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Further, in the Elective Papers which are Case Study based, the solutions have been worked out on the basis of certain assumptions/views derived from the facts given in the question or language used in the question. It may be possible to work out the solution to the case studies in a different manner based on the assumptions made or views taken.

PAPER – 6F: MULTI-DISCIPLINARY CASE STUDY

The question paper comprises five case study questions. The candidates are required to answer any four case study questions out of five.

All your workings should form part of your answer.

CASE STUDY - 1**Facts of the Case**

1. *Telecom Inc., an American company (herein after mentioned as "the Contractor") has been awarded contract by Powering Grids Corporation of India Ltd. (hereinafter mentioned as PGCIL or 'The Principal') for augmentation of its telecom network along with its grid spread all over the country. The Applicant has won the contract as L-1 under Global Tender Process in the month of July, 2020.*
2. *The contract awarded consists of two separate agreements:*
 - (i) *Off-Shore Agreement for supply of DWDM system, all associated hardware, cables, accessories and fittings, Telecommunication Management Network (TMN) and all other associated works/items described in the technical specification for a viable and fully functional Fiber Optic Transmission System (FOTS). The price fixed for the Supply Agreement was USD 20,000,000.*
 - (ii) *On-Shore Agreement for performance of all activities viz. installation, testing, commissioning, training and maintenance of DWDM system all associated hardware, cables, accessories and fittings, TMN during the warranty period of one year as well subsequent period of five (5) years from the date of expiry of warranty period. The price fixed for Service Agreement was INR 1,75,00,000/ for installation, testing and commissioning and ₹ 60,00,000/- per annum for maintenance period of five years.*
3. *Telecom Inc. has appointed Mr. Swami, an experienced telecom engineer having more than 20 years' experience as its Country Manager to look after successful completion of the awarded contract.*
4. *Both the contracts have a clause that the Contractor shall comply with all the laws applicable to it in India. The Contractor has approached you as a Chartered Accountant to guide and help them to comply with various local regulatory requirements.*
5. *In the first introductory meeting, Mr. R Smith, Director (Sales) of Telecom Inc. as well as Mr. Swami, provided you with copies of both the Agreement awarded to the Applicant by PGCIL and copy of appointment letter issued to Shri Swami as Country Manager. During the discussion, you were also given the following information:*
 - (a) *Telecom Inc. has been operating in different parts of the world but this was their first contract in India. However, it has sold certain parts, being manufactured in USA, in India through direct sales to the consuming parties.*

- (b) Agreement for supply of material shall be executed by direct supplies of goods/materials to PGCIL from USA.
 - (c) For executing the on-shore service agreement, the American Company wanted to set up an office in Mumbai and shall appoint suitable personnel to handle the contract at various location of PGCIL
6. You have been asked to explain the company about various local laws applicable to them and formalities required to be completed before they can start execution of the contract as well as formalities under various laws applicable, to be complied with during the period required to complete the contract awarded.

Part-A**Multiple Choice Questions**

Provide the correct option to the following questions:

- 1.1 Since the contracts has been awarded to Telecom Inc. by PGCIL, a public sector undertaking. It can commence business activities in India:
- (a) without waiting for any other approval from any other regulator.
 - (b) after taking permission from RBI.
 - (c) after taking permission from tax authorities
 - (d) after taking approval from RBI and Registrar of Companies.
- 1.2 Since supply and service contracts are awarded together, the payments received in USA towards supply of material shall:
- (a) be taxable in India as income accrue or arise or deemed to accrue or arise in India.
 - (b) be taxable in India as income received or deemed to receive in India.
 - (c) not be taxable as no income received or-deemed to received in India.
 - (d) not be taxable as neither income received or deemed to received nor income accrue or arise or deemed to accrue or arise in India.
- 1.3 Telecom Inc. project office has to file with the RBI every year:
- (a) Foreign Asset and Liability statement
 - (b) Annual Performance Report
 - (c) Annual Activity Certificate
 - (d) Annual Report
- 1.4 The income tax rate applicable to Telecom Inc. will be:
- (a) 22%
 - (b) 25%

(c) 30%

(d) 40%

1.5 Can the Telecom Inc. hold two PAN under the Income Tax Act, 1961, one for supply contract and other for service contract:

(a) PAN is not required for it.

(b) Yes, two PAN are compulsory.

(c) Yes, it has option to hold two PAN.

(d) No. It cannot hold two PAN.

(2 x 5 = 10 Marks)

Part-B

Descriptive Questions

1.6 Explain in brief but in sequential manner, various steps required to be taken by Telecom Inc. under the Companies Act, 2013 and the Foreign Exchange Management Act, 1999 before commencing its business operations in India? **(10 Marks)**

1.7 Explain the compliance, M/s. Telecom Inc., shall have to make under the Income Tax Act, 1961 while filing its Return of Income for its first financial year ended 31-3-2021. **(5 Marks)**

ANSWER TO CASE STUDY 1

PART – A

1.1 (b)

1.2 (d)

1.3 (c)

1.4 (d)

1.5 (d)

PART – B

1.6 Steps Taken by the Telecom Inc. under the Companies Act, 2013

As per section 379 of the Companies Act, 2013, Sections 380 to 386 (both inclusive) and sections 392 and 393 shall apply to all foreign companies. Further, in order to acquire the status of Foreign Company and to comply with the provisions of Chapter XXII of the Companies Act, 2013, not less than 50% of the shareholders of Telecom Inc. shall be consisting of body corporates incorporated in India. Telecom Inc. will also be required to comply with other provisions of this Act as may be prescribed with regard to the business carried on by its place of business in India as if it were a company incorporated in India.

