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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

Economic Survey for 2022-23 has been presented to the Parliament. According to the survey, "the Indian Economy, however, appears to have moved on after its encounter with the pandemic, staging a full recovery in FY 22 ahead of many nations and positioning itself to ascend to the pre-pandemic growth path in FY 23". It is also stated that agencies worldwide continue to project India as the fastest growing major economy at 6.50-7.0% in FY 23.

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

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

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

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

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

Having realised their true calling, both resigned from their high paying jobs to start their own venture. In 2020 they incorporated a company called M&A Private Ltd, with both of them being the shareholders and directors of the Company. Gradually, when the business started growing they brought in Shyam as a shareholder and director. Presently, Shyam holds 12% of the equity

share capital while Manu and Tanu hold 44% each. The Company is able to fund its operations internally, without seeking any outside funds.

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

During one of the board meetings, while briefing about the audit status, the CFO informed the directors that the financial statements for the current year would be prepared as per the Indian Accounting Standards (Ind AS). In the audit kick-off meeting held in March 2023, the following points were discussed by the CFO, while Tanu and Manu, added their insights:

- (A) Shyam is a director on the Board of Directors and holds 12% equity shares of the Company. As Shyam had some financial emergency, Tanu and Manu wanted to support him by giving loan of ₹ 5 Lakhs from the Company. CFO mentioned that for the financial year ended 31st March 2022 the Company had an accumulated profit of ₹ 7.5 Lakhs. It is pertinent to note that Shyam is also a Partner in Shyamlal & Co, with a 30% profit sharing therein. During the current year, the Company made an advance of ₹ 2 Lakhs to Shyamlal & Co. towards procurement of materials.
- (B) The Company also purchases goods from entities registered under Micro, Small and Medium Enterprises Act, 2006. The CFO of the Company provides the following information of trade payable to Micro, Small and Medium Enterprises:

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

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

- (C) M&A Private Ltd acquired 100% of the shares of another company P&T Private Ltd. The negotiations for this acquisition commenced on 1st January 2022 and the agreement was finalised on 1st March 2022. While M&A Private Ltd obtained the power to control P&T Private Ltd.'s operations on 1st March 2022, the agreement states that the acquisition is effective from 1st January 2022 and that M&A Private Ltd is entitled to all profits after that date. In addition, the purchase price is based on P&T Private Ltd.'s net assets as at 1st January 2022. The final settlement of consideration was made on 1st May 2022.

- (D) M&A Private Ltd also holds 70% stake of issued equity share capital of SAGE Ltd. and 45% of issued redeemable preference shares. This acquisition was made on 31st December 2022. Issued and paid-up equity and preference share capital of SAGE Ltd as on 31st March 2023 is ₹ 15 Crores and ₹ 5 Crores respectively. Balance in the Statement of Profit and Loss for the year ended 31st March 2023 is ₹ 25 Crores. All the book values of assets and liabilities were same as their fair values except for an item of Property, Plant and Equipment (PPE). The carrying amount, at the time of acquisition by M&A Private Ltd, of PPE is ₹ 3 crores and its fair value was ₹ 6.20 Crores. No adjustment for fair-value has been done in the books of SAGE Ltd.
- (E) Anu is also a director of M&A Private Ltd, who was going on world tour for a period of 5 months. In his absence, he wishes to appoint his friend Kumar, as an alternate director of M&A Private Ltd on his behalf. The Articles of Association of the Company allows the appointment of alternate director.
- (F) M&A Private Ltd enters into a seven-year service contract with a customer NP Ltd for an amount of ₹ 21 Lakhs i.e. ₹ 3 Lakhs per year. The standalone selling price for one year contract at inception of the contract is ₹ 3 Lakhs per year. M&A Private Ltd. accounts for the contract as a series of distinct services. At the beginning of the Sixth year*, the parties agree to modify the contract as follows:
- the fees for the seventh year is reduced to ₹ 2.7 Lakhs and
 - NP Ltd agrees to extend the contract for another seven years for ₹ 16.80 Lakhs i.e. ₹ 2.40 Lakhs per year.

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

MCQs: Provide the correct option to the following Questions:

- 1.1 The CFO says that the tax auditor wants to treat the loan of ₹ 5 Lakhs to Shyam and advance of ₹ 2 Lakhs to Shyamlal & Co. as deemed dividend. Is it appropriate?
- (a) Both the loan of ₹ 5 Lakhs and advance of ₹ 2 Lakhs will not be treated as deemed dividend as both are repayable.
 - (b) The loan of ₹ 5 Lakhs and advance of ₹ 2 Lakhs will be treated as deemed dividend only to the extent of ₹ 90,000 i.e. 12% of the accumulated profit.
 - (c) Both the loan and advance will not be treated as deemed dividend as his interest in the Company is only 12%.
 - (d) The loan will be taxable as deemed dividend, but the advance given to Shyamlal & Co. will not be treated as deemed dividend since it is a business advance.

