply of services in relation to the purchase or sale of foreign currency, including money changing.

Determination of value under rule 32(2)(a)

- (i) When the RBI reference rate for a currency is not available, the value shall be 1% of the gross amount of Indian Rupees provided or received by the person changing the money. Thus, value of supply is:

$$= 1\% \text{ of the gross amount of Indian Rupees received} = 1\% \text{ of } (74.50 \times 16,000) = ₹ 11,920/-$$

- (ii) Value of supply of services for a currency, when exchanged from, or to, Indian Rupees, shall be equal to the difference in buying rate or selling rate, as the case may be, and the Reserve Bank of India (RBI) reference rate for that currency at that time, multiplied by total units of currency.

Thus, value of supply is:

$$= (\text{RBI reference for US \$} - \text{Buying rate of US \$}) \times \text{Total number of units of US \$ bought}$$

$$= (74.6 - 74) \times 8,000 = ₹ 4,800/-$$

Determination of value under rule 32(2)(b)

Rule 32(2)(b) of the CGST Rules provides that value in relation to the supply of foreign currency, including money changing shall be deemed to be --

S.N.	Currency exchanged	Value of supply
1	Upto ₹ 1,00,000	1% of the gross amount of currency exchanged OR ₹ 250 whichever is higher

2	Exceeding ₹ 1,00,000 and upto ₹ 10,00,000	₹ 1,000 + 0.50% of the (gross amount of currency exchanged - 1,00,000)
3	Exceeding ₹ 10,00,000	₹ 5,500 + 0.1% of the (gross amount of currency exchanged - 10,00,000) OR ₹ 60,000 whichever is lower

Thus, the value of supply in the given cases would be computed as under:

(i) Gross amount of currency exchanged = ₹ 74.50 × 16,000 = ₹ 11,92,000. Since the gross amount of currency exchanged exceeds ₹ 10,00,000, value of supply is ₹ 5,500 + 0.1% of the (gross amount of currency exchanged - 10,00,000) = ₹ 5,692 OR ₹ 60,000 whichever is lower, i.e. ₹ 5,692/-

(ii) Gross amount of currency exchanged = ₹ 74 × 8,000 = ₹ 5,92,000.

Since gross amount of currency exchanged is more than ₹ 1,00,000 but less than ₹ 10,00,000, value of supply is ₹ 1,000 + 0.50% of (gross amount of currency exchanged - 1,00,000), i.e. = ₹ 3,460/-

7. (a) The authorised officer being DDI, Kolkata is not having any jurisdiction over Deshavart Ltd., Jaipur, and therefore, as per section 132(9A) of the Income tax Act, 1961, the papers seized relating to this company shall be handed over by him to the Assessing Officer having jurisdiction over Deshavart Ltd., Jaipur, within a period of 60 days from the date on which the last of the authorisations for search was executed for taking further necessary action thereon.
- (b) The contention raised by Mr. Prasad will not be acceptable because as per provisions of sub-section (4A)(i) of section 132 of the said Act, where any books of account, other documents, money, bullion, jewellery or other valuables are found in the possession or control of any person in course of search, then, in respect thereof, it may be presumed that the same belongs to that person.
- (c) As per section 132(4A) of the Income Tax Act, 1961, the presumptions in respect of the papers, indicating transactions not recorded in the books but having direct nexus with the business of the company, are that the same belong to the company, contents of such papers are true and the handwriting in which the same are written is/are of the persons(s) whose premises have been searched.

MTP

Case Study 11

Subjects	Topics Covered	Marks
FR	Ind AS 19, Ind AS 10 & 37	10
Audit	SA 402	5
IDT	RCM	4
Law	Companies Act (Section 151, 180, 197)	6

- (1) Upal Ltd. is a public company (herein after referred as 'The Company'), listed in NSE & BSE, having paid up share capital of ₹ 600 crores, with 20,000 shareholders, incorporated since 2004, and the company got listed in 2012.

The company avails certain services from sub-service organization, named Paryupasna HR & Accounting Services Pvt. Ltd., that are part of Upal Ltd.'s information system relevant to financial reporting.

The company was required to pay penalty for a breach in the performance of a contract with Paryupasna HR & Accounting Services Pvt. Ltd. Upal Ltd. believed that the penalty was payable at a lower amount than the amount demanded by the other party. The company created provision for the penalty but also approached the arbitrator with a submission that the case may be dismissed with costs. The company prepared the financial statements for the year 2023-24, which were approved in May 2024. The arbitrator, in April 2024, awarded the case in favour of Upal Ltd. As a result of the award of the arbitrator, the provision earlier made by the company was required to be reduced. The arbitrator also decided that cost of the case should be borne by the other party i.e. Paryupasna HR & Accounting Services Pvt. Ltd.

- (2) The company has a headcount of around 1,000 employees in the organisation in 2023-24. As per the company's policy, the employees are given 30 days of privilege leaves (PL), 10 days of sick leaves (SL) and 5 days of casual leaves. Out of the total PL and sick leaves, 10 PL leaves and 5 sick leaves can be carried forward to next year. On the basis of past trends, it has been noted that 300 employees will take 5 days of PL and 2 days of SL and 700 employees will avail 10 days of PL and 5 days of SL.

Also the company has been incurring profits since 2012. It has decided in F.Y. 2023-24 to distribute profits to its employees @ 4% during the year. However, due to the employee turnover in the organisation, the expected pay-out of the Upal Ltd. is expected to be around 3.5%. The profits earned during 2023-24 is ₹ 1,800 crores.

Upal Ltd. has a post-employment benefit plan also available which is in the nature of defined contribution plan where contribution to the fund amounts to ₹ 100 crores which will fall due within 12 months from the end of accounting period. The company has paid ₹ 20 crores to its employees in 2023-24.

- (3) Upal Ltd., at present, is having 1000 small shareholders who are desirous of appointing Mr. Merumal as their Director on the Board of Directors. Mr. Merumal held 500 equity shares of ₹ 10 each in the said company. According to the provisions of the Companies Act, 2013, a listed company may have one Director elected by such small shareholders in such manner and on such terms and conditions as may be prescribed. Hence, Mr. Merumal was appointed as a small shareholders' Director by the company.

- (4) The company pays sitting fee of ₹ 25,000 each to its 10 directors per meeting. Further, there are two directors who are in the executive roles and are withdrawing ₹ 2,10,000 each per month as salary from the company and the applicable TDS amount, under section 192 of the Income-tax Act, 1961, is deducted from such salary.

A Board Meeting was held on 19th January, 2024, at the Registered Office at 4 P.M. The agenda of the Board Meeting was to increase the sitting fees of Directors and sale of one of the undertakings of the company. The Board of Directors of the company decided to raise the payment of sitting fees for each meeting of Board of Directors to a maximum of ₹ 40,000 by altering its Articles of Association. In view of the Board, from the last one year there had been an increase in the work responsibilities of all the directors including woman Director Ms. Reema Vakaria and other two independent Directors. Hence, it was necessary to increase the sitting fees.

The Articles of Association of Upal Ltd. contain a provision by which Directors are empowered to sell or otherwise deal with the property/undertaking of the company. The Board was of the view that the sale consideration received from selling the undertaking would be used to clear off the part of existing term loan availed from BKG Commercial Bank Limited. However, except Mr. Shyamal and Mr. Ramesh who objected to the selling of company's undertaking, all other directors were in favour of said sale.

- (5) The company imported certain cloud services from Apnacart.com for an amount of ₹ 52,00,000. There is an additional charge of 2% as equalisation levy on such services in India which is recovered from the offshore service supplier by the Government. Apnacart.com passes the taxes to its customers by charging them, as its internal policy.

Multiple Choice Questions

1. With reference to information given under Para 4, what shall be the taxability of the sitting fee payable to directors and salary payable to the executive directors?
 - (a) Sitting fees paid to the directors is liable to GST under reverse charge and the salary paid to executive directors shall not be liable to GST.
 - (b) Total amount payable to directors (sitting fees as well as salary) is exempt from GST.
 - (c) Total amount payable to directors (sitting fees as well as salary) is liable to GST under reverse charge in hands of Upal Ltd.
 - (d) Total amount payable to directors (sitting fees as well as salary) is liable to GST under forward charge in the hands of the directors as professional income.
2. With reference to information given under Para 5, the liability to pay GST for cloud services procured by Upal Ltd. from Apnacart.com shall be, assuming GST rate to be 18%?
 - (a) On Apnacart.com since the services are online information and database access or retrieval services and GST of ₹ 9,36,000 shall be paid by Apnacart.com.
 - (b) Nil. There will not be any GST liability on the transaction since Apnacart.com is located outside India and services are provided electronically.
 - (c) On Apnacart.com under forward charge and GST of ₹ 9,54,720 shall be paid by Apnacart.com.
 - (d) On Upal Ltd. under reverse charge and GST of ₹ 9,54,720 shall be paid by Upal Ltd.
3. With reference to information given under Para 4, in case, the company desires to increase sitting fees of independent Directors as well as woman Director from the existing ₹ 40,000 per meeting, whether it can do so?
 - (a) The proposal of giving sitting fees to independent Directors as well as woman Director in excess of ₹ 40,000 can be accepted but such fees cannot exceed the maximum limit of ₹ 50,000 per meeting for each such Director.
 - (b) The proposal of giving sitting fees to independent Directors as well as woman Director in excess of ₹ 40,000 cannot be accepted because all the Directors are eligible for equal sitting fees per mee

ting and that too maximum upto ₹ 50,000.