According to Section 380 of the Companies Act, 2013, following steps will be taken by the Telecom Inc. w.r.t. filing of Documents, etc., to Registrar before commencing of its business operations in India:

- (i) Every foreign company shall, within 30 days of the establishment of its place of business in India, deliver to the Registrar for registration:
- (a) a **certified copy of the charter, statutes or memorandum and articles**, of the company or other instrument constituting or defining the constitution of the company.
 - (b) the **full address** of the registered or principal office of the company;
 - (c) a **list of the directors and secretary** of the company containing such particulars as may be prescribed under Rule 3 of the Companies (Registration of Foreign Companies) Rules, 2014;
 - (d) the **name and address or the names and addresses of one or more persons resident in India** authorised to accept on behalf of the company service of process and any notices or other documents required to be served on the company;
 - (e) the **full address of the office of the company** in India which is deemed to be its principal place of business in India;
 - (f) **particulars of opening and closing of a place of business** in India on earlier occasion or occasions;
 - (g) **declaration** that none of the directors of the company or the authorised representative in India has ever been convicted or debarred from formation of companies and management in India or abroad; and
 - (h) **any other information** as may be prescribed.
- (ii) **Form, procedure and time for making application and submission of prescribed documents:** According to the Companies (Registration of Foreign Companies) Rules, 2014, the above information shall be filed with the Registrar within 30 days of the establishment of its place of business in India, in Form *FC-1* along with prescribed fees and documents required to be furnished as provided in section 380(1). The application shall also be supported with an attested copy of approval from the Reserve Bank of India under the Foreign Exchange Management Act or Regulations, and also from other regulators, if any, approval is required by such foreign company to establish a place of business in India or a declaration from the authorised representative of such foreign company that no such approval is required.
- (iii) **Office where documents to be delivered and fee for registration of documents:**
1. According to the Rule 8 of the Companies (Registration of Foreign Companies) Rules, 2014, any document which any foreign company is required to deliver to the Registrar shall be delivered to the Registrar having jurisdiction over New Delhi.
 2. It shall be accompanied with the prescribed fees.

3. If any foreign company ceases to have a place of business in India, it shall forthwith give notice of the fact to the Registrar, and from the date on which such notice is so given, the obligation of the company to deliver any document to the Registrar shall cease, provided it has no other place of business in India.

Steps to be taken by the Telecom Inc. under the FEMA, 1999

As per section 6(6) of the FEMA, without prejudice to the provisions of this section, the Reserve Bank may, by regulation, prohibit, restrict, or regulate establishment in India of a branch, office or other place of business by a person resident outside India, for carrying on any activity relating to such branch, office or other place of business.

¹Criteria for opening branch office in India by foreign entities

The general criteria for opening branch office in India by a foreign entity is as follows:

- (i) Applications from foreign companies (a body corporate incorporated outside India, including a firm or other association of individuals) for establishing BO/LO/PO in India shall be considered by the AD Category-I bank as per the guidelines given by Reserve Bank of India (RBI).
- (ii) In some cases, AD Category-I bank, can itself grant approval, if within guidelines issued by RBI.

However, in certain cases, RBI approval is required. In that case, application shall be forwarded to RBI.

When Prior approval of RBI for opening BO/LO/PO in India in certain cases

²In some cases, BO/LO/PO can be opened in India only with approval of RBI. In that case, application shall be forwarded to RBI for approval.

An application from a person resident outside India for opening of a BO/LO/PO in India shall require prior approval of Reserve Bank of India and shall be forwarded by the AD Category-I bank to the General Manager, Reserve Bank of India, Central Office Cell, Foreign Exchange Department, 6, Sansad Marg, New Delhi - 110 001.

RBI shall process the applications for approval in consultation with the Government of India, where the principal business of the applicant falls in the Telecom sector besides with Defence, Telecom, Private Security and Information and Broadcasting. However, prior approval of Reserve Bank of India shall not be required in cases where Government approval or license/permission by the concerned Ministry/Regulator has already been granted. The term "permission" used in the Government of India Notification dated

¹Provisions are contained in para 1 of RBI (FED) Master Direction No.10/2015-16 dated 1-1-2016 Regulation 3 of Foreign Exchange Management (Establishment in India of Branch or Office or liaison office or a project office or other Place of Business) Regulations, 2016

²Regulation 5 of FEM (Establishment in India of Branch or Office or liaison office or a project office or any other Place of Business) Regulations, 2016

January 21, 2019 does not include general permission, if any, available under Foreign Direct Investment in the automatic route, in respect of the above four sectors.

- 1.7 Payment in respect of off-shore supply of DWDM System by Telecom Inc. would not be chargeable to tax in India, since such supply is made outside India and it would not be deemed to accrue or arise in India. However, activities of installation, testing, commissioning, training and maintenance of DWDM system would fall within the scope of technical services. As per section 9(1)(vii), FTS payable by a person who is a resident in India would be deemed to accrue or arise in India in the hands of the non-resident payee. Thus, such payment would be chargeable to tax in India in the hands of Telecom Inc.

In case Telecom Inc., an American company, set up an office in Mumbai for executing the on-shore service agreement, such office would constitute a Permanent establishment of Telecom Inc.

Since Telecom Inc. has a PE in India and the agreements with Powering Grids Corporation of India Ltd. are effectively connected with such PE and such agreements have been entered into in the year 2020. Accordingly, as per section 44DA, the income from rendering technical services shall be computed under the head "Profits and gains of business or profession" in accordance with the provisions of the Income-tax Act, 1961; and shall be subject to tax@40% (plus surcharge@2% and HEC@4%).

Telecom Inc. is required to maintain books of account under section 44AA and get the same audited under section 44AB and furnish report before the specified date i.e., the date one month prior to the due date of filing return u/s 139(1) for A.Y.2021-22.

Telecom Inc. is required to obtain PAN as per section 139A.

CASE STUDY - 2

You have been appointed as statutory auditors of XYZ Limited in its 12th annual general meeting held on 28-09-2020 for a period of five years. Your appointment has been made in place of M/s AB and Company, Chartered Accountants, who were rotating out as per requirements of the Companies Act.

XYZ Limited is unlisted public company in which CDE Limited, a listed company, holds 50% equity shares. The balance 50% equity shares are held by Mr. FG and his close relatives.

The management of XYZ Limited is being done by Mr. FG and his son. CDE Limited has also appointed two of his directors as directors of XYZ Limited.

CDE Limited is listed on both National Stock Exchange (NSE) as well as Bombay Stock Exchange (BSE).

XYZ Limited is a manufacturing company engaged in the production of piston, an auto part for commercial trucks.

CDE Limited is also a manufacturing company engaged in the production of commercial trucks having its assembly plants at three different locations in the country.

Upto 31st March, 2017, the entire production of XYZ Limited of pistons was purchased by CDE Limited. However, with effect from April 1st 2017, XYZ Limited has started contract manufacturing for CDE Limited and for that purpose an agreement has been entered into between the two companies.

