

MOCK TEST PAPER
FINAL (NEW) COURSE: GROUP – II
PAPER – 6F: MULTIDISCIPLINARY CASE STUDY
SUGGESTED ANSWERS / HINTS

CASE STUDY 1:**Part A**

1. (c) Rainwear & Co. is liable to pay GST under Reverse Charge Mechanism (RCM).

Reason: As per Section 9(3) of CGST Act, the Government may, on the recommendations of the Council, by notification, specify categories of supply of goods or services or both, the tax on which shall be paid on reverse charge basis by the recipient of such goods or services or both and all the provisions of this Act shall apply to such recipient as if he is the person liable for paying the tax in relation to the supply of such goods or services or both.

GST will be payable under Reverse Charge Mechanism on Services provided by an individual advocate including a senior advocate or firm of advocates by way of legal services, directly or indirectly.

2. (b) ₹ 29,48,800.

Reason:

Computation of Income of Mr. Raj		(₹)	(₹)
A	Salary Income		24,00,000
B	Education expense	6,00,000	
	Less: As per Rule 2BB: Children Education Allowance	1,200	5,98,800
	Gross Salary Income (A + B)		29,98,800
	Less: Standard Deduction		50,000
	Net Salary Income		29,48,800

There is no specific provision under Income Tax Act that governs the tax treatment for social security contributions made by an employer to the overseas social security scheme on behalf of its employees or by the inbound expatriate employees who continue to contribute to their home social security scheme.

Guidance can be drawn from past judicial rulings where it has been held that employer contribution may not be considered as a taxable perquisite provided the following conditions are satisfied:

- The contribution made is an obligation of employer and is mandatory in nature;
- The contribution made is not an obligation of the employee being met by employer;
- The contribution is not actually paid to the employee or allowed to the employee or due/accrued to the employee from the employer;
- The employee does not have vested right at the time when contribution is made;
- The receipt of the contribution made to the fund is contingent in nature;
- The employees do not have any right to claim the amount payable under the policy on the date on which the contribution is being made.

Thus, the payment by employer towards social security schemes of Country X is not considered as perquisite in the hands of Mr. Raj and thus, is not taken into his computation of income.

3. (c) 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.

Reason: As per Section 234F of Income Tax Act, 1961,

“(1) Without prejudice to the provisions of this Act, where a person required to furnish a return of income under section 139, fails to do so within the time prescribed in sub-section (1) of the said section, he shall pay, by way of fee, a sum of,—

- (a) five thousand rupees, if the return is furnished on or before the 31st day of December of the assessment year;*
- (b) ten thousand rupees in any other case:*

Provided that if the total income of the person does not exceed five lakh rupees, the fee payable under this section shall not exceed one thousand rupees.

- (2) The provisions of this section shall apply in respect of return of income required to be furnished for the assessment year commencing on or after the 1st day of April, 2018.”*

Since Mr. Aditya have filed the return of income after the expiry of the assessment year 2020-2021, he is required to pay penalty of ₹10000.

As per Section 276CC of Income Tax ACT, 1961-

“If a person wilfully fails to furnish in due time the return of fringe benefits which he is required to furnish under sub-section (1) of section 115WD or by notice given under sub-section (2) of the said section or section 115WH or the return of income which he is required to furnish under sub-section (1) of section 139 or by notice given under clause (i) of sub-section (1) of section 142 or section 148 or section 153A, he shall be punishable,—

- (i) in a case where the amount of tax, which would have been evaded if the failure had not been discovered, exceeds twenty-five hundred thousand rupees, with rigorous imprisonment for a term which shall not be less than six months but which may extend to seven years and with fine;*
- (ii) in any other case, with imprisonment for a term which shall not be less than three months but which may extend to two years and with fine:*

Provided that a person shall not be proceeded against under this section for failure to furnish in due time the return of fringe benefits under sub-section (1) of section 115WD or return of income under sub-section (1) of section 139—

- (i) for any assessment year commencing prior to the 1st day of April, 1975; or*
- (ii) for any assessment year commencing on or after the 1st day of April, 1975, if—*
 - (a) the return is furnished by him before the expiry of the assessment year; or*
 - [(b) the tax payable by such person, not being a company, on the total income determined on regular assessment, as reduced by the advance tax or self-assessment tax, if any, paid before the expiry of the assessment year, and any tax deducted or collected at source, does not exceed ten thousand rupees.]”*

Mr. Aditya is not covered by the exception provided under Section 276CC of Income Tax Act, 1961. Since the amount of tax is less than twenty five hundred thousand rupees, it is covered by clause (ii) as stated above.

