Test Series: April, 2022

MOCK TEST PAPER

FINAL 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

1. Prag Bhara Ltd. (PBL) is an unlisted company engaged in the business of crude oil extraction, with six directors in its board. It has a joint venture company, Vasudhara (P) Ltd. (VPL) in which it is having 50% share in its equity, with a co-venture company, Samya Ltd.

   In 2021, when both the companies had first acquired the shares of VPL, they had entered into a joint venture agreement containing 45 clauses. Clause no. 24 provided that if any dispute arises between the parties, the same shall be mutually decided by the parties or shall be referred for arbitration if the parties so determine.

2. Both the companies had acquired shares worth ₹ 2.80 crores each of VPL and were further required to contribute a sum of ₹ 20 lakhs each by acquiring further shares of equivalent value of VPL as there was a 'cash call' from the operating member, Samya Ltd. for purchasing a machinery for VPL.

   The financial data of both the companies as per the latest audited financial statements is as follows:

Particulars	**Prag Bhara Ltd. (₹ in lakhs)**	**Samya Ltd. (₹ in lakhs)**
Authorised Share Capital	1,500	500
Equity Share Capital (Face-value: ₹100 per share)	1,200	350
Less: Unpaid Calls	100	50
General Reserve	350	150
Profit & Loss A/c	80	40
Securities Premium	170	-
Dividend equalisation reserve	50	20
Debenture redemption reserve	100	-
Secured Debts (Note)	600	80
Unsecured Debts	400	20

   Note: Includes a loan of ₹ 50 lakhs taken for 5 months on 25th March 2022, repayable on demand.

   Both the companies contributed to the cash call on 5th April 2021, as aforesaid, and acquired further shares in VPL. On 18th April 2021, machinery worth ₹ 40 lakhs was purchased out of such money by the operating member, Samya Ltd., for VPL which was to be used in the oil production after its installation.

   On 4th December 2021, PBL sold one of its machineries to VPL at its market value of ₹ 16,00,000. The asset's carrying value in the books of accounts of PBL was ₹ 20,00,000.

3. On 1st April 2021, PBL invested in the equity shares of Kwick Tiles Ltd. (KTL) at a cost of ₹ 64 lakhs by acquiring 25% share in the voting power of KTL. PBL concluded that KTL is an associate company of it. As of that date, the carrying value of the net assets of KTL was ₹ 2 crore and the fair value was ₹ 2.4 crore. At the end of the year, KTL earned a profit of ₹ 9 lakhs and other comprehensive income of ₹ 4 lakhs. In that year, KTL Ltd. also declared a dividend to the extent of ₹ 3 lakhs.

4. On 19th July 2021, there was a board meeting held of the directors of PBL in which there was a resolution passed for borrowing a sum ₹ 2 crore from a Jharkhand Co-op Ltd., a scheduled bank, for financing its capital expenditure on its new project. Also, the board passed a resolution to buy-back 1 lakh shares of the company @ ₹ 180 per share from a specified group of shareholders. Such shares were issued @ 150 per share to such shareholders by the company, four years back.

5. For the F.Y. 2021-22, M/s Tripathi & Associates were the statutory auditors of the Samya Ltd. During the course of audit, the audit team was unable to obtain sufficient appropriate audit evidence about a single element of the consolidated financial statements i.e. the auditor was unable to obtain audit evidence about the financial information of a joint venture investment (in VPL) carried at ₹ 3 crores on the Group's consolidated balance sheet that represented over 70% of the entity's net assets because the audit team was not allowed access to the management and the auditors of VPL, including VPL auditors' audit documentation.

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

1. With reference to Para 3, what shall be the closing balance of investment in KTL in the books of PBL at the end of the year?
   (a) ₹ 63,25,000
   (b) ₹ 66,50,000
   (c) ₹ 67,25,000
   (d) ₹ 68,00,000

2. With reference to Para 2, whether Samya Ltd. would have taken any approval for making further investment in VPL by acquisition of its equity shares?
   (a) Board resolution with unanimous approval would have been passed and there was no requirement to pass special resolution in the GM of the company as the specified limit had not been exceeded.
   (b) Board resolution with unanimous approval would have been passed and there was no requirement to pass special resolution in the GM of the company as the VPL is its joint venture company.
   (c) Board resolution with unanimous approval would have been passed as well as a special resolution in the GM of the company would have been passed as the specified limit had been exceeded.
   (d) Board resolution with approval of majority directors would have been passed and there was no requirement to pass special resolution in the GM of the company as the specified limit had not been exceeded.

3. With reference to Para 4, what maximum amount the board of PBL could have resolved to borrow without having to obtain approval of the company by special resolution?
   (a) ₹ 9 crore
   (b) ₹ 7.5 crore
   (c) ₹ 8 crore
   (d) ₹ 7 crore

4. What maximum shares the board of PBL could have resolved to buy-back without having to obtain approval of the company by special resolution? Refer para 4.

   (a) 1,80,000 shares

   (b) 1,75,000 shares

   (c) 1,85,000 shares

   (d) 1,70,000 shares

5. With reference to Para 4, what shall be the amount of tax payable by PBL on the buy-back of its shares if the net taxable income for P.Y. 2021-22 is ₹ 1.5 crore?

   (a) Not taxable in the hands of company but taxable in the hands of shareholders.