- (c) The proposal of giving sitting fees to independent Directors as well as woman Director in excess of ₹ 40,000 can be accepted but such fees cannot exceed the maximum limit of ₹ 1,00,000 per meeting for each such Director.
 - (d) Since women Directors unlike other independent Directors are not eligible for higher sitting fees per meeting, only independent Directors are eligible to be paid sitting fees in excess of ₹ 40,000 but maximum upto ₹50,000 per meeting.
4. With reference to information given under Para 4, choose the correct alternative from those stated below as to the procedure which is required to be followed by the company before selling the undertaking to some other interested party?
- (a) The Board of Directors of Upal Ltd. can sell the undertaking with the consent of 3/4th majority of the Directors present at the Board Meeting.
 - (b) The Board of Directors of Upal Ltd. can sell the undertaking but the proposal needs to be approved by a special resolution passed at a General Meeting of the company.
 - (c) The Board of Directors of Upal Ltd. can sell the undertaking but only with the unanimous consent of all the Directors of the company and thereafter, seeking the approval of the shareholders through passing an ordinary resolution at a General Meeting.
 - (d) The Board of Directors of Upal Ltd. can sell the undertaking but only after seeking the approval of the shareholders through passing an ordinary resolution at a General Meeting and thereafter, obtaining the permission of the jurisdictional Registrar of Companies.
5. With reference to information given under Para 3, how many small shareholders are required to give notice to the company for appointment of their Director and also what is the minimum time period of giving such notice before the meeting where the issue of appointment of small shareholders' Director shall be considered?
- (a) Minimum 100 small shareholders of Upal Ltd. are required to give notice to the company for appointment of Merumal as their Director and such notice needs to be given minimum 14 days before the meeting where the issue of appointment of small shareholders' Director shall be considered.
 - (b) Minimum 200 small shareholders of Upal Ltd. are required to give notice to the company for appointment of Merumal as their Director and such notice needs to be given minimum 15 days before the meeting where the issue of appointment of small shareholders' Director shall be considered.
 - (c) Minimum 150 small shareholders of Upal Ltd. are required to give notice to the company for appointment of Merumal as their Director and such notice needs to be given minimum 21 days before the meeting where the issue of appointment of small shareholders' Director shall be considered.
 - (d) Minimum 300 small shareholders of Upal Ltd. are required to give notice to the company for appointment of Merumal as their Director and such notice needs to be given minimum 30 days before the meeting where the issue of appointment of small shareholders' Director shall be considered.

Descriptive Questions

6. With reference to information given under Para 1, whether Upal Ltd. is required to remeasure its

provision and what would be the accounting treatment of the cost that will be recovered by Upal Ltd., which has already been charged to the Statement of Profit and Loss as an expense for the year 2023-24?

7. With reference to information given under Para 2, what would be the treatment of the short-term compensating absences, profit-sharing plan and the defined contribution plan in the books of Upal Ltd? What would be the treatment, if the contribution paid from defined contribution plan exceeds the contribution due? Further, what would be the accounting if the payment from defined contribution plan does not fall due within 12 months from the end of accounting period?
8. With reference to information given under Para 1, as a user auditor i.e. as an auditor of Upal Ltd., what information would you obtain about controls at a sub-service organization, Paryupasna HR & Accounting Services Pvt. Ltd.?

ANSWERS TO THE CASE STUDY 11

Answers to the Multiple Choice Questions

1. (a) **Sitting fee paid to director**

As per reverse charge notification, tax on services supplied by a director of a company/body corporate to the said company/body corporate, located in the taxable territory, is payable under reverse charge. Hence, in the present case, the sitting fee amounting to ₹ 25,000, payable to the directors by Upal Ltd., is liable to GST under reverse charge and thus, recipient of service - Upal Ltd. - is liable to pay GST on the same.

Salary paid to director

As per Circular No.140/10/2020 GST dated 10.06.2021, the part of director's remuneration which is declared as salary in the books of a company and subjected to TDS under section 192 of the Income - tax Act, are not taxable being consideration for services by an employee to the employer in the course of or in relation to his employment in terms of Schedule III. Therefore, in the given case, the salary paid to executive directors shall not be liable to GST.

2. (d) In case of importation of service, the recipient of imported service who is located in India (other than non-taxable online recipient of OIDAR service) is the person who has to pay IGST on the service under reverse charge [Section 5(3) of the IGST Act read with serial number (1) of Notification No. 10/2017 IGST (R) dated 28.06.2017].

Here, Upal Ltd. shall be liable to pay GST under reverse charge and GST of ₹ 9,54,720 (i.e. $(52,00,000 + 1,04,000) \times 18\%$) shall be paid by Upal Ltd.

3. (c) Rule 4 of the Companies (Appointment and Remuneration of Managerial personnel) Rules, 2014 as under:

- The sitting fees shall not exceed one lakh rupees per meeting of the Board or committee thereof. [As per Rule 4]
- The sitting fee payable to the Independent Directors and Women Directors shall not be less than that payable to other directors. [As per Proviso to Rule 4]

Accordingly, in the given case, the proposal of giving sitting fees to independent Directors as well as woman Director in excess of ₹ 40,000 can be accepted, as there are no legal restrictions in doing so, but such fees cannot exceed the maximum limit of ₹ 1,00,000 per meeting for each such Director:

4. (b) Section 180(1) of the Companies Act, 2013, specifies the powers which the Board of Directors of a company shall exercise only with the consent of the company by a special resolution. Clause (a) of Section 180 (1) defines one such power as the power to sell, lease or otherwise dispose of the whole or substantially the whole of the undertaking of the company or where the company owns more than one undertaking of the whole or substantially the whole or any of such undertakings.

Therefore, the sale of the undertaking of a company can be made by the Board of Directors only with the consent of members of the company accorded by passing a special resolution.

Even if the power is given to the Board by the memorandum and articles of the company, the sale of the undertaking must be approved by the shareholders in general meeting by passing a special resolution.

5. (a) Rule 7 of the Companies (Appointment and Qualifications of Directors) Rules, 2014. These provisions are discussed below:

(i) Strength of Small Shareholders required for appointment of their Director: A listed company may, upon notice of not less than:

(a) one thousand small shareholders; or

(b) 1/10th of the total number of such shareholders, whichever is lower, have a small shareholders' director elected by the small shareholders.

(ii) Serving of notice by small shareholders:

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.

Here, Upal Ltd., at present, is having 1000 small shareholders and accordingly, 1/10th of such small shareholders i.e. 100 or 1000, whichever is lower, i.e. minimum 100 small shareholders of Upal Ltd. are required to give notice to the company for appointment of Merumal as their Director and such notice needs to be given minimum 14 days before the meeting where the issue of appointment of small shareholders' Director shall be considered.

Answers to the Descriptive Questions

6. In the instant case, Upal Ltd. approached the arbitrator before the end of the reporting period, who decided the award after the end of the reporting period but before approval of the financial statements for issue. Accordingly, the conditions were existing at the end of the reporting date because Upal Ltd. had approached the arbitrator before the end of the reporting period whose outcome has been confirmed by the award of the arbitrator. Therefore, it is an adjusting event.

Accordingly, the measurement of the provision is required to be adjusted for the event occurring after the reporting period. As far as the recovery of the cost by Upal Ltd. from the other party is concerned, this right to recover was a contingent asset as at the end of the reporting period.

As per para 35 of Ind AS 37, contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs. If an inflow of economic benefits has become probable, an entity discloses the contingent asset.

On the basis of the above, a contingent asset should be recognised in the financial statements of the period in which the realisation of asset and the related income becomes virtually certain. In the instant case, the recovery of cost became certain when the arbitrator decided the award during F.Y. 2023-24. Accordingly, the recovery of cost should be recognised in the financial year 2023-24.

7. (i) Upal Ltd. will recognise a liability in its books to the extent of 5 days of PL for 300 employees and 10 days of PL for remaining 700 employees and 2 days of SL for 300 employees and 5 days of SL for remaining 700 employees in its books as an unused entitlement that has accumulated in 2023-24 as short-term compensated absences.
- (ii) Upal Ltd. will recognize ₹ 63 crores ($1,800 \times 3.5\%$) as a liability and expense in its books of account.
- (iii) When an employee has rendered service to an entity during a period, the entity shall recognise the contribution payable to a defined contribution plan in exchange for that service.
Under Ind AS 19, the amount of ₹ 80 crores will be recognised as a liability (accrued expense), after deducting any contribution already paid (100-20) and an expense in statement of profit and loss.
- (iv) However, if contribution already paid would have exceeded the contribution due for service before the end of reporting period, an entity shall recognise that excess as an asset (prepaid expense).
- (v) Since the contributions are payable within 12 months from end of the year in which the employees render the related service, they will not be discounted. However, where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the period in which the employees render the related service, they shall be discounted using the discount rate.

8. Controls at a Sub-Service Organization:

In accordance with SA 402 "Audit Considerations relating to an Entity Using a Service Organization", a user entity may use a service organization that in turn uses a sub-service organization to provide some of the services provided to a user entity that are part of the user entity's information system relevant to financial reporting. The sub-service organization may be a separate entity from the service organization or may be related to the service organization.

A user auditor may need to consider controls at the sub-service organization. In situations where one or more sub-service organizations are used, the interaction between the activities of the user entity and those of the service organization is expanded to include the interaction between the user entity, the service organization and the sub-service organizations. The degree of this interaction, as well as the nature and materiality of the transactions processed by the service organization and the sub-service organizations are the most important factors for the user auditor to consider in determining the significance of the service organization's and sub-service organization's controls to the user entity's controls.

Further, the user auditor shall determine whether a sufficient understanding of the nature and significance of the services provided by the service organization and their effect on the user entity's internal control relevant to the audit has been obtained to provide a basis for the identification and assessment of risks of material misstatement.

If the user auditor is unable to obtain a sufficient understanding from the user entity, the user auditor shall obtain that understanding by application of the following two methods of presenting description of internal controls i.e. (i) Type 1 report; or (ii) Type 2 report.

If a service organization uses a subservice organization, the service auditor's report may either

include or exclude the subservice organization's relevant control objectives and related controls in the service organization's description of its system and in the scope of the service auditor's engagement. These two methods of reporting are known as the inclusive method and the carve-out method respectively.

In either method, the service organization includes in its description of controls a description of the functions and nature of the processing performed by the sub-service organization.

If the Type 1 or Type 2 report excludes control at a subservice organization and the services provided by the subservice organization are relevant to the audit of the user entity's financial statements, the user auditor is **required to apply the requirements of the SA 402** in respect of the subservice organization.

The nature and extent of work to be performed by the user auditor regarding the services provided by a subservice organization depend on the nature and significance of those services to the user entity and relevance of those services to the audit.

MTP Case Study 12

Subjects	Topics Covered	Marks
Audit	Professional Ethics	3
DT	TDS, TCS, Tax Audit	19
Law	Companies Act (Section 181)	3

- The Board of Directors of Chandhriv Ltd., is contributing every year to a charitable organization, named, Krut Foundation, a sum of ₹1,50,000. During F.Y. 2023-24, the company suffered losses and the directors contemplated to contribute the said amount in spite of the losses.