Thus, it will be liable to pay imprisonment for a term which shall not be less than three months but which may extend to two years and with fine.

4. (d) Part C of Form 15CA and Form 15CB is required.

Reason: As per Rule 37BB of Income Tax Rules, 1962, if the amount of payment is more than ₹5,00,000, then Part B of Form 15CA is to be filed, but after obtaining a certificate from Assessing Officer u/s 197 or an order u/s 195(2) or 195(3) Or fill Part C of Form 15CA along with Form 15CB.

Section 195(2)/195(3)/197 is not applicable to Mr. Raj, thus he will have to go for Form 15CB.

5. (a) ₹15,080.

Reason: Long-term capital gains earned by a non-resident on transfer of bonus shares which resulted from original investment of shares made out of convertible foreign exchange is eligible to be taxed at concessional rate of 10 per cent under section 115E.

Computation of Capital Gains	(₹)
Full value of Consideration	170000
Less: Cost of Acquisition	25000
Capital Gains	145000
Tax payable	15080

Part B

6. Every registered person who has been granted registration with effect from a date earlier than the date of issuance of certificate of registration to him, may issue Revised Tax Invoices. Such invoices shall be issued against the invoices already issued during said period.

This provision is necessary, as a person who becomes liable for registration has to apply for registration within 30 days of becoming liable for registration. When such an application is made within the stipulated time period and registration is granted, the effective date of registration is the date on which the person became liable for registration. In the above case, the effective date of registration is 1st November, 2019 since Rain Wear & Co applied for registration within 30 days of becoming eligible.

Thus there would be a time lag between the date of grant of certificate of registration and the effective date of registration. For supplies made by such person during this intervening period, the law enables the issuance of a revised invoice, so that ITC can be availed by the recipient on such supplies. There was a time lag of 22 days between the date of grant of certificate of registration (2nd November, 2019) and the effective date of registration (1st November, 2019). Thus, revised tax invoices need to be issued by Rainwear & Co so that the recipient of such supplies can take the credit of tax paid by them.

Further, a registered person may issue a Consolidated Revised Tax Invoice in respect of all taxable supplies made to an unregistered recipient during such period.

However, in case of inter-State supplies, a consolidated Revised Tax Invoice cannot be issued in respect of all unregistered recipients if the value of a supply exceeds ₹ 2,50,000.

Thus, Rainwear & Co has to issue revised tax invoice to Raj Enterprise, Kamla Enterprise and for Alok & Co. It cannot issue consolidated invoice for Alok & Co as though it is unregistered recipient, but the value of inter –supplies [Maharashtra and Punjab] exceeds ₹2.5 lakhs. For Rishabh & Co, consolidated tax invoices may be issued as the supplies are intra-state.

Following Particulars of Revised Tax Invoice needs to be taken care of while preparing revised tax invoice:

- Name, address and GSTIN of the supplier;
- A consecutive serial number not exceeding 16 characters, in one or multiple series, containing alphabets or numerals or special characters - hyphen or dash and slash and any combination thereof, unique for a FY;
- Date of issue of the document;
- Name, address and GSTIN or UIN, if registered, of the recipient;
- Name and address of the recipient and the address of delivery, along with the name of State and its code, if such recipient is un-registered;
- Serial number and date of the corresponding tax invoice or, as the case may be, bill of supply;
- Signature/digital signature of the supplier/his authorized representative.

7. As per Notification No. 13/2017 CT (R) dated 28.06.2017 as amended has notified the Goods transport Agency services wherein whole of the CGST shall be paid on reverse charge basis by the recipient of services.

GTA services are taxable at the following two rates:

- @ 5% (2.5% CGST+2.5% SGST/UTGST or 5% IGST) provided Goods Transportation Agency has not taken the Input Tax Credit (ITC) on goods and services used in supplying GTA service.
- @ 12% (6% CGST+6% SGST/UTGST or 12% IGST) where GTA opts to pay GST at said rate on all the services of GTA supplied by it. In this case, there is no restriction on availing ITC on goods and services used in supplying GTA service by GTA.

In this case, M/s Radheshaym Tiwari & Co is an unregistered transporter, which means he doesn't pay GST to the Government. Thus, M/s Dushyant & Co will have to pay GST on reverse charge basis if it is specified recipient.

