

MOCK TEST PAPER

FINAL (NEW) COURSE: GROUP – II

PAPER – 6F: MULTIDISCIPLINARY CASE STUDY

*Attempt any **four** out of **five** case study based questions.*

Each Case Study carries 25 Marks.

Time Allowed – 4 Hours

Maximum Marks – 100

CASE STUDY 1

Rainwear & Co is based in Mumbai. Its turnover exceeded ₹ 40 lakhs on 1st November, 2019. It applied for GST registration on 7th November, 2019. It received the certificate of registration on 22nd November, 2019. From 1st November, 2019 till 22nd November, 2019, Rainwear & Co issued following invoices:

- Raj Enterprise, Madhya Pradesh, registered under GST: Value of invoice: ₹ 15 lakhs
- Kamla Enterprise, Rajasthan, registered under GST: Value of invoice: ₹ 5 lakhs,
- Rishabh & Co, based in Mumbai unregistered recipient: 03.11.2019-₹ 7.5 lakhs and 15.11.2019-₹ 10.5 lakhs.
- Alok & Co, based in Punjab, unregistered recipient: 04.11.2019: ₹ 4.5 lakhs.

An employee of Rainwear & Co, Mr. Raj is deputed to Country X for a period of 10 years from April 2019 onwards. At the end of the month, the salary of ₹ 2 lakhs is paid to Mr. Raj. Rainwear & Co also contributes to the social security scheme of Country X, a sum of ₹20000 every month. This amount is also paid at the end of the month. The contribution made is an obligation of Rainwear & Co. Mr. Raj does not derive any immediate benefit out of the contribution made by his employer towards social security contribution.

The salary is paid in the Indian bank account of Mr. Raj. Apart from above, Rainwear & Co also paid the education expense of his child. It amounts to ₹ 50,000 per month. Mr. Aditya is also an employee of Rainwear & Co who stays in Mumbai. His income for the financial year under consideration is ₹ 7,50,000. He could not file the return of income within the due date as he had to fly to New Zealand for some medical treatment. He finally filed the return of income on 1st April, 2021. He filed his return of income by availing the benefit of exemptions available under the Act.

Rainwear & Co has hired Mr. Evrick as he is specialised in the rainwear industry and also he had worked in his early days in the said sector. Mr. Evrick, had gone out of India to Spain when he was 5 years old only. He was working in Krayos Inc which was engaged in the business of manufacture and sale of passenger cars within and outside India. He had made deposits in A Ltd., an Indian company, in convertible foreign exchange when he was 20 years old. Today, when he is 30 years old, he decided to move back to India. He came to India on 1st May, 2019. Mr. Evrick wants to know from Rainwear & Co about the taxability of interests earned on above deposits.

Mr. Evrick's wife, a citizen of India, will stay back in Spain. Mr. Evrick's wife who was already in Spain since 2013 had invested foreign currency equivalent to ₹ 25,000 (100 shares) into ITC Ltd on 15th May, 2017 through her funds lying in Spain's bank account. On 3rd October, 2018, she received 100 bonus shares. On 31st December, 2019, she sold the entire stock of shares @ price of ₹850 per share. She has always taken the benefit of special provisions relating to non-residents. Mr. Evrick's wife intends to open bank account with SBI, a nationalised Bank and open bank deposits with them. She seeks to know some expert's views whether she can continue to hold the benefit of special provisions eligible for non –residents.

During the year, Rainwear & Co. has also paid legal fees of ₹ 5,00,000 to Batliboi & Purohit Co., an advocate firm being a partnership firm for fighting the case against trademark violation by the competitor of Rainwear & Co.

In the rainwear industry, there are only two players: Rainwear & Co and M/s Dushyant & Co. Dushyant & Co is there in the market since 1930. Rainwear & Co does not have a factory and M/s Dushyant & Co has a factory which is not registered under Factories Act, 1948. Until now, M/s Dushyant & Co used to sell the goods in the local market itself. For the first time, it had to sell the goods to a company based at Meerut. M/s Dushyant & Co took the services of Radheshyam Tiwari & Co, an unregistered transporter who mainly deals in transportation of goods. M/s Dushyant & Co paid consideration of ₹ 50,000 to Radheshyam Tiwari & Co for its transportation service.

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

1. State the correct option regarding taxability of GST relating to Advocate services provided by Batliboi & Purohit Co.
 - (a) Advocate services are exempt under GST.
 - (b) Batliboi & Purohit Co. is liable to pay GST.
 - (c) Rainwear & Co. is liable to pay GST under Reverse Charge Mechanism (RCM).
 - (d) Batliboi & Purohit Co. is liable to pay GST under forward charge & Rainwear & Co. is liable to pay GST under RCM basis.
2. What is the amount of income chargeable to tax in the hands of Mr. Raj in India?
 - (a) ₹ 0
 - (b) ₹ 29,48,800
 - (c) ₹ 31,88,800
 - (d) ₹31,90,000
3. Kindly state what is the penal consequences which Mr. Aditya will have to follow due to delay in filing return of income in India.
 - (a) Penalty of ₹ 5,000
 - (b) Penalty of ₹10,000 and imprisonment for a term which shall not be less than three months but which may extend to two years and with fine
 - (c) Penalty of ₹15,000 and imprisonment for a term which shall not be less than three months but which may extend to two years and with fine
 - (d) Penalty of ₹10,000
4. If Mr.Raj wants to transfer an amount of ₹ 7,50,000 lying in Indian bank account (in which the salary is credited) to his foreign bank account in a day or two, what is the procedure he will have to follow as per Income Tax Act, 1961?
 - (a) No procedure is required
 - (b) Part A of Form 15CA is required

- (c) Part B of Form 15CA and Form 15CB is required
 - (d) Part C of Form 15CA and Form 15CB is required
5. Kindly let Mr. Evrick's wife know how much tax she needs to pay during FY 2019-20 (Ignore the effect of foreign currency conversion).
- (a) ₹15,080
 - (b) ₹ 6,240
 - (c) ₹ 4,680
 - (d) ₹ 8,840

Part B- Descriptive Questions

6. The buyer of goods are demanding credit of taxes paid by them while buying the goods from Rain wear & Co. Kindly guide Rain wear & Co. as to what steps should be taken to resolve the issues of buyer.
- (5 Marks)**
7. Kindly explain the GST Provisions to M/s Dushyant & Co regarding payment made to Radheshyam Tiwari & Co.
- (5 Marks)**
8. Whether deposits with A Ltd., an Indian company, would still be construed as a foreign exchange asset eligible to claim the benefit of special provisions applicable to non –resident?
- (5 Marks)**

CASE STUDY 2

HW Limited is into manufacturing business of tables and chairs in India. During the financial year 2019-20, the company transferred a land which was purchased by the company in the financial year 2015-16. The land was purchased on 20/11/2015 for ₹ 5.08 crore and it was sold on 04/12/2019 for ₹ 6.10 crore. On 20/02/2020, the company invested the 70% of the amount of capital gain arising from transfer of land in long term specified bonds of Rural Electrification Corporation Limited which were redeemable after 5 years.