Krut Foundation entrusted the said amount of ₹ 1,50,000 received from Chandhriv Ltd. with its auditor, CA Matvar, proprietor of M/s MS and Co., a Chartered Accountant firm, to invest in specified securities. Mr. Matvar deposited the said amount in his father, Mr. Soham's saving bank account, in Apna Tree Bank, and no investment was made in the next five months.
- Mr. Soham, father Mr. Matvar, is a resident Indian and is in retail business in Delhi. His turnover for F.Y.2022-23 was ₹ 9 crores. He is having two bank accounts, one in SBL Bank and other in Apna Tree Bank, a saving account, as aforesaid. He only uses SBL account for conducting all business transactions.

However, during F.Y. 2023-24, he used Apna Tree Bank account to pay purchase commission to one agent ₹ 25,000 on 13.6.2023 towards purchases made during the year and also made payments to Civil engineer of ₹ 5,00,000 on 23rd August, 2023 for construction of residential house for self-use.

Mr. Soham regularly purchases goods from another resident, Mr. Nartan, a wholesaler in Delhi. The aggregate payments made by Mr. Soham to Mr. Nartan during the F.Y.2023-24 towards consideration for purchase of goods were ₹ 80 lakh (₹ 15 lakh on 8.5.2023, ₹ 30 lakh on 27.8.2023, ₹ 20 lakh on 18.10.2023 and ₹ 15 lakh on 11.2.2024). Mr. Nartan's turnover for F.Y.2022-23 was ₹ 12 crores.
- Mr. Nartan paid ₹ 5 lakhs on 5.9.2023 to M/s. James Durbin for a holiday package to Dubai for a week with his family, comprising of his wife and two children, being twins aged 23 years, in the last week of September. He also took an education loan of ₹ 15 lakhs on 1.2.2024 from State Bank of India, Madam Cama Road, Mumbai, for his son's two-year Master of Public Administration program in Eurpia University, UK and remitted the said amount through the same bank, which is an authorised dealer, under the Liberalised Remittance Scheme of RBI (LRS).

For his daughter's MBA in Aaron State University, UK, he remitted ₹ 12 lakhs on 15.2.2024, out of his personal savings, through Bank of India, Bandra branch, Mumbai which is also an authorised dealer, under LRS. Mr. Nartan also remitted ₹ 6 lakh on 29.3.2024, out of his personal savings, under LRS through Bank of India, Bandra branch, as gift to his sister residing in Germany, on occasion of her 51st birthday.
- CA Matvar was appointed as the Tax Auditor of Mr. Nartan's firm for the Assessment Year 2024-25. While carrying out the Tax Audit under section 44AB of Income-tax Act, 1961. CA Matvar observed following:
 - Interest of ₹60,000 paid to Vendor Mahesh who was registered under MSME Act, 2006.
 - Interest payment ₹ 12,000 was incurred in relation to earning exempt interest income from Tax Relief bonds.
 - Sum of ₹ 1,10,000 was received from Mr. Deepak, for sale of one plant and machinery. But due to non-compliance of one of the conditions as specified in the contract with Mr. Deepak, Mr. Nartan forfeited ₹ 1,10,000 during AY 2024-25 as per forfeiture clause mentioned in the contract.

Multiple Choice Questions

1. With reference to information given under Para 2, are provisions of TDS/TCS under the Income-tax Act, 1961 attracted in respect of purchase/sale transaction between Mr. Soham and Mr. Nartan? If so, what is the quantum of tax to be deducted/collected for the P.Y.2023-24?
 - (a) No; TDS/TCS provisions are not attracted for F.Y.2023-24, since the turnover of Mr. Soham in the immediately preceding financial year i.e., F.Y. 2022-23 does not exceed ₹ 10 crores.
 - (b) Yes, Mr. Soham has to deduct tax@0.1% of ₹ 30 lakhs (₹ 15 lakhs on 18.10.2023 and ₹ 15 lakhs on 11.2.2024)
 - (c) Yes, Mr. Nartan has to collect tax@0.1% of ₹ 30 lakhs (₹ 15 lakhs on 18.10.2023 and ₹ 15 lakhs on 11.2.2024)
 - (d) Yes, Mr. Nartan has to collect tax@0.1% of ₹ 80 lakhs
2. With reference to information given under Para 2, in case of failure to furnish PAN by deductee/collectee as required based on the answer to Q.no.1 above, what would be the applicable rate of TDS/TCS?
 - (a) Not applicable, since there is no requirement to deduct or collect tax
 - (b) 20%
 - (c) 5%
 - (d) 1%
3. With reference to information given under Para 3, is M/s. James Durbin required to collect tax at source on receipt of ₹ 5 lakh from Mr. Nartan for holiday package to Dubai? If so, what is the amount of tax to be collected?
 - (a) Yes; ₹ 25,000
 - (b) Yes; ₹ 5,000
 - (c) Yes; ₹ 2,500
 - (d) No tax is required to be collected at source, since the receipt does not exceed ₹ 7 lakh
4. With reference to information given under Para 3, what is the amount of tax to be collected from Mr. Nartan in respect of the remittance of amounts overseas for his son's and daughter's education?
 - (a) TCS@0.5% of ₹ 8 lakhs and ₹ 5 lakhs are attracted in respect of remittance for son's and daughter's education, respectively.
 - (b) TCS@5% of ₹ 8 lakhs and ₹ 5 lakhs are attracted in respect of remittance for son's and daughter's education, respectively.
 - (c) TCS@0.5% of ₹ 8 lakhs and TCS@5% of ₹ 5 lakhs are attracted in respect of remittance for son's and daughter's education, respectively.
 - (d) TCS@5% of ₹ 8 lakhs is attracted in respect of remittance for son's education; No TCS is attracted in respect of remittance for daughter's education.
5. With reference to information given under Para 3, are TCS provisions attracted in respect of remittance of gift to sister? If so, what is the amount of tax to be collected from Mr. Nartan?
 - (a) No, since the remittance is out of personal savings for a personal purpose
 - (b) No, since the amount remitted to his sister is less than ₹ 7 lakhs
 - (c) No, due to reasons stated in (a) and (b) above

- (d) Yes, ₹ 1,20,000.

Descriptive Questions

6. With reference to information given under Para 2, decide whether provisions relating to deduction of tax at source are attracted for the payments made to agent and civil engineer during the financial year 2023-24?
7. With reference to information given under Para 1,
 - (a) Whether Chandhriv Ltd. could have made such contribution to Krut Foundation?
 - (b) Whether Mr. Matvar can be held guilty of professional misconduct?
8. With reference to information given under Para 4, guide CA Matvar in reporting the said transactions under the relevant clauses in Form No. 3CD.

ANSWERS TO THE CASE STUDY 12

Answers to the Multiple Choice Questions

1. (c) Since Mr. Soham's turnover for the F.Y.2022-23 was only ₹ 9 crores, TDS provisions under section 194Q of the Income-tax Act, 1961 would not be attracted. However, TCS provisions under section 206C(1H) would be attracted in the hands of Mr. Nartan, since his turnover exceeds ₹ 10 crores in the F.Y.2022-23 and his receipts from Mr. Soham exceed ₹ 50 lakhs.
No, tax is to be collected u/s 206C(1H) on 8.5.2023 and 27.8.2023, since the aggregate receipts till that date i.e. ₹ 45 lakhs, has not exceeded the threshold of ₹ 50 lakhs. Tax of @ 0.1% on ₹ 30 lakhs (₹ 15 lakhs on 18.10.2023 and ₹ 15 lakhs on 11.2.2024), being the balance unexhausted threshold limit, has to be collected.
2. (d) If PAN is not furnished by Mr. Soham to Mr. Nartan, then, Mr. Nartan has to collect tax @1% instead of 0.1%
The provisions of section 206CC require tax collection at the higher of the following two rates, in case of failure by the person paying any sum or amount on which tax is collectible at source to furnish PAN to the person responsible for collecting tax at source –
 - at twice the rate specified in the relevant provision of the Act; or
 - at 5% [1%, in case tax is required to be collected at source u/s 206C(1H)]
3. (a) Section 206C(1G) of the Income-tax Act, 1961, provides for collection of tax, inter alia, by every person, being a seller of an overseas tour programme package, who receives any amount from the buyer who purchases the package at the rate of 5% of such amount, if package is upto ₹ 7 lacs.
Here, M/s. James Durbin, being a seller of an overseas tour programme package, i.e. seller of holiday package to Dubai to Mr. Nartan, a resident, it is required to collect tax at source @ 5% on receipt of ₹ 5 lakh i.e. ₹ 25,000.
4. (c) Section 206C(1G) of the Income-tax Act, 1961, provides for collection of tax by every person,
 - being an authorized dealer, who receives amount, under the Liberalised Remittance Scheme of the RBI, for overseas remittance from a buyer, being a person remitting such amount out of India;
 - being a seller of an overseas tour programme package, who receives any amount from the buyer who purchases the package.

Rate of TCS in case of collection by an authorized dealer would be 5% of the amt or agg. of amts in excess of ₹ 7 lakh where the amount is remitted for education or medical treatment; and the amount or aggregate of the amounts in excess of ₹ 7 lakhs is remitted by the buyer in a financial year.

Rate of TCS in case of collection by an authorized dealer would be 0.5% of the amt or agg. of amt in excess of ₹ 7 lakh where the amount being remitted out is a loan obtained from any financial institution as referred under section 80E, for the purpose of pursuing any education; and the amount or aggregate of the amounts in excess of ₹ 7 lakhs is remitted by the buyer in a financial year.

Here, the amount of tax to be collected from Mr. Nartan in respect of the remittance of amounts overseas for his son's and daughter's education would be TCS @ 0.5% of ₹ 8 lakhs (i.e. ₹ 15 lakhs - ₹ 7 lakhs) as loan is taken from financial institution - SBI and TCS @ 5% of ₹ 5 lakhs (i.e. ₹ 12 lakhs - ₹ 7 lakhs) as amount is remitted out of personal savings and not through loan obtained from financial institution, are attracted in respect of remittance for son's and daughter's education, respectively.

5. (d) Section 206C(1G) of the Income-tax Act, 1961, provides for collection of tax by every person,
- being an authorized dealer, who receives amount, under the Liberalised Remittance Scheme of the RBI, for overseas remittance from a buyer, being a person remitting such amount out of India;
 - being a seller of an overseas tour programme package, who receives any amount from the buyer who purchases the package.

Rate of TCS in case of collection by an authorized dealer would be 20% of the amt or agg. Of amts in excess of ₹ 7 lakh where the amount is remitted for a purpose other than purchase of overseas tour programme package, education or medical treatment; and the amount or aggregate of the amounts in excess of ₹ 7 lakhs is remitted by the buyer in a financial year.