The list of Specified Recipient is mentioned hereunder:

- (a) Any factory registered under or governed by the Factories Act, 1948; or
- (b) Any society registered under the Societies Registration Act, 1860 or under any other law for the time being in force in any part of India; or
- (c) Any co-operative society established by or under any law; or
- (d) Any person registered under the CGST Act or the IGST Act or the SGST Act or the UTGST Act; or
- (e) anybody corporate established, by or under any law; or
- (f) any partnership firm whether registered or not under any law including association of persons; or
- (g) any casual taxable person; located in the taxable territory.

In the case, M/s Dushyant & Co is a factory but it is not registered under Factories Act, 1948. Thus, it will have to first get registered under GST and then pay tax on the Goods Transport Agency service availed by it. Thus, he will have to pay GST of ₹ 2,500. Ms/ Dushyant & Co shall issue a self-generated invoice on the supplies received. Once the payment is made to M/s Radheshyam Tiwari & Co, M/s Dushyant & Co shall issue a payment voucher.

8. Mr. Evrick as a non-resident Indian, made deposits in A Ltd., an Indian company, in convertible foreign exchange. Later on, Mr. Evrick became a resident of India in the P.Y. 2019-20.

Assessing Officer held that assessee was not entitled to concessional rate of tax under section 115H, read with section 115E, for reason that the deposits with Indian company had ceased to be foreign exchange assets.

So long as original source of deposit was convertible foreign exchange, the foreign exchange asset, namely, deposit in A Ltd., an Indian company, would not affect its identity as a foreign exchange asset and, therefore, Mr. Evrick was entitled to concessional rate of tax on interest earned from deposits with A Ltd., under section 115H (reproduced below), read with section 115E of the Act.

Continuance of benefits after the non-resident becomes a resident [Section 115H]

- (a) Where a person who is NRI in any previous year becomes assessable as a resident in any subsequent year, then he may furnish a declaration in writing along with the return of income under section 139 for the year in which he is so assessable.
- (b) The declaration shall be to the effect that the provisions of this chapter shall continue to apply to him in respect of the investment income derived from foreign exchange assets being debentures, deposits, securities of Central Government and such other notified assets as specified under section 115C.
- (c) If he does so, the provisions of this chapter shall continue to apply to him in relation to such income for that assessment year and every subsequent year until the transfer or conversion into money of such assets.

CASE STUDY 2:

Part A

1. (d) 3 months

Reason: According to Indian Accounting Standard number 16 relating to Property, Plant and Equipment, the depreciation on an asset of a company begins when that asset is installed in the location and is provided with such conditions which are required for its working in the manner as desired by the management of that company.

2. (d) ₹ 500 crore or more.

Reason: As per section 135 of Companies Act, 2013 relating to Corporate Social Responsibility every company having a net worth of ₹ 500 crore or more during the immediately preceding financial year is required to constitute Corporate Social Responsibility Committee of the Board.

3. (b) Considered as Supply of Goods.

Reason: As per provisions of Section 25(5) of C.G.S.T. Act, and Explanation 1 to Section 8 of I.G.S.T. Act transfer of goods between two units of an entity having separate G.S.T. registrations would be considered as supply of goods between those two units.

4. (b) 04/04/2019

Reason: As per Section 12(2) read with Section 31 of C.G.S.T. Act, time of supply of goods in scenario of forward charge is earlier of following dates:

- (i) Date of issue of invoice by supplier.
- (ii) Date of delivery of goods to recipient.
- (iii) Date of recording of payment in books of accounts of supplier.
- (iv) Date of crediting of payment in bank account of supplier.

5. (d) Required to be issued, whatever may be the value of consignment.

Reason: According to third proviso to rule 138(1) of Chapter XVI of the C.G.S.T. Rules, 2017 when goods are sent by a principal located in one State to a job worker located in another State then e-way bill is required to be issued, whatever may be the value of consignment.

Part B

6. Keeping the scenario of HW Limited in mind the answer for each question is as follows:

- (a) The amount of exemption available to HW Limited for the A.Y. 2020-21 as per Section 54 EC of Income Tax Act, 1961 is equal to lower of capital gain on transfer of land or the amount invested in long term specified bonds of Rural Electrification Corporation Limited. So, Capital Gain=

<u>Particulars</u>	<u>Amount (In ₹)</u>
Net Sale Consideration of Land being sold	6,10,00,000
Less: Indexed Cost of Acquisition of Land	<u>5,78,00,000</u>
	[5,08,00,000 * [[289/254]]
Long Term Capital Gain	<u>32,00,000</u>

Amount invested in Long Term Specified Bonds of Rural Electrification Corporation Limited is equal to = [[70/100] * 32,00,000] = ₹ 22,40,000.