The salient features of the Agreement are as follows:

- (1) The installed capacity of XYZ Limited is 200,000 piston per annum. The optimum production level is expected to be not less than 80% of the installed capacity.*
- (2) All the raw materials/parts for production shall be procured and supplied by CDE Limited to XYZ Limited. Sufficient quantity levels of raw material/parts shall be maintained with XYZ Limited for smooth and uninterrupted production.*
- (3) 5% production loss shall be permitted to XYZ Limited.*
- (4) Any production scrap shall be disposed of by XYZ Limited at its own expense. Receipt from sale of scrap shall be to the credit of XYZ Limited only.*
- (5) An estimated cost sheet shall be prepared by XYZ Limited based on the prevailing cost of raw materials/parts, wages and stores/consumables and shall be approved by CDE Limited in advance before the start of every new financial year.*
- (6) XYZ Limited shall be given 30% of the cost of production as its contract receipt.*
- (7) The production shall be stored by XYZ Limited in its warehouse and shall be despatched to various assembly plants of CDE Limited as per delivery schedule provided to it three months in advance.*
- (8) The payment of invoices raised by XYZ Limited on the respective assembly plants of CDE Limited shall be made by the respective plants where the products shall be delivered with 30 days from the receipt of the products.*
- (9) CDE will not interfere in day to day operation.*

During the financial year ended 31-03-2021, you noticed the following transactions in the accounts of XYZ Limited:

- (1) An advance against supplies of ₹ 2,00,00,000 was received from CDE Limited. However, the same has been utilised by XYZ Limited to replace an old machinery with the new one to improve the quality of the finished products. No supplies were made against the said advance by the company to CDE Limited.*
- (2) An export order has been fulfilled by XYZ Limited at the instruction of CDE Limited at a price mutually agreed by the importer and CDE Limited.*

- (3) A consignment of 2500 pistons supplied to one of the units of CDE Limited has been rejected due to inferior quality material used for production.
- (4) The Assessing officer has disallowed depreciation on plant and machinery claimed by the company for AY 2018-19 on the ground that the arrangement of contract manufacturing has been made by the parties with malafide to claim depreciation on plant and machinery whereas the substance of the arrangement is nothing but giving the entire plant on lease and therefore, the income has been assessed under the 'Income from House Property' instead of under the head 'Profit or gains from business or profession. The company has filed an appeal against the said assessment order before the CIT (appeals) and the appeal was pending as on date.

Part-A**Multiple Choice Questions**

Provide the correct option to the following questions:

- 2.1 AB and Co. were not eligible for reappointment as statutory auditor of XYZ Limited as:
- (a) They have given a modified opinion for the year ended 31-3-2020.
 - (b) They might have completed two terms of five years each as auditors of the company.
 - (c) The management has liberty to appoint any other Chartered accountant every year.
 - (d) They are a smaller firm than your firm.
- 2.2 After you have received your appointment as statutory auditor of XYZ Limited, you were required to:
- (a) start your audit assignment immediately.
 - (b) communicate with the previous auditors for knowing their objection in accepting the assignment by you, if any.
 - (c) wait for the retiring auditor to communicate with you.
 - (d) start your audit assignment pending confirmation from previous auditor about their objection, if any.
- 2.3 As provided in the Companies Act, 2013, the relationship of XYZ Limited with CDE Limited is that of an associate because:
- (a) CDE Limited holds 50% equity shares of XYZ Limited.
 - (b) CDE Limited was purchasing the entire production of XYZ Limited.
 - (c) XYZ Limited has utilised a sum of ₹ 2,00,00,000 given by CDE Limited.
 - (d) CDE Limited hold significant influence over XYZ Limited and does not fulfil definition of control under Ind AS.

- 2.4 In terms of Indian Accounting Standard (Ind AS)-16 Property, Plant and Equipment, the replacement of old machinery shall be accounted for by XYZ Ltd. as
- (a) an addition to PPE as the expenditure fulfils the definition of PPE.
 - (b) an addition to PPE as it is a very big expenditure.
 - (c) revenue expenditure as it is relating to replace of existing plant.
 - (d) revenue expenditure, as the management has incurred that expenditure from its short term resources.
- 2.5 As the statutory auditors of XYZ Limited, your query for using the advance against supplies towards replacement of machinery, shall be that:
- (a) whether it was used with the consent of the party.
 - (b) advance against supplies can never be used for any other purpose, why it was done?
 - (c) company has actually used short term funds for long term purpose. Reasons required as this matter needs to be reported.
 - (d) machinery should always be purchased by taking term loan from bank. Why did company not do that? **(2 x 5 = 10 Marks)**

Part-B**Descriptive Questions**

- 2.6 What are the compliances which XYZ Limited, must have taken to comply with the provisions of the Companies Act, 2013 for entering into an agreement for contract manufacturing for CDE Limited? **(5 Marks)**
- 2.7 What are the disclosure requirements which you would like to verify from the financial statement of XYZ Limited for the year ended 31.03.2021 with respect to its transactions with CDE Limited? Whether your audit scope will include TDS and GST compliances also? **(5 Marks)**
- 2.8 Please explain with reasoning, whether the disallowance of depreciation made and the income being assessed under the head 'Income From House Property' instead of Business Profits by the Assessing Officer, was justified. **(5 Marks)**

ANSWER TO CASE STUDY 2**PART – A**

- 2.1 (b)
2.2 (b)
2.3 (d)
2.4 (a)

2.5 (a) or (b) or (c)**PART – B**

2.6 In the instant case, XYZ Limited is unlisted public company in which CDE Limited, a listed company holds 50% equity shares. This means these companies are Associates companies by virtue of Section 2(6) of the Companies Act, 2013.

According to Section 2(76)(viii)(A) “related party”, with reference to a company, means any company which is a holding, subsidiary or an associate company of such company. Hence, CDE Limited and XYZ Limited are related parties and hence compliances under Section 188 shall be applicable.

According to Section 188(1), except with the consent of the Board of Directors given by a resolution at a meeting of the Board and subject to such conditions as may be prescribed, no company shall enter into any contract or arrangement with a related party with respect to sale, purchase or supply of any goods or materials.

Provided that no contract or arrangement, in the case of a company having a paid-up share capital of not less than such amount, or transactions exceeding such sums as under Rule 15 of the Companies (Meeting of Board and its Powers) Rules, 2014 shall be entered into except with the prior approval of the company by a resolution.

Provided further that no member of the company shall vote on such resolution, to approve any contract or arrangement which may be entered into by the company, if such member is a related party.

Provided also that nothing in this sub-section shall apply to any transactions entered into by the company in its ordinary course of business other than transactions which are not on an arm’s length basis.

Explanation. — In this sub-section, the expression “arm’s length transaction” means a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.

