

NOV 2019

final - New P6 F

Roll No.

Total No. of Case Study Questions - 05

Total No. of Printed Pages - 32

Time Allowed - 4 Hours

**Final New Syllabus
Paper - 6 F
Multidisciplinary Case Study**

Maximum Marks - 100

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Answers to questions are to be given only in English except in the 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.

Answers in respect of Multiple Choice Questions are to be marked on the OMR Answer Sheet only.

Answers to other questions are to be written on the descriptive type answer book. Answer to MCQs, if written in the descriptive type answer book will not be valued.

Candidates may use calculator.

CASE STUDY 1

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Digital Software Ltd., is a professionally managed, profit making, dividend paying, unlisted Public Limited Company incorporated in 2009 under the Companies Act, 1956 having its Registered Office at Coimbatore, Tamil Nadu. The Company operates in 3 units at Coimbatore and 1 unit at Nagercoil, India, and has 2 subsidiaries in India and 1 wholly owned subsidiary at California, USA called Digital Software Inc., USA.

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The Company provides a wide range of services such as consulting services, technology services and outsourcing services in India and to International clients spread across seven continents. The Company's segments are Banking, Financial, Insurance, Education, Hospitality, Health Care, Energy, Utilities, Communication, Logistics, etc. Besides technically qualified personnel, the Company has on its rolls several semi-skilled and unskilled workers as the Company is continuously expanding its operations.

The Company is managed by a broad based Board of Directors who are qualified professionals in information technology, engineering, accounting and finance with more than two decades of experience. The Company is practising good corporate governance in letter and spirit and has earned a good reputation with the shareholders, bankers and customers at large.

Since inception, the Company has maintained proper books of accounts adopting historical cost convention and accrual basis of accounting. All the accounting transactions are in alignment with the generally accepted accounting principles, complying with all significant accounting policies and mandatory Accounting Standards. The books of accounts are duly audited by a reputed firm of Chartered Accountants. The Company is regular in depositing all statutory dues to the Government and there are no pending disputes with any Government agencies. The Income Tax assessments have been completed up to the Assessment Year 2018-19.

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The Managing Director (MD) of the Company is of the strong view that utmost care is warranted in ensuring due compliances of various laws and regulations. This strong motive and belief of the MD were duly taken into consideration by all the departmental heads and strict monitoring of the compliances were given top priority by the Audit Committee and the Board of Directors of the company.

After completing two consecutive terms of five years each, the existing firm of Chartered Accountants retired at the conclusion of the Annual General Meeting of the Company held on 14.08.2019 and the shareholders appointed your firm as the Statutory Auditor of the Company for a period of five years on such remuneration as may be mutually agreed upon between you and the Audit Committee of the Company. Accordingly, you have assumed the office of Statutory Auditor for the financial year 2019-20.

You were informed that it is the practice of the Company to adopt financial results (both Standalone and Consolidated) on a quarterly basis and therefore your involvement to audit the books of accounts shall be on a continuous basis. You also ascertained that the audited financial results for the quarter ended 30.06.2019 were adopted at the meeting of the Board of Directors held on 10.08.2019.

On 05.10.2019, you were informed by the Director (Accounts and Finance) that a meeting of the Audit Committee and the Board of Directors is scheduled to be held on 22.10.2019 and 23.10.2019 respectively to consider amongst other subjects, inter-alia to approve and take on record the audited financial results of the Company for the second quarter/half year ended 30.09.2019. He also

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informed you that a week prior to the above meeting dates, an internal meeting with the top management would be scheduled to discuss with you any matter arising out of the audit. The Director (Accounts and Finance) has also submitted to you draft financial statements for the quarter/half year ended 30.09.2019 for audit.