Amount of exemption available to HW Limited for the A.Y. 2020-21 = ₹ 22,40,000.

- (b) HW Limited cannot do so in A.Y. 2020-21, because according to Section 54 EC of Income Tax Act, 1961 for A.Y. 2020-21, HW Limited can invest maximum amount of ₹ 50 lakhs in long-term specified bonds of Rural Electrification Corporation Limited.
- (c) As per Section 54 EC of Income Tax Act, 1961 if HW Limited transferred the long-term specified bonds of Rural Electrification Corporation Limited in the financial year 2021-22 then long-term capital gain of ₹ 22,40,000 exempted earlier would be taxed in the financial year 2021-22 for HW Limited.

7. When payments are made by HW Limited, its affect in the following situations will be as follows:

- (a) When payment is made to Mr. T (Resident Individual Contractor) for Repairing of Office Building then according to Section 194C of Income Tax Act, 1961 T.D.S. @ 1% would be deducted as aggregate amount paid to Mr. T (Resident Individual Contractor) during a financial year was more than ₹ 1,00,000 and individual payment made for each contract was more than ₹ 30,000.
- (b) When payment is made to Mr. N (Resident Individual Contractor) for Painting of Office Building then according to Section 194C of Income Tax Act, 1961 no T.D.S. would be deducted as aggregate amount paid to Mr. N (Resident Individual Contractor) during a financial year did not exceeded ₹ 1,00,000 and individual payment made for each contract was not more than ₹ 30,000.
- (c) When payment is made to Mr. Z (Resident Individual) as Rent for use of Machinery then according to Section 194I of Income Tax Act, 1961, no T.D.S. would be deducted as aggregate amount paid to Mr. Z (Resident Individual) during a financial year did not exceeded ₹ 2,40,000.
- (d) When payment is made to Mr. S (Resident Individual) as Rent for use of Building then according to Section 194I of Income Tax Act, 1961 T.D.S. @ 10% would be deducted as aggregate amount paid to Mr. S (Resident Individual) during a financial year was more than ₹ 2,40,000.

8. Keeping the above situation in mind the answer to the questions is as follows:

- (a) In place of YZ and Associates the next auditor of HW Limited will be appointed by Board of Directors of HW Limited because according to Section 139(8) of the Companies Act, 2013 any casual vacancy in office of an auditor of a company is filled by Board of Directors of that company.

- (b) The next auditor of HW Limited appointed in place of YZ and Associates will require approval and that approval must be given by the above-mentioned company at a general meeting held within three months of the recommendation of Board of Directors of HW Limited.
 - (c) The next auditor appointed in place of YZ and Associates will hold office of auditor of HW Limited till the conclusion of next annual general meeting of the above-mentioned company.
9. The value of supply of tables and chairs supplied by HW Limited to Mr. F will be determined according to Rule 27 of Chapter IV relating to Determination of Value of Supply of C.G.S.T. Rules will be as follows:
- (a) The value of supply of tables and chairs supplied by HW Limited to Mr. F will be equal to open market value of tables and chairs i.e. ₹ 94,000.
 - (b) The value of supply of tables and chairs supplied by HW Limited to Mr. F will be-
 = Consideration in terms of Money + Amount of packaging bags supplied by Mr. F to HW Limited
 = [70,000 + 22,000] = ₹ 92,000.
 - (c) The value of supply of tables and chairs supplied by HW Limited to Mr. F will be-
 = Value of tables and chairs of similar kind and quality = ₹ 92,500.
 - (d) If the open market value of tables and chairs is not known, consideration in terms of money and amount of non-monetary consideration is not known and value of tables and chairs of similar kind and quality is also not known, then the value of supply of tables and chairs supplied by HW Limited to Mr. F will be determined according to Cost Based Valuation as mentioned in Rule 30 or Reasonable Means as referred to in Rule 31 which is-
 = Cost of supply of tables and chairs supplied by HW Limited to Mr. F + 10% of Cost of supply of tables and chairs supplied by HW Limited to Mr. F
 = [83,000 + [10/100] * 83,000]
 = 83,000 + 8,300 = ₹ 91,300.

