

Final New Syllabus

Paper - 6 F

JAN 2021

Roll No. ....  
Multidisciplinary Case Study

Total No. of Case Study Questions – 5

Total No. of Printed Pages – 32

Time Allowed – 4 Hours

Maximum Marks – 100

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Answers to questions are to be given only in English except in case of candidates who have opted for Hindi Medium. If a candidate who has not opted for Hindi Medium, his/her answers in Hindi will not be valued.

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

**Answer in respect of Multiple Choice Questions are to be marked on the OMR answer sheet only.**

Answers to other questions to be written on the descriptive type answer book.

Answers to MCQs, if written in the descriptive type answer book will not be evaluated.

Candidates may use calculator.

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**CASE STUDY - 1**

**25**

### 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.

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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 the Financial Year 2019- '20.

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

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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 04-04-2020, you were informed that a meeting of the Audit Committee and the Board of Directors is scheduled to be convened on 22-04-2020 and 23-04-2020 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 31-03-2020. 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 the Audit.

A draft of the management prepared un-audited financial statements for the fourth quarter / year ended 31.03.2020 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) The Company follows the method of providing depreciation as per Section 123 of the Companies Act, 2013 using the useful lives prescribed as per Schedule II of the Companies Act. It has provided depreciation on computers which are used during all the 3 shifts using the rates stipulated for continuous process plant since these assets are used for 24 hours (3 shifts).
- (4) 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.

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- (5) Certain unclaimed dividends amounting to ₹ 42 lakhs pertaining to prior periods beyond 7 years have been added back to the Statement of Profit and Loss under 'other income.'
- (6) The Company is in the process of selling its office along with the freehold land available at one of its offices at Chennai and is actively on the lookout for potential buyers. Whilst the same was purchased at ₹ 25 Lakhs in 2007, the current market value is ₹ 250 Lakhs. This property is pending to be registered in the name of the 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 the financial statements.
- (7) The Company paid "Online advertisement charges" to a domestic Company amounting to ₹ 8,00,000. No Tax was deducted at source.
- (8) 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.

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- (9) 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 31.03.2020. 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.
- (10) 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.**

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Note that the financial statements of the Company for the year under review are prepared using **IND AS** and your answers on Direct Tax Laws should relate to **Assessment Year 2020-21**.

- 1.1 In the case of online advertisement charges paid to the domestic Company, the amount liable for dis-allowance for non-deduction of tax at source would be :
- (A) ₹ 80,000 (B) ₹ 2,40,000  
(C) ₹ 8,00,000 (D) NIL
- 1.2 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

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- 1.3 Based on the background in observation (8), 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
- 1.4 Based on the background in observation (8), 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
- 1.5 With regard to queries of Mr. Kumar in relation with the provisions of SEBI (LODR) Regulations, 2015, the composition of Board should have not less than \_\_\_% of Directors comprising of Non-Executive Directors.
- (A) 70 (B) 50  
(C) 40 (D) 20
- 1.6 What are the factors to be considered for using negative confirmation requests in the scenario mentioned in the audit observation (1) ? **5**
- 1.7 Based on the audit observation (10), state the matters where specific enquiry may be conducted to evaluate subsequent events. **5**
- 1.8 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. **5**

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### CASE STUDY-2

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

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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 respective team members of XYZ Ltd. :

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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.

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(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, 2019. The invoice for supply has been issued on 1st

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October, 2019. Thus, the time of supply of machinery is 1st October, 2019. 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. 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 the 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 the basic price of the machinery is offered at the 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%.

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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. No.	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.

**You are requested to provide the correct option to the following questions.**

- 2.1 Goods and Service Tax is : 2
- (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.
- 2.2 For Royalty Income received by XYZ Ltd, the tax deducted at source, if any, 2  
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

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- 2.3 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: 2
- (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;
- 2.4 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 : 2
- (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)
- 2.5 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 ? 2
- (A) Monthly (B) Quarterly  
 (C) Half-yearly (D) Annually
- 2.6 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. 10
- 2.7 Work out the assessable value of the machine and customs duty payable by N Ltd. with appropriate working notes. 5

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**CASE STUDY - 3**

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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 05.05.2020 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.