During the course of your audit for the second quarter from 01.07.2019 to 30.09.2019, you made the following observations :

1. One of the Company's units located in Nagercoil, had faced severe interruption during the said quarter due to cyclone and floods. Out of total 303 available working days during the whole of the financial year 2019-20, the interruptions during the second quarter of the financial year were :
 (a) Floods 4 days, (b) Cyclone 3 days, and (c) Damage restoration 2 days (excluding weekly off days falling in between). The unit declared lay-off during such period on payment of average 50% of salary to its employees. The damage to the computers and other equipments and the cost of its repairs amounted to ₹ 87 lakhs.

The following expenses were incurred :

(₹ In lakhs)

Salaries	1,230
Power	820
Other Fixed Expenses	490
Indirect Wages and Salaries	740
Depreciation	210
Finance Charges	115

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2. As at 30.09.2019, the Company's investments in subsidiaries are considered as long-term and valued at cost. One of the Indian subsidiary's net worth was fully eroded as at 30.09.2019 and the prospects of its recovery is very bleak. However, the other two subsidiaries (in India and USA) are doing exceptionally well. The Chief Accounts Officer has informed you that the Company did not provide for the decline in the value of investment in the above subsidiary because the overall investment portfolio in subsidiaries did not suffer any decline in view of the fact that the other two subsidiaries are doing exceptionally well;
3. Mr. Ramanathan, is a director of F Ltd., and R Ltd. Both companies did not file their financial statements with the Ministry of Corporate Affairs (MCA) for the year ended 31.03.2018. On 01.07.2019 Mr. Ramanathan is proposed to be appointed as an additional director of Digital Software Ltd. for which company sought a declaration from Mr. Ramanathan and the same was also submitted by him stating that no disqualification specified in Section 164 of the Companies Act, 2013 is attracted in his case;
4. In respect of the 3 units at Coimbatore of the company, ₹ 3 lakhs of employee contribution and ₹ 7.50 lakhs of employer contribution towards Employee State Insurance contribution have been accounted in the books of accounts in respective heads. However, only ₹ 4 Lakhs has been deposited with ESIC department during the second quarter ended 30.09.2019. The Chief Accounts Officer has informed you that due to bank strike for almost a week, they have not deposited the amount due but will deposit the overdue amount along with interest subsequently;

5. The Company exchanged surplus land with a book value of ₹ 10 lakhs for cash of ₹ 20 lakhs and plant and machinery valued at ₹ 25 lakhs;
6. The Company has re-classified a portion of current investments purchased for ₹ 20 lakhs to 'long term'. The market value as on the date of Balance Sheet was ₹ 25 lakhs;
7. The Company purchased high tech computers for US \$ 1,00,000 on 01.07.2019 payable after three months and it has entered into a forward contract for three months at US\$ 65.70 per dollar. The exchange rate per dollar on 01.07.2019 was US\$ 64.70;
8. Mr. Nani, a relative of a Key Management Personnel (KMP) of the parent Company received remuneration of ₹ 3,00,000 for his services in the Company for the period 01.04.2019 to 30.06.2019. On 01.07.2019, he left the job;
9. The Company launched a new software product in July 2019. The Company incurred ₹ 20 Lakhs towards research for the same. Due to prevailing market conditions, the management came to the conclusion that the product cannot be sold in the market for the next 10 years. The management, hence, wants to defer the expenditure write-off to future years.

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As the Statutory Auditor of the Company, you are required to analyse and answer the following :

Part - A

Provide the correct option to the following questions :

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=10

1.1 On exchange of surplus land with a book value of ₹ 10 lakhs for cash of ₹ 20 lakhs and plant and machinery valued at ₹ 25 lakhs, the measurement of the assets received would be

- (A) ₹ 25 Lakhs; (B) ₹ 35 Lakhs;
(C) ₹ 20 Lakhs; (D) ₹ 55 Lakhs.