In the given case, Mr. Nartan has already remitted ₹ 12 lakhs on 15.2.2024, out of his personal savings, through Bank of India for his daughter's education and accordingly, the limit of 7 lakhs is exhausted and so, the amount of tax to be collected from Mr. Nartan is ₹ 1,20,000 (i.e. 20% of ₹ 6 lakhs) on the amount remitted as gift to his sister.

Answers to the Descriptive Questions

6. Since Mr. Soham's turnover from business was ₹9 crores in the immediately preceding financial year (i.e., F.Y.2022-23), he is liable to deduct tax at source under section 194H and 194C in P.Y.2023-24.
- (i) Tax @5% has to be deducted under section 194H in respect of purchase commission of ₹ 25,000 to an agent for purchases made during the year, since the same exceeds the threshold limit of ₹ 15,000 for non-deduction of tax at source thereunder.
 - (ii) Tax has to be deducted under section 194C in case of payment to resident contractors. The rate of tax is 1% if the payee is an individual or HUF and 2% in case of payees, other than individuals and HUFs.

However, as per section 194C(4), no individual or Hindu undivided family shall be liable to deduct income tax on the sum credited or paid to the account of the contractor where such sum is credited or paid exclusively for personal purposes of such individual or any member of the Hindu undivided family. In such case, the provisions of section 194M attracted provided the aggregate payment to the contractor exceeds ₹ 50 lakhs.

In this case, since Mr. Soham, makes payment of ₹ 5 lakh to a civil engineer for construction of residential house for self-use, he is not liable to deduct tax at source under section 194C and under section 194M from such sum.

7. (a) Under section 181 of the Companies Act, 2013, the Board of Directors of a company is authorized to contribute to bonafide charitable and other funds. However, in case the aggregate amount of such contribution in any financial year exceeds five percent of its average net profits for the three immediately preceding financial years, prior permission of the company in general meeting shall be required.

The section does not make it mandatory for the company to have a profit for making a charitable contribution in any financial year. As the amount of donation is restricted to the average of immediately previous 3 years' profits, it is possible for a company suffering a loss to make contribution provided it is made to a bonafide charitable fund and the average of the three immediately preceding financial years' profits (including current losses) is positive.

In the present case, even though company has incurred a loss it can contribute to charitable fund only if it is a bonafide charitable fund and the amount is up to 5% of the average of the immediately preceding three years' profits (including current losses). In case the contribution exceeds the limit, the prior approval of members must be taken at a general meeting of company.

- (b) If a Chartered Accountant in practice fails to keep moneys of his clients in a separate bank account or fails to use such moneys for purposes for which they are intended then his action would amount to professional misconduct under Clause (10) of Part I of Second Schedule to the Chartered Accountants Act, 1949. In the course of his engagement as a professional accountant, a member may be entrusted with moneys belonging to his client. If he should receive such funds, it would be his duty to deposit them in a separate banking account, and to utilise such funds only in accordance with the instructions of the client or for the purposes intended by the client.

Conclusion: In the given case by depositing the client's money by Mr. Matvar, in his father, Mr. Soham's saving bank account, he has committed a professional misconduct. Hence in the given case, Mr. Matvar can be held guilty of professional misconduct.

8. (i) As per Clause 22 of Form 3CD of the Income-tax Act, 1961, the tax auditor is required to state the amount of interest inadmissible under section 23 of the Micro, Small and Medium Enterprises Development Act, 2006. Section 23 of the MSME Act lays down that an interest payable or paid by the buyer, in accordance with the provisions of this Act, shall not be allowed as a deduction for the purposes of the computation of income under the Income-tax Act, 1961.

Accordingly, CA Matvar is required to report the payment of interest of ₹ 60,000 to Vendor Mahesh who was registered under MSME Act, 2006 under clause 22 of Form 3CD of the Income-tax Act, 1961.

- (ii) As per Clause 21(h) of Form 3CD of the Income-tax Act, 1961, the tax auditor is required to report about the amount of deduction inadmissible in terms of section 14A Income-tax Act, 1961, in respect of the expenditure incurred in relation to income which does not form part of total income. Therefore, CA Matvar, the auditor is required to scrutinize expense accounts particularly interest account to check whether there is included any expense which is relatable to exempt income. He is also required to note down the amount and mention against the clause.

Thus, in the given situation, CA Matvar is required to report the same as per clause 21(h) of Form 3CD of the Income-tax Act, 1961.

Rate of TCS in case of collection by an authorized dealer would be 5% of the amt or agg. of amts in excess of ₹ 7 lakh where the amount is remitted for education or medical treatment; and the amount or aggregate of the amounts in excess of ₹ 7 lakhs is remitted by the buyer in a financial year.

Rate of TCS in case of collection by an authorized dealer would be 0.5% of the amt or agg. of amts in excess of ₹ 7 lakh where the amount being remitted out is a loan obtained from any financial institution as referred under section 80E, for the purpose of pursuing any education; and the amount or aggregate of the amounts in excess of ₹ 7 lakhs is remitted by the buyer in a financial year.

Here, the amount of tax to be collected from Mr. Nartan in respect of the remittance of amounts overseas for his son's and daughter's education would be TCS @ 0.5% of ₹ 8 lakhs (i.e. ₹ 15 lakhs – ₹ 7 lakhs) as loan is taken from financial institution – SBI and TCS @ 5% of ₹ 5 lakhs (i.e. ₹ 12 lakhs – ₹ 7 lakhs) as amount is remitted out of personal savings and not through loan obtained from financial institution, are attracted in respect of remittance for son's and daughter's education, respectively.

5. (d) Section 206C(1G) of the Income-tax Act, 1961, provides for collection of tax by every person,
- being an authorized dealer, who receives amount, under the Liberalised Remittance Scheme of the RBI, for overseas remittance from a buyer, being a person remitting such amount out of India;
 - being a seller of an overseas tour programme package, who receives any amount from the buyer who purchases the package.

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6. Since Mr. Soham's turnover from business was ₹9 crores in the immediately preceding financial year (i.e., F.Y.2022-23), he is liable to deduct tax at source under section 194H and 194C in P.Y.2023-24.
- (i) Tax @5% has to be deducted under section 194H in respect of purchase commission of ₹ 25,000 to an agent for purchases made during the year, since the same exceeds the threshold limit of ₹ 15,000 for non-deduction of tax at source thereunder.
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In the present case, even though company has incurred a loss it can contribute to charitable fund only if it is a bonafide charitable fund and the amount is up to 5% of the average of the immediately preceding three years' profits (including current losses). In case the contribution exceeds the limit, the prior approval of members must be taken at a general meeting of company.

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 - being a seller of an overseas tour programme package, who receives any amount from the buyer who purchases the package.

Rate of TCS in case of collection by an authorized dealer would be 20% of the amt or agg. Of amts in excess of ₹ 7 lakh where the amount is remitted for a purpose other than purchase of overseas tour programme package, education or medical treatment; and the amount or aggregate of the amounts in excess of ₹ 7 lakhs is remitted by the buyer in a financial year.

In the given case, Mr. Nartan has already remitted ₹ 12 lakhs on 15.2.2024, out of his personal savings, through Bank of India for his daughter's education and accordingly, the limit of 7 lakhs is exhausted and so, the amount of tax to be collected from Mr. Nartan is ₹ 1,20,000 (i.e. 20% of ₹ 6 lakhs) on the amount remitted as gift to his sister.

Answers to the Descriptive Questions

6. Since Mr. Soham's turnover from business was ₹9 crores in the immediately preceding financial year (i.e., F.Y.2022-23), he is liable to deduct tax at source under section 194H and 194C in P.Y.2023-24.
- (i) Tax @5% has to be deducted under section 194H in respect of purchase commission of ₹ 25,000 to an agent for purchases made during the year, since the same exceeds the threshold limit of ₹ 15,000 for non-deduction of tax at source thereunder.
 - (ii) Tax has to be deducted under section 194C in case of payment to resident contractors. The rate of tax is 1% if the payee is an individual or HUF and 2% in case of payees, other than individuals and HUFs.

However, as per section 194C(4), no individual or Hindu undivided family shall be liable to deduct income tax on the sum credited or paid to the account of the contractor where such sum is credited or paid exclusively for personal purposes of such individual or any member of the Hindu undivided family. In such case, the provisions of section 194M attracted provided the aggregate payment to the contractor exceeds ₹ 50 lakhs.

In this case, since Mr. Soham, makes payment of ₹ 5 lakh to a civil engineer for construction of residential house for self-use, he is not liable to deduct tax at source under section 194C and under section 194M from such sum.

7. (a) Under section 181 of the Companies Act, 2013, the Board of Directors of a company is authorized to contribute to bonafide charitable and other funds. However, in case the aggregate amount of such contribution in any financial year exceeds five percent of its average net profits for the three immediately preceding financial years, prior permission of the company in general meeting shall be required.

The section does not make it mandatory for the company to have a profit for making a charitable contribution in any financial year. As the amount of donation is restricted to the average of immediately previous 3 years' profits, it is possible for a company suffering a loss to make contribution provided it is made to a bonafide charitable fund and the average of the three immediately preceding financial years' profits (including current losses) is positive.

In the present case, even though company has incurred a loss it can contribute to charitable fund only if it is a bonafide charitable fund and the amount is up to 5% of the average of the immediately preceding three years' profits (including current losses). In case the contribution exceeds the limit, the prior approval of members must be taken at a general meeting of company.

- (b) If a Chartered Accountant in practice fails to keep moneys of his clients in a separate bank account or fails to use such moneys for purposes for which they are intended then his action would amount to professional misconduct under Clause (10) of Part I of Second Schedule to the Chartered Accountants Act, 1949. In the course of his engagement as a professional accountant, a member may be entrusted with moneys belonging to his client. If he should receive such funds, it would be his duty to deposit them in a separate banking account, and to utilise such funds only in accordance with the instructions of the client or for the purposes intended by the client.

Conclusion: In the given case by depositing the client's money by Mr. Matvar, in his father, Mr. Soham's saving bank account, he has committed a professional misconduct. Hence in the given case, Mr. Matvar can be held guilty of professional misconduct.

8. (i) As per Clause 22 of Form 3CD of the Income-tax Act, 1961, the tax auditor is required to state the amount of interest inadmissible under section 23 of the Micro, Small and Medium Enterprises Development Act, 2006. Section 23 of the MSME Act lays down that an interest payable or paid by the buyer, in accordance with the provisions of this Act, shall not be allowed as a deduction for the purposes of the computation of income under the Income-tax Act, 1961.

