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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 assumption made or view taken.

PAPER – 6F: MULTIDISCIPLINARY 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

Background

Aroma Technologies Limited, (the Company), a listed entity, is one of the world's leading professional services companies, transforming clients' business, operating and technology models for the digital era. With Corporate headquarters in Chennai, India and global presence across 15 countries worldwide, the Company utilizes its expertise in 20 different industries to leverage analytics, enhance interactive experiences, automate processes, develop platforms, modernize infrastructures and engineer digital solutions that help clients capitalize on the tremendous opportunities the latest technologies could offer.

The Company's sound management track record of shifting ahead of client needs and building new capabilities has earned a niche for itself, both with domestic as well as International Clients for its cutting edge digital services, timely execution of projects at a competitive and commercially viable costs to the clients.

The Company is managed by a dynamic Board of Directors who are qualified professionals in Information Technology, Engineering, Accounting, Finance and Business Administration. The Company has earned a good reputation with the shareholders, bankers, customers at large, equity analysts and general investors.

CEO & Managing Director

Mr. Kumar, is the extrovert CEO & Managing Director of the Company steering the Board in all policy matters and decision making process. He is of the strong view that though at one hand, India is gearing up for simplifying various economic laws and aiming at ease of doing business, at the other, huge penalties for non- compliances have been made more severe and therefore, utmost care is warranted to adhere to all applicable statutory compliances. As a consequence, though not mandated in India, he has introduced 'compliance audit' in the Company and instructed the Internal Auditor and the Audit Committee to monitor and report on the statutory compliances to the Board. Mr. Kumar is also keen to understand the Company's obligations under the SEBI (LODR) Regulations, 2015 in regard to Board or Non-Executive Directors.

About You

You are a young, qualified Chartered Accountant and the Audit Manager of a reputed CA Firm, appointed as the statutory Auditors of the Company, to audit the books of accounts of the Company for the Financial Year 2019-20.

You were informed by Mrs. Sudha, Director (Accounts and Finance) that it is the policy of the Company to publish Audited Financial Results (Standalone and Consolidated) on a quarterly *basis to the Stock Exchanges rather than publishing un-audited financial results and therefore your involvement to audit the books of accounts shall be on a continuous basis.*

Going forward, on 04-04-2020, you were informed that a meeting of the Audit Committee and the Board of Directors is scheduled to be convened on 22-04-2020 and 23-04-2020 respectively to consider amongst other items, inter-alia to approve and take on record the audited financial results of the Company for the fourth quarter / year ended 31-03-2020. He also informed you that three days prior to the Audit Committee Meeting, an internal meeting with the Top Management would be scheduled to discuss any matter arising out of the Audit.

A draft of the management prepared un-audited financial statements for the fourth quarter / year ended 31.03.2020 was given to you for your perusal and audit.

While auditing the books of accounts, you wanted to adopt certain audit procedures and made certain audit observations as under:

(1) *As part of the audit process, you wanted to use confirmation procedures as audit evidence. In view of the fact that positive confirmations were not responded favorably, you intended to use negative confirmation requests.*

(2) *TDS receivable as per books is more than the cumulative balance as per Form 26AS by ₹ 12.00 Lakhs. No valid explanation was provided for the difference amount.*

(3) *The Company follows the method of providing depreciation as per Section 123 of the Companies Act, 2013 using the useful lives prescribed as per Schedule II of the Companies Act. It has provided depreciation on computers which are used during all the 3 shifts using the rates stipulated for continuous process plant since these assets are used for 24 hours (3 shifts).*

(4) *Gratuity liability was not provided for employees who have joined the Company during the past 4 years, the aggregate amount of which would be ₹ 15 Lakhs, on the basis that they are yet to complete 5 years of continuous service.*

(5) *Certain unclaimed dividends amounting to ₹ 42 lakhs pertaining to prior periods beyond 7 years have been added back to the Statement of Profit and Loss under 'other income.'*

(6) *The Company is in the process of selling its office along with the freehold land available at one of its offices at Chennai and is actively on the lookout for potential buyers. Whilst the same was purchased at ₹ 25 Lakhs in 2007, the current market value is ₹ 250 Lakhs. This property is pending to be registered in the name of the Company, due to certain procedural issues associated with the Registration though the Company is having a valid possession and has paid its purchase cost in full. The Company has disclosed this amount under 'Property, Plant and Equipment' though no disclosure of non-registration is made in the financial statements.*

(7) *The Company paid "Online advertisement charges" to a domestic Company amounting to ₹ 8,00,000. No Tax was deducted at source.*

(8) On a test check of cost records, you were informed that the annual Budgets are set based on the decision of the Board of Directors which is pushed down to various teams. Whilst during the initial years, the budgets were exceeded, of late, the variance between the budget and the actual is somewhat widening and has become a cause of concern to the senior management. One of the foreign director is concerned about this variation and has mandated the local management to find solutions for dealing with the same. In particular, he has emphasized on the need for involving everyone in the budgetary process and perhaps even considering the possibility of asking each and every manager to set his own targets and consolidate the same for setting the target for the Company. One of the Board members raised the issue of McDonaldization of the budget process and its suitability for the Company.

(9) The Board of Directors (BoD) of the Company decided to undertake a valuation exercise of their shares, debentures, assets and the liabilities, net worth and goodwill of the Company as at 31.03.2020. In this connection, the Chairman of the Audit Committee (AC), Mr. Jaish, proposed to appoint an experienced Registered Valuer (RV) who meets all the eligibility conditions for registered valuers. Mr. Saman, a member of the Audit Committee is of the opinion that only the BoD have the power to appoint a RV and not the AC.

(10) While conducting the audit you also wanted to conduct an inquiry of management and those charged with governance as to whether any subsequent events have occurred which might affect the financial statements.

As the Statutory Auditor of the Company, you are required to comprehend, analyse and apply to arrive at a correct solution to the issues given here under:

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

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

1.1 In the case of online advertisement charges paid to the domestic Company, the amount liable for dis-allowance for non-deduction of tax at source would be :

(A) ₹ 80,000

(B) ₹ 2,40,000

(C) ₹ 8,00,000

(D) NIL

1.2 For Appointment of Registered Valuer, is view of Mr. Saman valid?

(A) Yes;

(B) No, appointment can be made only by the Audit Committee

(C) No, appointment can be made only by the Shareholders

(D) No, appointment can be made by the Audit Committee and in its absence, by the Board

1.3 Based on the background in observation (8), providing freedom and flexibility to managers to set their own targets in the budget setting process has the potential danger of having_________.

(A) Failure

(B) Non performance

(C) Resistance

(D) Budget Slacks

1.4 Based on the background in observation (8), McDonaldization of the standard setting approach is more relevant for ________.

(A) Automobile Services

(B) Research and Development Services

(C) Hairdressing, dentistry type of Services

(D) Manufacturing Plant

1.5 With regard to queries of Mr. Kumar in relation with the provisions of SEBI (LODR) Regulations, 2015, the composition of Board should have not less than _ % of Directors comprising of Non-Executive Directors.

(A) 70

(B) 50

(C) 40

(D) 20 ***(2 x 5 = 10 Marks)***

1.6 What are the factors to be considered for using negative confirmation requests in the scenario mentioned in the audit observation (1)? ***(5 Marks)***

1.7 Based on the audit observation (10), state the matters where specific enquiry may be conducted to evaluate subsequent events. ***(5 Marks)***

1.8 Summarize the material mis-statements/disclosure deficiencies, if any, on the Management prepared financial statements which could impact the true and fair view of the financial statements. Please provide the basis for your assessment briefly. ***(5 Marks)***

ANSWER TO CASE STUDY 1

PART – A

1.1 (B)

1.2 (D)

1.3 (D)

1.4 (C)

1.5 (B)

PART – B

1.6 As per SA 505, "External Confirmation", Negative Confirmation is a request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request. Negative confirmations provide less persuasive audit evidence than positive confirmations.

Accordingly, the auditor should consider following factors for using negative confirmation requests as the sole substantive audit procedure to address an assessed risk of material misstatement at the assertion level:

(i) The auditor has assessed the risk of material misstatement as low and has obtained sufficient appropriate audit evidence regarding the operating effectiveness of controls relevant to the assertion;

(ii) The population of items subject to negative confirmation procedures comprises a large number of small, homogeneous, account balances, transactions or conditions;

(iii) A very low exception rate is expected; and

(iv) The auditor is not aware of circumstances or conditions that would cause recipients of negative confirmation requests to disregard such requests.