CASE STUDY 3:

Part A

1. (c) Farmers work in collaboration with others for cost reduction.
Reason: There is a lack of understanding in farmers regard the cost concepts. Moreover, they do not understand the merits of working in collaboration.
2. (b) Adding the value of performance differential to the cost of next best alternative.
Reason: The formula of TEV is as follows:
 TEV = Cost of next best alternative + Value of performance differential
3. (b) No
Reason: The first board meeting has to be held within 30 days of incorporation as per section 173 of the Companies Act, 2013. Subsequent board meetings must be held such that there are 4 board meetings in a calendar year and the maximum gap between any two board meetings can be 120 days.
 However, sub-section 5 of section 173 provides that an OPC, small company and dormant company, the provision of 4 board meetings is not applicable. Such companies can hold one board meeting in each half of the calendar year and the gap between two meetings can't be less than 90 days.
 Sec. 2(85) defines small company as a company other than public company which has:

- a) Paid-up capital not exceeding ₹ 50 Lacs, and
- b) Turnover not exceeding ₹ 2 Crore.

However, this provision is not applicable to a holding company or a subsidiary company, a section 8 company and a company or body corporate governed by any special Act.

So, in the instant case, the company, being a small company, has not violated any provision of the Companies Act in respect of board meetings.

4. (a) ₹ 16 Lacs

Reason: As per section 80JJAA of the Income Tax Act, 1961, an assessee to whom section 44AB applies, be allowed a deduction of an amount equal to 30% of employee cost on account of new employees employed during the year for 240 days or more.

In the given case, the average employment of the new employees has been for more than 10 months as on 31st March, 2020.

Avg. salary = ₹ 17,000 per month per head. Employment for 10.5 months.

₹ 17,000 x 30 x 10.5 = ₹ 53.55 lacs is the normal deduction.

Additional deduction at 30% = ₹ 16.07 Lacs approx.

5. (a) First AGM can be held any time before 31st December 2019.

Reason: First and Second proviso to section 96(1) of the Companies Act, 2013 deal with the provisions of First AGM of a company. Accordingly, 1st AGM of a company can be held within a period of 9 months from the date of closing the first financial year of the company. If such an AGM is held by the company, it need not hold any AGM in the year of incorporation.

In the instant case, the first financial year for the company has ended on 31st March 2019. If nine months are counted from that date, the first AGM can be held any time before 31st December 2019.

Part B

6. Value-based pricing using true economic value (TEV) method:

Calculation of True Economic Value (TEV) in ₹

Cost of next best alternative	10,000
Add:	
Value of performance differential #	9,600
True Economic Value	19,600

Working Notes:

# Value of performance differential	
Probability of damage to water-pump due to power fluctuations	0.12
Avg. cost of repair in case of damage	8,000
Cost of damage occurrence	960
Frequency of damage	6 months
Life of the new solution	5 years
No. of times damage is avoided during the product life	10
Total cost of damage occurrence avoided	9600

Since the price of advanced pump-set is more by ₹ 70,000 to protect against the risk of damage due to power fluctuations, the value of performance differential for the new product is reasonable and acceptable for a rational customer.

7. Regulatory provisions w.r.t. Board Meetings: Section 173 of the Companies Act, 2013 deals with the provisions relating board meetings. The following points are important from the frequency point of view:

- The first board meeting of the company should be held within 30 days from the date of incorporation.
- Subsequent board meetings can be held such that in a calendar year there are minimum four board meetings and the gap between two board meetings is not more than 120 days.
- One-person Company (OPC), Small Company and dormant company is given some relaxation in this regard. Such companies can have one board meeting in each half of a calendar year and the gap between two meetings should not be less than 90 days.
- If an OPC has only one director, such an OPC is not required to hold even a single board meeting during the year. Thus, making it completely exempt from the requirement of board meetings.
- A section 8 company which has filed its annual return and financial statements on time, can also take the advantage of having only one board meeting in 6 calendar months.

8. Bulk-order analysis (Amount in ₹)

Selling price per unit	A	15,000
Variable cost *	B	5,840
Allocable overheads**	C	145
Contribution	D = A - (B+C)	9,015

Working Notes:

(Amount in ₹)

*Variable cost/unit based on in-house production option

Direct material	3,800
Direct labour	1,250
Direct overheads	790
Variable cost	5,840

** Unit overheads based on annual cost and annual MOQ.

Salary of production manager (75000 x 12)	9,00,000
Rent and other expenses (70000 x 12)	8,40,000
Total allocable overheads	17,40,000
Annual Minimum Order Quantity (MOQ)	12,000
Allocable overheads per unit	145

In the given case, the contribution per unit is ₹ 9,015 which is more than ₹ 8,000 as required by the management. Hence, the company can accept the bulk order from Mr More. Also, since the company is going to expand in states outside Maharashtra, the in-house production decision is financially viable.

CASE STUDY 4:

Part A

1. (c) Applicable as it applies to every Company.