(2) Every contract or arrangement entered into under sub-section (1) shall be referred to in the Board’s report to the shareholders along with the justification for entering into such contract or arrangement.

(3) Where any contract or arrangement is entered into by a director or any other employee, without obtaining the consent of the Board or approval by a resolution in the general meeting under sub-section (1) and if it is not ratified by the Board or, as the case may be, by the shareholders at a meeting within three months from the date on which such contract or arrangement was entered into, such contract or arrangement shall be voidable at the option of the Board or, as the case may be, of the shareholders and if the contract or arrangement is with a related party to any director, or is authorised by any other director, the Directors concerned shall indemnify the company against any loss incurred by it.

(4) Without prejudice to anything contained in sub-section (3), it shall be open to the company to proceed against a director or any other employee who had entered into such contract or arrangement in contravention of the provisions of this section for recovery of any loss sustained by it as a result of such contract or arrangement.

(5) Any director or any other employee of a company, who had entered into or authorised the contract or arrangement in violation of the provisions of this section shall, —

- (i) in case of listed company, be liable to a penalty of twenty-five lakh rupees and
- (ii) in case of any other company, be liable to a penalty of five lakh rupees.

2.7 In the given situation, XYZ Limited is unlisted public company in which CDE Limited, a listed company holds 50% equity shares. CDE Limited has also appointed two of his directors as directors of XYZ Limited. XYZ Limited has started contract manufacturing for CDE Limited and for the same formal agreement is being done wherein all the raw material/part for production shall be procured and supplied by CDE Limited to XYZ Limited. Further, XYZ Limited will be preparing estimated cost sheet based on prevailing cost of raw material/parts, wages and stores /consumable and shall be approved by CDE Limited in advance for every year. XYZ Limited shall be given 30% of cost of production as its contract receipt. In view of above, it can be said that the relationship of XYZ Limited and CDE Limited is that of an associate.

Ind-AS 24, "Related Party Disclosure", requires disclosure to be made separately prescribed categories such as the parent; entities with joint control of, or significant influence over, the entity; subsidiaries; associates; joint ventures in which the entity is a joint venturer; key management personnel of the entity or its parent; and other related parties.

As per Ind-AS 24 Related Party Disclosure, if an entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. **At a minimum, disclosures shall include:**

- (a) the amount of the transactions.
- (b) the amount of outstanding balances, including commitments, and:
 - (i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and
 - (ii) details of any guarantees given or received.

Further, examples of transactions that are disclosed if they are with a related party includes purchases or sales of goods (finished or unfinished); purchases or sales of property and other assets; rendering or receiving of services; leases; commitments to do something if a particular event occurs or does not occur in the future, including

executory contracts¹ (recognised and unrecognised); settlement of liabilities on behalf of the entity or by the entity on behalf of that related party etc.

Further, disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated.

In the given situation, the auditor is required to verify that whether shareholding is being disclosed appropriately. Further, receipt of advance against supplies of Rs. 2,00,00,000 utilized for replacement of old machinery and no supplies were made to CDE Limited against the said advance, is being disclosed in accordance with IND-AS 24.

Auditor is also required to verify that export order fulfilled by XYZ Limited at the instruction of CDE Limited is prevailing at arm's length price.

Further, in case of pending appeal before CIT (Appeals) auditor is also required to assess and ensure disclosure of contingent liabilities is in accordance with IND-AS 37.

In view of large number of transactions between XYZ Ltd. & CDE Ltd., statutory auditor will have to verify TDS & GST compliances in respect of those transactions.

- 2.8** The Assessing Officer has disallowed depreciation on plant and machinery claimed by the company (XYZ Ltd. in the present case) on the ground that arrangement of contract manufacturing has been made by the parties with malafide to claim depreciation whereas the substance of the arrangement is nothing but giving the entire plant on lease.

In the present case, XYZ Ltd. was earlier manufacturing the piston and selling it to CDE Ltd. However, from 1.4.2017 it had entered into an agreement with CDE Ltd. for contract manufacturing. As per the agreement, raw materials/ parts of production are provided by the CDE Ltd and XYZ Ltd. is processing those raw materials in its plant and machinery and returning back it to the CDE Ltd. There is no clause of lease in the agreement.

Section 32 imposes a twin requirement of "ownership" and "usage for business" as conditions for claim of depreciation thereunder. As far as usage of the asset is concerned, the section requires that the asset must be used in the course of business. It does not mandate actual usage by the assessee itself.

XYZ Ltd. is entitled to claim depreciation in respect of the plant and machinery since it is the only legal owner of the plant and machinery and using such plant for the purpose of its business i.e., contract manufacturing.

Accordingly, the contentions of the Assessing Officer to disallow depreciation claimed by XYZ Ltd. and assess the income under the head "Income from house property" instead of "Profits and gains of business or profession" are not justified.

CASE STUDY - 3**Facts of the Case**

1. *Mr. HPR and Mr. NPR were batch mates in animation course. While preparing for the final phase of their course, both agreed to explore setting up a joint studio for animation in Haryana.*
2. *After successfully completing their course and after lots of deliberation, both of them decided to form a Limited Liability Partnership. The main objects of the firm was decided to undertake the business of advertising & publicity, mass communication, graphic designing & exhibition designing Animation (2D/3D), photography for advertising and to carry on business as advertiser, publishers and undertake all such work which falls within the purview of modern methods of advertising, marketing including export market and applied Arts including setting up of a fully equipped Studio for Shooting films and such other business as the partners may from time to time unanimously agree upon.*
3. *On 20-08-2018 a Limited Liability Partnership (LLP) under the name M/s. HPNR LLP was incorporated. Both Mr. HPR and Mr. NPR were declared as 'Designated Partners'. Their monthly remuneration was fixed at ₹ 1,00,000 per month for each.*
4. *Both the partners contributed fixed capital of ₹ 25 lacs each. The bank account was opened in the name of the LLP and a commercial space of 1000 sq. ft. was taken on lease by the LLP.*
5. *Capital contributed was invested in high quality computer hardware systems and software to develop 3D animation. LLP also hired two technical staff at a monthly remuneration of ₹ 35,000 each. They themselves developed a website for the firm with an estimated expense of ₹ 2,50,000.*
6. *Mr. HPR one of the designated partner, prepared an excel sheet to maintain a table for time allotted and time consumed for every assignment by the partners as well as employees of the firm.*
7. *As initially there was no assignment available to the Firm, it was decided to utilize the man power to create animated objects which can be sold as such to the buyers or can be used in animation assignments for specific clients.*
8. *After aggressive marketing through personal contacts by both the partners, a contract to make an animation film from a well-established Health Care Company was secured. The contract was for an amount of ₹ 25 Lacs plus applicable taxes. The Firm completed the assignment during the month of June, 2019 and handed over the same to the client. Their job was very well appreciated by the client.*
9. *In the process of preparing the animation film, the LLP purchased some on-line digital assets and some on-line services from individual professionals for special sound and visual effects. The payments for the above-mentioned on-line purchases of digital assets as well as services were made in foreign currency through Credit Card of one of the partners.*