Further non-response for negative confirmation request does not means that there is some misstatement as negative confirmation request itself is to respond to the auditor only if the confirming party disagrees with the information provided in the request.

But, if the auditor identifies factors that give rise to doubts about the reliability of the response to the confirmation request, he shall obtain further audit evidence to resolve those doubts.

1.7 As per SA 560 "Subsequent Events", in inquiring of management and, where appropriate, those charged with governance, as to whether any subsequent events have occurred that might affect the financial statements, the auditor may inquire as to the current status of items that were accounted for on the basis of preliminary or inconclusive data and may make specific inquiries about the following matters:

- Whether new commitments, borrowings or guarantees have been entered into.

- Whether sales or acquisitions of assets have occurred or are planned.
- Whether there have been increases in capital or issuance of debt instruments, such as the issue of new shares or debentures, or an agreement to merge or liquidate has been made or is planned.
- Whether any assets have been appropriated by government or destroyed, for example, by fire or flood.
- Whether there have been any developments regarding contingencies.
- Whether any unusual accounting adjustments have been made or are contemplated.
- Whether any events have occurred or are likely to occur that will bring into question the appropriateness of accounting policies used in the financial statements, as would be the case, for example, if such events call into question the validity of the going concern assumption.
- Whether any events have occurred that are relevant to the measurement of estimates or provisions made in the financial statements.
- Whether any events have occurred that are relevant to the recoverability of assets.

1.8 Material misstatements on the management prepared financial statements which could impact the true and fair view of the financial statements are:

1. Difference between TDS as per books and TDS as per 26 AS may lead to material misstatement as there is overstatement of revenue by rupees 12.00 lakh and there is no valid explanation available for the difference amount.
2. The company followed the method of providing depreciation as per section 123 of the Companies Act, 2013 using the useful lives prescribed as per Schedule II of the Companies Act, 2013 is correct, however, they have provided depreciation using the rates stipulated for continuous process plant is not correct. As per Schedule II Computers do not fall in continuous process plant category. Further, computers are included as NESD in Part 2 of Schedule II, which is category of assets in respect of which no extra shift depreciation is permitted. Therefore, though computers are used for 24 hours i.e. triple shift but no extra shift depreciation is permitted on the same. In the instant case, the Company has provided depreciation on computers which are used during all the 3 shifts using the rates stipulated for continuous process plant as per its accounting policy is incorrect and would be misleading resulting into material misstatement and hence impacting true and fair view.
3. Pursuant to the provisions of Section 124(5) of the Companies Act, 2013, dividend which remains unpaid or unclaimed for a period of seven years from the date of its transfer to unpaid dividend account is required to be transferred by the Company to Investor Education and Protection Fund (IEPF), established by the Central Government under the provisions of Section 125 of the Companies Act, 2013. The details of unpaid dividend amount should also be disclosed in accordance with the

provisions given in the Companies Act, 2013. The Company should also transfer the 42 lakh rupees to IEPF which is unclaimed dividend pertaining to period beyond 7 years. Write back of unclaimed dividend to Statement of Profit &Loss under other income is not correct in view of provisions of the Companies Act, 2013. Therefore, financial statements will lead material misstatement and not present true and fair view.

4. Gratuity benefit is a defined benefit obligation as per which, actuarial valuation using the projected unit credit method, which recognizes each period of service as giving rise to additional unit of employee benefit entitlement. Thus, even though employee has not completed 5 years of service, liability for gratuity is to be accrued as and when service is rendered by the employees.

5. Though as per substance over form freehold land appearing in financial statements is correct however, non-registration of the same should be separately disclosed in notes to financial statements. Non-disclosure of the same in notes to accounts will be considered as disclosure deficiency that could impact the true and fair view of financial statements. Further, classification of above land should also be as Assets held for Sale in financial statements.

CASE STUDY-2

Lucknow the capital and the largest city of Uttar Pradesh, is famous as industrial hub for manufacturing industrial goods, machine parts, auto parts, household appliances, hosiery, and apparels. XYZ Ltd. is a manufacturing company based in Lucknow manufacturing pulley chains. Mr. Rony is the Managing Director of the company.

The pulley chains manufactured by the company are used by various industries and are used in hydraulic lifts, overhead hoists, conveyer belts, etc. Lucknow is also a major hub for manufacturing Tricycles. The product of the company is procured by leading Tricycles manufactures in the country. Tricycles and its parts using chain drives manufactured by XYZ Ltd. are sold not only within the country but are exported all across the world. Having expertise in the business, the company is often engaged as consultants for installation of hydraulic machines and other systems in manufacturing and automated movements of various materials. Thus, XYZ Ltd. has both manufacturing and service revenue streams. The XYZ Limited also imports machineries for its manufacturing hub at Lucknow.

XYZ Ltd. has deployed the following applications for its business activities:

Application Name	*Purpose*
QWERTY	*Allows employees to fill and submit time sheets*
ASDF	*Financial accounting and reporting (has an interface with PQRT)*
PQRT	*Cost Accounting and reporting (has an interface with ASDF). This was provided free of cost along with ASDF application.*
CRT	*Internal knowledge repository*

VMS	*Internal share point portal used for utilities such as leave management, storing policies and procedures of XYZ Ltd., creating email signatures, meeting room booking and cab booking system etc.*
SWIPE	*Logs employee swipe in / swipe out data*

Mr. Rony is also coordinating implementation of Ind AS in the XYZ Ltd. The company falls under phase 2 of IND AS implementation. Following are details of the financials (in ₹ Crores):

Revenue (including royalty income from patent registered in India)	*1000*
Direct expenses (including expense related to patent registered in India)	*550*
Depreciation as per books of accounts	*100*
Interest expense	*50*
Actuarial Gains	*30*
Advance tax	*50*
Expense relatable to patent chargeable to tax u/s 115BBF	*50*
Income relatable to patent chargeable to tax u/s 115BBF	*75*
Depreciation as per Income Tax	*75*

After implementation of Goods and Service Tax, Mr. Rony is very apprehensive of its impact on the business owing to the multiplicity of changes made over the past three years. He is disturbed by the news reports and the general grapevine that have raised several challenges in the implementation of Goods and Service Tax. Highly concerned, the company appointed ABC Co. Chartered Accountants to prepare Risk Control Table and ascertain the impact of GST on the processes followed.

ABC Co. is leading firm of Chartered Accountants in Lucknow rendering services to several big corporates in Uttar Pradesh. After a long discussion between the Managing Director of XYZ Ltd. and ABC Co., the firm of Chartered Accountants was asked to identify and suggest new controls which XYZ Ltd. should design and implement due to GST implementation and its impact on imports.

The Chartered Accountants deployed a team to study the existing processes within the company. Extensive interviews were also conducted of senior managerial personnel in the company.

It was noted that the XYZ Ltd. uses 'WSM' ERP for accounting, financial reporting and inventory management. Below are the notes prepared during process understanding discussions held with respective team members of XYZ Ltd.:

Purchase to pay process

(1) Vendor creation process

Procurement team maintains list of vendors along with the agreed prices in WSM system. In case of better prices being available, the procurement team sends an initial requirement list to the prospective vendor. The initial requirements contain details such as government proofs and tax registrations. On receipt of the requirements from the vendor, the procurement team verifies the same to ensure validity of documents shared. Once the data requirements are fulfilled, the draft agreement is prepared by legal department and the proposal is shared for senior management approval. Once approved, the vendor is added to the list of vendors in WSM application.

(2) Purchase Requisition (PR) & Purchase Order (PO)

Individual employees and designated department heads can raise PR. The PR contains the item details and quantity. The PR is raised in IJK tool which has in - built workflow for PR processing. The PR is sent to supervisor of the requestor for business approval. Thereafter, it is transferred to procurement team for further processing. Procurement team verifies the requested items and approvals. Then it first checks whether any stock is available in house or at any other office location. If not, then it identifies appropriate vendor and raises PO in WSM application for the requested quantity and agreed amount.

(3) Goods receipt & invoicing

(a) In case of non-factory items: On delivery of the requested item, requestor performs receipt by collecting the items and informing procurement team over email that requested items have been received. The invoice is separately sent to Finance for payment. A copy of the invoice is sent to Procurement for their records.

(b) Goods receipt at factory / warehouse: Designated personnel verifies the delivery challan against invoice and unloads the goods. The designated personnel informs the procurement team over email that requested items have been received. The invoice is separately sent to Finance for payment. A copy of the invoice is sent to Procurement for their records.