   (b) ₹ 6,67,680

   (c) ₹ 18,63,680

   (d) ₹ 6,98,880

Part B- Descriptive Questions

6. (i) Referring Para 3, calculate the goodwill / capital reserve on the date of acquisition of share in KTL and PBL's share in the profit and other comprehensive income for the year. **(2 Marks)**

   (ii) Pass necessary entries in the books PBL to account for the investment in associate, KTL. **(4 Marks)**

7. (i) Referring Para 2, determine how PBL should account for the sale transaction of machinery to VPL in its books. **(2 Marks)**

   (ii) Examine the applicability of GST in case of cash contribution made by the co-ventures in the JV and used it for purchasing the machinery? Also, discuss in which scenario, GST would have been applicable? **(2 Marks)**

8. (i) Referring Para 5, what kind of opinion should the statutory auditors issue in the case of Samya Ltd.? Please draft the same. **(3 Marks)**

   (ii) Referring Para 1, state whether the parties under the joint venture agreement will be able to refer the dispute, if any, to the arbitration considering the given scenario and the provisions of the Arbitration and Conciliation Act, 1996? **(2 Marks)**

CASE STUDY 2

Para 1

HappyHomes Limited, a listed Company, manufactures and sells various kinds of kitchen solutions to ideally suit the varying modern-day needs of homeowners. They provide customized solutions for modular kitchens which may be stainless steel, acrylic or any other finish required by the customers. Their range of modular kitchens is distributed in the supply chain via an integrated channel of suppliers and distributors to reach to the homeowners globally. Quality, elegance and reliability are the three elements that make their kitchen solutions stand out from the competitors worldwide.

During the current year, the Company decided to appoint Mr Happy as the Managing Director of HappyHomes Limited for a period of ten years. However, the Company Secretary, Mr. CS informed the Board of Directors that as per the provisions of the Companies Act,2013, the Managing Director cannot be appointed for a period exceeding 5 years. So, it was decided that two separate Board approvals and two separate general meeting resolutions would be passed to appoint the Managing Director for a total period of 10 years. Mr. CS objected to this proposal as well and suggested that a gap should be maintained between the two approvals/resolutions to comply with the provisions of the Companies Act, 2013. Finally, after considering all the provisions of the Act, Mr Happy was appointed as Managing Director by the approval of the Board of Directors at a meeting and approval by shareholders by a resolution at the next general meeting of the Company. Mr. Happy was entrusted with substantial powers of management of the affairs of the Company. The remuneration to be paid to the managerial persons was calculated based on Part II of Schedule V and was decided to be paid on the basis of specified percentage of the net profits.

HappyHomes Limited wanted to appoint Mr. Joy as the whole-time director of the Company but he was disqualified for appointment under section 196(3) of the Companies Act, 2013, which states that no company shall appoint or continue the employment of any person as managing director, whole-time director or manager who is below the age of 21 years or has attained the age of 70 years. Mr. Joy had attained the age of 70 years a few months back and so a meeting was held with the statutory auditors of HappyHomes Limited, JAY & Company to find a solution to this issue. The auditors informed the Company that where a person has attained the age of seventy years, he may still be appointed as whole-time director if a special resolution is passed in this respect. So, all the required procedures were followed to appoint Mr. Joy as the whole-time director of the Company. An explanatory statement was annexed to the notice for such motion which indicated the justification for appointing Mr. Joy as whole-time director. However, the special resolution could not be passed in the general meeting but the votes cast in favour of the motion exceeded the votes casted against the motion. JAY & Company was again consulted and as per their suggestion, an application was made by the Board to the Central Government that such appointment would be most beneficial to the company. The appointment was finally regularized by the approval of the Central Government.

Para 2

HappyHomes Limited had obtained GST registration in all the states in which the company has its head office and branches. ITC is availed on all inputs, input services and capital goods used for purposes of business after consulting with JAY & Company so that no ineligible ITC is claimed. ITC was also availed on inputs and capital goods sent for job work. During the month of December, the Company decided to participate in the Christmas carnival held on the eve of Christmas. A stall was booked and it was decided that free gifts would be distributed to all the visitors at the carnival.

A gift set consisting of a fork, spoon and knife made of steel would be presented to every visitor who left his name and number with the sales representative at the stall. The Company had initially decided to manufacture these sets in-house. However, an incremental analysis was conducted to assess the benefits of outsourcing the gift sets. While considering the decision to outsourcing, the management also considered qualitative aspects like quality of goods, reliability of suppliers, impact on the customers and suppliers etc. Finally, the decision taken was in favour of outsourcing the gift sets from a known and reliable supplier. The sets were received from the supplier in time and the Company claimed ITC on the GST paid on them.

The carnival was a huge success and the footfall was very high. Except for a few, all the sets were distributed. After the carnival was over, the sales representatives tried to tally the balance sets with the total sets brought at the carnival less the number of visitors in the register, and realised that there was a shortfall of a large number of sets. Apparently, the same were stolen by people who had already taken one set as a gift and wanted few more. The necessary entries for the theft and other expenses were passed in the books of account of HappyHomes Limited.

Para 3

The management of HappyHomes Limited held a meeting with JAY & Company, to discuss the best techniques for analysing its activities and obtaining more information on the business operations along with cost prediction and improved cost management. JAY & Company suggested the activity based CVP analysis which used multiple cost drivers to estimate the costs for the coming periods. The suggestion of JAY & Company was followed, and a better prediction of costs and a much more complete picture of break-even analysis was available to management as compared to the traditional CVP analysis that the Company was earlier following. The activity-based costing also helped the Company to improve cost management and decision-making.