Accordingly, CA Matvar is required to report the payment of interest of ₹ 60,000 to Vendor Mahesh who was registered under MSME Act, 2006 under clause 22 of Form 3CD of the Income-tax Act, 1961.

- (ii) As per Clause 21(h) of Form 3CD of the Income-tax Act, 1961, the tax auditor is required to report about the amount of deduction inadmissible in terms of section 14A Income-tax Act, 1961, in respect of the expenditure incurred in relation to income which does not form part of total income. Therefore, CA Matvar, the auditor is required to scrutinize expense accounts particularly interest account to check whether there is included any expense which is relatable to exempt income. He is also required to note down the amount and mention against the clause.

Thus, in the given situation, CA Matvar is required to report the same as per clause 21(h) of Form 3CD of the Income-tax Act, 1961.

- (iii) As per Clause 29A of Form 3CD of the Income-tax Act, 1961 of the Income-tax Act, 1961, the auditor is required to report,
- (a) whether any amount is to be included as income chargeable under head 'income from other sources' as referred to in clause (ix) of sub section (2) of section 56 Income-tax Act, 1961.
 - (b) If yes, to provide the nature of income and amount thereof.

The auditor is also required to obtain a certificate from the assessee regarding all such advances received towards transfer of capital assets which have forfeited during the year and examine whether any amount of such advances has been written back during the year and examine the basis of such write back to determine whether such write back was on account of an act of forfeiture. Further, the auditor is also required to verify the terms of contract to check the conditions to forfeit of such advance and such conditions have occurred, then should verify whether the amount has been actually forfeited.

Thus, same is required to be reported under clause 29A of Form 3CD of Income-tax Act, 1961.

MTP Case Study 13

Subjects	Topics Covered	Marks
FR	Ind AS 8, Ind AS 109	10
Audit	Reporting	5
DT	Business Trust	10

Para 1

CDT Hospitality is a business trust, registered under SEBI (Real Estate Investment Trusts) Regulations, 2014, gives particulars of its income for the P.Y. 2023-24:

- (i) Interest income from Liyak Ltd. – ₹ 10 lakh;
- (ii) Dividend income from Liyak Ltd. – ₹ 6 lakh;
- (iii) Short-term capital gains on sale of listed shares (STT paid both at the time of purchase and sale) of Indian companies – ₹ 5 lakh;
- (iv) Short-term capital gains on sale of developmental properties – ₹ 8 lakh
- (v) Interest received from investments in unlisted debentures of real estate companies – ₹ 2 lakh;
- (vi) Rental income from directly owned real estate assets – ₹ 20 lakh

Liyak Ltd. is an Indian company in which the business trust holds 100% of the shareholding. Liyak Ltd. does not opt to pay tax under section 115BAA.

The business trust has distributed the entire ₹ 51 lakh to the unit holders in the P.Y. 2023-24 in the month of March, 2024. Mr. Raman is a resident holder holding 100 units and Mr. Suketu is a non-resident holder holding 500 units. The total number of units subscribed to by all unit holders is 5,000

Para 2

CDT Hospitality writes an option contract for sale of certain number of shares of Liyak Ltd. at a fixed price of ₹95 per share to Mahishi Ltd., a company in which one of the trustees of CDT Hospitality, Mr. Raman holds some equity stake. This option is exercisable anytime for a period of 90 days ('American option').

Para 3

In F.Y. 2023-24, after the entity's 31 March 2023 annual financial statements were approved for issue, a latent defect in the composition of a new product manufactured by the entity was discovered (that is, a defect that could not be discovered by reasonable or customary inspection).

As a result of the latent defect the entity incurred ₹ 90,000 in unanticipated costs for fulfilling its warranty obligation in respect of sales made before 31 March 2023. An additional ₹ 22,000 was incurred to rectify the latent defect in products sold during 2023-24 before the defect was detected and the production process rectified, ₹ 6,000 of which relates to items of inventory at 31 March 2023. The defective inventory was reported at cost ₹ 15,000 in the 2022-23 financial statements when its selling price less costs to complete and sell was estimated at ₹ 19,000.

The accounting estimates made in preparing the 31 March 2023 financial statements were appropriately made using all reliable information that the entity could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Para 4

For the FY 2023-24, M/s Digubatti & Associates were the statutory auditors of Mahishi Ltd.

During the course of audit, the audit team was unable to obtain sufficient appropriate audit evidence about a single element of the consolidated financial statements. That is, the auditor was also unable to obtain audit evidence about the financial information of a joint venture investment (in Mahim Ltd.) that represents over 80% of the entity's net assets which is carried at ₹ 85 crores in its consolidated balance sheet.

Multiple Choice Questions

1. With reference to information given under Para 1, in respect of the component of interest income from Liyak Ltd. distributed by the business trust to unit-holders Raman and Suketu -
 - (a) No tax is deductible by the business trust, since such income is not taxable in the hands of unit holders
 - (b) Tax is deductible@5% on ₹ 20,000 distributed to Mr. Raman and @5.2% on ₹ 1 lakh distributed to Mr. Suketu
 - (c) Tax is deductible@10% on ₹ 20,000 distributed to Mr. Raman and @5.2% on ₹ 1 lakh distributed to Mr. Suketu
 - (d) Tax is deductible@10% on ₹ 20,000 distributed to Mr. Raman and 10.4% on ₹ 1 lakh distributed to Mr. Suketu
2. With reference to information given under Para 1, in respect of short-term capital gains of ₹ 5 lakh on sale of listed shares of Indian companies and ₹ 8 lakh on sale of developmental properties
 - (a) The business trust is liable to pay tax@15.6% and 31.2%, respectively
 - (b) The business trust is liable to pay tax@42.744%
 - (c) The business trust enjoys pass through status and hence, it need not pay any tax on such short-term capital gains; such income is subject to tax in the hands of unit-holders
 - (d) The business trust is liable to pay tax @15.6% and 42.744%, respectively.
3. With reference to information given under Para 1, the dividend component of income from Liyak Ltd., distributed to unit-holders Raman and Suketu -
 - (a) would be subject to distribution tax in the hands of Liyak Ltd., hence exempt in the hands of the business trust and the unit holders
 - (b) is exempt in the hands of the business trust, since the trust enjoys pass through status in respect of such income; such income is taxable in the hands of the unitholders Raman and Suketu
 - (c) is taxable in the hands of the business trust; hence, exempt in the hands of the unitholders
 - (d) is exempt in the hands of the business trust and in the hands of the unit holders
4. With reference to information given under Para 1, if Liyak Ltd. exercises option under section 115BAA, then, the dividend component of income from Liyak Ltd., distributed to unitholders Raman and Suketu -
 - (a) would be subject to distribution tax in the hands of Liyak Ltd., hence exempt in the hands of the business trust and the unit holders
 - (b) is exempt in the hands of the business trust, since the trust enjoys pass through status in respect of such income; such income is taxable in the hands of Raman and Suketu
 - (c) is taxable in the hands of the business trust; hence, exempt in the hands of the Raman and Suketu
 - (d) is exempt in the hands of the business trust and in the hands of the unit holders Raman and Suketu

5. With reference to information given under Para 1, interest received by the business trust from investments in unlisted debentures of real estate companies and distributed to unit holders would be –
- subject to tax in the hands of the unit holders
 - subject to tax in the hands of the business trust @ 31.2%
 - subject to tax in the hands of the business trust @ 42.744%
 - subject to tax in the hands of the business trust at the average rate of tax

Descriptive Questions

6. With reference to information given under Para 2, evaluate this under the definition of financial instrument.
7. With reference to information given under Para 3, analyse the situation in accordance with relevant Ind AS?
8. With reference to information given under Para 4, what kind of opinion should the statutory auditors issue in such case?

ANSWERS TO THE CASE STUDY 13

Answers to the Multiple Choice Questions

1. (c) Interest income of ₹10 lakh from Liyak Ltd.:

The business trust has to deduct tax at source under section 194LBA - @ 10%, on interest component of income distributed to resident unit holders; and - @ 5%, on interest component of income distributed to non-corporate non-resident and foreign companies' unit holders.

Thus, tax is deductible @ 10% on ₹ 20,000 distributed to Mr. Raman, being a resident unit holder and @ 5.2% (i.e. 5% + HEC @ 4%) on ₹ 1 lakh distributed to Mr. Suketu, being a non-corporate non-resident

2. (d) Short-term capital gains of ₹ 5 lakh on sale of listed shares of Liyak Ltd.:

As per section 115UA(2), the business trust is liable to pay tax @ 15% under section 111A in respect of short-term capital gains on sale of listed shares of special purpose vehicle. There would, however, be no tax liability on the capital gain component of income distributed to unit holders, by virtue of the exemption contained in section 10(23FD).

Short-term capital gains of ₹ 8 lakh on sale of developmental properties:

It is taxable at maximum marginal rate of 42.744% in the hands of the business trust as per section 115UA(2). There would be no tax liability in the hands of the unit holders on the capital gain component of income distributed to them, by virtue of the exemption contained in section 10(23FD)

Thus, the business trust is liable to pay tax @ 15.6% (i.e. 15% + HEC @ 4%) and 42.744%, respectively.

3. (d) Dividend income of ₹ 6 lakh from Liyak Ltd.:

The dividend distributed by the SPV to the business trust is exempt by virtue of section 10(23FC).

Any distributed income referred to in section 115UA, which is in the nature of dividend income received or receivable from SPV, in a case where the SPV has exercised the option under section

115BAA, is taxable in the hands of unitholders by virtue of section 10(23FD).

However, since Liyak Ltd., being a SPV does not opt for section 115BAA, dividend component is exempt in the hands of the unitholders. Consequently, business trust is not required to deduct tax at source on the dividend component distributed to the unitholders.

Thus, the dividend component of income from Liyak Ltd., distributed to unit-holders Raman and Suketu is exempt in the hands of the business trust and in the hands of the unit holders.

4. (b) Any distributed income referred to in section 115UA, which is in the nature of dividend income received or receivable from SPV, in a case where the SPV has exercised the option under section 115BAA, is taxable in the hands of unitholders.

Thus, If Liyak Ltd. exercises option under section 115BAA, then, the dividend component of income from Liyak Ltd., distributed to unit holders Raman and Suketu-is exempt in the hands of the business trust, since the trust enjoys pass through status in respect of such income; such income is taxable in the hands of Raman and Suketu.