(4) Payment

Finance checks the PO raised in WSM and matches the same with invoice received. On satisfactory verification of quantity and price, the invoice is approved and payment is released. There may also exist non -PO based expenses for which invoice is the only document. These are processed on invoice receipt and payment released by Finance. Procurement is not involved in these expenses.

(5) Reconciliations & Reporting

On monthly basis, the Finance team files returns and makes payment of GST. The ABC Co advised on Reconciliation and Reporting of GST.

Mr. Rony asked ABC Co Chartered Accountants to explain his senior management and accounts personnel with the help of an example(s) on GST working and calculation of assessable value of the machine and custom duty in order to bring clarity as well as to avoid prosecution and penalty further implementing the same in the process of XYZ Limited. Mr. Rony also advised that the solution to the example(s) should be explained with working notes.

The ABC Co Chartered Accountants framed one example each on GST working and calculation of assessable value of the machine and custom duty for the benefit of senior management & accounts personnel of XYZ Limited and Mr. Rony as follows:

1. *L Ltd. of Bhopal (Madhya Pradesh) is a supplier of machinery. L Ltd. has supplied machinery to PQR Enterprises in Indore (Madhya Pradesh) on 1st October, 2019. The invoice for supply has been issued on 1st October, 2019. Thus, the time of supply of machinery is 1st October, 2019. L Ltd and PQR Enterprise are not related.*

   Following information is provided:

   Basic price of machinery excluding all taxes but including design and engineering charges of ₹ 10,000 and loading charges of ₹ 20,000 - ₹ 20,00,000.

   L Ltd. provides 3 years free warranty for the machinery. L Ltd. also provides an extended one year warranty on payment of additional charges of ₹ 1,00,000. PQR Enterprises opted for extended one year warranty.

   L Ltd. has collected consultancy charges in relation to pre-installation planning of ₹ 10,000 and freight and insurance charges from place of removal to buyer's premises of ₹ 20,000.

   L Ltd. received subsidy of ₹ 50,000 from Central Government for supplying the machinery to backward region since receiver was located in a backward region. L Ltd. also received ₹ 50,000 from the joint venture partner of PQR Enterprises for making timely supply of machinery to the recipient.

   A cash discount of 1% on the basic price of the machinery is offered at the time of supply, if PQR Enterprises agrees to make the payment within 30 days of the receipt of the machinery at his premises. Discount @ 1% was given to PQR Enterprises as it agreed to make the payment within 30 days.

   The machinery attracts CGST and SGST @ 18% (9% + 9%) and IGST @18%.

2. *N Ltd., New Delhi has imported certain machine (by sea) from South Korea. From the following particulars furnished by it, work out the assessable value of the machine and customs duty payable by N Ltd. with appropriate working notes :*

S. No.	Particulars	Amount (₹)
(i)	CIF value of the machine	4,23,379.69
(ii)	Freight incurred from port of entry to Inland Container depot	25,000.00
(iii)	Unloading and handling charges paid at the place of importation	40,000.00
(iv)	Designing charges paid to Consultancy firm in Mumbai	10,000.00

Notes:

(1) Basic Customs Duty leviable is 10% advalorem.

(2) Integrated tax leviable under section 3(7) of the Customs Tariff Act, 1975 is 18%.

(3) Ignore GST Compensation Cess.

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

2.1 Goods and Service Tax is :

(A) Source based tax on consumption of goods and services;

(B) Destination based tax only on sale of goods and services;

(C) Destination based tax on consumption of goods and services;

(D) Source based tax on supply of goods and services.

2.2 For Royalty Income received by XYZ Ltd, the tax deducted at source, if any, by the payer on account of XYZ Ltd would be reflected in Form 26AS of XYZ Ltd against which section of Income Tax Act, 1961 ?

(A) 193

(B) 194A

(C) 194I

(D) 194J

2.3 If XYZ Ltd sells pulley chains to a business entity situated in a SEZ (Special Economic Zone) at Noida, Uttar Pradesh, then applicable tax would be:

(A) CGST & SGST, being intra-state supply;

(B) CGST & UTGST, being intra-state supply;

(C) Only IGST, being inter-state supply;

(D) Only CGST, being inter-state supply;

2.4 If XYZ Ltd purchases machinery for ₹ 118 Lakhs (inclusive of 18% GST) and capitalized it in the books of accounts at ₹ 118 Lakhs without claiming ITC, then Actual Cost for charging depreciation under Income Tax Act, 1961 would be:

(A) ₹ 118 Lakhs;

(B) ₹ 100 Lakhs (no Depreciation allowed on GST component);

(C) ₹ 82 Lakhs;

(D) ₹ 109 Lakhs (as Depreciation allowed only on central levy CGST and not State levy SGST)

2.5 Assuming that entire revenue of XYZ Ltd is value of supply and subject to outward GST liability, what is the applicable periodicity of filing of GSTR-1 return ?

(A) Monthly

(B) Quarterly

(C) Half-yearly

(D) Annually ***(2 x 5 = 10 Marks)***

2.6 Compute the CGST and SGST or IGST payable, as the case may be, on the machinery purchased by PQR Ltd from L Ltd along with explanatory notes. ***(10 Marks)***

2.7 Work out the assessable value of the machine and customs duty payable by N Ltd. with appropriate working notes. ***(5 Marks)***

ANSWER TO CASE STUDY 2

PART – A

2.1 (C)

2.2 (D)

2.3 (C)

2.4 (A)

2.5 (A)

PART – B

2.6 Computation of GST payable on the machinery

Particulars	**₹**
Price of the machinery [Note 1]	20,00,000
Add: Extended warranty cost[1] [Note 2]	Nil

[1] It has been assumed that the extended warranty of one year on payment of additional charges is optional for the buyer of machinery.

Freight and insurance charges [Note 3]	20,000
Consultancy charges in relation to pre-installation planning [Note 4]	10,000
Subsidy received from Central Government [Note 5]	Nil
Receipts from joint venture of PQR Enterprises [Note 5]	50,000
Less: 1% discount on basic price = ₹ 20,00,000 x 1% [Note 6]	(20,000)
Value of supply of machinery	20,60,000
CGST @ 9% [Note 7] **SGST @ 9%** [Note 7]	**1,85,400** **1,85,400**

Notes:

1.	L Ltd. and PQR Enterprises are not related and price is assumed to be the sole consideration for the supply. Therefore, in terms of section 15 of the CGST Act, 2017, the value of the supply is the transaction value i.e., price actually paid or payable for the machinery by PQR Enterprises. Incidental expenses, including commission and packing, charged by the supplier to the recipient of a supply and any amount charged for anything done by the supplier in respect of the supply of goods and/or services or both at the time of, or before delivery of goods or supply of services is includible in the value of the supply in terms of section 15 of CGST Act, 2017. Therefore, design and engineering charges and loading charges are includible in the value of supply of the machinery.
2.	Extended warranty service provided by L Ltd. is a separate service liable to tax separately at the applicable rate. Thus, it is not included in the value of the machinery.
3.	Supply of machinery (goods) with supply of ancillary services like freight and insurance is a composite supply, the principal supply of which is the supply of machinery[2]. Thus, value of such ancillary supply is includible in the value of composite supply.
4.	Any amount charged for anything done by the supplier in respect of the supply of goods at the time of, or before delivery of goods is includible in the value of supply in terms of section 15 of CGST Act, 2017.
5.	Subsidies provided by the Central Government and State Governments are not includible in the value of supply in terms of section 15 of the CGST Act, 2017.

[2] It has been presumed that the machinery has been agreed to be supplied at the premises of PQR Enterprises by L Ltd.

	However, subsidy directly linked to the price received from a non-Government body is includible in the value in terms of section 15.[3]
6.	Cash discount has been given to PQR Enterprises upfront at the time of supply and thus would have been recorded in the invoice and hence, the same is excluded from the value of supply in terms of section 15 of the CGST Act, 2017.
7.	In the given case- • the location of the supplier is in Bhopal (Madhya Pradesh); and • the place of supply of machinery is the location of the machinery at the time at which the movement of the same terminates for delivery to the recipient i.e., Indore (Madhya Pradesh). Therefore, the given supply is an intra-State supply as the location of the supplier and the place of supply are in the same State. Thus, the supply will be leviable to CGST and SGST.