10. In the month of April, 2019, HPNR received a notice from an international designing software company for using its software without any proper license acquired by the LLP from the month of December, 2018. However, HPNR claimed that it is using only the free version of similar software available in the public domain. The software company has sent a notice to the LLP to buy the official copy of their license as well as pay a compensation of ₹ 5,00,000 for illegal use of their software. The LLP has sent a reply through a lawyer denying any liability towards illegal use of software. The matter was pending as on date.

Part-A**Multiple Choice Questions**

Provide the correct option to the following questions:

- 3.1 For incorporation of the Limited Liability Partnership under the LLP Act, the following form was submitted by Mr. HPR and Mr. NPR with the Registrar:
- (a) LLP Form-1
 - (b) LLP Form-2
 - (c) LLP Form-3
 - (d) LLP Form-4
- 3.2 M/s. HPNR was liable to comply with tax withholding requirements with effect from
- (a) From the first day of incorporation of LLP.
 - (b) As and when a transaction exceeding ₹ 20,000 was executed.
 - (c) From the first day of year next to the year in which the LLP will have tax audit.
 - (d) M/s. HPNR is not liable to withhold tax at source.
- 3.3 The income tax rate applicable to M/s. HPNR will be
- (a) Slab rate
 - (b) 20%
 - (c) 30%
 - (d) 40%
- 3.4 Expenditure incurred on development of the website by M/s. HPNR has to be:
- (a) Capitalised as an intangible expenditure.
 - (b) Charged to Profit and Loss Account.
 - (c) Charged to Profit and Loss over a period of 5 years.
 - (d) Capitalised as part of PPE.

- 3.5 In respect of legal notice received from International Designing Software company claiming a compensation of ₹ 5,00,000, M/s HPNR shall have to:
- (a) Make a provision of the amount in the books of accounts.
 - (b) Only disclose the same a contingent liability at this stage.
 - (c) Make provision of atleast 50% of the compensation demanded.
 - (d) Neither make any provision nor make any disclosure at this stage. **(2x5 = 10 Marks)**

Part-B**Descriptive Questions**

- 3.6 The management of HPNR has approached you to help them in deciding as to how animated objects created by the firm shall be accounted for in the books of accounts and how the same shall be valued for reflected them as on 31-03-2019 ? **(5 Marks)**
- 3.7 You have also been requested to explain whether in respect of payments made for on-line digital assets purchased by the firm and payments made for on-line services taken by the company for special visual effects and sound effects any tax was required to be deducted at source by HPNR ? **(5 Marks)**
- 3.8 Whether any GST compliances are required to be made with respect to online digital assets purchased and on-line services availed ? Also explain whether use of such online digital assets purchased and online services are utilised for animation products exported outside India will make any difference? **(5 Marks)**

ANSWER TO CASE STUDY 3**PART – A**

- 3.1 (b)
- 3.2 None of the options given is correct.
- 3.3 (c)
- 3.4 (a)
- 3.5 (d)

PART – B

- 3.6 **Animation objects are created and sold to the buyer:** Paragraph 6 of Ind AS 2 defines inventories as assets-
- (a) **held for sale in the ordinary course of business;**
 - (b) in the process of production for such sale; or
 - (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

As the animated objects are held for sale, the animated objects shall be accounted as inventories.

Paragraph 9 of Ind AS 2 states that inventories shall be measured at the lower of cost and net realisable value.

Therefore, the animated objects shall be measured at lower of cost and net realisable value. Further, cost will include the cost of manpower used to create those animated objects.

- 3.7** HPNR LLP purchased some online digital assets and some online services from individual professionals for special sound and visual effects. If online digital assets considered to be a computer software, the payment made in respect thereof would be royalty, since consideration is paid for transfer of right to use a computer software. Payment for online services from individual professionals for special sound and visual effects would be fall within the scope of fees for technical services (FTS) whether or not such services are rendered in India.

As per section 9(1)(vi), royalty payable by a person who is a resident in India would be deemed to accrue or arise in India in the hands of the non-resident payee, since royalty is paid in respect of business carried out in India. Likewise, as per section 9(1)(vii), FTS payable by a person who is a resident in India would be deemed to accrue or arise in India in the hands of the non-resident payee, since FTS is paid in respect of business carried out in India.

Thus, payments made for online digital assets and online services would be taxable in the hands of non-residents. Accordingly, HPNR would be liable to deduct tax at source on such payments under section 195.

- 3.8** Supply of online digital assets³ and online services qualifies as supply of online information and database access or retrieval (OIDAR) services.

In the given case, since payment for the online digital assets purchased and online services availed was made in foreign currency, it has been assumed that the supplier of said services is located outside India. Recipient of services, HPNR LLP, is located in India.

In such case where supplier of OIDAR service is located outside India and recipient is located in India, place of supply is the location of the recipient of said services, viz. India.

Further, tax on supply of a service supplied by any person who is located in a non-taxable territory to any business entity located in the taxable territory is payable under reverse charge by the recipient of such service.

³ It has been assumed that the delivery of the online digital assets is mediated by the information technology over internet/electronic network

Since in the given case, OIDAR services have been imported by HPNR LLP (being a business entity) from individual professionals (located outside India), tax on such services is payable by HPNR LLP under reverse charge. Thus, HPNR LLP needs to undertake necessary compliances.

Section 24 of the CGST Act provides that, persons who are required to pay tax on inward supplies under reverse charge are required to obtain registration compulsorily irrespective of the quantum of its aggregate turnover. Accordingly, HPNR LLP has to obtain compulsory registration under GST⁴.

In case online digital assets and online services are utilized for animation products exported outside India, the requirement of HPNR LLP to get compulsorily registered as above will remain unchanged.

In case of export of services, the exporter - HPNR LLP - will have an option to either:

- (i) pay IGST on the services exported and claim refund of such IGST paid

or

- (ii) export such services under bond/Letter of Undertaking without payment of IGST and claim refund of ITC.