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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 :

- (a) Appointment of Mr. Alex as a Key Managerial Personnel,
- (b) 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. 01.01.2020 on which date he would be 70 years of age. You are informed that at the extra-ordinary general meeting of the Company held on 15-03-2020, the shareholders have not passed a special resolution with regard to the appointment of Mr. 'X', but the votes cast in favour of the motion exceeded the votes cast against the motion. The Company has provided you the following inputs extracted from the latest audited Balance Sheet as at 31st March, 2020.

S. No.	Particulars	Amount (₹ In Lakhs)
01.	Authorized Equity Share Capital	1,560
02.	Paid Up Equity Share Capital	860
03.	Share Application Money Account (Company is in process of Follow on Public Issue (FPO))	60
04.	Reserves and Surplus (including General Reserve - 600 & Revaluation Reserve - 80)	680
05.	Long Term Borrowings	800
06.	Investments	160
07.	Accumulated Losses	40

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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 2019-2020 :

- (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 01.04.2019. 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

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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 05.05.2020. Please note that the financial statements of the Company for the year under review are prepared using **IND AS** and your answers on Direct Tax Laws should relate to **Assessment Year 2020-'21**.

**You are required to provide the correct option to the following questions.**

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3.1 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)

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- 3.2 ₹ 19,80,000 paid to municipal authorities to regularize the deviation from the 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.
- 3.3 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 the nature of revenue expenditure
  - (D) Allowable only to an extent of 50 %
- 3.4 The tax liability on the earning of ₹ 2,20,000 credited to Capital Reserve would be :
- (A) ₹ 67,980 (@ 30.9%)
  - (B) ₹ 45,320 (@ 20.6%)
  - (C) ₹ 22,660 (@ 10.3%)
  - (D) NIL (exempt)
- 3.5 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.

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- (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.
- 3.6 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. **5**
- (i) Validity of the appointment of Mr. ‘X’ as Whole Time Director.
- (ii) Compute the effective capital for payment of managerial remuneration.
- 3.7 In the light of Ind AS 16, explain how should the Company account for revaluation of Plant and Machinery and depreciation subsequent to revaluation ? **7**
- 3.8 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 ? **3**

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**CASE STUDY - 4****25****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 12-08-2019, 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 2018-'19 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 held on 29.09.2019 and the shareholders have appointed you as the new Statutory Auditor (Firm Registration No. XXXXX) for a period of five years as recommended by the

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Audit Committee and approved by the Board of Directors of the Company in terms of Section 139 of the Companies Act, 2013 read with the Companies (Audit and Auditors) Rules, 2014 on such remuneration as may be mutually agreed upon between the Board of Directors of the Company and the Statutory Auditor.

Accordingly, you have assumed the office of Statutory Auditor and started your audit of books of accounts for the financial year 2019-20 on a monthly basis. During the month of May, 2020, 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) The previous Statutory Auditors of CESL made an adverse statement in their certificate as the Audit Committee of the Company did not meet four times a year.
- 2) 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).

**LGR**

**P.T.O.**

(22)

**LGR**

**Marks**

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 %.

- 3) 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

- 4) A theft of Cash of ₹ 15 lakhs by the cashier in January 2020 was detected only in May 2020 on which date the final accounts were not yet approved by the Board as the accounts were under audit.
- 5) Mr. Ajay Patel, a Chartered Accountant by profession was appointed as GST Auditor of CESL. The Management has requested Mr. Ajay Patel, for GST Audit and to file GSTR-3B for the months of July and August 2019 and filing of Annual Return in GSTR-9. Mr. Ajay Patel contended that he has been appointed to do only GST audit and the above are his scope limitations and cannot be conducted as the compliances and returns are to be filed by the Management.
- 6) One of the foreign director (foreign citizen) of CESL made donations in kind to various Indian residents for their personal use.