Note: The question provides that cash discount is 1% on 'basic price of machinery'. Basic price of machinery provided in the question is including design and engineering charges and loading charges of ₹ 10,000 and ₹ 20,000 respectively. Thus, in the above answer, the cash discount has been computed as 1% of ₹ 20,00,000. However, it is also possible to take a view that the basic price of the machinery is ₹ 19,70,000 [₹ 20,00,000 – ₹ 10,000 – ₹ 20,000] and design and engineering charges and loading charges are added to such price. In that case, cash discount will be computed as 1% of ₹ 19,70,000 and value of supply of machinery and tax payable thereon will change accordingly.

2.7 Computation of assessable value of the machine and customs duty payable

Particulars	**Amount (Rs.)**
CIF value[4] [Assessable value for customs purpose]	4,23,379.69
Add: Basic custom duty @10%	42,337.97
Add: Social Welfare Surcharge @ 10% on ₹ 42,337.97	4,233.80
Total	4,69,951.46
Add: Integrated tax @ 18% [Note 4]	84,591.26
Total duty and integrated tax payable (rounded off) (₹ 42,337.97 + ₹ 4,233.80 + ₹ 84,591.26)	**1,31,163**

[3] It has been assumed that the subsidy received from Central Government and subsidy received from joint venture partner of PQR Enterprises have been considered in the basic price of the machinery of ₹ 20,00,000 given in the question. Further, since the question provides the information of a single machinery, it is logical to presume that the subsidy received from joint venture partner of PQR Enterprises is directly linked to the price of that machinery.

[4] It has been assumed that expenses incurred by the importer in point (ii), (iii) and (iv) of the question have not been included in the CIF value of the machine given.

Notes:

1. Freight incurred from port of entry to Inland Container depot is not includible in assessable value.
2. Only charges incurred for delivery of goods "to" the place of importation are includible in the transaction value. The loading, unloading and handling charges associated with the delivery of the imported goods at the place of importation are not to be added while computing the assessable value.
3. Charges for design and engineering work is includible in the assessable value only when the same is undertaken elsewhere than in India and necessary for the production of the imported goods.
4. Integrated tax is levied on the sum total of the assessable value of the imported goods, customs duties and applicable social welfare surcharge.

CASE STUDY - 3

You are a Fellow Chartered Accountant, computer savvy, possessing excellent interpersonal and communication skills, hands on proven track record of industrial experience with a sound clarity of thought on the technical aspects of multidisciplinary economic legislation and is a much sought after professional.

You have recently joined as Vice President (Accounts and Finance) with M/s. Orange Highway Stabilizers (India) Limited (OHSIL), a listed MNC, having its registered office at Mumbai. OHSIL, is engaged in the business of building highway projects in India. It has a tremendous track record of showing consistent business growth and is one of the key companies closely monitored by the Analysts and other shareholders.

The Company is professionally managed and various financial Institutional investors are holding about 43% of the overall equity share capital of the Company. The Board of Directors of the Company is broad based having Indian and foreign nationals as Board members. The Board meetings of the Company are usually held at the Registered Office in India in person and at times through Video Conferencing.

The Management has very high expectations from you regarding the role you need to play, given the timing as well as the multiple challenges impacting the organization. Therefore, timing of your entry in the Company has become very crucial since the Board of Directors of the Company are planning to convene a Board Meeting on 05.05.2020 wherein certain matters especially with respect to presentation of financial statements, compliance of corporate and economic laws and direct taxation aspects as applicable to the Company are proposed to be discussed and approved.

Also, the foreign Independent directors wanted to know from you the current state of affairs, compliance standards and regulatory assessment hygiene on the various laws and regulations which may potentially have an impact on the Company. They wanted to know specifically from you the regulatory requirements under the Companies Act, 2013 relating to :

(a) *Appointment of Mr. Alex as a Key Managerial Personnel,*

(b) *Validity of appointment of Mr. 'X', a turnaround specialist, as the Whole Time Director of "Status One Highway Limited" (SOHL) (a wholly owned subsidiary of OHSIL) w.e.f. 01.01.2020 on which date he would be 70 years of age. You are informed that at the extra-ordinary general meeting of the Company held on 15-03-2020, the shareholders have not passed a special resolution with regard to the appointment of Mr. 'X', but the votes cast in favour of the motion exceeded the votes cast against the motion. The Company has provided you the following inputs extracted from the latest audited Balance Sheet as at 31st March, 2020.*

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

Besides the above, you have been provided with the following information in advance for your perusal impacting the presentation of financial statements and direct tax matters so that you can provide the necessary inputs at the time of Board Meeting.

Information:

During the financial year 2019-2020:

(i) *In respect of its on-going projects, the Assessee Company (OHSIL) had made some structural changes contrary to what was earlier approved by the municipal authorities. OHSIL hence paid a sum of ₹ 19,80,000 as regularization fee in respect of such changes made in the construction plan.*

(ii) *Depreciation as per Income Tax Act, 1961 is ₹ 51,14,00,000. This includes ₹ 78,00,000 in respect of firefighting equipment purchased from POI Ltd and installed in various highway sites / business premises/offices of the assessee. During the year, as there was no incidence of fire, these equipment were not used.*

(iii) *The Company earned ₹ 2,20,000 by way of sale of carbon credit. This has been credited to 'Capital Reserve'.*

(iv) As per the books of account, other expenses include ₹ 14,45,000 as expenditure incurred on CSR activities referred to in Section 135 of the Companies Act, 2013.

(v) The Company performed a revaluation of all its plant and machinery at the beginning of 01.04.2019. The following information relate to one of the machinery :

Particulars	***Amount ₹ ('000)***
Gross carrying amount	*200*
Accumulated depreciation (SLM)	*(80)*
Net carrying amount	*120*
Fair value	*150*

The useful life of the machinery is 10 years and the Company uses the Straight Line method of depreciation. The revaluation was performed at the end of 4 years.

(vi) The Company has borrowed US $ 250 million from Chase Inc, a financial institution resident in the US, to invest in one of its ongoing building of highway projects in India. The rate of interest charged is 8% per annum. The US $ may be assumed ₹ 69.

Based on the above inputs, you are requested to deal with the following issues and present your appropriate solutions at the time of the Board Meeting scheduled on 05.05.2020. Please note that the financial statements of the Company for the year under review are prepared using IND AS and your answers on Direct Tax Laws should relate to Assessment Year 2020-'21.

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

3.1 As per the Companies Act, 2013, for the appointment of Mr. Alex, the company can use combination of :

(i) Manager, Company Secretary and Chief Financial Officer

(ii) Chief Executive Officer, Company Secretary and Chief Financial Officer

(iii) Managing Director, Company Secretary and Manager

(iv) Managing Director, Company Secretary and Chief Financial Officer

Which options are available for the Company?

(A) (i), (ii) and (iii)

(B) (ii), (iii) and (iv)

(C) (i), (ii) and (iv)

(D) (i), (iii) and (iv)

3.2 ₹ 19,80,000 paid to municipal authorities to regularize the deviation from earlier approved construction plan in its on-going projects is :

(A) Eligible for a 100% deduction under Section 37 of the Income Tax Act, 1961 as it was paid in the normal course of business as a regularization fee.

(B) Eligible for a deduction under Section 37 of the Income Tax Act, 1961 to an extent of 50% only.

(C) Eligible for a deduction under Section 37 of the Income Tax Act, 1961 to an extent of 75%.

(D) Does not qualify for a deduction under Section 37 of the Income Tax Act, 1961 as it is in the nature of a penalty to compound an offence.

3.3 As per the Income Tax Rules, 1962, depreciation on purchases from POI Ltd. is :

(A) Not allowable as one of the conditions for the claim of depreciation is that the asset must be used for the purpose of business or profession.

(B) Allowable as stand-by equipment, whereby an asset can be said to be in use even when it is kept "ready for use".

(C) Not allowable as fire fighting equipments are not assets but are in the nature of revenue expenditure

(D) Allowable only to an extent of 50 %

3.4 The tax liability on the earning of ₹ 2,20,000 credited to Capital Reserve would be:

(A) ₹ 67,980 (@ 30.9%)

(B) ₹ 45,320 (@ 20.6%)

(C) ₹ 22,660 (@ 10.3%)

(D) NIL (exempt)

3.5 Expenditure ₹ 14,45,000 incurred on CSR Activities which is included in other Expenses

(A) Shall be deemed to have been incurred for the purpose of business and hence shall be allowed as deduction under Section 37 of the Income Tax Act, 1961.

(B) Shall not be deemed to have been incurred for the purpose of business and hence shall not be allowed as deduction under Section 37 of the Income Tax Act, 1961.

(C) Shall be deemed to have been incurred for the purpose of business and hence shall be allowed only to an extent of 50% as deduction under Section 37 of the Income Tax Act, 1961.