5. (c) Interest of ₹ 2 lakh received in respect of investment in unlisted debentures of real estate companies;

Such interest is taxable @ 42.744%, being the maximum marginal rate, in the hands of the business trust, as per section 115UA(2).

However, there would be no tax liability in the hands of the unit holders on the interest component of income distributed to them, by virtue of section 10(23FD).

Thus, interest received by the business trust from investments in unlisted debentures of real estate companies and distributed to unit holders would be subject to tax in the hands of the business trust @ 42.744%.

Answers to the Descriptive Questions

6. CDT Hospitality has written an option, which if exercised by Mahishi Ltd. will result in CDT Hospitality selling equity shares of Liyak Ltd. for fixed price of ₹ 95 per share. Such option will be exercised by Mahishi Ltd. only if the market price of shares of Liyak Ltd. increases beyond ₹ 95, thereby resulting in contractual obligation over CDT Hospitality to settle the contract under potential unfavorable terms.

If the market price goes to ₹ 120 then option will be exercised by Mahishi Ltd. So, CDT Hospitality shall have to buy shares from the market at ₹ 120 per share and sell at ₹ 95, thereby resulting in a loss or exchange at unfavorable terms to CDT Hospitality. Hence, the **written option will meet the definition of financial liability in the books of CDT Hospitality.**

The additional question that arises here is the nature of this financial liability and whether it meets the definition of derivative. A derivative is a financial instrument that meets following conditions:

- (a) Its value changes in response to change in specified variable like interest rate, equity index, commodity price, etc. If the variable is non-financial, it is not specific to party to the contract
- (b) It requires no or little initial net investment
- (c) It is settled at a future date.

Evaluating the above instrument, CDT Hospitality has written an option whose value changes based on change in market price of equity share, it requires no initial net investment and is settled at a future date (anytime in 90 days). Hence, it meets definition of derivative financial liability in books of CDT Hospitality.

7. Ind AS 8 is applied in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of prior period errors.

A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset. This change in accounting estimate is an outcome of the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

Further, the effect of change in an accounting estimate, shall be recognised prospectively by including it in profit or loss in: (a) the period of the change, if the change affects that period only; or (b) the period of the change and future periods, if the change affects both.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- (a) was available when financial statements for those periods were approved for issue; and
- (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

On the basis of above provisions, the given situation would be dealt as follows:

The defect was neither known nor reasonably possible to detect at 31 March 2023 or before the financial statements were approved for issue, so understatement of the warranty provision by ₹ 90,000 and overstatement of inventory ₹ 2,000 (Note 1) in the 31 March 2023 financial statements are not prior period errors.

The effects of the latent defect that relate to the entity's financial position at 31 March 2023 are changes in accounting estimates.

In preparing its financial statements for 31 March 2023, the entity made the warranty provision and inventory valuation appropriately using all reliable information that the entity could reasonably be expected to have obtained and had taken into account the same in the preparation and presentation of those financial statements.

Consequently, the additional costs are expensed in calculating profit or loss for 2023-24.

Working Note:

Inventory is measured at the lower of cost (ie ₹ 15,000) and fair value less costs to complete and sell (ie ₹ 19,000 originally estimated minus ₹6,000 costs to rectify latent defect) = ₹ 13,000.

8. M/s Digubatti & Associates are unable to obtain sufficient appropriate audit evidence about the financial information of a joint venture investment that represents over 80% of the entity's net assets. The possible effects of this inability to obtain sufficient appropriate audit evidence are both material and pervasive to the consolidated financial statements.

Therefore, the statutory auditor should issue a disclaimer of opinion.

The relevant extract of the Disclaimer of Opinion Paragraph and Basis for Disclaimer of Opinion paragraph is as under:

Disclaimer of Opinion

We do not express an opinion on the accompanying financial statements of Mahishi Ltd. Because of the

significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

The Group's investment in its joint venture Mahim Ltd. is carried at ₹ 85 crores on the Group's consolidated balance sheet, which represents over 80% of the Group's net assets as at March 31, 2024. We were not allowed access to the management and the auditors of Mahim Ltd., including Mahim Ltd.'s auditors' audit documentation. As a result, we were unable to determine whether any adjustments were necessary in respect of the Group's proportional share of Mahim Ltd.'s assets that it controls jointly, its proportional share of Mahim Ltd.'s liabilities for which it is jointly responsible, its proportional share of XYZ's income and expenses for the year, (and the elements making up the consolidated statement of changes in equity) and the consolidated cash flow statement.

MTP

Case Study 14

Subjects	Topics Covered	Marks
FR	Ind AS 109, Ind AS 115	11
IDT	Value of Supply, ITC, Registration, E-way Bill	10
Law	FEMA (Residential Status)	4

- (1) Xaviers Logistics Limited (XLL) is into warehousing and logistics business. It has two Container Freight Stations (CFS): one at Inland Container Depot (ICD) Dadri, Uttar Pradesh and other at ICD Tughlakabad, Delhi. XLL is also engaged in the business of freight forwarding and multimodal transportation. Intermittently, XLL also deals in trading of goods, primarily in export to countries outside India.
- XLL started its operations on 30th June by setting up head/corporate office in Gurgaon, Haryana and two CFS at U.P. and Delhi. Services as well as invoicing to customers was done from Delhi and U.P. unit only. Top management was placed at the head office for the management of the company. Further, trading of goods was also carried out from the head office only.
- The aggregate turnover of the XLL's Delhi unit crossed ₹ 20 lakh on 31st October. It applied for GST registration for Delhi on 25th November. Registration was granted on 7th December. GST component involved in stock of goods at Delhi as on 30th October was ₹ 45 lakh, on 25th November was ₹ 40 lakh and on 7th December was ₹ 20 lakh. Such stock was procured approximately 4 to 6 months before the respective dates.
- (2) The primary business of XLL is container handling service of import/export containers. In July next year, a shipper placed a work order on XLL for handling of an export container from ICD Tughlakabad to Dubai UAE, through Nhava Sheva seaport in Mumbai. XLL was responsible for stuffing goods in containers at ICD, assisting in obtaining customs clearance, and transportation of goods from ICD to seaport.
- XLL requested the customer to issue e-way bill for the movement of customs sealed containers from ICD to seaport as the value of goods in container exceeded ₹ 50,000. However, the customer denied issuing e-way bill stating that the responsibility to issue the same is on the person who arranges the transport of goods. Consequently, the management of XLL issued e-way bill with the assistance of a consultant.
- (3) There is a green cess applicable on the goods handled through CFS for exports outside India. XLL as a policy deposits green cess with the Government in the name of the customer and recovers such cess on actual basis from the customer by charging it separately in the invoice.
- Few customers of XLL are based in Nepal & Bhutan. It provides container handling services for their containers/ cargo which are in transit to Nepal or Bhutan. It receives consideration from Nepal/ Bhutan customers in INR (₹).
- (4) XLL entered into a contract with a customer – SK Trends Ltd. for transportation of its goods from India to Sri Lanka through sea. The voyage is expected to take 18 days from Mumbai to Colombo.
- XLL also provides containers for use by customers for multiple purposes. The containers are returnable at the end of the service contract period (3 years) between XLL and its customers.
- In addition to the monthly charge, there is a security deposit that each customer makes with XLL for ₹ 20,000 per container and such deposit is refundable when the service contract terminates. Deposits do not carry any interest.
- (5) On 1 January 2024, one of the group entities of XLL, UdaChem Ltd. (UCL) in a joint contract with XLL,

entered into a one-year contract with a customer to deliver water treatment chemicals. The contract stipulates that the price per container will be adjusted retroactively once the customer reaches certain sales volume, defined, as follows:

Price per container	Cumulative sales volume
₹ 100	1 - 1,000,000 containers
₹ 90	1,000,001 - 3,000,000 containers
₹ 85	3,000,001 containers and above

Volume is determined based on sales during the calendar year. There are no minimum purchase requirements. UCL estimates that the total sales volume for the year will be 2 million containers, based on its experience with similar contracts and forecasted sales to the customer.

UCL sells 600,000 containers to the customer during the first quarter ended 31st March 2024 for a contract price of ₹ 100 per container.

- (6) Son of one of the directors of XLL, Mr. Paresh who resided in India during the F.Y.2022-23 left India on 15th July, 2023 for Switzerland for pursuing higher-studies in Logistics Management for 2 years, as in the view of the directors of the company, such an education of Mr. Paresh will be helpful to XLL in its business.

Multiple Choice Questions

- With reference to information given under Para 1, which of the following statements is correct regarding eligibility of ITC on opening stock at the time of new registration?
 - XLL can avail credit of ₹45 lakh.
 - XLL can avail credit of ₹ 40 lakh.
 - XLL can avail credit of ₹ 20 lakh.
 - XLL cannot avail credit on opening stock.
- With reference to information given under Para 1, which of the following statements is correct regarding GST registration by XLL?
 - XLL was liable for registration of only Delhi unit.
 - XLL was liable for registration of units at Delhi and UP.
 - XLL was liable for registration of units at Delhi, UP and Haryana.
 - XLL was liable for normal registration at Delhi and UP unit, and ISD registration at Haryana unit.
- With reference to information given under Para 2, which of the following statements is correct regarding generation of e-way bill for movement from ICD Tughlakabad to Nhava Sheva seaport in Mumbai?
 - E-way bill was not required to be generated since goods were being transported from ICD to seaport.
 - E-way bill was mandatorily required to be generated irrespective of the value of the goods being transported as such goods were being transported from ICD to seaport.
 - E-way bill was required to be generated since the value of goods being transported exceeded ₹ 50,000.
 - E-way bill was rightfully issued by Xaviers Logistics Limited being the transporter of goods.
- With reference to information given under Para 3, which of the following statements is correct regarding

value of container handling services provided by the company?

- (a) Value of the taxable container handling services should exclude transportation cost and green cess.
 - (b) Value of the taxable container handling services should exclude green cess but include transportation cost.
 - (c) Value of the taxable container handling services should exclude transportation cost but include green cess.
 - (d) Value of the taxable container handling services should include transportation cost and green cess.
5. With reference to information given under Para 3, which of the following statements is correct regarding invoicing to Nepal/Bhutan customers?
- (a) GST is not chargeable on container handling services provided to Nepal/Bhutan customers as the place of supply of such services is outside India.
 - (b) GST is not chargeable on container handling services provided to Nepal/Bhutan customers as the same qualifies as export of service.
 - (c) GST is not payable on container handling services provided to Nepal/Bhutan customers as the supply of services associated with transit cargo to Nepal and Bhutan are exempt services.
 - (d) GST is chargeable on container handling services provided to Nepal/Bhutan customers.