1.2 On re-classification of the portion of current investments purchased for ₹ 20 lakhs to 'Long Term' on 30.09.2019 where the market value was ₹ 25 lakhs, the investments should be carried at

- (A) ₹ 25 Lakhs;
(B) ₹ 20 Lakhs;
(C) Average of ₹ 25 Lakhs and ₹ 20 Lakhs;
(D) Irrevocable option between ₹ 20 Lakhs and ₹ 25 Lakhs.

1.3 For the high-tech computers purchased on 01-07-2019, payable after three months and for which company has entered into a forward contract, what is the amount of profit or loss on forward contract ?

- (A) ₹ 1,00,000;
(B) ₹ 60,700;
(C) ₹ 59,700;
(D) ₹ 1,10,000.

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1.4 For the purpose of reporting transactions under AS 18, for the FY 2019-20, Mr. Nani who left the company on 01-07-2019 should be identified as

- (A) A resigned employee;
- (B) A related party;
- (C) Not a related party as he was not employed for full year;
- (D) Not a related party since he is only related to the KMP and not a KMP himself.

1.5 For accounting of the cost of Research of ₹ 20 lakhs, which is the correct treatment as per the applicable Accounting Standard ?

- (A) The Company has to write off the cost in the current financial year ending 31.03.2020;
- (B) The Company can write the cost over a period of 10 years;
- (C) The Company can write off the cost over a maximum period of 5 years;
- (D) The Company can write off the cost in the year in which the research can be commercially developed.

Part - B

1.6 You have observed that 1 of the Company's units located in a coastal area had faced interruption in production during the second quarter of FY 2019-20 due to cyclone and floods. On the basis of the information provided, find out the abnormal expenses that could be deductible from the product cost. (Assume costs given in point 1 as annual costs)

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- 1.7 The Chief Accounts Officer has informed you that the Company did not provide for the decline in the value of investments in the Indian subsidiary because the overall investment portfolio in subsidiaries did not suffer any decline as the other two (Indian and USA) subsidiaries are doing exceptionally well. Examine whether the contention of the Chief Accounts Officer is correct in the light of AS -13 "Accounting for Investments". 4
- 1.8 In respect of the information provided in point 3 above, examine whether the declaration submitted by Mr. Ramanthan to the Company is in order for his appointment as an additional director w.e.f. 01.07.2019 ? 3
- 1.9 In respect employee and employer's contribution towards Employee State Insurance contribution for the Company's units 1 to 3, explain whether the contention of the Chief Accounts officer is correct ? If not, state the correct legal position and the obligations of the Statutory Auditor while expressing a qualified or adverse opinion on the financial statements. 3

CASE STUDY 2

You are a partner of a Chartered Accountants' firm with competencies in Audit and Assurance, Domestic and International Taxation, Business Advisory Services, Mergers and Acquisitions, FEMA, Capital Markets, Banking and Finance. You are also known for your sharp acumen on Indian Accounting and Auditing Standards and mandate best reporting practices to a variety of large, reputed, listed companies including multi-national companies in the country.

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You always believe 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 compliant vis-a-vis intelligent tax planning rather than tax dodging and tax evasion.

You are always interested in providing suggestions and solutions rather than just discussing problems. You are very often specially chosen and consulted by a variety of large business houses as you possess excellent communication and presentation skills with a sound clarity of thought on the technical aspects of statute or with whatever you advice. You are also a Director on the Board, Chairman and/or Member of Committees of the Board of many listed and unlisted entities.

New Gen Chemicals Limited (NGCL) is one such entity, the flagship Company of Bharat Group having multiple businesses, subsidiaries and associate companies wherein your audit partner 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.,. The main business of the Company is manufacture of various chemicals used in Textiles, Engineering and other manufacturing industries. The Company is in the business for the last three decades and has carved itself a reputation in the domestic and international markets for its quality production and timely deliveries. The Company has been doing exceptionally good business over the years and has registered a consistent growth year-on-year in terms of turnover and profits.

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In view of your excellent technical and presentation skills, you have been much sought after and relied upon by the management of NGCL to provide expert opinions and advices to the management.