(D) Shall be deemed to have been incurred for the purpose of business and hence shall be allowed to an extent of 125% as deduction under Section 35 of the Income Tax Act, 1961. ***(2 x 5 = 10 Marks)***

3.6 On the basis of the facts and figures of "Status One Highway Limited" (SOHL) advise in respect of the following under the provisions of the Companies Act, 2013.

(i) Validity of the appointment of Mr. 'X' as Whole Time Director.

(ii) Compute the effective capital for payment of managerial remuneration. ***(5 Marks)***

3.7 In the light of Ind AS 16, explain how should the Company account for revaluation of Plant and Machinery and depreciation subsequent to revaluation? ***(7 Marks)***

3.8 In respect of US $ 250 million from Chase Inc. to invest in one of its ongoing building of highway projects in India, state with reasons whether the income of the non-resident is deemed to accrue or arise in India? Will your answer differ in case the money is invested in one of its ongoing projects in Sri Lanka? ***(3 Marks)***

ANSWER TO CASE STUDY 3

PART – A

3.1 (C)

3.2 (D)

3.3 (B)

3.4 (--)

(Note: For A.Y. 2020-21, health and education cess @ 4% is applicable on the tax payable plus surcharge, if any. Accordingly, the tax liability computed @ 10.4% would be ₹ 22,880. However, in three of the options tax liability is computed applying the tax rate including education cess @3%; and the fourth option is Nil. Thus, none of the options are correct.)

3.5 (B)

PART – B

3.6 (i) As per section 196(3) of the Companies Act, 2013, no company shall appoint or continue the employment of any person as managing director, whole-time director or manager who is below the age of 21 years or has attained the age of 70 years. However, where a person has attained the age of seventy years, he may still be appointed to such office if a special resolution is passed in this respect. In such a case, the explanatory statement annexed to the notice for such motion shall indicate the justification for appointing such person.

Further, where no such special resolution is passed but votes cast in favour of the motion exceed the votes, if any, cast against the motion and the Central Government is satisfied, on an application made by the Board, that such appointment is most beneficial to the company, the appointment of the person who has attained the age of seventy years may be made.

In the given question, the appointment of Mr. X is not valid as special resolution was not passed. However, it could have been regularized (since the votes cast in favour exceeded votes cast against the motion of appointment of Mr. X as whole time director) by seeking approval of the Central Government, which, if satisfied, can accord such approval.

(ii) As per Explanation 1 to Section II of Part II of Schedule V "effective capital" means the aggregate of the paid-up share capital (excluding share application money or advances against shares); amount, if any, for the time being standing to the credit of share premium account; reserves and surplus (excluding revaluation reserve); long-term loans and deposits repayable after one year (excluding working capital loans, over drafts, interest due on loans unless funded, bank guarantee, etc., and other short-term arrangements) as reduced by the aggregate of any investments (except in case of investment by an investment company whose principal business is acquisition of shares, stock, debentures or other securities), accumulated losses and preliminary expenses not written off.

The effective capital shall be calculated as on the last date of the financial year preceding the financial year in which the appointment of the managerial person is made.

Calculation of Effective Capital:

Particulars	**Amount (₹ in crores)**
Paid up Capital (excluding share application money)	860
Add: Reserves and surplus excluding revaluation reserve	600
Add: Long term borrowings	800
Less: Investments	160
Less: Accumulated Losses	40
Effective Capital	**2,060**

3.7 As per Ind AS 16, an item of property, plant and equipment whose fair value can be measured reliably is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Accumulated depreciation at the date of revaluation

When an item of property, plant and equipment is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of the revaluation, the asset is treated in one of the following ways:

(a) the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount. The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or

(b) the accumulated depreciation is eliminated against the gross carrying amount of the asset.

Treatment of surplus or deficit arising on revaluation

- If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.
- If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.
- The revaluation surplus included in equity in respect of an item of property, plant and equipment may be transferred directly to retained earnings when the asset is derecognised. This may involve transferring the whole of the surplus when the asset is retired or disposed of.
- However, some of the surplus may be transferred as the asset is used by an entity. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Transfers from revaluation surplus to retained earnings are not made through profit or loss.
- The effects of taxes on income, if any, resulting from the revaluation of property, plant and equipment are recognised and disclosed in accordance with Ind AS 12, *Income Taxes*.

According to the above provisions of Ind AS 16, revaluation of plant and machinery at the beginning of 1st April, 2019 would be as follows:

(Note: It is assumed that the revaluation is conducted on the plant and machinery for the first time.)

Method – I: Depreciation Elimination Approach

Journal Entries

Upward revaluation of Plant and Machinery

Accumulated depreciation	Dr.	80,000	
To Asset			80,000
Asset	Dr.	30,000	
To Revaluation reserve			30,000

The net result is that the asset has a carrying amount of ₹ 1,50,000 (2,00,000 – 80,000 + 30,000).

Subsequent depreciation on Plant and Machinery

Depreciation Account	Dr.	25,000	
To Asset			25,000

Method – II: Restatement Approach

Carrying amount (200,000 – 80,000) =	1,20,000
Fair value (revalued amount)	1,50,000
Surplus	30,000
% of surplus to the carrying amount (30,000 / 1,20,000)	25%

Journal Entries

Asset (2,00,000 x 25%)	Dr.	50,000	
To Accumulated Depreciation (80,000 x 25%)			20,000
To Revaluation Reserve			30,000

(Being the entry to increase both the original cost and the accumulated depreciation by 25%)

Subsequent depreciation on Plant and Machinery

Depreciation Account	Dr.	25,000	
To Accumulated Depreciation			25,000

Additional entry could be passed under both the approaches, if company adopts the policy to transfer difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost from revaluation surplus to retained earnings as follows:

Revaluation reserve	Dr.	5,000	
To Retained Earnings			5,000

3.8 (i) As per section 9(1)(vi), interest payable by a person who is a resident in India would be deemed to accrue or arise in India in the hands of the non-resident payee. However, where it is payable in respect of borrowing for the purposes of a business carried on by such person outside India or for the purposes of making or earning any income from any source outside India, the amount payable by way interest would not be deemed to accrue or arise in India, in the hands of non-resident.

Since OHSIL company has borrowed money from Chase Inc., a foreign company not resident in India, for the purpose of ongoing building of highway project in India, interest payable on the same would be income which is deemed to accrue or arise in India in the hands of Chase Inc.

(ii) If interest is payable in respect of borrowings used for the purpose of ongoing projects in Sri Lanka, interest income would not be deemed to accrue or arise in India in the hands of Chase Inc. a foreign company not resident in India.

CASE STUDY - 4

Company Background

Compressors and Equipment Solutions Ltd (CESL), is a professionally managed Company, incorporated in the year 1999 under the erstwhile Companies Act, 1956, having its factory and registered office at Kolkata. The Company is a leading air compressor manufacturer with a broad line of innovative and technologically superior compressed air systems and has earned worldwide distinction for designing sustainable solutions that help companies achieve their productivity goals and keep the cost of ownership low.

Wholly owned subsidiary

On 12-08-2019, Sharp Falls Limited (SFL) was incorporated at Delhi and was added as a wholly owned subsidiary company of CESL.

Maintenance of Books of Accounts

Since inception, the Company has maintained proper books of accounts adopting historical cost convention, accrual basis of accounting, in alignment with generally accepted accounting principles, complying with all significant accounting policies and mandatory accounting standards and on the basis of going concern.

The books of accounts were duly audited by a reputed firm of Chartered Accountants. The income tax assessments are also completed up to Assessment Year 2018-'19 and there are no income-tax or any other statutory dues payable by the Company.

Appointment of Statutory Auditors

After completing two consecutive terms of 5 years each, the existing firm of Chartered Accountants retired at the last Annual General Meeting held on 29.09.2019 and the shareholders have appointed you as the new Statutory Auditor (Firm Registration No. XXXXX) for a period of five years as recommended by the Audit Committee and approved by the Board *of Directors of the Company in terms of Section 139 of the Companies Act, 2013 read with the Companies (Audit and Auditors) Rules, 2014 on such remuneration as may be mutually agreed upon between the Board of Directors of the Company and the Statutory Auditor.*

Accordingly, you have assumed the office of Statutory Auditor and started your audit of books of accounts for the financial year 2019-20 on a monthly basis. During the month of May, 2020, the Chief Accountant has provided you with the draft management prepared financial statements (Standalone / Consolidated) for your perusal and audit.