During the financial year 2019-20, the company purchased the machinery named Machinery 67 for the purpose of its manufacturing business. Machinery 67 was purchased on 01/11/2019 for ₹ 5,60,000. On 01/01/2020 Machinery 67 was installed at the place where it was required to be installed and on the same day it was provided with conditions which were necessary for its functioning as desired by management of the company. However, Machinery 67 was actually used in manufacturing business of the company on 01/02/2020.

During the financial year 2018-19, the company had a net worth of ₹ 340 crore. One of the senior officials of the company named Mr. H was of the opinion that the company was required to constitute a Corporate Social Responsibility Committee of the Board of HW Limited.

The said company has two branch offices in India. One branch office is located in State K and other branch office is located in State Y. The manufacturing plant of the company is also located in State Y. The manufacturing plant and branch office of the above-mentioned company in State Y have single G.S.T. registration, while branch office in State K has a separate G.S.T. registration. During the financial year 2019-20, manufactured tables and chairs were transferred from manufacturing plant of the company in State Y to branch office in State Y. Similarly, tables and chairs were also transferred from manufacturing plant of the company in State Y to branch office in State K.

During the current financial year 2019-20, HW Limited sold tables and chairs amounting to ₹ 2,00,000 to Mr. W. The details relating to that transaction are as follows:

- (1) Date of issue of invoice by the company - 04/04/2019.
- (2) Date of delivery of tables and chairs to Mr. W – 05/04/2019.
- (3) Date of recording of payment in books of accounts of the company – 09/04/2019.
- (4) Date of crediting of payment in bank account of the company – 12/04/2019.

Due to some problem in the financial year 2019-20, for a very short duration tables and chairs manufactured by the company were sent by the company as a principal from State Y to a job worker in State N for the purpose of proper finishing of tables and chairs manufactured. The value of this consignment was ₹ 47,000.

During the financial year 2020-21, the company made payments to various individuals, the information regarding which is provided as follows:

Sl. No.	Name of Person Receiving Payment	Purpose of Payment	Total amount paid (In ₹)	Additional Information
(1)	Mr. T (Resident Individual Contractor)	Repairing of Office Building	₹ 1,20,000	Total of Three Contracts of ₹ 40,000 each in the financial year 2019-20.
(2)	Mr. N (Resident Individual Contractor)	Painting of Office Building	₹ 75,000	Total of Five Contracts of ₹ 15,000 each in the financial year 2019-20.
(3)	Mr. Z (Resident Individual)	Rent for use of Machinery	₹ 2,00,000	-
(4)	Mr. S (Resident Individual)	Rent for use of Building	₹ 4,70,000	-

The books of accounts of the company for the financial year 2019-20 was required to be audited by a Partnership Firm of Chartered Accountants by the name of YZ and Associates. Due to some unavoidable reasons, YZ and Associates resigned from being the auditor of HW Limited.

During the financial year, HW Ltd. also supplied tables and chairs to Mr. F, the consideration of which was not completely in terms of money. Consideration was made up into two parts as follows:

- (1) Consideration in terms of money- ₹ 70,000.
- (2) Non-monetary consideration- packaging bags manufactured by Mr. F.

Both the consideration were paid by Mr. F to HW Ltd.

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

1. During the financial year 2019-20, HW Limited purchased the machinery named Machinery 67 for the purpose of its manufacturing business. According to relevant Indian Accounting Standard, depreciation in financial year 2019-20 will be charged on Machinery 67 for:
 - (a) 5 months.
 - (b) 12 months.
 - (c) 2 months.
 - (d) 3 months.

2. During the financial year 2019-20, one of the senior officials of HW Limited named Mr. H was of the opinion that the company was required to constitute a Corporate Social Responsibility Committee of the Board. The opinion of Mr. H is incorrect because as per the provisions of Corporate Social Responsibility Committee of the Board, HW Limited was required to have a net worth of:
 - (a) ₹ 350 crore or more.
 - (b) ₹ 400 crore or more.
 - (c) ₹ 450 crore or more.
 - (d) ₹ 500 crore or more.
3. Tables and Chairs were also transferred from manufacturing plant of HW Limited in State Y to branch office of the company in State K during the financial year 2019-20. Both manufacturing plant of the company in State Y and branch office of the company in State K have separate G.S.T. registration. As per the provisions of Goods and Service Tax Act it will be:
 - (a) Not Considered as Supply of Goods.
 - (b) Considered as Supply of Goods.
 - (c) Considered as Supply of Services.
 - (d) Considered as Supply of both Goods and Services.
4. HW Limited sold tables and chairs amounting to ₹ 2,00,000 to Mr. W in the financial year 2019-20. Time of supply for tables and chairs sold to Mr. W will be:
 - (a) 12/04/2019.
 - (b) 04/04/2019.
 - (c) 05/04/2019.
 - (d) 09/04/2019.
5. In the financial year 2019-20, tables and chairs manufactured by HW Limited were sent to a job worker for the purpose of proper finishing of tables and chairs manufactured. The value of this consignment was ₹ 47,000. The E-way bill will be:
 - (a) Not required to be issued as value of consignment is less than ₹ 50,000.
 - (b) Required to be issued only because value of consignment is more than ₹ 30,000.
 - (c) Required to be issued only because value of consignment is more than ₹ 40,000.
 - (d) Required to be issued, whatever may be the value of consignment.