Para 4

Happy Homes Limited provides the following information pertaining to GST paid on inward supplies during the month of April (current financial year):

S. No.	Items	GST paid in (₹)
(i)	Life Insurance premium paid by the company for the life insurance of factory employees as per the policy of the company. There is no legal obligation for such insurance for employees.	2,00,000
(ii)	Raw materials purchased for which invoice is missing but delivery challan is available	69,000
(iii)	Truck purchased for delivery of finished products	80,000
(iv)	Works contractor's service used for repair of factory building which is debited in the profit and loss account of company	40,000
(v)	Company purchased the capital goods for ₹ 5,00,000 and claimed depreciation of ₹ 56,000 (@ 10%) on the full amount of ₹ 5,60,000 under Income Tax Act, 1961	60,000

Other information:

- In the month of September of previous financial year, HappyHomes Ltd. availed ITC of ₹ 1,40,000 on purchase of raw material which was directly sent to job worker's premises under a challan on 25th September (previous financial year). The said raw material has not been received back from the job worker up to 30th April (current financial year).
- All the above inward supplies have been used in the manufacture of taxable goods.

Para 5

The following particulars (after giving effect to all the line items given therein) are extracted from the statement of profit and loss of HappyHomes Limited for the year ended 31st March 2022:

Sr. no.	Particulars	Amount (₹)
1	Gross Profit	80,00,000
2	Profit on sale of godown (Cost ₹ 10,00,000 and written down value ₹ 6,00,000)	6,00,000
3	Salaries & wages	3,00,000
4	Sundry Repairs to Fixed Assets	75,000
5	Subsidy from the government	4,00,000
6	Compensation for breach of contract	2,00,000
7	Depreciation	1,60,000
8	Loss on sale of long-term investments	4,00,000
9	Interest on unsecured loans	60,000
10	Interest on debentures issued by the company	90,000
11	Repair Expenses to fixed assets (Capital in nature)	5,00,000
12	Net Profit	18,00,000

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

1. In your opinion, is the contention of Mr. CS correct with reference to Para (1)?

   (a) Yes, the Managing Director cannot be appointed for a term exceeding five years at a time but two separate approvals/resolutions can be passed one after the other to appoint him for ten years.

   (b) Yes, the Managing Director cannot be appointed for a term exceeding five years at a time and no re-appointment can be made earlier than one year before the expiry of his term.

   (c) Yes, the Managing Director cannot be appointed for a term exceeding five years at a time and no re-appointment can be made earlier than two years before the expiry of his term.

   (d) Yes, the Managing Director can be appointed for a term exceeding five years at a time after taking the approval of the Central Government within ninety days of such appointment.

2. With reference to Para (1), which of the following statements is not correct for seeking approval from the Central Government for appointment of Mr. Joy?

   (a) Application in Form No. MR-2 within a period of ninety days from the date of such appointment.

   (b) Special Notice to Members.

   (c) Publication of Notice.

   (d) Attaching of Notice with the Application.

3. With reference to Para (2), what should be the treatment of ITC availed in the books of account on the sets brought at the carnival and not in stock at the end?

   (a) ITC availed in books of account should be reversed for sets distributed as gifts as it was a voluntary act on the part of the Company, but since the theft of the sets was an involuntary act on the part of the Company, ITC can be availed.

   (b) ITC availed in books of account is eligible for both sets distributed as gifts and sets stolen since both the acts have happened in the normal course of business.

   (c) ITC availed in books of account should not be reversed for sets distributed as gifts, but for the sets stolen, ITC should be reversed since stolen sets will not lead to any future benefit, in the form of increase in sales, for the Company.

   (d) ITC availed in books of account should be reversed for both sets distributed as gifts and sets stolen since no tax is paid on outward supply.

4. HappyHomes Limited decided to outsource the sets distributed in the Christmas carnival. When do you think a Company should not opt for outsourcing, in the context of Para (2)?

   (a) If the return on the necessary investment to be made to manufacture, is not attractive enough.

   (b) If adequate managerial manpower is not available to take charge of the extra work of manufacturing.

   (c) If transport and other infrastructure facilities are not adequately available.

   (d) If there is risk of technological obsolescence for the component such that it does not encourage capital investment in the component.

5. As referred under Para (3), HappyHomes Limited followed the activity-based costing method for analysis of its activities. Which of the following is not a classification of this method?

   (a) Fixed and variable activities.

   (b) Product sustaining activities.

(c) Facilities level activities.

(d) Batch-level activities.

Part B- Descriptive Questions

6. With reference to Para (4), compute the amount of net ITC available with HappyHomes Ltd. for the month of April with necessary explanations for the treatment of various items as per the provisions of the CGST Act. Subject to the information given, assume that all the other conditions necessary for availing ITC have been fulfilled. **(7 Marks)**

7. Considering the information given in Para (5), you are required to calculate the overall managerial remuneration payable under section 197 of the Companies Act, 2013 subject to the provisions under Schedule V to the said Act. **(8 Marks)**

CASE STUDY 3

1. Supatra Foundation is a public charitable trust registered under section12AB of the Income Tax Act, 1961. The trust is engaged in various social activities such as uplifting of poor people, advancement of orphaned children, conducting public awareness programmes, educational programmes, public health camps, sports training camps, etc.

   Mr. Sameer Devan who is a Chartered Accountant by profession, serves as an honorary leader of the said trust.

2. The founder and director of Jas Jagish Ltd., Mr. Rajat Bhatia, was quite moved while reading a newspaper article on the philanthropic activities being carried out by Supatra Foundation and decided that his company should give some donations to the said trust and accordingly Jas Jagish Ltd. donated a sum of ₹ 24 lakhs during the F.Y. 2021-22, with a specific direction that such donation shall form part of the corpus of the trust. The average net profits of the company during the preceding three financial years was ₹ 4 crore.