CASE STUDY - 4

Facts of the Case

1. Defence Innovators Limited is a public sector undertaking and is engaged in the construction of warships and submarines.
2. XYZ Private Limited approached Defence Innovators Limited for construction of "specially designed" ships for it, which will be used by XYZ Private Limited for transportation of specific goods.
3. The offer was accepted by the Defence Innovators Limited and both the companies entered into an agreement for the construction and delivery of 3 particular specially designed ships.
4. Defence Innovators Limited has agreed for construction of 3 ships on 'Fixed Price' basis with variable component in respect to certain items.
 - (i) The break-up of the contract price is as under:

Sr. No.	Cost Element	1st ship	2nd ship	3rd ship	Total
(A)	Fixed cost element	xxx	xxx	xxx	xxx
(B)	Variable cost items	xxx	xxx	xxx	xxxx

⁴ It has been assumed that HPNR LLP is not registered under GST in absence of any explicit information relating thereto.

(C)	Base and Depot (B & D) spares (Budgetary)				xxxx
(D)	Grand Total (A+B+C)				xxxxx

Note: The above cost is exclusive of duties and other statutory levies applicable at the time of delivery of the vessel(s) and will be paid at actual.

(ii) Payment Terms:

(a) Fixed price element:

The payment will be made by the buyer against the completion of particular stage.

(b) Variable price element:

The payment will be made at actual with % of profit against the documentary evidence.

(c) Advance of ₹ 5 Lakhs in cash within 10 days of date of signing of contract.

5. Base and depot (B & D) spares for all three ships shall be procured by Defence Innovators Limited and will be paid on the cost of the item with certain percentage.
6. The contract states that "certain equipment" out of variable cost items, will be supplied by XYZ Private Limited at 'free of cost' for installation on board of ship. It is, therefore, to be noted as under:
 - (i) Some equipments are procured by Defence Innovators Limited in the presence of the XYZ Private Limited's representative for technical scrutiny as well as negotiating the prices. The vendors of these equipment are paid by Defence Innovators Limited. The cost of the equipment alongwith the cost of installation and profit thereon is claimed and reimbursed by XYZ Private Limited to Defence Innovators Limited.
 - (ii) And there are certain other equipments for which orders are directly placed and also paid by the XYZ Private Limited. These equipments are known as 'Buyer Furnished Equipment (BFE)' and are delivered to the company 'free of cost' for installing in the ship. The labour cost of Installation of these are already included in the price component of the contract.
7. The period required for construction of one ship was approximately four years.

PART-A

Multiple Choice Questions:

- 4.1 For Defence Innovators Limited, a resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise is known as :
 - (A) Asset

- (B) *Income*
(C) *Liability*
(D) *Cash inflow projections*
- 4.2 *In case of Defence Innovators Limited, to determine the value at which inventories are carried in the financial statements, including the ascertainment of cost of inventories and any write-down thereof to net realizable value, company is required to consider :*
- (A) *AS-1*
(B) *AS-2*
(C) *AS-3*
(D) *AS-7*
- 4.3 *With reference to advance payment of ₹ 5 Lakhs, Defence Innovators Limited will be required to report it in Tax Audit Form 3 CD under:*
- (A) *Section 269S8*
(B) *Section 269ST*
(C) *Section 269T*
(D) *No reporting required*
- 4.4 *For receipt of advance in cash, Defence Innovators Limited would be liable to a penalty under Income Tax Act, 1961 of:*
- (A) *₹ 5 Lakhs*
(B) *₹ 2.5 Lakhs*
(C) *₹ 50,000*
(D) *No Penalty in this case*
- 4.5 *Under CGST Act, a registered person can send for job work any inputs or capital goods without payment of tax and bring back:*
- (A) *without payment of tax*
(B) *with payment of tax*
(C) *Neither as per (A) nor (B)*
(D) *Both as per (A) and (B)*
- (2 x 5 = 10 Marks)**

PART-B**Descriptive Questions:**

- 4.6 *Whether the cost of Buyer Furnished Equipment's (BFE's) supplied by XYZ Private Limited to Defence Innovators Limited for installing the same in the ships can be considered as*

'inventory' by Defence Innovators Limited and then on delivery of ship will be recognised as revenue in its books of account ? Elaborate. (7 Marks)

- 4.7 *How BFEs shall be dealt with under GST Act by Defence Innovators Ltd. in its books when it is certain that these shall not be sent back to XYZ Pvt. Ltd. till the constructed ships are delivered? Explain in detail. (8 Marks)*

ANSWER TO CASE STUDY 4

PART – A

- 4.1 (A)
4.2 (B)
4.3 (B)
4.4 (A)
4.5 None of the options given is correct.

PART – B

- 4.6 It is to be noted that before any item can be recognised as an inventory, it should meet the definition of 'asset' as given in the Framework for the Preparation and Presentation of Financial Statements, issued by the Institute of Chartered Accountants of India as follows:

"An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity".

The orders in respect of Buyer Furnished Equipment's (BFEs) are directly placed by the buyer and also payment in respect of them is made by the buyer. These are then supplied to the company for installing in the ship and the buyer pays installation charges which are included in the contract price. Thus, the company has neither incurred any cost on BFEs nor any amount is recoverable on account of such equipment except installation charges. Accordingly, such equipments are not 'assets' that may be considered as a part of its contract work-in progress.

In fact, after installation in the ship, BFEs are returned to the buyer after completion of the ship. Thus, these are only held by the company in the capacity of a bailee. Since, it cannot be considered as an 'asset', therefore, it can neither be considered as 'inventory' nor as 'work-in-progress'.

Further, it can also not be considered as a part of sale value or revenue of the company as no consideration would be receivable with respect to the cost of such equipment.

- 4.7 As per section 15(2)(b) of the CGST Act, 2017, the value of supply shall include any amount that the supplier is liable to pay in relation to such supply but which has been incurred by the recipient of the supply and not included in the price actually paid or payable for the goods or services or both.

Further, CBIC vide Circular No. 47/21/2018 GST dated 08.06.2018 has clarified that while calculating the value of the supply made by a component manufacturer using moulds and dies owned by Original Equipment Manufacturers (OEM) sent free of cost (FOC) to him, the value of such moulds and dies shall not be added to the value of supply made by him because the cost of moulds/dies was not to be incurred by the component manufacturer and thus, does not merit inclusion in the value of supply in terms of section 15(2)(b).