Part B- Descriptive Questions

6. During the financial year 2019-20, HW Limited transferred a land and invested the 70% of the amount of capital gain arising from transfer of land. Keeping in mind the scenario given in the case study, answer the following questions:
 - (a) What is the amount of exemption available to the company for the A.Y. 2020-21, after 70% of the amount of capital gain arising from transfer of land is invested in the manner as specified in the case study? (Consider Cost Inflation Index for the F.Y. 2014-15, 2015-16 and 2019-20 as 240, 254 and 289 respectively.)

(2 Marks)

- (b) Assume that in financial year 2019-20, capital gain arising after the land was transferred was ₹ 65 lakhs and the company decided to invest the whole amount of 65 lakhs in long term specified bonds of Rural Electrification Corporation Limited, which were redeemable after 5 years. In this scenario can the company do so in A.Y. 2020-21? **(1 Marks)**
- (c) What would happen if HW Ltd. transferred the long term specified bonds of Rural Electrification Corporation Limited in the financial year 2021-22? **(1 Marks)**
7. HW Limited made payments to various individuals during the financial year 2019-20.
When payment is made by the company, whether T.D.S. would be deducted or not and if it would be deducted then what would be the T.D.S. rate in following situations:
- (a) When payment is made to Mr. T (Resident Individual Contractor) for Repairing of Office Building.
(b) When payment is made to Mr. N (Resident Individual Contractor) for Painting of Office Building.
(c) When payment is made to Mr. Z (Resident Individual) as Rent for use of Machinery.
(d) When payment is made to Mr. S (Resident Individual) as Rent for use of Building. **(4 Marks)**
8. Due to some unavoidable reasons YZ and Associates resigned from being the auditor of HW Limited for the financial year 2019-20.
Keeping the above situation in mind answer the questions that follow:
- (a) In this situation who will appoint the next auditor of the company in place of YZ and Associates and why?
(b) Will the next auditor of the company appointed in place of YZ and Associates require any approval and if so by whom?
(c) The next auditor appointed in place of YZ and Associates will hold office of auditor of the company for what duration? **(3 Marks)**
9. During the financial year 2019-20, HW Limited supplied tables and chairs to Mr. F.
Determine the value of supply of tables and chairs supplied by the company to Mr. F in the following situations as per C.G.S.T. Rules:
- (a) Open Market Value of tables and chairs supplied by the company to Mr. F is ₹ 94,000.
(b) The Open Market Value of tables and chairs supplied by the company to Mr. F is not known however amount of packaging bags supplied by Mr. F to the company as non-monetary consideration was ₹ 22,000.
(c) Open Market Value of tables and chairs supplied by the company to Mr. F is not known and similarly amount of packaging bags supplied by Mr. F to the company as non-monetary consideration is also not known. However, value of tables and chairs of similar kind and quality as supplied by the company to Mr. F was ₹ 92,500.
(d) Open Market Value of tables and chairs supplied by the company to Mr. F is not known, amount of packaging bags supplied by Mr. F to the company as non-monetary consideration is also not known and value of tables and chairs of similar kind and quality as supplied by the company to Mr. F is also not known. However, the cost of supply of tables and chairs supplied by the company to Mr. F was ₹ 83,000 **(4 Marks)**

CASE STUDY 3

Farmers face a lot of difficulty in operating the water-pump machines which are usually located close to the water source (river or well) and away from the farm. Not only do they have to walk up to the machine, the timing of such walks is unpredictable due to seasonal variations and the crop requirement. Also, there can be a saving in electricity consumption if the water pump can be switched off immediately instead of keeping it on until the farmer walks up to the water pump. Moreover, due to frequent power fluctuations the chances of the water pump getting damaged is as high as 20% in some cases and 12% on an average across various brands of water pumps available in the market for the economy class.

In case of damage to the water pump an additional cost ranging from ₹ 7,000 to ₹ 9,000 has to be incurred by the farmer to get it fixed and this happens at an interval of every 5 to 7 months.

For the problem of walking up to the pump for switching it on or off, there are various solutions available in the market which can help farmers to remotely operate the pump through a mobile app. Such a solution comes with a device that needs to be fixed with the water pump and a mobile app that the farmer needs to download for remotely switching on or off. Such a solution is averagely priced at ₹ 10,000.

However, none of these solutions help the farmers in addressing the problem of damage due to power fluctuations which burn a hole in the pocket of small farmers who can't afford advanced technology water pumps which are ₹ 70,000 more expensive than the economy range of water pumps available in the market.

Atul, Rohit and Sonia – 3 friends studying in NIT Surathkal have worked on a project that would help farmers in solving the above problems. The solution comes in the form of a larger device and a mobile app. The same has been tested with a farmer relative of Atul in his native place for 9 months and there has been no instance of any damage to the water pump, although the power fluctuations have been normal that can be compared to average scenario.

Sonia knows you since childhood as you studied together in school. After 12th standard you took commerce and she chose science. Later on, you went on to become a chartered accountant and your friend Sonia graduated from NIT Surathkal as a mechanical engineer. She contacted you to come and meet her colleagues who have jointly worked on the project.

Your firm has been appointed as a consultant who will also coordinate statutory audit and compliance part of the business, starting from incorporation of the company. Thereafter, a company by name PowerTech Solutions Pvt. Ltd. was formed.

Before the launch of the product (which is named as H2Ox) in the market, the co-founders want to know how to price the product since this is relatively new product in the market.

The product was launched in the market within 1 month from the date of incorporation (3rd July 2018) of PowerTech Solutions Pvt. Ltd. with all three friends becoming directors of the company holding 32% shares each and the remaining 4% given to an incubation centre who helped in product prototyping, testing and sample manufacturing.

The first board meeting of the company was held on 18th July 2018 just a day before the official launch of the product. The directors had informal discussions as and when required on all business matters. However, there was no formal board meeting after the first one, until the auditor asked for the records of board meeting in April 2019 after the financial year ended on 31st March 2019.

The directors want to know the details about the board meeting provisions and the way forward as they want to comply with all the fiscal laws while conducting business.