During the first week of May 2019, you have been invited with your team for a very confidential meeting with the Chairman, Managing Director and top management executives to discuss issues like appointment of a financial expert to turnaround one of the loss making Associate Company, adoption of Ind AS for preparation of financial statements, disclosures to be made in the financial statements pursuant to Schedule III of the Companies Act, 2013 and other matters.

On the appointed day, Mr. Gopal, Director Finance, formally welcomed you and your team and after pleasantries, Mr. Gopal discussed the following matters and submitted various facts and figures in support of the discussion.

SUMMARY OF DISCUSSION 1

The Company wants to hire the services of Mr. Ravi, a seasoned financial expert to turn around one of its loss making Associate Company. It is expected that after his appointment, the profits of that associate Company will increase by 10% over and above the targeted profit.

Financial Information of the said subsidiary as on 31.03.2019 :

Capital and Reserves	Amount in ₹
Equity share capital of ₹ 10 each of which ₹ 8 has been called up	8,00,000
Calls-in-Arrears	1,00,000
General Reserve	7,50,000
50,000, 9% Debentures of ₹100 each	50,00,000
Profit/(Loss) for the Year	(2,50,000)
Industry average profitability rate	12.50%

SUMMARY OF DISCUSSION 2

The following disclosures were extracted from the draft Ind AS financial statements of NGCL which it will adopt in FY 2019-20 :

- (i) In the Balance Sheet, 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 to company but delivery not made had been specified;
- (ii) Provision for doubtful debts of Trade receivables was grouped in, “Provisions” under current liabilities”;
- (iii) In Statement of Profit and Loss, prior period income was shown under “Other Income”;
- (iv) Sale proceeds of scrap incidental to manufacture were included in “Other Income”;
- (v) Payment towards a one-time voluntary retirement scheme introduced during the year was included in “Employee Benefit Expense”.

SUMMARY OF DISCUSSION 3

The Income Tax Assessing Officer, in the current financial year 2019-20 observed, during the assessment proceedings, a need to re-open the accounts of the Indian subsidiary for the financial year 2014-15 and therefore filed an application before the National Company Law Tribunal (NCLT) to issue an order to the subsidiary for re-opening its accounts and recasting the financial statements for the financial year 2014-15.

SUMMARY OF DISCUSSION 4.**Other matters concerning year end finalization :**

- (i) The Company sold goods for ₹ 90 lakhs to XYZ Ltd. during the financial year ended 31.03.2019. The Managing Director of the Company owns 100% of XYZ Ltd. The sales were made to XYZ Ltd. at normal selling prices followed by the Company. The Chief Accountant of the Company is of the opinion these sales do not require a different treatment from the other sales made by the Company and hence no disclosure of related party transactions is necessary as per the Accounting Standard -18 (AS -18);
- (ii) The Company has purchased debentures of ₹ 15 lakhs which are redeemable within 6 months;
- (iii) The Company sold its building for ₹ 65 lakhs to A Ltd. and has also given the possession of the same. The book value of the building is ₹ 30 Lakhs. As on 31.03.2019, the documentation and legal formalities are pending;
- (iv) The Company had an existing freehold factory property. During the financial year 2018-19, it knocked down and re-developed the property. During the redevelopment period, the Company moved its production facilities to a new temporary site and incurred ₹ 23 Lakhs towards rent, installation of machinery costs, removal of machinery and transportation costs from the old location to the new location;

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- (v) The Government of Tamil Nadu, in order to encourage industrial promotion, offered subsidy of ₹ 50 Lakhs in the nature of promoters' contribution to all new industries set up in the specified industrial areas. The Company had recently set up its new factory in the specified industrial area and received the subsidy.

After receipt of the above information submitted by Mr. Gopal you are expected to analyse and present a report to the management.