You have formed a team of 6 members and drafted a detailed audit program. Initially you have deployed Ms. Diya, the Senior Audit Manager to review the Board Minutes, other secretarial records / regulatory records and instructed her to take note of all important and relevant data / issues for the audit.

During the course of the audit, Ms. Diya has made certain observations /collected the following management proposals / information / queries:

(1) The previous Statutory Auditors of CESL made an adverse statement in their certificate as the Audit Committee of the Company did not meet four times a year.

(2) CESL was considering the replacement of its existing machine with a new machine. The purchase price of the new machine is ₹ 26 lakhs and its expected life is 8 years. The Company follows a straight line method of depreciation on the original investment (scrap value is not considered for the purpose of depreciation). The other expenses to be incurred for the new machine are as follows:

(i) Installation charges ₹ 9,000

(ii) Fee paid to the consultant for his advice to buy the new machine ₹ 6,000.

(iii) Additional working capital required ₹ 17,000 (will be released after 8 years).

The written down value of the existing machine is ₹ 76,000 and its cash salvage is ₹ 12,500. The dismantling of this machine would cost ₹ 4,500. The annual earnings (before tax but after depreciation) from the new machine would amount to ₹ 3,15,000. Income tax rate is 35%. The Company's required rate of return is 13%.

(3) The Managing Director of CESL informed you that there is a proposal of SFL (subsidiary of CESL) to acquire XYZ Ltd. and has offered a swap ratio of 1 : 2 (0.5 shares for every one share of XYZ Ltd.). He has provided you with the following information:

Particulars	***SFL***	***XYZ Ltd.***
Profit after tax (₹)	*18,00,000*	*3,60,000*
Equity shares outstanding (Nos.)	*6,00,000*	*1,80,000*
EPS (₹)	*3*	*2*
P/E Ratio	*10 Times*	*7 Times*
Market Price Per Share	*30*	*14*

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

(5) Mr. Ajay Patel, a Chartered Accountant by profession was appointed as GST, Auditor of CESL. The Management has requested Mr. Ajay Patel, for GST Audit and to file GSTR-3B for the months of July and August 2019 and filing of Annual Return in GSTR-9. Mr. Ajay Patel contended that he has been appointed to do only GST audit and the above are his scope limitations and cannot be conducted as the compliances and returns are to be filed by the Management.

(6) One of the foreign director (foreign citizen) of CESL made donations in kind to various Indian residents for their personal use.

BZ and Associates, Chartered Accountants having CA.B and CA.Z as partners, were appointed as the Internal Auditors of CESL. The audit firm got their website developed as www.bzassociates.com from WYK Ltd. The color of the website was very bright and attractive to run on a 'push technology.' Further, names of the partners of the firm and the major clients were also displayed on the web-site without any disclosure obligation from any regulator.

The CEO of CESL wanted to know the situations under which a lender can avail the benefits of SARFAESI Act, 2002.

At this juncture, before further audit is carried out, you wanted to discuss and provide solutions to the above audit findings / observations with the Chairman of the Audit Committee of CESL. Accordingly, read the following paragraphs and act accordingly :

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

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

The theft of cash :

(A) Need not be adjusted to the reported value of assets, liabilities, incomes or expenses for the year ended 31.03.2020.

(B) Need to be adjusted to the reported value of assets, liabilities, incomes or expenses for the year ended 31.03.2020.

(C) Need to be adjusted to the reported value of assets, liabilities, incomes or expenses for the year ended 31.03.2021.

(D) A provision for bad debts should be made in the accounts.

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

(A) Contention of the Management to Mr. Ajay Patel is tenable as preparation of annual returns and uploading periodic returns is also a part of the scope of the GST Audit.

(B) Contention of the Management to Mr. Ajay Patel is not tenable as preparation of annual returns and uploading periodic returns is the task of the Management.

(C) Wilful refusal by Mr. Ajay Patel for preparation of annual returns and uploading periodic returns will be considered as a professional default and as a consequence, he shall be held guilty of professional negligence.

(D) Both (A) and (C)

4.3 One of the foreign director (foreign citizen) of CESL made donations in kind to various Indian residents for their personal use. When shall such donation in kind be excluded from the definition of Foreign contribution under the provisions of Foreign Contribution (Regulation) Act, 2010?

(A) If the market value, in India, of such article, on the date of such gift, does not exceed ₹ 25,000.

(B) If the market value, in India, of such article, on the date of such gift, does not exceed ₹ 50,000.

(C) If the market value, in India, of such article, on the date of such gift, does not exceed ₹ 1,00,000.

(D) Any donation given in kind is excluded

4.4 Whether, web-site designed for www.bzassociates.com is in compliance with the guidelines to the Chartered Accountants Act, 1949 :

(A) Yes. Web-site can have names of the partners and major clients along with its fees.

(B) Yes. Web-site can have names of the major clients, but not of the Firm's Partners.

(C) Web-site can be designed on "push technology" and there is no restriction on the colors used.

(D) No, names of the firm's major clients cannot be displayed on firm's website without any disclosure obligation from a Regulator.

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

(1) An insolvency petition has been launched against the borrower

(2) The borrower is under BIFR

(3) A winding up petition has been made against the borrower

(4) A criminal proceeding has been launched by the lender against the borrower

(A) In situations under (1) and (2)

(B) In situations under (2) and (4)

(C) In situations under (2) (3) and (4)

(D) In all the given situations ***(2 x 5 = 10 Marks)***

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

(5 Marks)

4.7. *CESL was considering the replacement of its existing machine with a new machine. On the basis of the inputs given in para (2) above, advise on the viability of the proposal.*

PVIF (13%,8) = 0.376 PVIFA (13%,8) = 4.80 ***(5 Marks)***

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

(i) The number of equity shares to be issued by SFL., for acquisition of XYZ Ltd.

(ii) What would be the EPS of SFL., after the acquisition?

(iii) Determine the equivalent earnings per share of XYZ Ltd.

(iv) What is the expected market price per share of SFL., after the acquisition, assuming its P/E multiple remains unchanged?

(v) Determine the market value of the merged firm, assuming its P/E multiple remains unchanged. ***(1 x 5 = 5 Marks)***

ANSWER TO CASE STUDY 4

PART – A

4.1 (B)

4.2 (B)

4.3 (A)

4.4 (D)

4.5 (C)

PART – B

4.6 Adverse or Qualified Statement: Depending upon the facts and circumstances, some situations may require an adverse or qualified statement or a disclosure without necessarily making it a subject matter of qualification in the Auditors' Certificate, in respect of compliance of requirements of corporate governance for e.g.,

(a) The number of non-executive directors is less than 50% of the strength of Board of directors.

(b) A qualified and independent audit committee is not set up.

(c) The Chairman of the audit committee is not an independent director.

(d) The Audit Committee does not meet four times a year.

(e) The necessary powers in terms of Part C of Schedule II have not been vested by the Board in the Audit Committee.

(f) The time gap between two Board meetings is more than one hundred and twenty days.

(g) A director is a member of more than ten committees or acts as Chairman of more than five committees across all companies in which he is a director.

(h) The information of quarterly results is neither put on the listed entity's website nor sent in a form so as to enable the stock exchange on which the entity's securities are listed to enable such stock exchange to put it on its own website.

(i) The power of share transfer is not delegated to an officer or a committee or to the registrar and share transfer agents.

4.7

(A)	**Cash Outflow**	₹
	Purchase Price	26,00,000
	Add: Installation cost	9,000
	Add: Additional Working Capital	17,000
	Total Cost	26,26,000
	Less: Disposal of old machine net of dismantling cost	8,000
	Less: Tax Benefit on STCL	22,225
	Total Cash Outflow	25,95,775

(B) Cash Inflows after Taxes (CFAT)

	₹
Earnings after Depreciation but before Tax	3,15,000
Less: Tax @ 35%	1,10,250
Earning after Tax	2,04,750
Less: Tax Shield on Depreciation on Existing Machine	3,325
Earning after Depreciation	2,01,425
Add: Depreciation	3,25,000
Cash Flow after Tax (CFAT)	5,26,425

(C) Terminal Year Cash Flow

Release of Working Capital ₹ 17,000

Computation of NPV

= ₹ 5,26,425 x 4.80 + ₹ 17,000 x 0.376 - ₹ 25,95,775

= ₹ 25,26,840 + ₹ 6,392 - ₹ 25,95,775 = - ₹ 62,543

As the NPV of the proposal is negative, the company should continue with the existing old Machine.