However, if the contract between OEM and component manufacturer was for supply of components made by using the moulds/dies belonging to the component manufacturer, but the same have been supplied by the OEM to the component manufacturer on FOC basis, the amortised cost of such moulds/dies shall be added to the value of the components.

In the given case, as per the terms of the contract between supplier – Defence Innovators Limited and recipient - XYZ Private Limited, it is the responsibility of the recipient to supply “Buyer Furnished Equipments (BFEs)” to the supplier, free of cost.

Thus, the value of the BFEs will not be included in the value of the ships supplied by it.

CASE STUDY - 5

ABOUT YOU

You are an open minded, highly sensible, competent professional with value added; decision making capabilities. You are also a Director on the Board, Chairman and/or Member of Committees of the Board of many listed and unlisted entities. You are also in the Board of SF Limited (SFL) as a Professional Director.

BACKGROUND OF SFL

It is fundamental to any business to keep updating the business strategies and plans to suit the changing business scenario. In the modern marketplace, there is no mercy for the mediocre. The rule applies to all sectors, be it a small scale industry or a big contributor. SFL is one such small scale growing enterprise belonging to SF Group of Companies which has several companies in its umbrella including listed and unlisted public limited / private limited companies engaged in various businesses.

SFL is involved in development of castings applicable for automobiles and tractors to industrial engines, construction equipment and power generation equipment. It meets the stringent requirement of diverse segments. It even caters to the exceptionally high standards of Defence applications. The indigenous expertise that drives the organisation enables it to keep pace with the constantly changing requirements of the market.

It has won the much coveted quality certifications including ISO 9000, QS 9000 and ISO 14001 certifications that endorse its capabilities.

MANAGEMENT OVERVIEW

The top Management of SFL is driven by a highly competent Board of Directors. The Board drives the business plans, operating, investment and financing activities besides taking all key decisions. The Board is supported by Mr. Seshadri, Special Director (Costing and Finance) who has a thorough insight of the day-to-day activities.

CORPORATE CULTURE

While the Company is historically Board managed, nevertheless, it believes in the principle of developing with everyone. SFL looks at its responsibilities to all stakeholders and is equally concerned with the society, environment and work force. SFL spends on an average ₹ 5 Lakhs on CSR activities which is the approved budget every year.

BUDGET OVERVIEW

For an efficient functioning of the Company and to have hands on information as to what is happening in the Company on a day to day basis, Budgets are set by the Board which is pushed down to various teams and the actuals are regularly compared with the budgets for taking remedial actions in case of any adverse situations. As compared to earlier years, it was found that of late, the variance between the budget and the actual is widening and has become a cause of concern to the top management. Under the circumstances, it was emphasized that every personnel in the Company should participate in the budgetary process and perhaps even asking every manager to set his own targets and consolidate the same for setting the targets for the Company.

YOUR CALL

At the Board Meeting of the Company proposed to be convened on 10th January, 2020, besides approving and taking on record, inter alia, the unaudited financial results of the Company for the third quarter and nine months ended 30-09-2019, certain additional matters are proposed to be discussed as below. You have been specially invited to the said Board Meeting for your valuable inputs.

DISCUSSION - 1

- (a) New venture of online shopping of automobile spares has been proposed to be added by the Company during the current year.

DISCUSSION - 2

- (b) To evaluate the cost and price statement in respect of an enquiry for the supply of 2,50,000 numbers of special type of auto components.

Back Up

The Company has received an enquiry for supply of 2,50,000 numbers of special type of auto components. The Company can execute the assignment provided a capital investment of

₹ 3,00,000 and working capital to the extent of 3 months' cost of sales are made available. The costs estimated are as follows:

Raw Materials	@ ₹ 3.25 per unit
Direct Labour Hours	8,000
Labour Rate	₹ 4.50 per hour
Factory Overheads	₹ 4 per direct labour hour
Selling and Distribution expenses	₹ 30,000

Borrowed funds will be available @ 11.5% on additional capital outlay. The company expects a net Return of 25% on Sales.

DISCUSSION - 3

- (c) To evaluate the requirements of the Companies Act, 2013 regarding appointment of Internal Auditors for the group companies. (This information is sought by the Independent Directors).

Certain Financial Information of Group Companies

Figures are in ₹ crores and correspond to the previous year

Name	Nature	Equity Share Capital	Turnover	Loan from Bank and PFI	Public Deposit
ABC Ltd.	Listed	100	190	50	24
XYZ Ltd.	Unlisted Public	60	190	50	24
LMN Ltd.	Unlisted Private	60	190	50	-

OTHER INPUTS FOR DISCUSSION:

Post your introduction meeting with SFL, Mr. Karthik, the Senior Manager (Finance) of SFL explained his expectations from you and has also put forward the following inputs for your suitable advice:

- (i) Despite a robust internal check and internal control system prevailing in the Company, a theft of Cash of ₹ 15 lakhs by the cashier in January 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.
- (ii) Mr. Q, a Director of SFL proceeding on a long foreign tour, appointed Mr. Y as an alternate director to act for him during his absence. The articles of the company provide for appointment of alternate directors. Mr. Q claims that he has a right to appoint an alternate director.

- (iii) Mr. Karthik expressed his apprehension that giving utmost freedom and flexibility- to the employees to set their own targets in the budget setting process would have a potential danger.
- (iv) Mr. Karthik also informed that in view of the excellent contributions for the progress of the Company, there is a proposal to appoint Mr. Seshadri, who is the Special Director (Costing and Finance) of SFL as the Managing Director of two other Companies unrelated to SFL.
- (v) Mr. Karthik also affirmed that there is a Corporate Insolvency Resolution Process going on before the Hon'able NCLT in one of the group companies and he wants to know which of the following statements are correct under Section 21 of the Insolvency and Bankruptcy Code, 2016:
- (1) A financial creditor or the authorized representative of the financial creditor, if it happens to be a related party of the corporate debtor shall not have any right of representation, participation or voting in a meeting of the committee of creditors.
 - (2) A financial creditor regulated by a financial sector regulator, if it is a related party of the corporate debtor solely on account of conversion or substitution of debt into equity shares or instruments convertible into equity shares prior to the insolvency commencement date shall not have any right of representation, participation or voting in a meeting of the committee of directors.

You are requested to thoroughly go through the following questions and provide the correct answer in your capacity as an advisor. Please note that an advisor cannot afford to do mistakes. Hence, utmost care is required while giving your answer.