* PS: to be read as Seventh year instead of Sixth year

- 1.2 CFO states that the interest paid to the MSME vendors is allowed as a business expenditure and should be reported accordingly in the tax returns:
- (a) The interest of ₹ 2.60 Lakhs will be deductible, as it is business expenditure.
 - (b) The interest of ₹ 1.95 Lakhs will be deductible, as 75% of the interest paid to MSME vendors will be allowed as a deduction.
 - (c) The interest of ₹ 2.50 Lakhs paid to MSME vendors will not be allowed as deduction from computation of income, as the Micro, Small and Medium Enterprises Act, 2006 specifically prohibits such deduction.
 - (d) The interest of ₹ 1.25 Lakhs will be deductible, as 50% of the interest paid to MSME will be allowed as a deduction.
- 1.3 As per Ind AS 103, what is the date of acquisition of P&T Private Ltd by M&A Private Ltd. for the purposes of business combination?
- (a) 1st January 2022
 - (b) 1st March 2022
 - (c) Either of 1st January 2022 or 1st March 2022 at the choice of M & A Private Ltd.
 - (d) 1st May 2022
- 1.4 Compute the amount of non-controlling interest of SAGE Ltd:
- (a) ₹ 15.71 Crores
 - (b) ₹ 12.00 Crores
 - (c) ₹ 12.96 Crores
 - (d) ₹ 14.75 Crores
- 1.5 Whether Anu has a right to appoint alternate director in his absence:
- (a) Claim made by Anu to appoint Kumar as alternate Director is valid, as the Articles of Association of M&A Private Ltd provide for appointment.
 - (b) Claim made by Anu to appoint Kumar as alternate Director is not valid, as the authority to appoint alternate Director vests with the Board of Directors only and that too subject to Articles of Association.
 - (c) Kumar cannot be appointed as alternate director in place of Anu, since his absence will be of less than six months.
 - (d) Kumar cannot be appointed as alternate director in place of Anu, since his absence will be more than 3 months.
- (2 x 5 = 10 Marks)**

Descriptive Questions

1.6 As Tanu and Manu are not well versed with Ind AS, with reference to business combinations, they want to understand about:

(i) Determination of acquisition date

(ii) Ascertainment of control

(2 + 2 = 4 Marks)

1.7 The CFO believes that a loan to directors is prohibited under the Companies Act, 2013. Can M&A Private Ltd extend the proposed loan to Shyam? Comment. **(5 Marks)**

1.8 The CFO wants to understand, how to record revenue at the end of seventh year as per the Ind AS 115. Also, prepare a brief note explaining the accounting for revenue when the contract is modified. **(3 + 3 = 6 Marks)**

ANSWERS TO CASE STUDY -1**PART – A**

1.1 (d)

1.2 (c)

1.3 (b)

1.4 (a)

1.5 (b)

Answer to Question No. 1.6.

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

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

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

(ii) Ascertainment of Control: Paragraphs 6 and 7 of Ind AS 110, "Consolidated Financial Statements", inter alia, state that an investor controls an investee **when it is exposed, or has**

rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Thus, an investor controls an investee if and only if the investor has all the following:

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

Answer to Question No. 1.7

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

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

Analysis and Conclusion

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

ALTERNATE ANSWER

Section 185 of the Companies Act, 2013 imposes restrictions on the Company on providing of loans to directors.

Accordingly,

- (i) **A Company is not permitted, to advance any loan, / any guarantee / any security in connection with any loan taken by,—**
 - (a) **any director of Company**, or of a Company which is its holding company or any partner or relative of any such director; or
 - (b) **any firm** in which any **such director** or relative is a **partner**.

(ii) **Relaxation:** Subject to the specified conditions, a Company is permitted to:

- advance any loan or give any guarantee or provide any security in connection with any loan **taken by any person in whom any of the director of the company is interested.**

The expression "any person in whom any of the director of the company is interested" means—

- (a) any **private company** of which any such director is a director or member;
- (b) any **body corporate** at a general meeting of which **not less than twenty-five per cent** of the total voting power may be exercised or controlled by any such director, or by two or more such directors, together; or
- (c) any **body corporate**, the Board of directors, managing director or manager, whereof is accustomed to act in accordance with the directions or instructions of the Board, or of any director or directors, of the lending company.

In the given instance, Shyam is a director on the BoD of the M&A Private Limited. Shyam had some financial emergency, so Tanu and Manu wanted to support him by giving loan of 5 lakhs from the company. Also **Shyam is a partner in Shyamlal & Co.**

Analysis and Conclusion

Accordingly, as per the stated provision, Loan is prohibited to be given to Shyam, a director in M&A Private Limited who is also partner in a firm, Shyamlal & Co. However subject to compliance of specified conditions mentioned in Section 185(2) of the Act, a Company is permitted to advance loan taken by any person in whom any of the director of the company is interested. As per the explanation, "any person in whom any of the director of the company is interested" includes any private company of which any such director is a director or member.

As Shyam is a director in M&A Private Limited, so falling within the specified category, makes him eligible under the said Section to get the loan from M&A Private Limited. **Hence, M&A Private Limited can extend the proposed loan to Shyam.**

Answer To Question No. 1.8

(i) **HOW TO RECORD REVENUE AT THE END OF THE SEVENTH YEAR AS PER IND AS 115**

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

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

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

(ii) BRIEF NOTE FOR ACCOUNTING FOR REVENUE WHEN THE CONTRACT IS MODIFIED:

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

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

Accounting for the modification

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

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

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

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

CASE STUDY - 2

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

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

Sahana explains the following open issues to Madan:

Issue 1

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

	Particulars	₹ Lakhs
(1)	WDV of Plant & Machine (P & M)	30
(2)	New P & M purchased and put to use on 8 th June 2022*	20
(3)	New P & M acquired and put to use on 15 th December 2022*	8
(4)	Computer acquired and installed on 2 nd January 2023	3

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

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

Issue 2

On 1st April 2021, Sah Fashions Ltd acquired 100% of Spun Ltd for ₹ 5 Lakhs, which was into cotton spinning business. The fair value of the net identifiable assets of Spun Ltd was ₹ 4.5 Lakhs and goodwill was ₹ 0.5 Lakhs. On 31st March 2023, the government changed its policy on textile sector having adverse impact on business of companies like Spun Ltd.