Alternative Answer

(If Tax on Short Term Capital Loss on disposal of old machine is ignored)

(A)	**Cash Outflow**	₹
	Purchase Price	26,00,000
	Add: Installation cost	9,000
	Add: Additional Working Capital	17,000
	Total Cost	26,26,000
	Less: Disposal of old machine net of dismantling cost	8,000
	Total Cash Outflow	26,18,000

(B) Cash Inflows after Taxes (CFAT)

	₹
Earnings after Depreciation but before Tax	3,15,000
Less: Tax @ 35%	1,10,250
Earning after Tax	2,04,750
Less: Tax Shield on Depreciation on Existing Machine	3,325
Earning after Depreciation	2,01,425
Add: Depreciation	3,25,000
Cash Flow after Tax (CFAT)	5,26,425

(C) Terminal Year Cash Flow

Release of Working Capital ₹ 17,000

Computation of NPV

= ₹ 5,26,425 x 4.80 + ₹ 17,000 x 0.376 - ₹ 26,18,000

= ₹ 25,26,840 + ₹ 6,392 - ₹ 26,18,000 = - ₹ 84,768

As the NPV of the proposal is negative, the company should continue with the existing old Machine.

4.8 (i) The number of shares to be issued by SFL Ltd.:

The Exchange ratio is 0.5

So, new Shares = 1,80,000 x 0.5 = 90,000 shares.

(ii) **EPS of SFL Ltd. After acquisition:**

Total Earnings	(₹ 18,00,000 + ₹ 3,60,000)	₹ 21,60,000
No. of Shares	(6,00,000 + 90,000)	6,90,000
EPS	(₹ 21,60,000)/6,90,000)	₹ 3.13

(iii) **Equivalent EPS of XYZ Ltd.:**

No. of new Shares	0.5
EPS	₹ 3.13
Equivalent EPS (₹ 3.13 x 0.5)	₹ 1.57

(iv) **New Market Price of SFL Ltd. (P/E remaining unchanged):**

Present P/E Ratio of SFL Ltd.	10 times
Expected EPS after merger	₹ 3.13
Expected Market Price (₹3.13 x 10)	₹ 31.30

(v) **Market Value of merged firm:**

Total number of Shares	6,90,000
Expected Market Price	₹ 31.30
Total value (6,90,000 x 31.30)	₹2,15,97,000

CASE STUDY - 5

You are a part of a reputed Chartered Accountants firm, based out of Delhi and having branches in all metros and tier -1 cities of India. The audit firm has rich exposure across all sectors of industries and offers varied services. You are at the helm of leading a blend of a vibrant team of distinguished professionals known for possessing expert knowledge on various economic legislations and mandate best reporting practices.

Your Competencies

As a professional, you aid in facing the challenges and ease of doing business in India by advising necessary compliances, efficient transaction planning, smooth transaction execution, best industry practices etc., You practice strong professional ethics and advise your clients to comply with the rule of law, promote transparency in financial and business transactions and make them tax compliant vis-a-vis intelligent tax planning rather than tax dodging and tax evasion. You are also a Director on the Board, Chairman and/or Member of Committees on the Board of many listed and unlisted entities.

Your Key Client

One of the key clients of the audit firm is Angel Motor Company (AMC), (flagship company of Angel Group of Companies), based out of Pune, having three factories at Pune, branches / dealer networks in almost all parts of India, wherein your audit firm provides audit and auxiliary services, taxation and advisory services from time to time on various business related projects, expansion strategies, funding aspects, tax implications etc.,. AMC is the third largest 2-wheeler company in India (manufacturing 14 different types of two wheelers like mopeds, scooters and sporty bikes) in terms of revenues, annual sales and annual capacity (in million units) and is also the 2nd largest exporter in India with exports to over 60 countries. AMC is the largest Company of the group in terms of size and turnover.

Professional Meeting

In view of your excellent technical and presentation skills, AMC has reached out to you seeking your expert opinions and advice on certain issues. AMC has also certain issues in their subsidiary companies. They have requested you to join their internal brain storming session organized to discuss and decide on the way forward. You have agreed to participate and provide your insights in the session. AMC will decide the way forward based on your advice and, hence, your expert guidance would be extremely crucial for the ultimate decision making by the Board.

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

GIST OF DISCUSSION: 1

As AMC is involved in manufacturing of different types of two wheelers in its factories, of late, is concerned with shortage in production and there arose suspicion of inventory fraud. In order to curb the defalcation of inventory, the Management wants to evaluate the options for verifying the process to reveal fraud and the corrective action to be taken.

GIST OF DISCUSSION: 2

One of the subsidiary of AMC is Gogreen Ltd (GL) which is engaged in horticulture, plantation and farming activities on a large scale on a pan India basis. On 01.04.2019, the Company received a government grant of ₹ 40 lakhs subject to a condition that GL will continue to engage in plantation of eucalyptus trees for a continuous period of five years. GL made a reasonable assurance that the entity would comply with the above government's condition of planting eucalyptus trees for a continuous period of five years and accordingly it recognized proportionate grant of ₹ 8 lakhs in its Statement of Profit and Loss as income following the principles laid down under Ind AS.

GIST OF DISCUSSION: 3

GL is one of the key operational creditors of Multicrop Limited (ML) which is engaged in farming activities and was the sole supplier of fertilizers to ML. The arrangement between GL and ML was formally documented through a blanket purchase order on an annual basis with weekly *supply schedules and a 30 days credit period. In view of the financial crisis including heavy cash losses of ML, there was a significant backlog in the payment by ML and in line with the terms of the purchase order, the matter was referred to an Arbitral Tribunal with claims and counterclaims by both the parties. The Arbitral Tribunal delivered its award in favour of GL for the entire balance including receivables assigned to the Bank (without recourse basis) by ML and rejected the cross claims of ML. Thereafter, ML proceeded to file a petition under the Arbitration and Conciliation Act, 1996 challenging the award of the Arbitral Tribunal. Based on the opinion of Mr. Nani that the object of Insolvency and Bankruptcy Code, 2016 (IBC, 2016) is also to hold Promoters personally financially liable for the defaults of the firms they control, an application was filed by GL under Section 9 of the IBC, 2016 as the sole operational creditor of ML. The NCLT, based on the application, admitted the same since there is clear evidence of a demand and the appropriate notice has been submitted by GL as per the IBC, 2016.*

GIST OF DISCUSSION: 4

01. *While discussing certain matters on Direct Tax Laws, Mr. Durai, one of the participant in the brain storming session opined that under the provisions of the Income Tax Act, 1961, the Assessing Officer (AO) can complete the assessment of Income from International Transaction in disregard of the order passed by the Transfer Pricing Officer (TPO) by accepting the contention of the Assessee.*

    Other Issues:

02. *Mr. Shiva, brother of Mr. Suresh, the Chairman of AMC, is a resident of Malaysia and he owns an immovable property in Bengaluru which he inherited from his father, who was a resident of India. Mr. Suresh wants to know whether Mr. Shiva can continue to hold the property in terms of the Foreign Exchange Management Act, 2002.*

03. *Mr. Sampath, the MD of the company has put forward a proposal to merge AMC with an unlisted entity "Robust Fitting Works Ltd." (Robust) through an approved restructuring route considering certain business reasons. The MD further added that Robust is going through tough times and all efforts made by the Promoters to revive the entity has become futile and the time has come now to fix the problem with the help of AMC. The MD further added that since AMC is a tax paying entity, through the merger, the possibility of setting off the carry forward losses of "Robust" including the speculative losses is possible.*

04. *MX Ltd., another subsidiary of AMC has not provided for any tax expense in the books of accounts due to tax losses. The Company has recognized deferred tax assets on the unabsorbed business losses based on Management assessment and on its understanding of Ind AS.*

05. *One of the wholly owned Indian subsidiary of AMC namely X Ltd was amalgamated and merged with Y Ltd Some workers of X Ltd refused to join as workers of Y Ltd and claimed compensation for premature termination of their services. X Ltd resisted the claim on the ground that their services are transferred to their Company by the Order of Tribunal for*

amalgamation and merger and therefore, the workers are bound to join the services and cannot claim any compensation.

06. *You were informed that AMC committed an offence under the Companies Act, 2013 which is alleged to have been committed by the Company and its officers relating to entering into contracts in which the directors are interested. The Management wants to know the law related to cognizance of an offence under the Companies Act 2013.*

The ball is now in your Court. Based on the above information, you have to provide your inputs on the below aspects to your key client Company and to assist the Board in arriving at the conclusions.