Reason: Section 135 of the Companies Act is applicable to every company meeting the specified criteria. As per section 2(20) of the Companies Act, 'company' means a company incorporated under the Companies Act or under any other previous company law. This would imply that companies set up for the purposes of CSR/public welfare are also required to comply with the provisions of CSR.

2. (a) No, it needs to be spent actually for such qualification.

Reason: By earmarking the amount from such sale for CSR expenditure, the company cannot show it as CSR expenditure. To qualify the amount to be CSR expenditure, it has to be spent. Hence, ₹ 20,000 will not be automatically considered as CSR expenditure until and unless it is spent on CSR activities.

3. (d) Charged to the Statement of Profit & Loss for the year of Transfer.

Reason: The control over the asset is not with the Company and no future economic benefits are expected to flow to the company. So, to be charged as a Revenue Expenditure and not capitalised.

4. (b) Allowed as a Deduction.

Reason: CSR expenditure which is of the nature described under the section 30 to 36 of the Income-tax Act shall be allowed as a deduction. Rent expenses can be claimed under section 30 of the Act and hence it can be claimed as a deduction.

5. (a) This expenditure is an application of income, is not incurred wholly and exclusively for the purposes of carrying on business.

Reason: For the purposes of section 37(1), any expenditure incurred by an assessee on the activities relating to corporate social responsibility referred to in section 135 of the Companies Act, 2013 shall not be deemed to have been incurred for the purpose of business and hence, shall not be allowed as deduction under section 37..

Part B

6. As per Rule 4 of the Companies (CSR) Rules, 2014, the following expenditure are not considered as CSR activity for the purpose of section 135:

- Expenditure on activities undertaken in pursuance of normal course of business;
- Expenditure on CSR activities undertaken outside India;
- Expenditure which is exclusively for the benefit of the employees of the company or their families; and
- Contributions to political parties.

7. (a) Accounting treatment as per AS

Where any CSR asset is recognized in its balance sheet, the same may be classified under natural head (e.g. Tangible assets or Intangible assets) with specific subhead of 'CSR Asset' if the expenditure satisfies the recognition criteria of 'asset'.

	Debit (₹)	Credit(₹)
CSR Asset (Balance Sheet)	XXX	
To Cash/Vendor		XXX

(b) Accounting treatment as per Ind AS

Where any CSR asset is recognized in its balance sheet, the same may be classified under natural head (e.g. Property plant and equipment, Intangible assets or Investment property) with specific sub-head of 'CSR Asset' if the expenditure satisfies the recognition criteria of 'asset'.

The recognition criteria for asset under Ind AS i.e.,

- Ind AS 16 : Property, plant and equipment,
- Ind AS 40 : Investment Property
- Ind AS 38 : Intangible assets

is to be satisfied.

8.

FORMAT FOR THE ANNUAL REPORT ON CSR ACTIVITIES TO BE INCLUDED IN THE BOARD'S REPORT

1. A brief outline of the company's CSR policy, including overview of projects or programs proposed to be undertaken and a reference to the web-link to the CSR policy and projects or programs.
2. The Composition of the CSR Committee.
3. Average net profit of the company for last three financial years.
4. Prescribed CSR Expenditure (two per cent. Of the amount as in item 3 above)
5. Details of CSR spent during the financial year.
 - (a) Total amount to be spent for the financial year;
 - (b) Amount unspent, if any;
 - (c) Manner in which the amount spent during the financial year is detailed below.

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
S. No.	CSR Project or activity identified	Sector in which the Project is covered	Projects or programs (1) Local area or other (2) Specify the State and district where projects or programs was undertaken	Amount outlay (budget) project or programs wise	Amount spent on the projects or programs Sub -heads: (1) Direct expenditure on projects or programs. 2.Overheads:	Cumulative expenditure upto to the reporting period	Amount spent: Direct or through implementing agency
1							
2							
3							
	TOTAL						

*Give details of implementing agency:

6. In case the company has failed to spend the two per cent of the average net profit of the last three financial years or any part thereof, the company shall provide the reasons for not spending the amount in its Board report.
7. A responsibility statement of the CSR Committee that the implementation and monitoring of CSR Policy, is in compliance with CSR objectives and Policy of the company.

Sd/- (Chief Executive Officer or Managing Director or Director)	Sd/- (Chairman CSR Committee)	Sd/- (Person specified under clause (d) of sub-section (1) of section 380 of the Act) (wherever applicable)
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9. Corporate Social Responsibility (CSR) Reporting is an information communiqué with respect to discharge of social responsibilities of corporate entity. Through 'CSR Report' the corporate enterprises disclose the manner in which they are discharging their social responsibilities. More specifically, it is addressed to the public or society at large, although it can be squarely used by other user groups also.