   For F.Y. 2021-2022, Jas Jagish Ltd.'s profit before tax according to Ind-AS was ₹ 2 crore and taxable profit was ₹ 2.08 crore. The difference between these amounts arose due to reasons, as follows:

   (i) On 1st February, 2022, it acquired a machine for ₹ 2.4 crore. Depreciation was charged on the machine on a monthly basis for accounting purpose. Under the tax law, the machine was to be depreciated for 6 months. The machine's useful life was 10 years according to Ind-AS as well as for tax purposes.

   (ii) In the F.Y. 2021-22, donation of ₹ 24 lakhs was given to Supatra Foundation out of which ₹ 16 lakhs was not deductible for tax purposes, as per the provisions of section 80G of the Income Tax Act, 1961.

3. Nishalya Ltd., an associate company of Jas Jagish Ltd., 53% of which shares are held by Trium Inc., a USA based company, made a donation of ₹ 5 lakhs to Supatra Foundation as a voluntary contribution, on the suggestion of Mr. Rajat.

   One of the directors of the said company also proposed donating a sum of ₹ 2 lakhs, as a voluntary contribution to an electoral trust vide an account payee cheque during F.Y. 2021-22, but it was not approved by the board of the company.

4. For the previous year ending 31.3.2022, Supatra Foundation derived gross income of ₹ 1.5 crore, which consisted of the following:

Particulars	(₹ in lakhs)
Income from properties held by trust (net)	40
Voluntary contributions received	40

Voluntary contributions received with a specific direction that such donation shall form part of the corpus of the trust	70

The trust applied a sum of ₹ 95 lakhs towards charitable purposes during the financial year under consideration. Out of the total corpus donations of ₹ 70 lakhs received during the year, ₹ 40 lakhs were not invested in any of the modes specified under section 11(5) of the Income Tax Act, 1961.

5. There was a change in the accountant of Supatra Foundation during the month of March, 2022. The old accountant, Mr. Suraj, apart from maintaining the books of accounts of the trust had also been managing all the GST related work of the trust. He was applying the relevant accounting standards in accounting for all the activities of the trust whether commercial or non-commercial.

   The new accountant, Mr. Dhiman was properly trained by Mr. Suraj, before he left his job. However, Mr. Dhiman had required assistance from Mr. Suraj in computing the GST liability of the trust for the month of March, 2021, in respect of transactions, as follows:

Particulars	(₹- exclusive of GST)
Amount received for renting of commercial property owned by the trust	80,000
Fees received for a badminton training camp organized for 2 weeks for children under 18 years	60,000
Educational programme organized for persons under the age of 65 years residing in a rural area	30,000
Consultancy services received for purpose of providing charitable activities from a firm based in Germany	45,000
Web-hosting services received from GoDaddy Inc., a USA based company. Such website was created for raising charitable funds by the trust.	20,000

The trustee of the said trust made a proposal to Mr. Harsh Vora, proprietor of Vora & Associates, for auditing the books of accounts of the said trust for the financial year 2021-22.

Mr. Harsh is also a partner in VKS & Co. whose another partner, Mr. Kushal Sena, is an employee of the said trust. Some certification work was also offered by the trust to him.

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

1. Contribution by Jas Jagish Ltd., as referred under Para 2, is in excess of ₹ ______ for which it would require prior permission of the company.

   (a) ₹ 16 lakhs, due to which an ordinary resolution would have been required to be passed.

   (b) ₹ 4 lakhs, due to which an ordinary resolution would have been required to be passed.

   (c) ₹ 8 lakhs, due to which a special resolution would have been required to be passed.

   (d) ₹ 4 lakhs, due to which a special resolution would have been required to be passed.

2. Would your answer in Q. no. 1 change if Jas Jagish Ltd. was a private limited company and whether any permission was required by Mr. Sameer for holding such position in the trust? (Refer Para 1 & 2)

   (a) No, the answer will remain the same and Mr. Sameer was not required to take any permission for holding such position in the trust.

   (b) Yes, as in such case, there would be no requirement to take any prior approval of the company for making such contribution and Mr. Sameer was not required to take any permission for holding such position in the trust.

(c) Yes, as in such case, there would be no requirement to take any prior approval of the company for making such contribution without any limit and Mr. Sameer was required to take prior permission of the ICAI for holding such position in the trust.

(d) No, the answer will remain the same and Mr. Sameer was required to take prior permission of the ICAI for holding such position in the trust.

3. With reference to Para 5, whether GoDaddy Inc. would be required to take GST registration?

(a) Yes, provided GoDaddy Inc. also provide such services to non-registered persons in India.

(b) Yes, provided GoDaddy Inc. would be compulsorily required to take GST registration irrespective of whether it provide such services to non-registered persons in India or not.

(c) No, as in case of such services, the recipient is required to discharge the GST liability on reverse charge basis.

(d) No, as such service providers are specifically exempted from taking GST registration.

4. Whether Mr. Harsh can accept the auditorship of Supatra Foundation as discussed under Para 5?

(a) Yes, as there are no restrictions in accepting such auditorship in the given case.

(b) Yes, by taking prior permission of the ICAI

(c) No, as his partner is an employee of the said trust.

(d) Yes, if his partner is a part-time employee in the said trust.

5. Whether the electoral trust could have accepted donation from Nishalya Ltd. had its board approved for the said donation? (Refer para 3)

(a) Yes, as the said contribution was to be made vide an account payee cheque.

(b) No, it was prohibited to accept such donation.

(c) Yes, as it was to be received from a company registered in India and such contribution was to be made vide an account payee cheque.