As on 31st March 2019, the revenue of the company was ₹ 8 lacs (approx.) and a paid-up capital of ₹ 1 lac and a net loss of ₹ 2.14 lacs.

During the summer of 2019, the company conducted van campaigning activities in rural clusters across Maharashtra. The results could be seen in the sales being picked up significantly from June 2019 onwards. In anticipation of growing demand, the company also hired more people from May 2019 to June 2019. During that period the company added as many as 30 employees in different departments. The average salary of new employees was ₹ 17,000 per month per head. The average date of joining can be considered as 15th May 2019.

As the demand increased, the amount of outsourcing the manufacturing activity was also going up proportionately. As a financial consultant of the company, you have drawn attention of the directors regarding in-house manufacturing option. The directors are thrilled about the same and Atul has already taken-up the responsibility to find out more details and lead the project.

According to the study conducted by Atul, the following details are available:

Minimum quantity to be produced: 1,000 per month.

Per unit cost:

Direct material – ₹ 3,800

Direct labour – ₹ 1,250

Direct overheads (Machine, Power and Maintenance) – ₹ 790

Apart from the above, a production manager is to be appointed for the sole responsibility of production at a cost of ₹ 75,000 per month and the rent of the production facility along with electricity, water and other maintenance would be ₹ 70,000 per month.

The current cost of outsourcing the manufacturing activity is ₹ 7,500 per unit but the minimum order quantity shall be as low as 100 quantity at a time.

The time of consideration of this decision, the average demand for the preceding three months was 900 units per month.

The demand for the next three years is set to increase since the product is new in the market until the competitors can learn the technology and implement the same. However, market predictions are never accurate.

A cluster of villages in Nasik district of Maharashtra has as many as 50,000 farmers within a radius of around 10 km. This cluster of farmers is served by a new-age, highly educated dealer Mr Sachin More who has graduated from Agriculture College of Pune. Along with his own farm of 5 acres, he also has a dealership of major seed and fertiliser companies.

Mr. More has approached the company with an offer to buy 10,000 units at a time provided he can get the unit price of ₹ 15,000.

For the financial year 19-20, the company's revenue was ₹ 3.12 crore.

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

1. Which of the following is not a feature of agriculture sector?
 - (a) Fragmented and unorganised structure.
 - (b) Lack of understanding of costs and prices.
 - (c) Farmers work in collaboration with others for cost reduction.

- (d) Imbalance of bargaining power.
2. In value-based pricing, True economic value (TEV) can be obtained by:
 - (a) Adding the value of performance differential to the cost of the base product.
 - (b) Adding the value of performance differential to the cost of next best alternative.
 - (c) Subtracting the cost of next best alternative from the value of the product.
 - (d) Subtracting the value of performance differential from the value of the product.
 3. For the calendar year 2018, the company has violated the provisions relating to board meetings as per the Companies Act, 2013.
 - (a) Yes
 - (b) No
 - (c) Yes, but can be regularised
 - (d) Data is not sufficient
 4. The approximate amount of additional deduction in respect of new employees as per relevant provisions of Income Tax Act works out to:
 - (a) ₹ 16 Lacs
 - (b) ₹ 11 Lacs
 - (c) ₹ 13 Lacs
 - (d) ₹ 12 Lacs
 5. The company did not hold any AGM as on 30th September 2019. As on 10th October 2019, what are the options available for the company?
 - (a) First AGM can be held any time before 31st December 2019.
 - (b) First AGM was supposed to be held before 30th September 2019.
 - (c) Extension can be sought from the Registrar for the delay in first AGM.
 - (d) For a small company it's not necessary to hold AGM.

Part B- Descriptive Questions

6. Since you have studied different methods of pricing as part of your CA course, you are confident of advising your client on value-based pricing instead of digging-up the cost factors from the scratch. You are suggesting a price based on True Economic Value (TEV) of the product H2Ox. Show your calculations and comment on the value-based pricing that you may recommend to the client. (Life of the device and hence the entire solution offered by the company may be assumed as 5 years.) **(5 Marks)**
7. Since the point of board meetings has come up during the audit, the directors had a detailed discussion on the same with the member of your firm who's taking care of company law matters. What are the provisions relating to frequency of board meetings that may be applicable to PowerTech Solutions Pvt. Ltd.? Are there any exemptions? Briefly explain the same. **(5 Marks)**
8. The directors are obsessed with the thought that in-house manufacturing will reduce the overall cost of the product on per unit basis. At the same time, they are unsure about the demand that will meet the

minimum order quantity. To overcome that fear, the directors have decided to start marketing in states outside Maharashtra. With this background, should the company accept the order from Mr More if the company wants to make a minimum contribution of ₹ 8,000 per unit? Comment. (Allocable overheads of production manager cost and the rent etc. of production space should be allocated before arriving at the contribution per unit.)

(5 Marks)

CASE STUDY 4

The decade of 90's witnessed a large shift in the way of doing business in India. The New Economic Policy of 1991 opened doors of and for the Indian economy to the outside world for interaction and business both inside and outside the country. The Service sector grew like anything. India soon proved to the world that it is not limited to Agriculture only and that there is much more scope for Industrialisation and the Tertiary sector. The nation saw an upsurge in the Global activities and thus its development was fast-paced. But every development has its cost and that cost which India started sharing with the whole world was Overexploitation of Natural resources, Global warming, Ozone layer depletion, Pollution and the list goes on. Now, it stands on the same platform as the other nations in facing these issues. With the progress, the World has been making, it also understood its responsibility to protect the planet from the ill-effects of carving out the road to development and modernisation and so did the Corporates. The Corporates also felt their Social responsibility in this regard and thus a term was coined by the name CORPORATE SOCIAL RESPONSIBILITY (CSR). Corporate Social Responsibility is corporate initiative to assess and take responsibility for the company's effects on the environment and its impact on social welfare. It can be conceptualized as the corporations' obligation to take necessary action to reduce the negative externalities and enhance the positive externalities associated with their business. In doing so, the corporations could protect and promote the interests of their stakeholders and society as a whole. The origin of CSR can be traced to philanthropic activities of corporations, viz., donations and charity. Over the years, the concept of CSR has evolved and it now includes within its scope, triple bottom line approach (achieving a balance of economic, environmental and social imperatives), corporate sustainability, improving and developing skills for sustainability, to name a few. CSR is the process by which an organization thinks about and evolves its relationships with stakeholders for the common good, and demonstrates its commitment in this regard by adoption of appropriate business processes and strategies. Thus, CSR is not charity or mere donations. CSR is a way of conducting business, by which corporate entities visibly contribute to the social good. Socially responsible companies do not limit themselves to using resources to engage in activities that increase only their profits. They use CSR to integrate economic, environmental and social objectives with the company's operations and growth.