**LGR**

(23)

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- 7) 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](http://www.bzassociates.com) from WYK Ltd. The color of the website was very bright and attractive to run on a 'push technology.' Further, names of the partners of the firm and the major clients were also displayed on the web-site without any disclosure obligation from any regulator.
- 8) The CEO of CESL wanted to know the situations under which a lender can avail the benefits of SARFAESI Act, 2002.
- 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. Accordingly, read the following paragraphs and act accordingly :

**You are required to provide the correct option to the following questions.**

**2×5  
=10**

- 4.1 A theft of cash of ₹ 15 lakhs by the cashier in January 2020 was detected only in May 2020 on which date the final accounts were not yet approved by the Board as the accounts were under audit.

The theft of cash :

- (A) Need not be adjusted to the reported value of assets, liabilities, incomes or expenses for the year ended 31.03.2020.
- (B) Need to be adjusted to the reported value of assets, liabilities, incomes or expenses for the year ended 31.03.2020.
- (C) Need to be adjusted to the reported value of assets, liabilities, incomes or expenses for the year ended 31.03.2021.
- (D) A provision for bad debts should be made in the accounts.

LGR

P.T.O.

(24)

**LGR**

**Marks**

4.2 The Management has asked Mr. Ajay Patel to conduct besides GST Audit, filing of GSTR-3B and GSTR-9. Therefore, the :

- (A) Contention of the Management to Mr. Ajay Patel is tenable as preparation of annual returns and uploading periodic returns is also a part of the scope of the GST Audit.
- (B) Contention of the Management to Mr. Ajay Patel is not tenable as preparation of annual returns and uploading periodic returns is the task of the Management.
- (C) Wilful refusal by Mr. Ajay Patel for preparation of annual returns and uploading periodic returns will be considered as a professional default and as a consequence, he shall be held guilty of professional negligence.
- (D) Both (A) and (C)

4.3 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

**LGR**



(25)

**LGR**

**Marks**

4.4 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.

4.5. The CEO of CESL wants to know from you to state the situation under which a lender can avail the benefits of SARFAESI Act, 2002.

- (1) An insolvency petition has been launched against the borrower
  - (2) The borrower is under BIFR
  - (3) A winding up petition has been made against the borrower
  - (4) A criminal proceeding has been launched by the lender against the borrower
- (A) In situations under (1) and (2)
  - (B) In situations under (2) and (4)
  - (C) In situations under (2) (3) and (4)
  - (D) In all the given situations

4.6. The previous Statutory Auditors of CESL made an adverse statement in their certificate as the Audit Committee of the Company did not meet four times a year. State a few other circumstances that might result in an adverse or qualified statement in the auditor's certificate in respect of compliance of the requirements of Corporate Governance. **5**

**LGR**

**P.T.O.**

(26)

**LGR**

**Marks**

- 4.7. 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. **5**

$$PVIF (13\%, 8) = 0.376 \quad PVIFA (13\%, 8) = 4.80$$

- 4.8. In respect of the acquisition by SFL (another subsidiary of CESL) of XYZ Ltd, you are required to calculate : **1×5=5**

- (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.

**CASE STUDY - 5**

**25**

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.

**LGR**

(27)

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**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.

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P.T.O.

**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 01.04.2019, 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

(29)

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Marks

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 brain storming 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, 2002.

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.

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P.T.O.

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**LGR**

**Marks**

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.

**You are required to provide the correct option to the following questions.**

**2×5  
=10**

Note that the financial statements of the Company for the year under review are prepared using **IND AS** and your answers on Direct Tax Laws should relate to **Assessment Year 2020-21.**

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(31)

**LGR**

**Marks**

5.1 Can Mr. Shiva continue to hold the property in Bengaluru in terms of the Foreign Exchange Management Act, 2002 ?

- (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.

5.2. 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.

5.3 Do you think that the "Deferred Tax Asset" recognition on the unabsorbed business loss is appropriate ?

- (A) Yes
- (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.

**LGR**

**P.T.O.**

- 5.4 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)
- 5.5 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.
- 5.6 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 ? 5
- 5.7 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. 5
- 5.8 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 ? 5