(d) No, prior approval of Electoral Commission of India is required in such case.

Part B- Descriptive Questions

6. Referring Para 2, prepare necessary entries in respect of Jas Jagish Ltd. as at 31st March 2022, taking current and deferred tax into account. The tax rate is 25%. Also prepare the tax reconciliation in absolute numbers as well as the tax rate reconciliation. **(5 Marks)**

7. (i) Referring Para 4, determine the taxable income of Supatra Foundation for the assessment year 2022-23.

(ii) Referring Para 5, examine the applicability of accounting standards to Supatra Foundation, particularly in respect of its non-commercial activities? **(5 Marks)**

8. Referring Para 5, determine the GST payable in cash of Supatra Foundation for the month of March, 2021 if rate of GST is 18% assuming that the opening balance of ITC for relevant tax period is ₹ 30,000 and the time of supply of such transactions falls in March month. **(5 Marks)**

CASE STUDY 4

Kundan Gems Pvt. Ltd. is a Company incorporated under Companies Act, 1956 with the main object of manufacturing of Gems and Jewellery in the year 1985. It is the leading manufacturer of natural diamonds and one of the India's premier Diamantaire establishing benchmarks not just for sheer scale of operations, but also for product quality, precision and variety. The Company has a specialized manufacturing unit and uses advanced hi-tech manufacturing systems in the Diamond industry. It manufactures and exports both rounds and fancies in all shapes, colours, clarities and sizes. It was executing the business of exporting the

Jewellery to various countries like USA, Dubai, Canada and various African countries on regular basis up to March 2020.

However, with advent of Covid-19 pandemic, there was tremendous slump in export activity mainly in Gems and Jewellery sector, the sales of the Company were adversely affected. Looking to the lockdown challenges and projected decline in global trade, the Directors expected 20% decline in the exports. In case of the second wave of the pandemic, there would be further contractions in the exports of the Company. Exports of cut and polish diamonds, the main area of Kundan Gems Pvt. Ltd. with base in Gujarat had also reduced substantially.

Favourably, the Company could realize its exports proceeds effectively from earlier exports and hence it had surplus funds to be invested. There were in-depth discussions within the Board of Directors regarding the avenues for deployment of surplus funds as investments. Most of them were of the opinion that the investment in Fixed Deposits would give meagre returns on investments. So, they ruled out the same. All the Directors unanimously decided to invest the surplus funds in Property as they had done the same 5 years back and got handsome rewards in the form of rental income as well as appreciation of the market value of the property.

To gain better understanding of the accounting treatment of Investment properties, they approached CA Milin Shah, Partner in M N Shah & Co., Chartered Accountants.

Three decades of dynamic leadership, creativity, integrity and unparalleled sense of commitment is what makes M N Shah & Co., Chartered Accountants. They have accumulated unmatched experience and expertise in the entire range of Assurance, Taxation, IND AS Adoption & Advisory Services, Compliance and Business Advisory services. The Firm provides full spectrum of professional services led by 6 partners with multi-skilled team of Accountants, Company Secretaries, and Business Valuers etc.

CA Milin Shah is well experienced and has handled assignments with an international orientation, enabling their clients to adopt the best practices with respect to financial reporting.

Para 1:

Kundan Gems Pvt. Ltd. owns a Building A which is specifically used for the purpose of earning rentals. The Company has not been using the building A or any of its facilities for its own use for a long time. The company is also exploring the opportunities to sell the building if it gets the reasonable amount in consideration.

Following information is relevant for Building A for the year ending 31st March, 2022:

Building A was initially acquired at the cost of ₹ 15 crores and building life is estimated to be 20 years. Out of 20 years, 5 years have expired as on 01.04.2021. The company follows straight line method for depreciation.

During the year, the company has invested in another Building B with the purpose to hold it for capital appreciation.

The property was purchased on 1st April, 2021 at the cost of ₹ 4 crores. Expected life of the building is 40 years. As usual, the company follows straight line method of depreciation.

Further, during the year 2021-22, the company earned/incurred following direct operating expenditure relating to Building A and Building B:

Particulars	Amount (₹' lakhs)
Rental income from Building A	100
Rental income from Building B	50
Sales promotion expenses	10
Fees & Taxes	2.5
Ground rent	3
Repairs & Maintenance	3
Legal & Professional	2.50
Commission and brokerage	2.25

The company does not have any restrictions and contractual obligations against Property - A and B. For complying with the requirements of Ind AS, the management sought an independent report from the specialists so as to ascertain the fair value of buildings A and B. The independent valuer has valued the fair value of property as per the valuation model recommended by International Valuation Standards Committee. Fair value has been computed by the method by streamlining present value of future cash flows namely, discounted cash flow method.

The other key inputs for valuation are as follows:

The estimated rent per month per square feet for the period is expected to be in the range of ₹ 50 - ₹ 60. And it is further expected to grow at the rate of 10 percent per annum for each of 3 years. The weighted discount rate used is 12% to 13%.

The fair value of properties based on discounted cash flow method is measured at ₹ 15 crores. The treatment of fair value of properties is to be given in the financials as per the requirements of Indian Accounting Standards.

During the FY 2022-23, Kundan Gems Pvt. Ltd. has stopped letting out the building A and used it as its office premise. On 31st March, 2022, Management estimates the recoverable amount of the building as ₹ 10.00 Crores and its remaining useful life as 14 years and residual value is Nil.