THE INDIAN SCENARIO

Prior to the year 2014, CSR activities were voluntary for the corporates in India, however they ought to disclose their CSR spending to their shareholders. With an amendment to the Companies Act, 2013 in April 2014, India became the first country in the world to make CSR mandatory allowing the businesses to invest their profits in areas such as education, poverty, hunger to comply with CSR provisions. CSR is the procedure for assessing an organization's impact on society and evaluating their responsibilities. It begins with an assessment of the aspects of each business such as Customers, Suppliers, Environment, Communities, Employees, etc. Since the applicability of mandatory CSR provision in 2014, CSR spending by corporates in India has increased significantly. The year 2018 saw a 47% increase in CSR spending than in the year 2014-15, contributing ₹ 7,536 crores to CSR initiatives, according to a survey. Listed companies in India spent thousands of crores in various educational programs, skill development, social welfare, healthcare, and environment conservation. Taking into account the recent amendments to CSR provisions, industry research estimates CSR compliance to improve and range between 97 to 98 percent by FY 2019-20. Organizations in India taking up CSR initiatives and integrating them into their business processes. Companies now have specific departments and teams that develop specific policies, strategies, and goals for their CSR programs. One such company is "*Mahima Consumer Products Limited*" which manufactures consumable goods like

bath soap, tooth brushes, soap cases etc. This company has made a remarkable success in the recent times starting from a low investment. It had been doing CSR projects on its own without any requirement legally along with an established charitable company by the name of "Needs & Helps" but now since it has capitalised the market share to a good extent, the Board of Directors feel the need to know about all the CSR provisions that may be applicable to their Company, the Policies they need to develop, the Accounting treatment & the Taxation impact. For this purpose, they approach Nayyar & Co., a CA firm with an experience of 6 years in CA Practice. CA Karan Nayyar, the Senior Partner of the firm is invited for a meeting with the BOD of the Company to make them aware of all the provisions relating to CSR and what policies and procedures now would they need to set up to comply with the CSR provisions. Mr. Kapoor, one of the Directors on the Board of the Company is curious to ask about CSR applicability to the Company's Foreign subsidiary to which CA Nayyar replies that every company including its holding or subsidiary, and a foreign company defined under clause (42) of section 2 of the Act having its branch office or project office in India which fulfils the criteria specified in sub-section (1) of section 135 of the Act shall comply with the provisions of section 135 of the Act and these rules. Provided that net worth, turnover or net profit of a foreign company of the Act shall be computed in accordance with balance sheet and profit and loss account of such company prepared in accordance with the provisions of clause (a) of sub-section (1) of section 381 and section 198 of the Act. He tells them that in India, the Companies Act, 2013 has statutorily recognised the concept of CSR. Section 135 of the Companies Act, 2013 read with Schedule VII thereto and Companies (Corporate Social Responsibility Policy) Rules, 2014 are the special provisions under the new company law regime imposing mandatory CSR obligations. Schedule VII of Companies Act 2013 lists activities that may be included by companies in their Corporate Social Responsibility Policies. As per Rule 4 of the Companies (CSR) Rules, 2014, there are certain expenditures which are not considered as CSR activity for the purpose of section 135.

MANDATORY CSR OBLIGATIONS UNDER SECTION 135 OF THE COMPANIES ACT, 2013

- Every company, listed or unlisted, private or public, having a -
 - net worth of ₹ 500 crores or more [*Net worth criterion*]; or
 - turnover of ₹ 1,000 crores or more [*Turnover criterion*]; or
 - a net profit of ₹ 5 crores or more [*Net Profit criterion*] (to be calculated as per Section-198)
 during the immediate preceding financial year to constitute a CSR Committee of the Board;
- CSR Committee has to formulate CSR policy and the same has to be approved by the Board;
- Such company to undertake CSR activities as per the CSR Policy;
- Such company to spend in every financial year, at least 2% of its average net profits made in the immediately three preceding financial years "or where the company has not completed the period of three financial years since its incorporation, during such immediately preceding financial years, on the CSR activities specified in Schedule VII to the Companies Act, 2013.

Mr. Kapoor spontaneously interrupted and apprised the meeting with the fact that an amount of ₹ 5,00,000 was spent as CSR expense towards the education of a girl child. He further explained that the Company has decided to claim it as an expense against profits while computing income for Income tax purposes.

However, CA Nayyar tells them that legal provisions will be looked into and continued explaining further provisions that-

CSR Committee shall:

- (a) formulate and recommend to the Board-

- a. a CSR Policy indicating the activities to be undertaken by the company as specified in Schedule VII;
 - b. the amount of expenditure to be incurred on the above activities and
- (b) monitor the CSR Policy of the company from time to time

The Board shall disclose:

- (a) The composition of CSR Committee in its report
- (b) Approve the recommended CSR Policy for the company
- (c) Disclose the contents of such Policy in its report and place it on the company's website
- (d) Ensure that the activities included in CSR Policy of the company are duly executed by the company
- (e) Ensure that the company spends, in every financial year, at least two per cent of the average net profits of the company made during the three immediately preceding financial years by giving preference to the local area and areas around it where it operates
- (f) In case the company fails to spend such amount, the Board shall specify the reasons for not spending the amount.

THE ACCOUNTING ASPECT

Revenue Expenditure made in the Current Financial Year:

	Debit (₹)	Credit (₹)
CSR Expenditure (Profit and loss statement)	XXX	
To Cash/Vendor		XXX

The treatment of revenue expenditure will be the same under AS and Ind AS.

CSR Expenditure made towards a Capital Asset:

In case the expenditure incurred by the company is of such a nature that give rise to an 'asset', it should be recognised by the company in its balance sheet, provided the control over the asset is with the Company and future economic benefits are expected to flow to the company. The treatment of such expenditure is a bit different under AS and Ind AS which CA Nayyar said he would discuss with their Accounts Department in due course of time.