Internal discussion on government policies indicate that revenue of Spun Ltd is estimated to fall by 20% in coming three to five years. The adverse effect on market place and strict regulatory conditions indicate impairment. As a result, Spun Ltd. has to estimate the recoverable amount of goodwill and net assets on 31st March 2023.

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

Issue 3

Company has received invoices for inputs and input services from various suppliers during the month of April 2023. Invoices involve total Input Tax Credit (ITC) (IGST, CGST and SGST) of ₹ 5 Lakh. Suppliers have furnished their GST return for the concerned month and in their GSTR-1 invoices involving ITC of ₹ 3 Lakh only were uploaded. Murari is of the view that as the Company is having all the physical copies of the invoices not uploaded in GST return, there would be no problem in availing GST ITC. In one instance, Company received the material from supplier but not invoice. GST department issued notice to the concerned supplier for evasion of tax who on receiving the tax has deposited the same under section 74. The amount of ITC involved was ₹ 0.15 Lakhs for which the invoice was issued by the supplier afterwards and has now been included in ₹ 5 lakh and is now reflecting in GSTR 2A. Also in one case, the material was imported on which eligible ITC was ₹ 0.70 Lakhs (included in ₹ 5 lakhs) but the same was not reflecting in GSTR 2A.

Issue 4

Company at the Annual General Meeting (AGM) held on 30th September 2019 appointed Gana as a Non-Executive Director on the board of the Company for a period of three years. On 2nd October 2020, Gana met with an accident and died on the spot. The Board of Directors of the Company on 16th October 2020 appointed Hero to fill the casual vacancy so created. Appointment of Hero was made for a term of three years by the Board unconditionally. The Annual General Meeting (AGM) was held on 29th September 2021.

Issue 5

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

MCQs: Provide the correct option to the following Questions:

- 2.1 Is the maximum depreciation allowable under Income Tax Act, 1961 calculated by Murari correct? If not, what is the maximum allowable depreciation as per details given in Issue 1?
- (a) Yes, the depreciation calculated is wrong and the correct maximum depreciation should be ₹ 14.3 Lakhs
 - (b) No, the depreciation calculated is wrong and the correct maximum depreciation should be ₹ 14.9 Lakhs
 - (c) No, the depreciation calculated is wrong and the correct maximum depreciation should be ₹ 13.5 Lakhs
 - (d) No, the depreciation calculated is wrong and the correct maximum depreciation should be ₹ 12.9 Lakhs
- 2.2 What is the amount of impairment loss which Sah Fashions Ltd is required to transfer to Statement of profit and Loss and how the same should be allocated?
- (a) Impairment loss is ₹ 1.98 Lakhs and the same should be allocated to goodwill and other assets proportionately.
 - (b) Impairment loss is ₹ 1.38 Lakhs and the same should be allocated to goodwill and other assets proportionately.
 - (c) Impairment loss is ₹ 1.68 Lakhs and the same should be allocated first to goodwill and then the balance to all other assets.
 - (d) Impairment loss is ₹ 1.38 Lakhs and the same should be allocated first to goodwill and then the balance to all other assets.
- 2.3 The eligible amount of GST input tax credit as per the facts mentioned in Issue 3 above is
- (a) ₹ 4.2680 Lakhs

- (b) ₹ 3.8350 Lakhs
 - (c) ₹ 3.6925 Lakhs
 - (d) ₹ 3.8502 Lakhs
- 2.4 Considering the facts in Issue 4, is appointment of Hero as a director of the Company valid?
- (a) Appointment of Hero by Board of Directors is not valid as it is against the provisions of the Companies Act, 2013 and he should have been appointed by the members in extra ordinary general meeting.
 - (b) Appointment of Hero by Board of Directors is valid but should be approved by members in general meeting held on 29th September 2021.
 - (c) Appointment of Hero by Board of Directors is valid, as the approval of shareholders is not required for appointment of directors.
 - (d) Appointment of Hero by Board of Directors is not valid as a director cannot be immediately appointed in place of director who expires.
- 2.5 Is Sahana not required to comply with any provisions under Income-tax Act, 1961, considering her individual returns are not subject to audit under the provisions of Income Tax Act, 1961?
- (a) TDS is required to be deducted u/s 194-IA on purchase of property, but no TDS is required to be deducted on contract work of renovation as individuals are not required to deduct TDS.
 - (b) TDS is required to be deducted u/s 195 on purchase of property and also TDS is required to be deducted on contract work of renovation as the contract value is ₹ 60 Lakhs.
 - (c) TDS is not required to be deducted u/s 195, as the amount of purchase consideration is less than ₹ 50 Lakhs but TDS is required to be deducted on contract work of renovation as the contract value is ₹ 60 Lakhs.
 - (d) TDS is not required to be deducted u/s 194-IA as the amount of purchase consideration is less than ₹ 50 Lakhs and no TDS is required to be deducted on contract work of renovation as individuals are not required to deduct TDS.

(2 x 5 = 10 Marks)

Descriptive Questions

- 2.6 Sahana is intrigued by the concept of impairment and wants to understand, if an asset once impaired, can it be reversed. In this context:
- (i) Explain in brief the accounting for reversal of impairment.
 - (ii) Source of information which indicates reversal of impairment loss **(4 + 2 = 6 Marks)**

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

(6 Marks)

ANSWERS TO CASE STUDY - 2

PART – A

- 2.1 (c)
2.2 (d)
2.3 None of the above options is correct
2.4 (b)
2.5 (b)

Answer to Question No. 2.6

(i) Accounting for reversal of impairment (Paragraphs 110-116 of Ind AS 36)

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years. Any increase in excess of this amount would be a revaluation and would be accounted for under the appropriate Standard (e.g. Ind AS 16 Property, Plant and Equipment).