Para 2:

Sensque Technologies Pvt. Ltd. is a leading manufacturer of Computer Hardware. Initially, it was established as a Partnership Firm but was converted into Private Limited Company in 2018. Mr. Jai Maitri and Mr. Kailash Maitri both jointly promoted the Company. The Company is a strong partner for creative solutions in the fields of connection technology, electronics, and automation on the path to a smart world. Their products are used wherever the flow of current or data is connected, distributed, and controlled.

The other unit of the Company provides automation software from configuration through to system operation, with their unique ability to offer end-to-end solutions that connect Sensors, Software, and Services. The Company too provides end to end mobility solutions and services including application development and connected application design.

The Company, Sensque Technologies Pvt. Ltd. is restructuring its Mobility Solutions business to bring together automotive software, electronic systems and sensors in one division. Consequently, the Company intends to sell their Software division.

Without further ado, the Directors of the Company advanced to CA Neil Shah, Partner in M N Shah & Co., Chartered Accountants. CA Neil Shah has a commendable track record as an Advisor in Accountancy and Taxation including matters of International Taxation. He has been a catalyst in expanding the portfolio of the firm's services from traditional Auditing and Taxation to multi-faceted consultancy. The Directors delineated CA Neil about their restructuring plans of their Software division.

Sensque Technologies Pvt. Ltd. has two units - one engaged in manufacture of computer hardware and the other involved in developing software. As a restructuring drive, the company has decided to sell its software unit as a going concern by way of slump sale for ₹ 770 lacs to a new company called S Limited, in which it holds 74% equity shares.

The Balance Sheet of Sensque Technologies Pvt. Ltd. as on 31st March 2022, being the date on which software unit has been transferred, is given hereunder –

Balance Sheet as on 31.3.2022

Liabilities	Amount (₹' lakhs)	Assets	Amount (₹' lakhs)
Paid up Share Capital	600	Fixed Assets:	
General Reserve	300	Hardware unit	340
Share Premium	100	Software unit	400

Revaluation Reserve	240	Debtors:	
Current Liabilities		Hardware unit	280
Hardware unit	80	Software unit	220
Software unit	180	Inventories:	
		Hardware unit	190
		Software unit	70
	1,500		1,500

Following additional information are furnished by the management:

The Software unit is in existence since May, 2016.

Fixed assets of Software unit include land which was purchased at ₹ 80 lacs in the year 2009 and revalued at ₹ 120 lacs as on March 31, 2022.

Fixed assets of Software unit mirrored at ₹ 280 lacs (₹ 400 lacs minus land value ₹ 120 lacs) is written down value of depreciable assets as per books of account. However, the written down value of these assets under section 43(6) of the Income-tax Act, 1961 is ₹ 180 lacs.

FMV of capital assets transferred by way of slump sale are ₹ 500 lacs.

Para 3:

CA Mahendra Shah, father of CA Neil Shah, is the senior most Partners in their Firm M N Shah & Co., Chartered Accountants. He is having 32 years of corporate experience focusing on Audit & Assurance, Internal Audit, Risk Governance, Management Audit Standard Operating Procedures, and Internal finance Controls etc. The list is perpetual. He has served in many reputed large Corporates too. One of his valuable clients is All-in-one Option Ltd.

The Company, All-in-one Option Ltd., is one of the fast-moving Consumer Goods Company. They have several brands spanning in distinct categories such as fabric solutions, life essentials, colour cosmetics, oral care and many more. It is an Unlisted Company. The Company's Accounts are being audited by M N Shah & Co, Chartered Accountants.

Para 3A:

Following the appointment of the Firm M N Shah & Co., Chartered Accountants as the Auditors of the Company All-in-one Option Ltd., CA Bhavesh Shah was being offered to join the Firm as Partner. Mr. Fenil, brother of CA Bhavesh Shah acquired 9,000 shares (Nominal value being ₹ 10 per share) of the Company at a premium of ₹ 20 per share. Mr. Fenil was a bullish man; he was very buoyant regarding share price of All-in-one Option Ltd. Hence, he did not sell the shares. But to everyone's surprise, the price of the share fell and the current realizable value of Mr. Fenil's shares came to ₹ 1,90,000. The existing Partners of the Firm are aware about Mr. Fenil's shareholding in All-in-One Option Ltd.

Para 3B:

FMCG Retail Environment is quite turbulent because of the fluctuating demand. With demand ups and downs, it is often a problem for suppliers not to be able to provide retailers with enough quantities of the ordered products. The business is in jeopardy despite the demand is quite stable. Availability of workers at factories and trucks for transportation remain key challenges to meet demand for essential items during the lockdown due to Coronavirus pandemic. The financial health of the Company is also imperilled by various strings like intense competitions, rapid shift in consumer tastes and preferences, unstable commodity prices, unpredictable monsoons etc. Another setback is the lack of price consistency at every customer touch point – meaning in all outlets or online stores. If there is no unified system to automatically update price changes, customers feel dissatisfied, and retailers lose sales. It needs to be assessed in consonance to its specific vulnerability

Para 3C:

FMCG's sector includes pharmaceuticals, consumer electronics, soft drinks etc. The Company, All-in-One Option Ltd. also has faced several hassles, apart from those mentioned above. It includes risks from their products getting obsolete due to technological developments. For example, Smartphone Cameras have made clicking pictures with Camera a mundane activity. VCR's have been supplanted by OTT streaming platforms. Inventory Management is also a major business risk in this sector. To track the inventories on regular basis is a moiling task and turn the business upside down for a savvy and demanding customer base.