Mr. Parimal, another Director of the Company asks his queries on the following two issues to which CA Nayyar gives him a satisfactory reply:

1. Whether any Unspent Amount of CSR Expenditure is to be Provided for?
2. Whether the Excess Amount can be Carry Forward to set off against Future CSR Expenditure?

THE TAXATION ASPECT

- CSR expenditure, being an application of income, is not incurred wholly and exclusively for the purposes of carrying on business. As the application of income is not allowed as deduction for the purposes of computing taxable income of a company, amount spent on CSR cannot be allowed as deduction for computing the taxable income of the company.
- Based on the Explanatory Memorandum to the Bill, the CSR expenditure which is of the nature described in section 30 to section 36 of the Income-tax Act shall be allowed as deduction under those sections subject to fulfilment of conditions, if any, specified therein. If the nature of CSR expenditure incurred is

not covered under the aforesaid sections of the Act and is covered under section 37(1) of the Act, being a general deduction, the same is proposed to be disallowed by the Bill.

The meeting concludes with the Company appointing M/s Nayyar & Co. as its Statutory Auditors for a period of 5 years w.e.f. 2019-20 and CA Nayyar fixes the remuneration to be charged by his firm for the audit as well as the consultancy purposes in agreement with the BOD of Mahima Consumer Products Limited.

Later on, as part of the company's CSR policy, it was decided that for every pack of consumable goods sold, ₹ 0.80 will go towards 'Needs & Helps' which will qualify as a CSR spend as per Schedule VII. Consequently, at the year end, the company sold 25,000 such packs and a total of ₹ 20,000 was recognised as CSR expenditure. However, this amount was not paid to 'Needs & Helps' at the end of the financial year. The company also transferred a small building purchased by it to a school run and maintained by a Gram Panchayat for use as a Library by the school.

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

1. The management of the company "Needs & Helps" believes that the CSR provisions are not applicable to it. On discussion with Mr. Kapoor, they approach CA Nayyar to consult the same. What should be CA Nayyar's take on whether the provisions of CSR are applicable to "Needs & Helps" provided it fulfils the criteria of Section 135 of the Act?
 - (a) Not Applicable as all the activities of the company will be with the intent of charity.
 - (b) Not Applicable as all its activities are activities in the normal course of business.
 - (c) Applicable as it applies to every Company.
 - (d) Applicable only if the Company involves itself in any commercial activity other than the charitable ones.
2. Will the recognition of ₹ 20,000 as CSR expenditure qualify to be a CSR Expenditure?
 - (a) No, it needs to be spent actually for such qualification.
 - (b) Yes, as the Company has earmarked it separately to be used for the decided purpose.
 - (c) Yes, if the Company makes a provision for its use in near future for the same.
 - (d) Only 50% qualifies and balance 50% on actual expenditure by the Company.
3. What accounting treatment should be suggested to the Company relating to transfer of building?
 - (a) Capitalised as a CSR Asset as PPE as per IndAS 16 in the books of accounts.
 - (b) Capitalised as a CSR Asset as Investment Property as per IndAS 40 in the books of accounts.
 - (c) Capitalised as a CSR Asset without any sub-head classification as per AS in the books of accounts.
 - (d) Charged to the Statement of Profit & Loss for the year of Transfer.
4. Mr. Kapoor tells CA Karan Nayyar that their Company carries out CSR activities from rented premises in Pune. The rent paid for such premises is disclosed as CSR expenditure and subsequently their company also claimed deduction of the same under the Income-tax Act. Is this permissible?
 - (a) Not allowed as a Deduction as this expense is not directly benefitting any individual or organisation.
 - (b) Allowed as a Deduction.
 - (c) Partly allowed upto 30% of the total rent.

- (d) Rent can never be claimed as a CSR Expenditure.
5. During the year, company spent certain amount towards the education of a girl child. Is the treatment as decided by the company w.r.t. such CSR expenditure while computing income for Income tax purposes is valid?
- (a) This expenditure is an application of income, is not incurred wholly and exclusively for the purposes of carrying on business.
- (b) The amount involved is material as it might put a huge impact against the profits.
- (c) This expenditure is a diversion of income.
- (d) Such an allowance can be made only after applying for and receiving a certificate for the same from the Chief Commissioner of Income tax.

Part B- Descriptive Questions

6. CA Karan Nayyar tells the Directors of Mahima Consumer Products Limited that expenditure on certain activities cannot be considered as a CSR Expenditure as per Companies (CSR) Rules, 2014. Mention 4 such activities stating the relevant Rule. **(4 Marks)**
7. The treatment of CSR Expenditure made towards a Capital Asset is a bit different under AS and Ind AS which CA Nayyar said he would discuss with the Accounts Department in due course of time. You being an assistant to CA Nayyar have been asked by him to provide the Accounts Department with a brief write-up on the same giving an example. **(4 Marks)**
8. Mr. Parimal approaches you to provide him with a sample format to draft the Annual Report on CSR Activities on behalf of the Board of Directors of Mahima Consumer Products Limited for the year 2019-20 to be included in the Board's Annual Report. You are asked to draft the same. **(3 Marks)**
9. After the havoc caused by a devastating Tsunami in Andaman & Nicobar islands, a group of companies undertake during the period from October 2019 to December 2019 various commercial activities, with considerable concessions/discounts, along the related affected areas. The management of Mahima Consumer Products Limited intends to highlight the expenditure incurred on such activities as expenditure incurred on activities undertaken to discharge corporate social responsibility, while publishing its financial statements. State whether the management's intention is correct or not and why? **(4 Marks)**

CASE STUDY 5

Ease of doing business – this statement does seem to be lucrative and influencing but as they say, nothing comes to your kitty so easily. India is striving towards the ease of doing business with its new policies, less restrictions and business friendly environment which is supporting business facilitation efforts but one should always keep in mind that setting up a business and running it successfully is not a cakewalk as it seems to be. It requires a lot of efforts alongwith innovation, workforce, management, compliances and all above that, a dedication to survive in the market. These facts could be well supported by the success story of Annapurna Trading Pvt. Ltd. which is having business of agricultural produce, consumer items & other related products. Having been set up a decade ago by its Board of Directors' Chairman, Mr. Hasmukh Rawal, this company has carved a niche for itself. Mr. Rawal had started a small business in his rural village of Baddowal, near Ludhiana which he has grown into a big company in the past 10 years.