Section 135 of the Companies Act, 2013 mandated the companies fulfilling the criteria mentioned in the said section to spend certain amount of their profit on activities as specified in the Schedule VII to the Act. Companies not falling within that criteria can also spend on CSR activities voluntarily. However, besides the requirements of constitution of a CSR committee and a CSR policy, the corporate entities should also take care that expenditure incurred for CSR should not be the expenditure incurred for the activities in the ordinary course of business. If expenditure incurred is for the activities in the ordinary course of business, then it will not be qualified as expenditure incurred on CSR activities.

Here, it is assumed that the commercial activities performed at concessional rates are the activities done in the ordinary course of business of the companies. Therefore, the intention of the management to highlight the expenditure incurred on such commercial activities in its financial statements as the expenditure incurred on activities undertaken to discharge CSR, is not correct.

CASE STUDY 5:

Part A

1. (d) Selling Costs to be excluded as per INDAS-2

Reason: While the primary packing material may be included within the scope of the term 'materials and supplies awaiting use in the production process' but the secondary packing material and publicity material cannot be so included, as these are selling costs which are required to be excluded as per Ind AS 2. For this purpose, the primary packing material is one which is essential to bring an item of inventory to its saleable condition, for example, bottles, cans etc., in case of food and beverages industry. Other packing material required for transporting and forwarding the material will normally be in the nature of secondary packing material.

2. (a) 01, 02, 06, 07, 08, 09, 10

Reason: Items number 01, 02, 06, 07, 08, 09, 10 are allowed by Ind AS 2 for the calculation of cost of inventories. Salaries of accounts department, sales commission, and after sale warranty

costs are not considered to be the cost of inventory. Therefore, they are not allowed by Ind AS 2 for inclusion in cost of inventory and are expensed off in the profit and loss account.

3. (b) Retail Method

Reason: The retail method can be used for measuring inventories of the beauty products. The cost of the inventory is determined by taking the selling price of the cosmetics and reducing it by the gross margin of 65% to arrive at the cost.

4. (a) Standard Cost

Reason: The handbags can be measured using standard cost especially if the results approximate cost. Given that The company has the information reliably on hand in relation to direct materials, direct labour, direct expenses and overheads, it would be the best method to use to arrive at the cost of inventories.

5. (b) Retrospectively restating the Comparatives.

Reason: The error shall be corrected by retrospectively restating the comparatives. A third balance sheet as at the beginning of the earliest period shall also be presented.

Part B

6.

BASIS FOR COMPARISON	INTERNAL AUDIT	EXTERNAL AUDIT
1. Meaning	It refers to an ongoing audit function performed within an organization by a separate internal auditing department.	It is an audit function performed by the independent body which is not a part of the organization.
2. Examination	Internal auditor examines the Operational efficiency of the organisation.	External auditor examines the Accuracy and Validity of Financial Statements.
3. Appointment	Internal auditor is appointed by the Management.	External auditor is appointed by the Members.
4. Users of Report	User of internal audit report is Management.	User of external audit report is Stakeholders.
5. Period	Internal audit is a Continuous Process throughout the year.	External audit is done once in a year.
6. Opinion	Opinion is provided on the effectiveness of the operational activities of the organization.	Opinion is provided on the truthfulness and fairness of the financial statement of the company.
7. Status of Auditor	Internal auditor is employee of the company, thus, less independent.	External auditor is an independent person.