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

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

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

- (A) *No, he cannot hold, transfer or invest in India, since he is resident outside India.*
- (B) *Yes, he can continue to hold the property in India, since he is a person of Indian origin and the property is located in India.*
- (C) *Yes, he can continue to hold the property in India, since this was inherited from a person who was resident in India.*
- (D) *Yes, he can continue to hold the property, since his brother (Mr. Suresh) uses the property whenever he travels to India.*

5.2. *Whether the speculative losses carried forward by "Robust" is available for set-off against the profits and gains of business of "Robust" post merger under the provisions of Income Tax Act, 1961 ?*

- (A) *Yes*
- (B) *No*
- (C) *Permissible, if it is within the period of 8 years.*
- (D) *If the scheme provides for such set-off, the same would be permissible.*

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

- (A) *Yes*
- (B) *No*
- (C) *Yes, since it is based on Management assessment and the same is as per Ind AS 12.*
- (D) *It depends/ based on the decision to be taken by the MD regarding the probable merger.*

5.4 In respect of the amalgamation and merger of X Ltd with Y Ltd, state the correct option under the provisions of the Companies Act, 2013 :

(A) Workers contention is incorrect as they are bound with the amalgamation scheme as sanctioned by the Tribunal.

(B) Workers contention is correct as their services cannot be transferred without their consent.

(C) Workers contention is incorrect as they are not entitled to any compensation

(D) Both (A) and (C)

5.5 The law related to cognizance of an offence under the Companies Act 2013 is that:

(A) The Court shall take cognizance of the offence only on the written complaint of the Registrar of Companies.

(B) The Court shall take cognizance of the offence only on the written complaint of a shareholder of the Company.

(C) The Court shall take cognizance of the offence only on the written complaint of a person authorized by the Central Government

(D) The Court shall take cognizance of the offence only on the written complaint of the Registrar, a shareholder or of a person authorized by the Central Government on that behalf. ***(2 x 5 = 10 Marks)***

5.6 With reference to the inputs provided in the Gist of Discussion-1 above, what will be your areas of verification and the procedure to be followed for verification of defalcation of inventory? ***(5 Marks)***

5.7 With reference to the inputs provided in the Gist of Discussion-2 above, evaluate whether the accounting treatment made by the Management is in compliance with the applicable Ind AS. If not, advise the correct treatment. ***(5 Marks)***

5.8 With reference to the inputs provided in the Gist of Discussion-3 above, what is your view with regard to the stand taken by NCLT in admitting the application of GL for initiating insolvency proceedings against ML? ***(5 Marks)***

ANSWER TO CASE STUDY 5

PART – A

5.1 (C)

5.2 (B)

5.3 (C) & (A)

5.4 (D)

5.5 (D)

PART – B

5.6 Inventory Frauds: Inventory frauds are many and varied but here we are concerned with misappropriation of goods and their concealment.

(i) Employees may simply remove goods from the premises.

(ii) Theft of goods may be concealed by writing them off as damaged goods, etc.

(iii) Inventory records may be manipulated by employees who have committed theft so that book quantities tally with the actual quantities of inventories in hand.

Verification Procedure for Defalcation of inventory - It may be of trading stock, raw materials, manufacturing stores, tools or of other similar items (readily) capable of conversion into cash. The loss may be the result of a theft by an employee once or repeatedly over a long period, when the same have not been detected. Such thefts usually are possible through collusion among a number of persons. Therefore, for their detection, the entire system of receipts, storage and despatch of all goods, etc. should be reviewed to localise the weakness in the system.

The determination of factors which have been responsible for the theft and the establishment of guilt would be difficult in the absence of: (a) a system of inventory control, and existence of detailed record of the movement of inventory, or (b) availability of sufficient data from which such a record can be constructed. The first step in such an investigation is to establish the different items of inventory defalcated and their quantities by checking physically the quantities in inventory held and those shown by the Inventory Book.

Afterwards, all the receipts and issues of inventory recorded in the Inventory Book should be verified by reference to entries in the Goods Inward and Outward Registers and the documentary evidence as regards purchases and sales. This would reveal the particulars of inventory not received but paid for as well as that issued but not charged to customers. Further, entries in respect of returns, both inward and outward, recorded in the financial books should be checked with corresponding entries in the Inventory Book. Also, the totals of the Inventory Book should be checked. Finally, the shortages observed on physical verification of inventory should be reconciled with the discrepancies observed on checking the books in the manner mentioned above. In the case of an industrial concern, issue of raw materials, stores and tools to the factory and receipts of manufactured goods in the godown also should be verified with relative source documents.

Defalcations of inventory, sometimes, also are committed by the management, by diverting a part of production and the consequent shortages in production being adjusted by inflating the wastage in production; similar defalcations of inventories and stores are covered up by inflating quantities issued for production. For detecting such shortages, the investigating accountant should take assistance of an engineer. For that he will be more conversant with factors which are responsible for shortage in production and thus will be able to correctly determine the extent to which the shortage in production has been inflated. In this regard, guidance can also be taken from past records showing the extent of wastage in production in the past. Similarly, he would be able to better judge whether the material issued for production was excessive and, if so to what extent. The per hour capacity of the machine and the time that it took to complete one cycle of production, also would show whether the issues have been larger than those required.

5.7 AMC Ltd. is engaged in plantation and farming on a large scale. This implies that it has agriculture business. Hence, Ind AS 41 will be applicable.

Further, the government grant has been given subject to a condition that it will continue to engage in plantation of eucalyptus tree for a coming period of five years. This implies that it is a conditional grant.

In the absence of the measurement base of biological asset, it is assumed that "AMC Ltd measures its Biological Asset at fair value less cost to sell":

(i) As per Ind AS 41, the government grant should be recognised in profit or loss when, and only when, the conditions attaching to the government grant are met i.e. continuous plantation of eucalyptus tree for coming period of 5 years. In this case, the grant shall not be recognised in profit or loss until the five years have passed. The entity has recognised the grant in profit and loss on proportionate basis, which is incorrect.

(ii) However, if the terms of the grant allow part of it to be retained according to the time elapsed, the entity recognises that part in profit or loss as time passes. Accordingly, the entity can recognise the proportionate grant for ₹ 8 lakh in the statement of Profit and Loss based on the terms of the grant.

Alternatively, it may be assumed that AMC Ltd. measures its Biological Asset at its cost less any accumulated depreciation and any accumulated impairment losses (as per para 30 of Ind AS 41):

In such a situation, principles of Ind AS 20 (with respect to conditional grant will apply). According to Ind AS 20, the conditional grant should be recognised in the Statement of Profit and Loss over the periods and in the proportions in which depreciation expense on those assets is recognised. Hence the proportionate recognition of grant ₹ 8 lakh (40 lakh / 5) as income is correct since the entity has reasonable assurance that the entity will comply with the conditions attached to the grant.

Note: In case eucalyptus tree is considered as bearer plant by AMC Ltd., then Ind AS 20 will be applicable and not Ind AS 41.

5.8 In the given case study, GL, the operational creditor was the sole supplier of fertilizers to ML. Due to financial crises and heavy losses, there was a backlog in the payment by ML in line with the terms of purchase order. The matter was referred to an Arbitral Tribunal and Award was delivered in favour of GL. Thereafter, ML filed a petition under the Arbitration and Conciliation Act, 1996 challenging the award of the Arbitral Tribunal. In the meantime, GL filed an application under section 9 of the IBC, 2016.

As per section 8 of the Insolvency and Bankruptcy Code, 2016, an operational creditor, on the occurrence of default, shall first send a demand notice and a copy of invoice to the corporate debtor. The corporate debtor shall within a period of ten days of receipt of demand notice or copy of invoice intimate to the operational creditor about the existence of a dispute, if there is any, and record of pendency of any suit or arbitration proceedings.

“Demand notice" means a notice served by an operational creditor to the corporate debtor demanding payment of the operational debt in respect of which the default has occurred.

After the expiry of ten days, if the operational creditor does not receive his payment or the confirmation of a dispute that existed even before the demand notice was sent, he may file an application before the Adjudicating Authority for initiating a Corporate Insolvency Resolution Process.

In view of the stated facts, no demand notice and copy of invoice was served to ML, on occurrence of default i.e. on non payment of due amount. Further, arbitral award which was challenged, was also pending under the Arbitration and Conciliation Act, 1996. Therefore, in the light of non-compliance of the section 8 required for initiation of Corporate Insolvency Resolution Process by operational creditor under section 9 of the IBC, NCLT’s stand of admission of the application of GL for initiation of insolvency process, is not in order.