Part – A

Provide the correct option to the following questions :

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2.1 In the light of the information given in the summary of discussion 4(i), the opinion of the Chief Accountant is

- (A) Wrong as AS-18 disclosures are applicable;
- (B) Correct as the sales was made at normal selling price;
- (C) Correct as AS-18 does not apply;
- (D) Correct if disclosure is made in the report of Board of Directors.

2.2 For the purchase of debentures as given in the summary of discussion 4(ii), while preparing the cash flow statement as per AS-3 for the half year ended 30.09.2019, the same will be shown under:

- (A) Cash Outflow in Operating Activities;
- (B) Cash Outflow in Financing Activities;
- (C) Cash Outflow in Investment Activities;
- (D) Cash and Cash Equivalents.

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2.3 In the light of the information given in the summary of discussion 4(iii), for the financial year ended 31-03-2019 :

- (A) The Company should make mention of sale in Directors' Report;
- (B) The Company should recognize the profit of ₹ 35 Lakhs in its Reserves;
- (C) The Company should not record the sale;
- (D) The Company should record the sale and recognize profit of ₹ 35 lakhs in its statement of profit and loss.

2.4 In the light of the information given in the summary of discussion 4(iv), such costs can be

- (A) Capitalised to the cost of new building;
- (B) Accumulated under the head "Property redevelopment expenditure" and amortised over a maximum period of 5 years;
- (C) Charged to Profit and Loss Account as and when incurred;
- (D) Charged to Profit and Loss Account in the year the redeveloped property is put to use.

2.5 In the light of information given in the summary of discussion 4(v), the subsidy, as per AS 12 on 'Accounting for Government Grants', will be

- (A) Credited to capital reserve;
- (B) Credited as 'Other Income' in the Statement of profit and loss;
- (C) Credited to general reserve;
- (D) Can be either credited to Capital Reserve or credited to 'Other Income' in the statement of profit and loss.

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Part – B

- 2.6 What is the maximum salary that could be offered to Mr. Ravi to turn around the loss making Associate Company ? **5**
- 2.7 Give your comments on the disclosures (as extracted) made by the Company in its draft financial statements under Ind AS. **5**
- 2.8 In the light of the information given in summary of discussion 3 above, examine the validity of the application filed by the Income Tax Assessing Officer before the NCLT. **5**

CASE STUDY 3

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.

Paper Board Private Limited

The promoters of this company are Zak & Jill who holds about 90% in the company. The remaining 10% is held by a group of minority shareholders of which 9% is held by Johnson in his individual capacity. Whilst the promoters of the company are willing to offload their shares completely at a fair price, Johnson, being a significant minority shareholder, may be creating problems and he may also demand higher price to capitalise on the opportunity.

RJK

Johnson 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. Zak is the Chairman of the Board and he believes that his decision is final with respect to board minutes and even the RoC has no role to play.

Further, the promoters believe that any offloading can happen only based on fair terms and after a comprehensive company analysis by an independent party using the well-established statistical techniques.

Innovative Papers Limited

Innovative Papers 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. 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.

Digital Papers

Digital Papers is a partnership firm where George and Jolly are the current partners. Earlier Michael was also a partner, who retired on 31.03.2018. 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 2017-18 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.

George and Jolly believe that if there is a requirement to pay the tax, then Michael would also be required to pay the same as per the applicable provisions, though Michael challenges this position. In view of the tax uncertainty, the firm is willing to consider a total buy out by any large company.

Part - A

Answer the following questions :

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=10

3.1 Presume that T Limited proposes to pursue amalgamation of Paper Board Pvt. Ltd. and pursuant to the same, agrees to pay higher price (higher than the price decided under the scheme) to Johnson based on his negotiation, the extra amount/compensation received by Johnson 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.

3.2 Zak has an absolute discretion to exclude the matters raised by Johnson in the board minutes, if it

- (A) is relevant or material to the proceedings;
- (B) is detrimental to the interests of the Chairman;
- (C) is or could reasonably be regarded as defamatory of any person;
- (D) is a dissent in a majority decision.