One fine evening, Mr. Rawal was sitting with his friends - Mr. Piyush Mutneja & Mr. Gorav Bhandari who are also Managing Directors in their respective companies set up by them and they discussed about Accounts, Audit & Tax over tea. CA Hariharan, who is a common Statutory Auditor and Consultant to their companies had also joined them in this discussion. During the discussion, when all of them were narrating their

experiences and difficulties they were facing at present relating to Accounts & Audit, CA Hariharan suggested them on appointing an Internal Auditor in their respective companies. He makes them aware of the benefits of such an Internal Audit function as how would it help them weed out the deficiencies and weaknesses in the Internal Controls on a timely basis but would also be very helpful to him, being the Statutory Auditor in auditing the Books of Account of all their companies at year end. Out of curiosity, all the 3 of them – Mr. Rawal, Mr. Mutneja & Mr. Bhandari ask CA Hariharan to tell them in detail about this Internal Audit function and whether they are legally required to comply with the requirements of Internal Audit. CA Hariharan tells them that many modern enterprises have become huge and sophisticated. This has resulted in decentralisation of their activities and consequently the top management is remotely concerned with the day-to-day activities of the concern.

THE INTERNAL AUDIT

Internal Audit means “an independent management function, which involves a continuous and critical appraisal of the functioning of an entity with a view to suggest improvements thereto and add value to and strengthen the overall governance mechanism of the entity, including the entity’s strategic risk management and internal control system”. The internal auditing need not to be confined to financial transactions and its scope may be extended to the task of reviewing whether the resource utilisation of the enterprise is efficient and economical. This would necessitate a review of all operations of the enterprise as also an evaluation of the effectiveness of management. One should not however lose sight of the fact that internal auditing is basically a service activity.

Applicability of Provisions of Internal Audit: As per section 138 of the Companies Act, 2013, following class of companies (prescribed in rule 13 of Companies (Accounts) Rules, 2014) shall be required to appoint **an internal auditor which may be either an individual or a partnership firm or a body corporate**, namely-

(a) every listed company;	
(b) every unlisted public company having- (i) paid up share capital of fifty crore rupees or more during the preceding financial year; or (ii) turnover of two hundred crore rupees or more during the preceding financial year; or	(iii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year; or (iv) outstanding deposits of twenty five crore rupees or more at any point of time during the preceding financial year; and
(c) every private company having- (i) turnover of two hundred crore rupees or more during the preceding financial year; or	(ii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year.

Further to this, they ask him as who could be appointed as Internal Auditor for their respective companies to which CA Hariharan replies that as per section 138, the internal auditor shall either be a chartered accountant or a cost accountant (whether engaged in practice or not), or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the companies. The internal auditor may or may not be an employee of the company.

Further, he tells them about the scope of work of an Internal auditor and also his qualifications as follows: -

QUALIFICATIONS:-

1.	The internal auditor should have the special expertise necessary for evaluating management control systems, especially financial and accounting controls.
2.	Accounting and finance functions provide basic data for management control of an enterprise. Therefore the internal auditor must have accounting and financial expertise to be able to discharge his duties.
3.	The internal auditor is also expected to evaluate operational performance and non-monetary, operational controls. This requires a basic knowledge of the technology and commercial practices of the enterprise.
4.	He should also have a basic knowledge of commerce, laws, taxation, cost accounting, economics, quantitative methods and EDP systems.
5.	An understanding of management principles and techniques is another essential qualification of an internal auditor as also the ability to deal with people.
6.	By his conduct the internal auditor should provide an assurance to the management that confidentiality of such information would be maintained.

On hearing all this from CA Hariharan, Mr. Rawal gets really impressed and appoints CA Ravi Mehta as the Internal Auditor for his Company Annapurna Trading Pvt. Ltd., by following the applicable procedure as per the Companies Act, 2013 and the relevant rules. On a discussion related to the scope of CA Ravi's work, Mr. Rawal requests him that he pay special attention to the following 2 aspects related to the business of his company :-

1. **Accounting Policies** being followed by the Company, especially related to Inventories and the Fixed assets. CA Ravi meets the Employees in the Accounts Department as well as in the Costing Department to get a knowledge about the Valuation, Presentation & Disclosure policies followed by the company w.r.t the inventories and fixed assets:-
 - a) In the factory, the Cost accountant tells him that in the case of packing Fruit beverages, they use tin cans of material DELTA and further, put them into boxes made of material GAMMA for transportation to Distributors.
 - b) The Marketing Manager tells him that they purchase certain goods from out of India to sell them in the domestic market & incur following expenses in relation to such transaction which have been put into following accounting codes –
 - (1) Trade discounts on purchase
 - (2) Handling costs relating to imports
 - (3) Salaries of accounting department
 - (4) Sales commission paid to sales agents
 - (5) After sales warranty costs
 - (6) Import duties
 - (7) Costs of purchases (based on supplier's invoices)
 - (8) Freight expense
 - (9) Insurance of purchases
 - (10) Brokerage commission paid to indenting agents