Para 3D:

To mitigate these risks, the Board of Directors thought to appoint Internal Auditor in the Company. The paid-up share capital of the Company is ₹ 45 Crores during the previous year. Total turnover of the Company was to the tune of ₹ 195 Crores. The Company has availed Cash Credit Loan from X Bank which had maximum outstanding balance of ₹ 68.50 Crores during the year 2021-22. The Company had further availed Term Loan from Y Bank which had maximum outstanding balance of ₹ 55.50 Crores during the year 2021-22.

Para 3E:

Amid the Covid Pandemic, the Directors of the Company All-in-one Option Ltd. said that while a lot of their plants and warehouses for essential goods are now operational, albeit at scaled down levels, a shortage of manpower, and lack of raw material is still limiting their capacity to ramp up production. Consequently, the prices of raw materials have increased. Hence, the Internal Auditor of the Company undertook thorough examination of the Purchase Department. On analysis of the observations made during the audit, it was perceived that Purchases have been majorly made from the buyers who are related to the Directors of the Company. It was observed that prices paid to such parties are relatively higher than the Market Rate. This involves high risk and is a matter of consideration. The Internal Auditor recommended maintaining an approved vendor file for purchases to ensure that purchases are made from approved vendors only.

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

1. With reference to inclusion of CA Bhavesh, under Para 3A, as an Auditor Partner in the Firm M N Shah & Co., Chartered Accountants, what is your view-point regarding the same? Will M N Shah & Co., Chartered Accountants, induct him as a partner in the firm? The existing partners have clarified that they shall not forgo the Audit of their valuable client.

    (a) No, the partners of M N Shah & Co. will not induct CA Bhavesh as a partner owing to the fact that they would lose the audit assignment of the Company All-in-one Option Ltd. as CA Bhavesh is disqualified by virtue of Mr. Fenil, his brother's shareholding in the Company All-in-one Option Ltd. He had purchased those shares at ₹ 2,70,000/- (9,000*30), which is greater than the exempted limit.

    (b) Yes, the partners of M N Shah & Co., will accept CA Bhavesh as an Auditor Partner as they would continue to be qualified to undertake the Audit of All-in-one Option Ltd., because his brother holds the shares of the mentioned Company whose face value is less than the exempted limit.

    (c) Yes, the partners of M N Shah & Co., will accept CA Bhavesh as an Auditor Partner in the Firm as he is not disqualified, on the ground that Mr. Fenil, his brother, holds the shares of the Company All-in-One Option Ltd., whose Realizable value is much less than his Purchase price.

    (d) No, the partners of M N Shah & Co. will not induct CA Bhavesh as a partner owing to the fact that they would lose the audit assignment of the Company All-in-one Option Ltd. as his brother holds shares in the said Company, irrespective of the amount of Shares his brother holds in the Company.

2. In context of formerly mentioned Business Risks, which chunk of Risk Management from the following has been illustrated appropriately under Para 3C?

    (a) Risk Monitoring

(b) Risk Mitigation

(c) Risk Identification/ Risk Assessment

(d) Ineffective Internal Control system.

3. Various risk elements have been illustrated in Para 3B and Para 3C above. These risks can be higher or lower, from time to time. Which of the following major component of Audit Risk is highlighted therein?

(a) Inherent Risk

(b) Detection Risk

(c) Control Risk

(d) Combination of Inherent & Detection Risk.

4. With reference to Para 3D, All-in-One Option Ltd. does not have Internal Audit system. The Board of Directors wants to appoint however they were iffy on the provisions of Companies Act 2013, whether it is mandated for their Company or not. Please guide them a suitable flight path.

(a) Yes, the Company has the statutory requirement to appoint an Internal Auditor as it is a Public Limited Company.

(b) No, the Company does not require appointing Internal Auditor under statutory requirement clause as its Turnover is less than the exempted limit.

(c) Yes, the Company is mandatorily required to appoint Internal Auditor as Total Outstanding Loans from Banks during the previous year exceeds the exempted limit.

(d) No, the Company is not required to appoint Internal Auditor as Paid-up capital; Turnover as well as Outstanding Loans was below the prescribed limit during the preceding year.

5. The scope of Internal Auditing is very broad and involves continuous and critical appraisal of the functioning of an entity with a view to suggest improvements and thereto do the value addition. Para 3E illuminate's one of the areas where work of Internal Auditor has been accentuated. Which of the following describes it?

(a) Review of custodianship & safeguarding of Assets.

(b) Review of Organizational Structure.

(c) Review of accomplishment of goals & objectives.

(d) Review of Internal Control System & Procedures.

Part B- Descriptive Questions

6. (a) With reference to Para 1, what would be the treatment of Building A and Building B in the Balance Sheet of Kundan Gems Pvt. Ltd. for FY 2021-22? Provide detailed disclosures and computations in line with relevant Indian Accounting Standards. Treat it as if you are preparing a separate note or schedule, of the given assets in the Balance Sheet. **(5 Marks)**

(b) How should the company account for the above investment property as on 31st March, 2022? **(3 Marks)**

7. (a) With reference to Para 2, ascertain the tax liability, which would arise from slump sale to Sensque Technologies Pvt. Ltd., assuming it does not opt for Section 115BAA. **(5 Marks)**

(b) What would be your advice as a tax-consultant to make the restructuring plan of the company more tax-savvy, without changing the amount of sale consideration? **(2 Marks)**

CASE STUDY 5

1. Kiramji Ltd. is an unlisted public company, incorporated since 2015, registered under GST in the union territory of Delhi, having seven directors in its board, including one woman director.

   Board of Directors of Kiramji Ltd. by a resolution passed at its meeting, decided to borrow a specific loan of ₹ 3 crore from the company's bankers for the purpose of financing construction of its new building.