3.3 The GST liability of Innovative Papers 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.

3.4 Michael, the retired partner in Digital Papers 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 post retirement.

3.5 The time limit for making an application for claiming refund of GST taxes paid by Innovative Papers 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.

Part - B

Answer the following :

3.6 How will you carry out the company analysis of Paper Board Private Limited using the statistical techniques ? 8

3.7 Under what circumstances Innovative papers limited is legally entitled to the GST refunds and can also retain such amounts without having the requirement to pass it on to anybody else ? 7

CASE STUDY 4

A retired professor is running a free coaching centre for professional exams and you are assisting him for the same. The service is well recognised by the student community. As part of preparation for the examinations, the professor has organised a doubt removal session for 2 days where the students can raise any question from any subject and the answers will be provided.

Giving below the list of questions raised by 3 students Shah, Kumar and Patel.

Shah

Shah had a doubt regarding the security cover available for settling the workmen's dues under the applicable statute. If the available securities are already charged to the secured creditors who have given loans to the company in excess of the value of the available securities, how the workmen's due claims would be settled ? He is not able to understand the concept of security for workmen dues under such scenario and is not clear regarding the type of dues that would be considered as workmen's dues for this purpose.

Shah also raised the issue that unless the auditors complete the audit of the financial statements, technically the board will not have the required comfort to approve the financial statements. However, the board has to approve the financials before auditors can sign it formally. He was wondering how it would be possible to address both these requirements.

He raised his next query on the matter relating to Joint Auditors. When there are 3 joint auditors appointed to audit the company, and if there is difference of opinion amongst the joint auditors, what would be the way forward for reporting by the joint holders ? Shah is confused as regards the requirement of the Companies Act, 2013 and the requirements of the auditing standards issued by the ICAI. He believes that any difference of opinion amongst the joint auditors needs to be decided based on majority decision similar to that of the judiciary.

Kumar

Kumar's question was relating to the extent of examination required by the statutory auditor of a Company for CARO reporting purposes as regards cost records. Since the statutory auditor is only a chartered accountant, he was not sure of how such a review of cost records is possible ? He believes that for CARO purposes, the chartered accountant either by himself or through a specialist should conduct a detailed review of cost records to ensure that the records as prescribed are made and maintained.

He was also not clear on the Companies Act provisions relating to the court's jurisdiction to interfere with the internal management of the company when they are acting within their powers. He believes that there are no restrictions for the court and it can interfere at any time *suo moto* or based on a reference notwithstanding the internal management's actions.

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Patel

Patel raised a query relating to the CSR provisions under the Companies Act, 2013 and its applicability to a company which is formed with charitable objects. He believes that the CSR provisions are equally applicable to such companies, however he was not sure of the same.

Patel raised his second question relating to accounting of Certified Emission Reductions (CERs). He wants to know the point of accounting of CERs when the emission reduction activities have taken place awaiting CERs.

You are required to assist the professor by drafting answers to the questions (as summarised below) of the above students.

Part - A

Provide the correct option to the following questions.

2×5
=10

4.1 With respect to the question raised by Shah, if the value of the security of a secured creditor of a Company is Rs 60 Lakhs (who has funded the company to the extent of ₹ 100 Lakhs which remains as outstanding) and the workmen's dues is ₹ 50 Lakhs, the workmen's portion of the security will be

- (A) Nil;
- (B) ₹ 50 Lakhs;
- (C) ₹ 20 Lakhs;
- (D) ₹ 60 Lakhs.

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4.2 As regards the issue raised by Shah regarding the approval of the financial statements, if the auditors completed the audit and obtained all the required audit evidence to support the audit opinion on the financial statements on 10.04.2019 and the Board approved the financial statements on 15.04.2019, the date of the signoff by the auditors would be :

- (A) On or after 10.04.2019;
- (B) On or after 15.04.2019;
- (C) Before 10.04.2019;
- (D) Before 15.04.2019.