A reversal of an impairment loss for an asset other than goodwill is recognized immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another Ind AS. Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with that other Ind AS.

A reversal of an impairment loss on a revalued asset is recognized in other comprehensive income and increases the revaluation surplus for that asset. However, to the extent that an impairment loss on the same revalued asset was previously recognised in profit or loss, a reversal of that impairment loss is also recognised in profit or loss. After a reversal of an impairment loss is recognised, the depreciation (amortization) charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

(ii) Indications of reversals of impairment loss (Paragraph 111 of Ind AS 36)

In assessing whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased, an entity shall consider, as a minimum, the following indications:

External sources of information

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

Internal sources of information

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

Answer to Question No. 2.7

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

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

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

Answer to Question No. 2.8**Different Roles of Executive and Non-Executive Directors**

The Board of Directors may comprise both executive and non executive directors. The executive directors are responsible for managing different business operations. A whole time director and

the Managing Director are covered under this category. In contrast, the non- executive directors participate through Board Meetings in discussions relating to formulation of policies from the efficient management of the business. Professional directors and nominee directors are included in this category. They are not as active as that of executive directors and they are held liable only if they knowingly consented for wrongful acts.

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

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

The Independent Director (ID) is a person of integrity and possesses relevant expertise and experience in one or more fields of finance, law, management, sales, marketing, administration, research, corporate governance, technical operations or other disciplines related to the company's business. Majority of members, being an independent directors in the Audit Committee leads to promote the principles of corporate governance by enabling disclosures, transparency, and accountability of the Company.

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

CASE STUDY - 3

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

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

- I. Greenly Ltd is one of the leading laundry in Delhi. For cleaning of suits, it charges ₹ 625 per suit set. The price has been derived by the laundry as under:

- | | |
|-----------------------|---|
| a. Cleaning Materials | ₹ 37 |
| b. Labour | ₹ 180 (3 hours @ ₹ 60/-) |
| c. Variable overheads | ₹ 80 |
| d. Fixed Overheads | ₹ 60 (3 hours @ ₹ 20 per hour) plus mark up 75% on total cost |

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

- II. Greenly Ltd is having 3 years average profit of ₹ 10 Crores and during the financial year 2022-23, it is required to spend on account of corporate social responsibility (CSR). It wants to incur this expenditure through an NGO named Green Foundation. Green Foundation was formed by few likeminded individuals, who wanted to take up the cause of education for kids living in slums. It was registered under section 12A and section 80G of the Income tax Act, 1961, but not registered with Ministry of Corporate Affairs (MCA). However, the foundation is carrying out certain CSR projects on a smaller scale for some entities since 2019.
- III. The Company purchased a land in city outskirts on 1st August 2010 for a consideration of ₹ 1.25 Crores to construct a factory, for which the Stamp duty valuation on that date was ₹ 1.75 Crores. Later, management decided to sell that land to fund the business diversification objectives. On 1st August 2022, the land on city outskirts was sold for ₹ 5.00 Crores. The stamp duty valuation was ₹ 5.40 Crores. Cost inflation index for FY 2010-11 and FY 2022-23 is 167 and 331 respectively.

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

MCQs: Provide the correct option to the following Questions:

- 3.1 From remittance of ₹40 Lakhs by Ramnik, the authorised dealer is:
- (a) Not required to make any collection of tax at source.
 - (b) Required to make collection of tax at source of ₹1.65 Lakhs.
 - (c) Required to make collection of tax at source of ₹2 Lakhs.
 - (d) Required to make collection of tax at source of ₹0.165 Lakhs.
- 3.2 The capital gain arising on sale of land at city outskirts by the Company would be
- (a) ₹2.62 Crores
 - (b) ₹1.53 Crores
 - (c) ₹1.42 Crores
 - (d) ₹2.37 Crores
- 3.3 While drafting audit letter communicating the key points of audit to those charged with Governance and audit committee, Mani was thinking if he needs to generate a Unique Document Identification Number (UDIN):
- (a) Yes, separate UDINs are to be generated for the Statutory audit report and Letter to those charged with governance.
 - (b) No, UDIN is required only for all Certificates, all Audit Reports and all other Audit, Assurance and Attestation functions and not for any letters etc. making communications.
 - (c) Yes, one single UDIN can be generated for all documents of one client. UDINs are required to be generated client wise instead of document wise.