PART-A

Multiple Choice Questions

- 5.1 The theft of cash of ₹ 15 lakhs:
- (A) Need not be adjusted to the reported value of assets, liabilities, incomes or expenses for the year ended 31.03.2020.
 - (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 only for the year ended 31.03.2021
 - (D) A provision for bad debts should be made in the accounts.
- 5.2 With reference to Mr. Karthik's apprehension in para (iii) above, there is potential danger of having:
- (A) Sheer Failure
 - (B) Non-Performance
 - (C) Resistance

- (D) *Slackness in Budget*
- 5.3 *The contention of Mr. Q to appoint an alternate director is:*
- (A) *Correct as the Articles of the Company provide for appointment of alternate Directors.*
- (B) *Incorrect as the authority to appoint alternate director has been vested in the board of directors only and that too subject to empowerment by the Articles.*
- (C) *Incorrect as the authority to appoint alternate director has been vested in the board of directors only and with approval of shareholders by passing a special resolution.*
- (D) *Incorrect as the authority to appoint alternate director has been vested only with the approval of shareholders by passing a special resolution.*
- 5.4 *As per Section V of Part II of Schedule V of the Companies Act, 2013 in respect of managerial remuneration where Mr. Sheshadri is appointed as managerial person in 2 companies, he may draw remuneration provided:*
- (A) *Total remuneration drawn from the companies shall be as per their effective capital.*
- (B) *Total remuneration drawn from the companies does not exceed the higher maximum limit admissible from anyone of the companies of which he is a managerial person.*
- (C) *A person cannot be appointed as managerial person in 2 companies at the same time.*
- (D) *Remuneration shall be paid subject to approval of members in general meeting.*
- 5.5 *Under the provisions of the Insolvency and Bankruptcy Code as enshrined in Section 21 of the Code, analyse the correctness of the statements as given in above para (v) in "Other inputs for discussion":*
- (A) *Statement 1 is correct whereas, statement 2 is incorrect.*
- (B) *Statement 1 is incorrect whereas, statement 2 is correct.*
- (C) *Both the statements (Statement 1 and 2) are correct*
- (D) *Both the statements (Statement 1 and 2) are incorrect. (2 x 5 = 10 Marks)*

PART-B

Descriptive Questions

- 5.6 *Considering the inputs in Discussion 1 as an advisor, what factors would be considered by you in formulating the audit strategy of the Company? (5 Marks)*
- 5.7 *In the light of the inputs given above in Discussion 2, compute a Cost and Price Statement, indicating the price that should be quoted to the customer. (5 Marks)*
- 5.8 *In the light of the inputs given above in Discussion 3, explain which of the group companies are required to appoint an internal auditor under the provisions of the Companies Act, 2013? (5 Marks)*

ANSWER TO CASE STUDY 5**PART – A**

5.1 (B)

5.2 (D)

5.3 (B)

5.4 (B)

5.5 (A)

PART – B

5.6 Formulation of Audit Strategy: While formulating the audit strategy for a company, following factors may be considered -

General Factors:

- (i) The engagement objectives.
- (ii) The results of the business review, including major developments in the client's business and industry, significant operating results and financial arrangements.
- (iii) Preliminary judgements as to materiality.
- (iv) Identified inherent risks. The team should also consider the risk of fraud and, in particular, any evidence of a high level of risk to the firm. They should take into account the results of procedures for the acceptance and continuation of clients.
- (v) The degree to which the team should carry out further assessment of controls as a means of reducing substantive tests.
- (vi) The broad nature, extent and timing of substantive tests, or changes to the previous year's strategy for substantive testing.
- (vii) Main points relating to planning and controlling the audit or comments on the adequacy of the existing arrangements.

Specific Factors for Online Shopping:

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

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

- (iii) The related accounting records, supporting information and specific accounts in the financial statements that are used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information is transferred to the general ledger. The records may be in either manual or electronic form;
- (iv) How the information system captures events and conditions, other than transactions, that are significant to the financial statements;
- (v) Controls surrounding journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments.

5.7

Cost and Price Statement

Particulars		Amount (₹)
Raw Material	2,50,000 × ₹ 3.25	8,12,500
Direct Labour	8,000 × ₹ 4.5	36,000
Factory Overhead	8,000 × ₹ 4	32,000
Selling & Distribution		30,000
Cost of Sale		9,10,500
Add: Interest on investment (5,27,625* × 11.5%)		60,677
Total Cost		9,71,177
Add Profit (1/3)		3,23,726
Total Sales Value		12,94,903
Units		2,50,000
Rate Per Unit		5.179 or 5.2

*** Investment**

Working Capital ($9,10,500 \times \frac{3}{12}$)	2,27,625
Fixed Capital	3,00,000
Total	5,27,625

5.8 Applicability of Provisions of Internal Audit: As per section 138 of the Companies Act, 2013, following class of companies (prescribed in Rule 13 of Companies (Accounts) Rules, 2014) shall be required to appoint an internal auditor or a firm of internal auditors, namely:-

- (A) every listed company;
- (B) every unlisted public company having-
 - (1) paid up share capital of fifty crore rupees or more during the preceding financial year; or

- (2) turnover of two hundred crore rupees or more during the preceding financial year; or
 - (3) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year; or
 - (4) outstanding deposits of twenty five crore rupees or more at any point of time during the preceding financial year; and
- (C) every private company having-
- (1) turnover of two hundred crore rupees or more during the preceding financial year; or
 - (2) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year.

In the given case, ABC Ltd. is a listed company. As per section 138 of the Companies Act, 2013, every listed company is required to appoint an internal auditor or a firm of internal auditors. Thus, in view of above, ABC Ltd. is required to appoint internal auditor.

Further, XYZ Ltd., is an unlisted public company. The company is having 60 crore as equity share capital which is exceeding the prescribed limit of rupees fifty crore as per section 138. Thus, XYZ Ltd. is required to appoint internal auditor as per section 138 of the Companies Act, 2013.

LMN Ltd. is unlisted private company and having 60 crore rupees as Equity Share Capital, 190 crore as turnover and 50 crore rupees loan from Bank and PFI. In view of provisions of section 138 of the Companies Act, 2013 discussed above, all the limits are below prescribed limit for private company. Therefore, LMN Ltd. is not required to appoint internal auditor.

It can be concluded that ABC Ltd. and XYZ Ltd. is required to appoint the internal auditor as per the provisions of the Companies Act, 2013 whereas LMN Ltd. is not required to do the same.