Descriptive Questions

6. With reference to information given under Para 4,
- (a) Whether XLL's performance obligation is met over period of time?
 - (b) Analyse the fair value of leasing containers upon initial recognition in the books of customers. Market rate of interest for 3 year loan is 7% per annum?
7. With reference to information given under Para 5, how should XLL determine the transaction price?
8. With reference to information given under Para 6, what would be his residential status under the Foreign Exchange Management Act, 1999 during the Financial Years 2023-24 and 2024-25?

ANSWERS TO THE CASE STUDY 14

Answers to the Multiple Choice Questions

1. (a) Section 18(1)(a) of the CGST Act, provides that a person who has applied for registration within 30 days from the date on which he becomes liable to registration and has been granted such registration shall be entitled to take credit of input tax in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock on the day immediately preceding the date from which he becomes liable to pay tax under the provisions of this Act.
- Here, the aggregate turnover of the XLL's Delhi unit crossed ₹ 20 lakh on 31st October and it applied for GST registration for Delhi on 25th November i.e. within 30 days from the date on which it becomes liable to registration.
- GST component involved in stock of goods on the day immediately preceding the date from which he becomes liable to pay tax under the provisions of this Act at Delhi i.e. on 30th October was ₹ 45 lakh and accordingly, XLL can avail credit of ₹ 45 lakh on opening stock at the time of new registration.

2. (c) The threshold limit prescribed under section 22(1) of CGST Act for GST registration is ₹ 20 lakh in a FY, i.e. every supplier, whose aggregate turnover in a financial year exceeds ₹ 20 lakh, is liable to be registered under GST in the State/Union territory from where he makes the taxable supply of goods and/or services.

Here, XLL makes taxable supply from its units at Delhi, UP and Haryana and the aggregate turnover of the XLL's Delhi unit crossed ₹ 20 lakh on 31st October. Accordingly, XLL was liable for registration of units at Delhi, UP and Haryana.

3. (a) As per Rule 138(14)(h) of the CGST Rules, notwithstanding anything explained above, no e-way bill is required to be generated where the goods are being transported under customs bond from an inland container depot or a container freight station to a customs port, airport, air cargo complex and land customs station, or from one customs station or customs port to another customs station or customs port.

Accordingly, here, e-way bill was not required to be generated since goods were being transported from ICD (inland container depot) to seaport.

4. (b) As per Rule 33 of the CGST Rules, expense incurred by the supplier (XAVIERS Logistics Limited) as a pure agent of the recipient, it is not includible in the value of supply; if not incurred as pure agent, the same is includible in the value of supply.

XLL as a policy deposits green cess with the Government in the name of the customer and recovers such cess on actual basis from the customer by charging it separately in the invoice and accordingly it can be said that such expense is incurred as pure agent by XLL and thus, green cess is not includible in value of the taxable container handling services but the value of transportation cost is includible.

5. (c) As per Entry 9B of exemption notification, supply of services associated with transit cargo to Nepal and Bhutan (landlocked countries) are exempt from GST.

Hence, GST is not payable on container handling services provided to Nepal/Bhutan customers as the supply of services associated with transit cargo to Nepal and Bhutan are exempt services.

Answers to the Descriptive Questions

6. (a) XLL has a single performance to ship the goods from one port to another. The following factors are critical for assessing how services performed by XLL are consumed by the customer –

- As the voyage is performed, the **service undertaken by XLL is progressing**, such that no other entity will need to re-perform the service till so far as the voyage has been performed, if XLL was to deliver only part-way.
- The **customer is directly benefitting** from the performance of the voyage as & when it progresses.

Therefore, such performance obligation is said to be met over a period of time.

- (b) In the above case, lessee (ie, customers leasing the containers) make interest free deposits, which are refundable at the end of 3 years. Now, this money if it was to lent to a third party would fetch interest @ 7% per annum. Hence, discounting all future cash flows (i.e., ₹ 20,000)

Fair value on initial recognition = $20,000 / (1 + 0.07)^3 = 16,326$.

Differential on day 1 = $20,000 - 16,326 = 3,674$.

The differential on day 1 shall be treated as follows:

Scenario 1 – If fair valuation is determined using level 1 inputs or other observable inputs, difference on day 1 recognised in profit or loss.

Scenario 2 – If fair valuation is determined using other inputs, difference on day 1 shall be recognised in profit or loss unless it meets definition of an asset or liability.

However, in case of security deposits level 1 fair value is not available. Therefore, in the above case, the fair valuation is made based on unobservable inputs and hence applying scenario 2, difference can be recognised as an asset if it meets the definition. Now, since the lessee gets to use the containers in return for making an interest free deposit plus monthly charges, the lost interest representing day 1 difference between value of deposit and its fair value is like 'prepaid lease rent' and can be recognised as such. Prepaid rent (ROU Asset) shall be charged off to profit or loss in a straight lined manner as depreciation as per Ind AS 16.

7. The transaction price is ₹ 90 per container based on UCL's estimate of total sales volume for the year, since the estimated cumulative sales volume of 2 million containers would result in a price per container of ₹ 90. UCL concludes that based on a transaction price of ₹ 90 per container, it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty is resolved.

Revenue is therefore recognised at a selling price of ₹ 90 per container as each container is sold. UCL will recognise a liability for cash received in excess of the transaction price for the first 1 million containers sold at ₹ 100 per container (that is, ₹ 10 per container) until the cumulative sales volume is reached for the next pricing tier and the price is retroactively reduced.

For the quarter ended 31st March, 2024, UCL recognizes revenue of ₹ 54 million (600,000 containers x ₹ 90) and a liability of ₹ 6 million [600,000 containers x (₹ 100 - ₹ 90)].

UCL will update its estimate of the total sales volume at each reporting date until the uncertainty is resolved.

8. According to section 2(v) of the Foreign Exchange Management Act, 1999, 'Person resident in India' means a person residing in India for more than 182 days during the course of preceding financial year [Section 2(v)(i)]. However, it does not include a person who has gone out of India or who stays outside India for employment outside India or for any other purpose in such circumstances as would indicate his intention to stay outside India for an uncertain period. Generally, a student goes out of India for a certain period. In this case, Mr. Paresh who resided in India during the financial year 2022-23 left on 15.7.2023 for Switzerland for pursuing higher studies in Logistics Management for 2 years, he will be resident as he has gone to stay outside India for a 'certain period'. RBI has however clarified in its AP circular no. 45 dated 8th December 2003, that students will be considered as non-residents. This is because usually students start working there to take care of their stay and cost of studies. Mr. Paresh will be treated as person resident in India for Financial Year 2023-24 as he resided in India in preceding FY 2022-23 but since he left India on 15th July, 2023 for pursuing higher studies in Logistics Management for 2 years, he will be treated as Person resident outside India for the financial year 2023-24.

However, during the Financial Year 2024-25, Mr. Paresh will not be considered as resident as he left India on 15th July 2023. He is determined to be person resident outside India from 16th July 2023 for the financial year 2024-25.

MTP

Case Study 15

Subjects	Topics Covered	Marks
FR	Conceptual Framework for FR under Ind AS	6
DT	Section 43CA, Section 50C, Section 56(2)(x)	10
Law	Companies Act (Section 197)	9

Para 1

Mr. Tushnim, a property dealer, sold a building in the course of his business to his friend Mr. Swairam, who is a dealer in automobile spare parts, for ₹ 100 lakh on 1.1.2024, when the stamp duty value was ₹ 122 lakh. The agreement was, however, entered into on 1.9.2023 when the stamp duty value was ₹ 110 lakh. Mr. Tushnim had received a down payment of ₹ 15 lakh by NEFT from Mr. Swairam on the date of agreement. Mr. Tushnim has purchased the building for ₹ 50 lakh on 12.7.2022.

Para 2

Mr. Tushnim's brother, Mr. Rusht, a managing director in a company, sold a residential house to Mr. Vidhaay, a wholesale trader for ₹ 50 lakh on 1.2.2024, when the stamp duty value was ₹ 70 lakh. The agreement was, however, entered into on 1.8.2023 when the stamp duty value was ₹ 55 lakh. Mr. Rusht had received a down payment of ₹ 7 lakh by a crossed cheque from Mr. Vidhaay on the date of agreement. Mr. Rusht has purchased the building for ₹ 32 lakh on 17.8.2022.

Para 3

Mr. Rusht is a managing director in Nishkantak Paths Limited, which is listed company. The company proposes to pay the following managerial remuneration:

- (i) Commission at the rate of five percent of the net profits to its Managing Director, Mr. Rusht.
- (ii) The directors other than the Managing Director are proposed to be paid monthly remuneration of ₹ 60,000 and also commission at the rate of one percent of net profits of the company subject to the condition that overall remuneration payable to ordinary directors including monthly remuneration payable to each of them shall not exceed two percent of the net profits of the company. The commission is to be distributed equally among all the directors.
- (iii) The company also proposes to pay suitable additional remuneration to Mr. Shigram, a director, for professional services rendered as mechanical engineer, whenever such services are utilized.

Para 4

Nishkantak Paths Limited has investments in various subsidiaries. In its annual financial statements for the year ending 31st March 2023 as well as 31st March 2024, Nishkantak Paths Ltd. classified Aviskrutya Ltd. a subsidiary as 'held-for-sale' and presented it as a discontinued operation. On 1 November 2022, the shareholders had authorized the management to sell all of its holding in Aviskrutya Ltd. within the year. In the year to 31st March 2023, the management made a public announcement of its intention to sell the investment but did not actively try to sell the subsidiary as it was still operational within the Nishkantak Paths group.

Certain organizational changes were made by Nishkantak Paths Ltd. during the year to 31st March 2024, thereby resulting in additional activities being transferred to Aviskrutya Ltd. Additionally, during the year ending 31 March 2024, there had been draft agreements and some correspondence with investment bankers, which showed in principle only that Aviskrutya was still for sale.