- (d) No, one single UDIN can be generated for the whole year for one engagement which may include various communications by auditor to management and those charged with Governance.
- 3.4 Greenly Ltd wants to ascertain whether it can incur the CSR through Green Foundation.
- (a) It cannot incur CSR expenditure through Green Foundation, as it is not registered with Ministry of Corporate Affairs (MCA) for the purpose of undertaking CSR activity.
- (b) It can incur CSR expenditure through Green Foundation, as the Foundation is registered under section 12A and section 80G of the Income-tax Act.
- (c) It can incur CSR expenditure through Green Foundation, as it is into undertaking similar CSR activities.
- (d) It can incur expenditure through Green Foundation, as it is carrying out certain CSR projects since 2019.
- 3.5 During the conclusion of the audit, Aparasampad was thinking if she is required to report the fact of the resignation by the previous auditor?
- (a) Yes. As per Companies (Auditors Report) Order, 2020 Aparasampad & Co. should report the resignation of ABC LLP and state if the Firm has taken into consideration the issues or objections raised by ABC LLP.
- (b) No. Since the resignation of ABC LLP is due to personal reasons, the same need not be reported in the Auditors Report.
- (c) Yes. As per provisions of Section 143(3) of the Companies Act, 2013, the fact of previous auditor's resignation should be reported.
- (d) Yes. The fact of previous auditors resignation should be reported as per Companies (Audit and Auditors) Rules, 2014. **(2 x 5 = 10 Marks)**

Descriptive Questions

- 3.6 Enumerate the procedure for appointment of the statutory auditors in case of casual vacancy. Aparasampad wants to draw the attention of the readers of the financial statements by way of an Emphasis of Matter (EOM) paragraph in the Audit Report issued by them indicating the fact of their appointment due to resignation of the existing auditor. Explain the circumstances in which an auditor may consider to include an Emphasis of Matter (EOM) paragraph in their audit report. **(2 + 3 = 5 Marks)**
- 3.7 Sampad discussed with Aparasampad and thought that it would be handy and easy to explain the clients the details of Liberalised Remittance Scheme (LRS), if they have standard document. Draft a note covering various aspects of LRS. **(5 Marks)**

3.8 Ramnik requests you to:

- (i) Compute the incremental cost of Greenly Ltd. which may be taken as a base for quoting the minimum price per suit.
- (ii) Indicate the aspects to be considered for making lowest quote. (3 + 2 = 5 Marks)

ANSWERS TO CASE STUDY - 3

PART – A

3.1 (b)

3.2 (b)

3.3 (b)

3.4 (b)

3.5 (a)

Answer to Question No. 3.6

Procedure for appointment of the Statutory Auditors in case of Casual Vacancy:

As per **Section 139(8) of the Companies Act, 2013**, any casual vacancy in the office of an auditor shall –

- (i) In the case of a Company other than a Company whose accounts are subject to audit by an auditor appointed by the Comptroller and Auditor-General of India, be filled by the Board of Directors within 30 days. If such casual vacancy is as a result of the resignation of an auditor, such appointment shall also be approved by the company at a general meeting convened within three months of the recommendation of the Board and he shall hold the office till the conclusion of the next annual general meeting.
- (ii) **In the case of a Company whose accounts are subject to audit by an auditor appointed by the Comptroller and Auditor-General of India**, be filled by the Comptroller and Auditor-General of India within 30 days. It may be noted that in case the Comptroller and Auditor-General of India does not fill the vacancy within the said period, the Board of Directors shall fill the vacancy within next 30 days.

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

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

These circumstances include:

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

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

Answer to Question No. 3.7**Note covering various aspect of the Liberalized Remittance Scheme (LRS)**

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

Liberalized Remittance Scheme (LRS)

- It applies to all resident individuals, including minors.
- It allows to freely remit up to USD 250,000 per financial year (April – March).
- It can be for any permissible current or capital account transaction or a combination of both.
- This is inclusive of foreign exchange facility for the purposes mentioned in Para 1 of Schedule III of Foreign Exchange Management (CAT) Amendment Rules 2015, dated May 26, 2015.

- In case of remitter being a minor, the LRS declaration form must be countersigned by the minor's natural guardian. The Scheme is not available to corporates, partnership firms, HUF, Trusts etc.
- Remittances under the Scheme can be consolidated in respect of family members subject to individual family members complying with its terms and conditions.

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

Answer to Question No. 3.8

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

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

(ii) Aspects to be considered for quoting lowest price

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

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

CASE STUDY - 4

Wanton Terun Limited (WTL) is a fast growing listed company focussing on innovation in the Textile and Garments Industry. The Company has grown in last one decade from Punjab (India) to the homes of millions of customers across 50 countries and is aiming the target of becoming the most trusted brand that takes conscious care of its customers, employees and all

stakeholders, and treats them 'the best.' Company also has 5 subsidiaries operating outside India in the same business line of garments and trading of some special types of yarns. Financial Statements of the Company for the financial year 2022-2023 have already been prepared and audit was completed as per all regulatory requirements.

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

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

Issue 1

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

During the last overseas visit of Senior Vice President (Marketing), the Company received export order worth ₹ 10 Crores for specified types of garments for which yarn was required to be imported. Company imported special yarn from Germany (for ₹ 6.50 Crores) for manufacture of garments and then the garments were manufactured and exported out of India for an agreed consideration of ₹ 10 Crores. Garments exported by the Company qualify for duty drawback under Customs Act, 1962. Market Value of the exported garments was ₹ 11.70 Crores and duty drawback rate was 40%.

Issue 2

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

Issue 3

Company has to comply with listing obligations and disclosure requirements relating to corporate governance and for this, independent and a qualified audit committee is already formed and functioning. The audit committee consisted of six directors (having wide experience in corporate matters) with four of them being independent directors. One of the directors P (an independent director) has resigned as a director of the Company. WTL proposes to appoint Q as an independent director who is already serving as managing director in one company and independent director in three other listed entities. During the current year, the Company proposed to increase the share capital by issuing 10 Lakh equity shares (amounting to ₹ 100 Lakhs) with superior rights and is in the process of completing the required formalities.

Issue 4

Arunima is woman director of the Company. Due to her other engagements, she tendered her resignation from directorship with effect from 1st March 2023, vide her letter dated 15th February 2023, which was received by the Company on 20th February 2023. The Board took note of the resignation in its meeting held on 15th March 2023.