- c) The Sales Head tells about the following products and seeks CA Ravi's advice as to their accounting treatment wrt the relevant IND-AS :-
- I. One of Company's product lines – "MAGNI" is beauty products, particularly cosmetics such as lipsticks, moisturizers and compact make-up kits. The company sells hundreds of different brands of these products. Each product is quite similar, is purchased at similar prices and has a short lifecycle before a new similar product is introduced. The point of sale and inventory system is not yet fully functioning in this department. The sales manager of the cosmetic department is unsure of the cost of each product but is confident of the selling price and reliably informs him that the Company, on average, make a gross margin of 65% on each line.
 - II. The Company also sells handbags. The Company manufactures their own handbags as they wish to be assured of the quality and craftsmanship which goes into each handbag. The handbags are manufactured in India in the head office factory which has made handbags for the last fifty years. Normally, it manufactures 100,000 handbags a year in their handbag division which uses 15% of the space and overheads of the head office factory. The division employs ten people and is seen as being an efficient division within the overall company.
- d) On a scrutiny of the Fixed Assets Register, CA Ravi finds that the Company had acquired a building for its administrative purposes and presented the same as property, plant and equipment (PPE) in the financial year 2018- 19. During the financial year 2019- 20, it relocated the office to a new building and leased the said building to a third party. Following the change in the usage of the building, the company reclassified it from PPE to investment property in the financial year 2019- 20.
- e) On checking the previous records of the Company, he also comes to know that the Company has an investment property with an original cost of ₹ 1,00,000 which it inadvertently omitted to depreciate in previous financial statements. The property was acquired on 1st April, 2018. The property has a useful life of 10 years and is depreciated using straight line method. Estimated residual value at the end of 10 year is Nil.
2. Mr. Rawal also wants CA Ravi to help them in calculation of the Profits of the company as per the Income Tax Act and related rules because had they been worked out & calculated properly in the past years, their company would not have been subject to a survey as had been conducted on them in the past. CA Ravi meets the Head accountant who furnishes him the following Financial statements and tells him that :-
- (a) There was a survey under section 133A on the business premises on 31.3.2020 in which it was revealed that the value of closing stocks of 31.3.2019 was ₹ 8,75,000 and a sale of ₹ 75,000 made on 13.3.2020 was not recorded in the books. The value of closing stocks after considering these facts and on the basis of inventory prepared by the department as on 31.3.2020 worked out at ₹ 12,50,000, which was accepted to be correct and not disputed.
 - (b) The company had made an investment of ₹50lacs on the construction of a warehouse in rural area for the purpose of storage of agricultural produce. This was made available for use from 15.09.2019 and the income from this activity is credited in the Profit and Loss account under the head "Warehousing charges".
 - (c) The Head accountant also tells him that the Financial statements as furnished below are subject to following considerations also apart from as what is furnished above :-
 - i. Income-tax refund includes amount of ₹5,000 of interest allowed thereon.
 - ii. Bonus to staff includes an amount of ₹7,500 paid in the month of December 2019, which was provided in the books on 31.03.2019.
 - iii. Rent of premises includes an amount of ₹5,500 incurred on repairs. The assessee company was under no obligation to incur such expenses as per rent agreement.
 - iv. Advertisement expenses include an amount of ₹2,500 paid for advertisement published in the

souvenir issued by a political party. The payment is made by way of an account payee cheque.

- v. Goods and Services Tax demand paid includes an amount of ₹ 5,300 charged as penalty for delayed filing of returns and ₹12,750 towards interest for delay in deposit of tax.
- vi. Depreciation under the Income-tax Act, 1961 works out at ₹65,000.
- vii. Interest on loans includes an amount of ₹80,000 on which tax was not deducted.
- viii. Miscellaneous expenses include:
 - amount of ₹15,000 paid towards penalty for non-fulfillment of delivery conditions of a contract of sale for the reasons beyond control,
 - amount of ₹1,00,000 paid to the wife of a Mr. Hasmukh rawal, who is working as junior lawyer for taking an opinion on a disputed matter. The junior advocate of High Courts normally charge only ₹25,000 for the same opinion,
 - amount of ₹1,00,000 paid to an Electoral Trust by cheque.

TRADING AND PROFIT & LOSS ACCOUNT

Particulars	₹	Particulars	₹
Opening Stock	3,75,000	Sales	1,55,50,000
Purchases	1,25,75,000	Closing Stock	4,50,000
Freight & Cartage	1,20,000		
Gross profit	29,30,000		
	1,60,00,000		1,60,00,000

Particulars	₹	Particulars	₹
Bonus to staff	47,500	Gross profit	29,30,000
Rent of premises	53,500	Income-tax refund	20,000
Advertisement	5,000	Warehousing charges	40,00,000
Bad Debts	81,000		
Interest on loans	1,67,500		
Depreciation	71,500		
Goods and Services tax demand paid	1,08,350		
Miscellaneous expenses	5,25,650		
Net profit of the year	58,90,000		
	69,50,000		69,50,000

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

1. Packing material "GAMMA" as per the above case should be classified as per INDAS-2 as?
 - (a) Raw material.
 - (b) Finished Goods.
 - (c) Materials & Supplies awaiting for use in the Production Process.
 - (d) Selling Costs to be excluded as per INDAS-2.

2. The Marketing Manager tells CA Ravi about the Costs which they incur to sell imported goods in domestic market alongwith their accounting codes. From the following alternatives, choose the combination of codes from the above case which are allowed by INDAS-2 for inclusion in the cost of such goods?
 - (a) 01, 02, 06, 07, 08, 09, 10.
 - (b) 01, 02, 03, 05, 07, 09, 10.
 - (c) 01, 02, 03, 06, 08, 09, 10.
 - (d) 02, 04, 06, 07, 08, 09, 10.
3. How should "MAGNI" be measured in accordance with INDAS 2?
 - (a) Standard Cost.
 - (b) Retail Method.
 - (c) Net Realisable Value.
 - (d) Market Price.
4. How should the Handbags as made and traded by the Company be measured in accordance with INDAS 2?
 - (a) Standard Cost.
 - (b) Retail Method.
 - (c) Net Realisable Value.
 - (d) Market Price
5. How should the error be corrected in the case of Investment Property as found during checking of previous records, in the financial statements for the year ended 31st March, 2020, assuming the impact of the same is considered material? For simplicity, ignore tax effects.
 - (a) Prospectively restating the Comparatives.
 - (b) Retrospectively restating the Comparatives.
 - (c) It is not an error and therefore correction should be avoided.
 - (d) Eliminating the record of such asset from the books of account and dealt with separately.

Part B- Descriptive Questions

6. Differentiate between the two types of Audit functions as performed by CA Ravi Mehta and CA Hariharan as discussed in the above case of Annapurna Trading Pvt. Ltd. **(5 Marks)**
7. From the information given in the above passage, compute the income chargeable to tax for Assessment year 2020-21 of Annapurna Trading Pvt. Ltd, ignoring MAT and provisions of section 115BAA. Support your answer with working notes. **(10 Marks)**