7. Computation of Income of Annapurna Trading Pvt. Ltd. chargeable to tax for the A.Y.2020-21 :-

Particulars	₹
Net profit as per profit and loss account	58,90,000
Add: Difference in the value of stocks detected on survey under section 133A on 31.03.2020 chargeable as income (See Note 1)	3,75,000
	62,65,000
Less: Income-tax refund credited in the profit and loss account, out of which interest is to be considered separately under the head "Income from other sources"	20,000
	62,45,000
Add: Expenses either not allowable or to be considered separately but charged in the profit & loss account	
Repair expenses on rented premises where assessee is under no obligation to incur such expenses are not allowable as per section 30(a)(i). However, if such expenses are required for carrying on the business efficiently, the same are allowable under section 37. In this case, assuming that such expenses are required for carrying on business efficiently, the same are allowable under section 37.	-
Advertisement in the souvenir of political party not allowable as per section 37(2B) (See Note 3)	2,500
Payment made to the wife of a director examined as per section 40A(2) and the excess payment made to be disallowed (See Note 5)	75,000
Payment made to electoral trust by cheque (See Note 6)	1,00,000
Penalty levied by the Goods and Services tax department for delayed filing of returns not allowable as being paid for infraction of law (See Note 7)	5,300
Depreciation as per books	71,500
30% of interest paid on loan without deduction of tax at source not allowable as per section 40(a)(ia)	24,000
	65,23,300
Less: Depreciation allowable as per Income-tax Act, 1961	65,000
	64,58,300
Less: Income from specified business (warehousing charges) credited to profit and loss account, to be considered separately (See Note 8)	40,00,000
Income from business (other than specified business)	24,58,300
Computation of income/ loss from specified business (See Note 8)	
Income from specified business	₹ 40,00,000
Less: Deduction under section 35AD @ 100% of ₹50 lakhs	₹ 50,00,000
Loss from specified business to be carried forward as per section 73A	₹ (10,00,000)
Income from Other Sources	
Interest on income-tax refund	5,000
Gross Total Income	24,63,300
Less: Deduction under section 80GGB	
Contribution to political party (See Note 3)	₹ 2,500
Contribution to an Electoral trust (See Note 3)	₹ 1,00,000
Total Income	23,60,800

Notes:

- (1) The business premises were surveyed and differences in the figures of opening and closing stocks and sales were found which have not been disputed and accepted by the assessee. Therefore, the trading account for the year is to be re-cast to arrive at the correct amount of the gross profit/ net profit for the purpose of return of income to be filed for the previous year ended on 31.3.2020.

Revised Trading Account

Particular	₹	Particular	₹
Opening Stock	8,75,000	Sales (₹ 1,55,50,000 + ₹ 75,000)	1,56,25,000
Purchases	1,25,75,000	Closing Stock	12,50,000
Freight and Cartage	1,20,000		
Gross Profit	33,05,000		
	1,68,75,000		1,68,75,000

The difference of gross profit of ₹33,05,000 - ₹29,30,000 = ₹3,75,000 is to be added as income of the business for the year.

- (2) Bonus for the previous year 2018-19 paid after the due date for filing return for that year would have been disallowed under section 43B for the P.Y.2018-19. However, when the same has been paid in December 2019, it should be allowed as deduction in the P.Y.2019-20 (A.Y.2020-21). Since it is already included in the figure of bonus to staff debited to profit and loss account of this year, no further adjustment is required.
- (3) The amount of ₹2,500 paid for advertisement in the souvenir issued by a political party attracts disallowance under section 37(2B). However, such expenditure falls within the meaning assigned to "contribute" under section 293A of the Companies Act, 1956, and is hence, eligible for deduction under section 80GGB. Any contribution to the political party or electoral trust made by way of cash is not allowed as deduction under section 80GGB. Since in the present case, the payment to the political party is made by way of an account payee cheque, it is allowed as deduction under section 80GGB.
- (4) The penalty of ₹15,000 paid for non-fulfilment of delivery conditions of a contract for reasons beyond control is not for the breach of law but was paid for breach of contractual obligations and therefore, is an allowable expense.
- (5) It has been assumed that ₹25,000 is the reasonable payment for the wife of Director, working as a junior lawyer, since junior advocates of High Courts normally charge only ₹25,000 for the same opinion and therefore, the balance ₹75,000 has been disallowed.
- (6) Payment to an electoral trust qualifies for deduction under section 80GGB since the payment is made by way of a cheque. However, since the amount has been debited to profit and loss account, the same has to be added back for computing business income.
- (7) The interest of ₹12,750 paid on the delayed deposit of goods and services tax is for breach of contract and hence, is allowable as deduction. However, penalty of ₹5,300 for delay in filing of returns is not allowable since it is for breach of law.
- (8) Deduction @ 100% of the capital expenditure is available under section 35AD in respect of specified business of setting up and operating a warehouse facility for storage of agricultural produce which commences operation on or after 1.04.2012. It is presumed that ₹50 lacs does not

include expenditure on acquisition of any land.

The loss from specified business under section 35AD (warehousing) should be segregated from the income from other businesses, since, as per section 73A(1), any loss computed in respect of any specified business referred to in section 35AD shall not be set off except against profits and gains, if any, of any other specified business.

In view of the provisions of section 73A(1), the loss of ₹10 lacs from the specified business cannot be set-off against income from other businesses. Such loss has to be carried forward to be set-off against profit from specified business in the next assessment year. The return should be filed on or before the due date under section 139(1) for carry forward of such losses.