Issue 5

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

MCQs: Provide the correct option to the following Questions:

- 4.1 In respect of purchase of foreign currency from authorized dealer, whether the GST will be applicable and if yes, what will be the value of services on which GST will be charged under rule 32(2)(a)? Also calculate the GST amount assuming tax rate @ 18%.
- (a) GST will be applicable on these services and the value of services will be ₹ 7,450.
GST amount will be ₹ 1,341

- (b) *GST will be applicable on these services and the value of services will be ₹ 7,400. GST amount will be ₹ 1,332*
 - (c) *GST will be applicable on these services and the value of services will be ₹ 5,200. GST amount will be ₹ 936*
 - (d) *GST on transactions below US\$ 10,000 is specifically exempted, so GST will not be applicable.*
- 4.2. *With respect to facts given in Issue 2 above, the interest to be reported by tax auditor under the form 3CD of Income-tax Act, 1961 would be:*
- (a) *₹ 30 Crores and ₹ 2 Crores under clause 30B*
 - (b) *₹ 32 Crores and ₹ 2 Crores under clause 30B*
 - (c) *₹ 32 Crores and ₹ 34.50 Crores under clause 30A*
 - (d) *₹ 32 Crores under clause 30A*
- 4.3. *In the background of circumstances described in Issue 3, the Company Secretary contends that the Audit Committee should be reconstituted, even if Q is appointed as an independent director. Is the Company Secretary's contention appropriate?*
- (a) *Contention of Company Secretary is correct and the Audit Committee should be reconstituted, as it should have majority of members as independent directors.*
 - (b) *Contention of Company Secretary is not correct and the existing Audit Committee can continue as independent directors constitute more than two third of the total number of directors of audit committee.*
 - (c) *Contention of Company Secretary is correct and the Audit Committee shall be reconstituted, as it should have only independent directors as members.*
 - (d) *Contention of Company Secretary is not correct and the Audit Committee is not required to be reconstituted due to change in its members.*
- 4.4 *WTL shall appoint another woman director on the Board of the Company on or before:*
- (a) *1st June 2023*
 - (b) *20th May 2023*
 - (c) *15th June 2023*
 - (d) *15th May 2023*

4.5 In your opinion, what will be the upper limit of amount of drawback as per guidelines under Rule 9?

- (a) ₹ 4.00 Crores
- (b) ₹ 4.68 Crores
- (c) ₹ 3.90 Crores
- (d) ₹ 3.33 Crores

(2 x 5 = 10 Marks)

Descriptive Questions

4.6 Mr Q, before accepting the appointment as a director, discussed with the Company about the implications of GST on his appointment and emoluments. Explain if the services provided by the directors are under the ambit of Goods and Service Tax Act. (5 Marks)

4.7 In the background of facts stated in issue 5, compute the value of option under the share based payment as per Ind AS 102. (4 Marks)

4.8 In case you are appointed as CFO of the company:

- (i) Indicate the areas for establishing and maintaining internal controls for financial reporting which will be certified by you.
- (ii) Mention the aspects that you would certify to the Board of directors along with the Chief Executive Officer of the Company. (3 + 3 = 6 Marks)

ANSWERS TO CASE STUDY – 4

PART – A

4.1 (b)

4.2 (b)

4.3 (c)

4.4 (a)

4.5 (c)

Answer To Question No. 4.6

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

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

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

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

Answer to Question No. 4.7

Computation of Value of Option under the share based payment

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

ALTERNATE ANSWER

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

Since the fair value of the new award at the time of acquisition is ₹ 1,500, balance ₹ 1500 - ₹ 900 i.e. **₹ 600 will be recorded as an employee expenses in the books.**

Answer to Question No. 4.8

- (i) **Areas for establishing and maintaining Internal Controls for Financial Reporting Part B of Schedule II** clearly brings out that the responsibility entrusted to the CEO and CFO is in relation to establishing and maintaining internal controls over financial reporting. The Compliance Certificate has to assert that they have evaluated the effectiveness of internal control systems of the listed entity pertaining to financial reporting.

The Compliance Certificate will further state the manner in which deficiencies (if any) in the design or operation of such internal controls has been disclosed to the auditors and the Audit Committee.

The Compliance Certificate will also state the steps they have taken or propose to take to rectify these deficiencies in the design or operation of such internal controls pertaining to financial reporting.

(ii) Aspects to certify to the Board of Directors along with CEO of the Company

The Chief Executive Officer and the Chief Financial Officer shall certify to the Board that:

- (a) They have reviewed financial statements and the cash flow statement for the year and that to the best of their knowledge and belief:
 - (i) These statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
 - (ii) These statements together present a true and fair view of the listed entity's affairs and are in compliance with existing accounting standards, applicable laws and regulations.
- (b) There are, to the best of their knowledge and belief, no transactions entered into by the listed entity during the year which are fraudulent, illegal or violative of the listed entity's code of conduct.
- (c) They accept responsibility for establishing and maintaining internal controls for financial reporting and that they have evaluated the effectiveness of the internal control systems of the listed entity pertaining to financial reporting and they have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of internal controls, if any, of which they are aware and the steps they have taken or propose to take to rectify these deficiencies.
- (d) They have indicated to the auditors and the Audit Committee:
 - (i) Significant changes in internal control over financial reporting during the year;
 - (ii) Significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and
 - (iii) Instances of significant fraud of which they have become aware and the involvement therein, if any, of the management or an employee having a significant role in the listed entity's internal control system over financial reporting.