   The following data is extracted from the audited balance sheet of Kiramji Ltd. as on 31.03.2021:

Particulars	(₹ in crore)
Authorised Capital (Equity Shares)	15
Paid – up Share Capital	7
General Reserves	3
Debenture Redemption Reserve	1
Provision for Taxation	0.5
Securities premium	1
Loan (Long Term)	9
Short Term Creditors	1.5

2. Kiramji Ltd. began construction of the new building at an estimated cost of ₹ 8 crore on 1st May, 2021 for which it obtained a specific loan of ₹ 3 crore at an interest rate of 9% per annum.

   The company's other outstanding loans were:

Amount	Rate of Interest per annum
₹ 4 crore	12%
₹ 5 crore	10.2%

   The expenditure incurred on the construction was:

Particulars	(₹ in lakhs)
May, 2021	200
September, 2021	180
November, 2021	350
February, 2022	130

   The construction of building was completed by 28th February, 2022 and was put to use by that date. However, the company capitalized the interest cost related to such building for the month of March also.

3. One of the promoters of the company is Mr. Dishant Kiramji who is also a director and stakeholder in the company. The number of directorships held by Mr. Dishant in different type of companies, including Kiramji Ltd., is as follows:

Type of Company	Number of directorships
Listed Public Company	4
Unlisted Public Company	1
Private Limited Company	8*
Dormant Company	3
Company registered u/s. 8 of the Companies Act, 2013	2

   * Two of such companies are associate companies of a listed public company and one such company is a subsidiary of an unlisted public company.

4. Mr. Dishant Kiramji had purchased a house property at Laxmibai Nagar in New Delhi on 01.04.2021 for the purpose of his residence. He had paid interest of ₹ 3,50,000 during the year on the loan sanctioned of ₹ 40,00,000 @ 10% on 01.04.2021 by State Bank of India for purchase of the said house property for ₹ 46 lakhs, the stamp duty of which was ₹ 44 lakhs. On the date of sanction of the said loan to Mr. Dishant, he did not own any residential house property.

   Such loan was guaranteed by Kiramji Ltd at the time of sanctioning of loan itself i.e. 01.04.2021. There was also principal repayment towards such loan of ₹ 10,00,000 on 01.10.2021.

   Further, the grandfather of Mr. Dishant Kiramji, Mr. Jayesh, had also purchased a house property at Chanakyapuri in New Delhi from his own funds. The municipal value of the property was ₹ 10,00,000, fair rent is ₹ 8,40,000 and standard rent is ₹ 9,60,000. The property was let-out for ₹ 1,00,000 p.m. from 01.04.2021 up to 31.12.2021. Thereafter, the tenant vacated the property. Rent for the months of November and December, 2021, could not be realised in spite of the owner's efforts. He paid municipal taxes @12% during the year.

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

1. With reference to Para 3, Mr. Dishant can accept directorships in how many more private limited companies engaged in commercial business actively?
   (a) 5
   (b) 7
   (c) 2
   (d) 4
2. With reference to Para 3, Mr. Dishant can accept directorships in how many more public companies?
   (a) In four more companies, out of which directorships allowed in case of listed companies will be limited to maximum three.
   (b) In five more companies, out of which directorships allowed in case of listed companies will be limited to maximum four.
   (c) In two more companies.
   (d) In four more companies.
3. With reference to Para 4, what formalities were required to be followed by Kiramji Ltd. while providing guarantee for the loan given to Mr. Dishant?
   (a) Special resolution was required to be passed for the same only if Mr. Dishant was not a managing director or whole time director of the company and also particulars of such guarantee was to be entered in Form MBP-2 by 08.04.2021.
   (b) Special resolution was required to be passed for the same and also particulars of such guarantee was to be entered in Form MBP-1 by 08.04.2021.
   (c) Special resolution was required to be passed for the same and also particulars of such guarantee was to be entered in Form MBP-2 by 08.04.2021.
   (d) Special resolution was required to be passed for the same and also particulars of such guarantee was to be entered in Form MBP-2 by 01.05.2021.
4. What shall be the total eligible deduction in respect of interest on housing loan for A.Y. 2022-23, under the provisions of the Income-tax Act, 1961 as discussed under Para 4?
   (a) ₹ 2,00,000

(b) ₹ 3,50,000

(c) ₹ 1,50,000

(d) ₹ 30,000

5. What shall be the gross annual value of the house property let out by Mr. Jayesh for A.Y. 2022-23, under the provisions of the Income-tax Act, 1961, assuming all the conditions under Rule 4 are satisfied? Ignore, any alternate view for the same. (Refer Para 4)

   (a) ₹ 9,00,000

   (b) ₹ 10,00,000

   (c) ₹ 9,60,000

   (d) ₹ 7,00,000

Part B- Descriptive Questions

6. (I) Following the provisions of Ind AS 23 'Borrowing Costs', calculate the amount of interest to be capitalized with respect to the new building and pass necessary journal entry for capitalizing the cost and borrowing cost in respect of the building as on 28th February, 2022, had the company proper capitalized the interest cost as per the principles of the relevant statue. (Refer Para 2)

   (5 Marks)

   (II) By when, Kiramji Ltd. should have ceased capitalizing the interest costs related to the building and how such matter will be qualified in the audit report by the auditor of the company? Describe the manner of making such qualification in the audit report. (Refer Para 2) **(3 Marks)**

7. Referring Para 4, compute the income from house property of Mr. Dishant and Mr. Jayesh for A.Y. 2022-23, assuming all the conditions under Rule 4 are satisfied. Ignore, any alternate view for the same. **(7 Marks)**