4.3 For a company which is formed with charitable objects, CSR provisions under the Companies Act, 2013 are :

- (A) Not Applicable;
- (B) Applicable;
- (C) Applicable when it makes profits in excess of ₹ 1 crore;
- (D) Not Applicable with prior approval of the Registrar of Companies.

4.4 Kumar's view as regards the statutory auditor's review of cost records for CARO reporting is :

- (A) Correct since it is required under the Companies Act;
- (B) Not correct since the requirement is to conduct only a general and broad review;
- (C) Based on the facts and circumstances;
- (D) Based on mandate of the shareholders.

4.5 When emission reduction has taken place pending issue of CERs :

- (A) CERs receivable is to be accrued in the books;
- (B) CERs receivable should not be accrued in the books;
- (C) CERs receivable to be treated as contingent asset and accrued in the books;
- (D) CERs receivable to be treated as constructive asset and accrued in the books.

Part - B

- 4.6 In your view what are the responsibilities of the Joint Auditors appointed under the Companies Act, 2013 with respect to division of work, reliance on the work carried out by other joint auditors, treatment of difference of opinion amongst the joint auditors. Also, explain if there is any rationale for the confusion of Shah regarding the responsibility of Joint Auditors between the Companies Act, 2013 and the auditing standards issued by ICAI ? 9
- 4.7 What is your assessment of Kumar's view as regards the ability of the courts under the Companies Act, 2013 to interfere with the internal management of companies acting within their powers. 6

CASE STUDY 5

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.

Further, Swatch typically purchases traded goods from Olympic Traders, a wholesaler and sells these goods to the third party without carrying any associated inventory risk as it purchases goods from the wholesaler only when it receives back to back orders from the end customer. However, it may bear the risk of those inventory items that have been returned by the customers.

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 the 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 a deductible expenditure in FY 2018-19;

- (iv) An amount of ₹ 4 crores was paid to George, a non-resident based out Netherlands, without deducting any taxes, 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 the business prospects are attractive, the implications of the income tax 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 the options of outsourcing its administrative, finance, HR and IT activities to a third party service provider and focus more on the core activities.

Dead Wood Private Limited

Dead Wood was a flagship company 15 years back. However due to various issues associated with the management, the company was making continuous losses and it had shut down all its plants and remained inactive for the past 5 years without having any activity. Whilst the company remained dormant, several procedural compliances relating to Companies Act, 2013 including filing of financial statements; other returns etc. were also not complied with. Further, the company has not rotated its auditors post the amendments made to the Companies Act, 2013 even though its auditors, M/s. Black & White Associates were continuing since inception.

You are required to review the above matters carefully and answer the following questions :

Part - A

Provide the correct option to the following questions :

2×5
=10

5.1 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.

- 5.2 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.
- 5.3 Black & White Associates, the auditors of Dead Wood Private Limited need not retire by rotation. The aforesaid statement is :
- (A) False;
 - (B) Depends on the decision of the Board;
 - (C) Depends on the decision of the shareholders;
 - (D) True.
- 5.4 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.
- 5.5 Swatch should reflect _____ as its revenue in accordance with the applicable accounting standards :
- (A) Proportionate amount of its billings to its customers derived based on risk assessment;
 - (B) Gross Billing to its customers;
 - (C) Net differential margin arising out of its billings to its customers;
 - (D) Zero.

(31)

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Marks

Part - B

- 5.6 Evaluate the matters arising out of the income tax raid of Swatch and its allowability under the Income Tax Act, 1961. **6**
- 5.7 What would be typical categorisation of various securitisation instruments handled by Clean and Sweep ? **5**
- 5.8 Provide your inputs in evaluating the outsourcing proposal of Guru dully considering its pros and cons. **4**
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