CASE STUDY - 5

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

operations for their understanding. He explained that the Company manufactures and supplies air conditioners (AC), refrigerators, and other products.

He went on to explain the following points:

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

Civil construction ₹ 120 Lakhs (excluding GST)

Plant and Machinery ₹ 130 Lakhs (excluding GST)

The civil construction consists of construction of foundation for installation of Plant and Machinery, Factory Shed, etc. The cost of construction of foundation is ₹ 20 Lakhs included in total construction cost. CGST and SGST for both civil construction and Plant and Machinery is 9% each i.e. 18% in aggregate. The details of expenditure are as under:

Date	Details	Amount ₹ Lakhs
1 st April 2021	Advance given for Plant & Machinery	40
	Advance to contractor for civil construction	10
15 th April 2021	Work of construction begins	
30 th April 2021	Civil construction work expenses	25
31 st July 2021	Civil construction work expenses	25
1 st October 2021	Payment made to suppliers of Plant and Machinery and delivery received	90
31 st December 2021	Construction work expenses	20
31 st March 2022	Final payment made (including outstanding GST)	40

- (B) During the financial year 2022-23, in one of the Board meetings, the management sought an approval from the Board, for investing in equity shares of other Companies as per the provisions of the Companies Act, 2013. The Board approved the management's proposal, after due deliberations and discussions. The Company purchased 10,000 shares of Milaan Ltd. on 1st January 2022 at a price of ₹ 20 per share. Milaan Ltd. declared bonus of one share for every 2 shares held on 31st March 2022 as record date for issue of bonus. The Company sold 10,000 shares purchased on 1st January 2022 on 31st August 2022 at ₹ 15 per share.
- (C) In addition to manufacture and supply of ACs, the Company also does installation for the same. It had received advance of ₹ 5 Lakhs for supply of 5 split air-conditioners to Bavana Ltd. for installation at their factory in Haryana on 15th February 2023. The Company supplied the ACs and installed them on 28th February 2023 and issued the invoice on the same date i.e. 28th February 2023. The supply was chargeable to tax@ 18% but was

reduced to 12% from 25th February 2023. The Company charged GST @ 18% while the buyer Bavana Ltd. contended that GST should have been charged @ 12% as the supply was made after the change of rate.

- (D) The Company had entered into an agreement with Humlog Private Ltd, for supply man-power on contract basis. This agreement was in existence for more than 8 years now and both the parties renewed the agreement every two years. However, the Company noticed that the services provided were not upto the mark. Though the agreement was due for renewal this month, the Company raised a dispute relating to quality of man-power and was planning to invoke the arbitration clause.
- (E) During the financial year 2018-2019, the Company bought back equity shares worth ₹ 5 Crores resulting in 5% decrease in combined outstanding of paid up share capital and free reserves. Further to this, during the financial year 2020-2021 bonus shares were issued in the ratio of 3:2. Bonus shares were issued using the amount lying in securities premium account. Both the actions of the Company were according to the guidelines prescribed under Companies Act. Tan and Kan endorsed this fact and also added that appropriate disclosures were made in the financial statements.
- (F) Jay was happy to inform that the Company's operations were going on smoothly and they were on a growth trajectory. During the financial year 2021-22, the Company had a turnover of ₹ 100 Crores and there was loan outstanding from a bank of ₹ 75 Crores and deposits of ₹ 30 Crores.
- (G) After the audit discussions were over, Jay and Kan had a general discussion. During the conversation he mentions that Shahi, a shareholder and non executive director of the Company has become the present Member of Parliament. His son, Abhir is studying abroad in US. As the present term of Parliament is coming to an end next year and his term also will come to an end. Shahi is willing to contest next election as an independent candidate. He has many friends and relatives in US and he asked his son to contact them, to collect fund for his election. Jay also told Ranga, Shahi's friend who is a contractor working for Ministry of Transport, Shipping and National Highways also accompanied Shahi on the US trip as part of government delegation.
- (H) Jay asked Tan and Kan, if they could help his friend Merun, Partner Mahim & Co, Chartered Accountants. Jay and Merun were close friends and they often used to have professional and academic discussions. Tan and Kan gladly agreed to provide clarifications to Merun, if he had any technical query. Jay set up a zoom call between Merun and them. During the call, Merun said he would be more comfortable and confident, if some other Chartered Accountant reviews the financial statements and audit reports he is signing.

MCQs: Provide the correct option to the following Questions:

- 5.1 Is ABC Private Ltd required to appoint an internal auditor during the financial year 2022-23 for complying with the provisions of Companies Act, 2013?
- (a) The Company is required to appoint internal auditor as one of limits of appointment of internal auditor is met by the company.
 - (b) The Company being a private company is not required to appoint internal auditors.
 - (c) The Company is not required to appoint the internal auditors, as the appointment of internal auditor is a matter of Board's decision.
 - (d) The Company is not required to appoint internal auditor because the thresholds prescribed under the Act, have not been met.
- 5.2 The Company will treat the loss on sale of shares as:
- (a) Loss of ₹ 50,000 on sale of 10,000 shares will be claimed as a loss.
 - (b) There will be gain of ₹ 1,666.67 as the cost of shares will be spread across total 15,000 shares.
 - (c) The Company cannot claim the loss of ₹ 50,000. However, this loss of ₹ 50,000 will become cost of acquisition of remaining 5000 shares received as bonus.
 - (d) Loss of ₹ 50,000 cannot be claimed as loss and the cost of acquisition of bonus shares will be 'nil'.
- 5.3 In the background of the facts given above, the amount which ABC Private Ltd. is entitled to take credit for Input tax (ITC) of ₹
- (a) ₹ 45 Lakhs
 - (b) ₹ 27 Lakhs
 - (c) ₹ 23.40 Lakhs
 - (d) ₹ 21.60 Lakhs
- 5.4 Advise ABC Private Ltd, what is the correct position of law in the facts given in case study:
- (a) Since payment was received prior to change of rate of tax, old rate will be applicable.
 - (b) Since provision of supply and issue of invoice is after the change in rate of tax, and only payment has been received before the change in rate, new rate shall be applicable.
 - (c) Since the time of supply shall be earlier of date of receipt of payment and date of issue of invoice, old rate shall be applicable.