Multiple Choice Questions

1. With reference to information given under Para 1, what is the amount of income chargeable to tax in the hands of Mr. Tushnim in respect of the transaction of sale of building to Mr. Swairam and under which head is it taxable?
 - (a) ₹ 72 lakh is taxable as his business income
 - (b) ₹ 60 lakh is taxable as his business income
 - (c) ₹ 50 lakh is taxable as his business income
 - (d) ₹ 50 lakh is taxable as short-term capital gains
2. With reference to information given under Para 1, is any amount taxable in the hands of Mr. Swairam in respect of the above transaction? If so, what is the amount and under which head is it taxable?
 - (a) No amount is taxable in the hands of Mr. Swairam
 - (b) ₹ 22 lakh is taxable under the head "Income from Other Sources"
 - (c) ₹ 10 lakh is taxable under the head "Income from Other Sources"
 - (d) ₹ 10 lakh is taxable as his business income
3. With reference to information given under Para 2, what is the amount of income chargeable to tax in the hands of Mr. Rusht in respect of the transaction of sale of residential house to Mr. Vidhaay and under which head is it taxable?
 - (a) ₹ 18 lakh is taxable as short-term capital gains
 - (b) ₹ 23 lakh is taxable as short-term capital gains
 - (c) ₹ 38 lakh is taxable as short-term capital gains
 - (d) ₹ 18 lakh is taxable as his business income
4. With reference to information given under Para 2, is any amount taxable in the hands of Mr. Vidhaay in respect of the above transaction? If so, what is the amount and under which head is it taxable?
 - (a) No amount is taxable in the hands of Mr. Vidhaay
 - (b) ₹ 20 lakh is taxable under the head "Income from Other Sources"
 - (c) ₹ 5 lakh is taxable under the head "Income from Other Sources"
 - (d) ₹ 5 lakh is taxable as his business income
5. With reference to information given under Para 1 & 2, is tax deductible by Mr. Swairam and Mr. Vidhaay on making payment to the seller?
 - (a) Yes, tax is deductible at source by both Mr. Swairam and Mr. Vidhaay
 - (b) No, tax is not deductible at source by either Mr. Swairam or Mr. Vidhaay
 - (c) Tax is deductible at source by Mr. Swairam but not by Mr. Vidhaay
 - (d) Tax is deductible at source by Mr. Vidhaay but not Mr. Swairam

Descriptive Questions

6. With reference to information given under Para 3, you are required to examine with reference to the provisions of the Companies Act, 2013 the validity of the such proposals?
7. With reference to information given under Para 4, discuss whether the classification of Aviskrutya Ltd. as held for sale and its presentation as a discontinued operation is appropriate, by referring to the

principles of the relevant Ind AS and evaluate the treatment in the context of the Conceptual Framework for Financial Reporting?

ANSWERS TO THE CASE STUDY 15

Answers to the Multiple Choice Questions

1. (c) In the hands of Tushnim, the provisions of section 43CA would be considered and not section 50C, since the building represents his stock-in-trade.
 Under section 43CA of the Income Tax Act, 1961, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received by way of account payee cheque or draft or by use of ECS through a bank account or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay on or before the date of agreement.
 In this case, since the down payment of ₹15 lakh is received on the date of agreement by NEFT from Mr. Swairam, the option can be exercised and accordingly, actual consideration would be the full value of consideration since the stamp duty value on the date of agreement does not exceed 110% of the consideration. ₹ 50 lakh is taxable as business income in the hands of Mr. Tushnim, (i.e. ₹ 100 lakh – ₹ 50 lakh)
2. (a) Since Mr. Swairam is a dealer in automobile spare parts, the building purchased would be a capital asset in his hands. The provisions of section 56(2)(x) would not be attracted in the hands of Mr. Swairam who has received immovable property, being a capital asset, since the difference between stamp duty value on the date of agreement and actual consideration does not exceeds ₹ 10 lakhs, being higher of ₹ 50,000 or 10% of consideration.
 Stamp duty value on the date of agreement can be exercised since part of the consideration has been received by NEFT on the date of agreement.
3. (c) Mr. Rusht, is a managing director in a company and not a property dealer, the building would represent his capital asset and not stock-in-trade. In such a case, the provisions of section 50C would be attracted in the hands of Mr. Rusht, since building is transferred for a consideration less than the stamp duty value; and the stamp duty value exceeds 110% of consideration.
 Thus, ₹38 lakh, being the difference between the stamp duty value on the date of registration (i.e., ₹70 lakh) and the purchase price (i.e., ₹ 32 lakh) would be chargeable as short-term capital gains.
 It may be noted that under section 50C, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received by way of account payee cheque or draft or by use of ECS through a bank account or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay on or before the date of agreement.
 In this case, since the down payment of ₹ 7 lakh has been received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised.
4. (b) The provisions of section 56(2)(x) would be attracted in the hands of Mr. Vidhaay who has received immovable property, being a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value exceeds ₹ 5,00,000, being the higher of ₹ 50,000

and 10% of consideration.

Therefore, ₹ 20 lakh, being the difference between the stamp duty value of the property on the date of registration (i.e., ₹ 70 lakh) and the actual consideration (i.e., ₹ 50 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Vidhaay, since the payment on the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay.

5. (a) Since either the sale consideration or stamp duty value of the property in the both the cases exceeds ₹ 50 lakh, tax is deductible at source by both Mr. Swairam and Mr. Vidhaay under section 194-IA.

Answers to the Descriptive Questions

6. Nishkantak Paths Limited, a listed company, being managed by a Managing Director proposes to pay the following managerial remuneration:

- (i) Commission at the rate of 5% of the net profits to its Managing Director, Mr. Rusht:

Part (i) of the Second Proviso to Section 197(1), provides that **except with the approval of the company in general meeting by a special resolution**, the remuneration payable to any one managing director or whole time director or manager shall **not exceed 5% of the net profits of the company** and if there is **more than one** such director then remuneration shall not exceed **10% of the net profits to all such directors and manager taken together**.

In the present case, since the Nishkantak Paths Limited is being managed by a Managing Director, the **commission at the rate of 5% of the net profit to Mr. Rusht, the Managing Director is allowed and no approval of company in general meeting is required**.

- (ii) The directors other than the Managing Director are proposed to be paid monthly remuneration of ₹ 60,000 and also commission at the rate of 1 % of net profits of the company subject to the condition that overall remuneration payable to ordinary directors including monthly remuneration payable to each of them shall not exceed 2 % of the net profits of the company:

Part (ii) of the Second Proviso to Section 197(1) provides that **except with the approval of the company in general meeting by a special resolution**, the remuneration payable to directors who are neither managing directors nor whole time directors shall not exceed:

- (A) **1% of the net profits of the company**, if there is a managing or whole-time director or manager;
(B) **3% of the net profits in any other case.**

In the present case, the maximum remuneration allowed to directors other than managing or whole - time director is 1% of the net profits of the company because the company is managed by a managing director. Hence, if the company wants to fix directors' remuneration at not more than 2% of the net profits of the company, the approval of the company in general meeting is required by passing a special resolution.

- (iii) The company also proposes to pay suitable additional remuneration to Mr. Shigram, a director, for professional services to be rendered by him as mechanical engineer, whenever such services are utilized by the company:

- (1) According to section 197(4), the remuneration payable to the directors of a company,

including any managing or whole-time director or manager, shall be determined, in accordance with and subject to the provisions of this section, either;

- (i) by the articles of the company, or
 - (ii) by a resolution or,
 - (iii) if the articles so require, by a special resolution, passed by the company in general meeting, and
- (2) the remuneration payable to a director determined aforesaid shall be inclusive of the remuneration payable to him for the services rendered by him in any other capacity.
- (3) Any remuneration for services rendered by any such director in other capacity shall not be so included if:
- (i) the services rendered are of a professional nature; and
 - (ii) in the opinion of the Nomination and Remuneration Committee, if the company is covered under sub-section (1) of section 178, or the Board of Directors in other cases, the director possesses the requisite qualification for the practice of the profession.

Hence, in the present case, the additional remuneration payable to Mr. Shigram, a director, for professional services rendered by him as mechanical engineer will not be included in the maximum managerial remuneration. Accordingly, such additional remuneration shall be allowed but opinion of Nomination & Remuneration Committee needs to be obtained.

Also, the Nishkantak Paths Limited (a listed company) shall disclose in the Board's report, the ratio of the remuneration of each director to the median employee's remuneration and such other details as are prescribed under Rule 5 of the Companies (Appointment and Remuneration of Managerial personnel) Rules, 2014.

7. **Aviskrutya Ltd. is a disposal group in accordance with Ind AS 105, Non-current Assets Held for Sale and Discontinued Operations. Disposal group can be defined as a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.**

Para 6 of Ind AS 105 provides that a disposal group shall be classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Ind AS 105 is particularly strict as far as the application of held for sale criteria is concerned, and often the decision to sell an asset or a disposal group is made well before the criteria are met.

Thus, as per Ind AS 105, for the asset (or disposal group) to be classified as held for sale, it must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

For the sale to be highly probable:

- The appropriate level of management must be committed to a plan to sell asset (or disposal group).
- An active programme to locate a buyer and complete the plan must have been initiated.
- The asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value.
- The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.
- It is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

In the given case, the draft agreements and correspondence with investment bankers are not specific enough to fit in the points above to prove that the criteria for held for sale was met at that date. Additional information would be needed to confirm that the subsidiary was available for immediate sale, and that it was being actively marketed at an appropriate price so as to satisfy the criteria in the year to 31st March 2023.

Further, the organizational changes made by Nishkantak Paths Ltd. in the year 2023-24 are a good indicator that Aviskrutya Ltd. was not available for immediate sale in its present condition at the point of classification. The fact that additional activities have been given to Aviskrutya Ltd. indicate that the change wasn't insignificant. The shareholders had authorized for a year from 1 November 2022. There is no evidence that this authorization extended beyond 1st November 2023.

Conclusion:

Based on the information provided in the given case, it appears that Aviskrutya Ltd. should not be classified by Nishkantak Paths Ltd. as a subsidiary held for sale. Instead, the results of the subsidiary should be reported as a continuing operation in the financial statements for the year ending 31 March 2023 and 31 March 2024.

Evaluation of treatment in context of the Conceptual Framework

The Conceptual Framework states that the users need information to allow them to assess the amount, timing and uncertainty of the prospects for future net cash inflows. Highlighting the results of discontinued operations separately equips users with the information that is relevant to this assessment as the discontinued operation will not contribute to cash flows in the future.

If a company has made a firm decision to sell the subsidiary, it could be argued that the subsidiary should be classified as discontinued operation, even if the criteria to classify it as 'held for sale' as per Ind AS 105 have not been met, because this information would be more useful to users. However, Ind AS 105 criteria was developed with high degree of strictness on classification. Accordingly, this decision could be argued to be in conflict with the Conceptual Framework.