- (d) Since provision of service is after the change in rate of tax, new rate shall be applicable. Date of invoice is not relevant.
- 5.5 Whether the transactions of buy back and bonus shares are required to be reported in the financial statements for the financial year 2022-2023?
- (a) As per schedule III to the Companies Act, 2013, the comparative information for last financial year needs to be presented and the said transactions do not pertain to last financial year, hence no reporting is required.
- (b) As per schedule III to the Companies Act, 2013, only transaction of buy back completed in last three financial years is required to be reported.
- (c) As per schedule III to the Companies Act, 2013, only transaction of bonus shares issued during last three financial years is required to be reported.
- (d) As per schedule III to the Companies Act, 2013 both bonus shares issued and shares bought back during last five financial years needs to be reported. **(2 x 5 = 10 Marks)**

Descriptive Questions

- 5.6 Explain the circumstances in which an arbitration agreement can be terminated. Will the Company be successful in invoking the arbitration clause against Humlog Private Ltd.
(3 + 2 = 5 Marks)
- 5.7 Jay feels it is not appropriate for Shahi to seek funds for election in such a manner. With reference to the Foreign Contribution (Regulation) Act, 2010, explain who are prohibited from taking any contributions from a foreign source.
(5 Marks)
- 5.8 In background of Merun's discussion with Tan and Kan, answer the following:
- (i) Can the financial statements and audit report signed by Merun be reviewed by some other Chartered Accountant? If yes, who can do such review in terms of Standard on Quality Controls Auditing, Review, Other Assurance and Related Services.
- (ii) What should be the contents of the review policy and procedures, if Merun's firm is required to establish such policy?
(2 + 3 = 5 Marks)

ANSWERS TO CASE STUDY - 5**PART – A**

- 5.1 (d)
- 5.2 (c)
- 5.3 (b)
- 5.4 (b)

5.5 (d)**Answer to Question No. 5.6**

Following are the **Circumstances in which an Arbitration agreement can be terminated:**

Like the manner in which parties enter into an arbitration agreement, they can also terminate an arbitration agreement.

Thus, an arbitration agreement could be put to an end by:

1. **Mutual Consent:** Like any contract, the parties involved can jointly agree to put an end to a particular arbitration agreement.
2. **Termination of Principal Contract:** If the principal contract is terminated through discharge or novation, the arbitration agreement terminates with the contract. However, if the principal contract is breached, then the arbitration agreement survives because of the operation of the doctrine of separability.
3. **Death of Parties:** Under the Indian Law, an arbitration agreement is not discharged by the death of any party.
It shall be enforceable by or against the legal representatives of the deceased.
4. **Operation of Law:** An arbitration agreement can be extinguished by the operation of law by virtue of which any right of action is extinguished.

Yes, company will be successful in invoking the arbitration clause against Humlog Private Ltd. on the basis of the termination of principal contract meant for supply of man-power on contract basis.

Answer to Question No. 5.7

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

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

- (1) No foreign contribution shall be accepted by any:
 - (a) candidate for election;
 - (b) correspondent, columnist, cartoonist, editor, owner, printer or publisher of a registered newspaper;
 - (c) public servant, Judge, Government servant or employee of any corporation or any other body controlled or owned by the Government;
 - (d) member of any Legislature;
 - (e) political party or office-bearer thereof;

- (f) organization of a political nature as may be specified under Section 5(1) by the Central Government;
 - (g) association or company engaged in the production or broadcast of audio news or audio visual news or current affairs programmes through any mode of mass communication
 - (h) correspondent or columnist, cartoonist, editor, owner of the association or Company referred to in clause (g).
- (2) The Act also prohibits acceptance of foreign contribution by the following persons:
- (a) Person, resident in India, and citizen of India resident outside India- shall not accept any foreign contribution, or acquire or agree to acquire any currency from a foreign source, on behalf of any political party, or any person referred to in (1) above, or both.
 - (b) Person, resident in India- shall not deliver any currency, whether Indian or foreign, which has been accepted from any foreign source, to any person if he knows or has reasonable cause to believe that such other person intends, or is likely, to deliver such currency to any political party or any person referred to in (1) above, or both.
 - (c) Citizen of India resident outside India- shall not deliver any currency, whether Indian or foreign, which has been accepted from any foreign source, to—
 - (i) any political party or any person referred to in (1) above, or both; or
 - (ii) any other person, if he knows or has reasonable cause to believe that such other person intends, or is likely, to deliver such currency to a political party or to any person referred to (1) above, or both.

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

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

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

Answer to Question No. 5.8

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

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

- (a) The technical qualifications required to perform the role, including the necessary experience and authority; and

- (b) The degree to which an engagement quality control reviewer can be consulted on the engagement without compromising the reviewer's objectivity.

(ii) Engagement Quality Control Review:

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

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

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

The firm should establish policies and procedures setting out:

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