

MOCK TEST PAPER

FINAL (NEW) COURSE: GROUP – II

PAPER – 6F: MULTIDISCIPLINARY CASE STUDY

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

Each Case Study carries 25 Marks.

Time Allowed – 4 Hours

Maximum Marks – 100

CASE STUDY 1

A person namely, Deepak is a marketing person who is working in the mid-sized corporate company, Iktara limited in Noida. Deepak is married now and he is exploring the options to do his own business. One day his brother-in-law, Aakash, was in Delhi/NCR to accommodate at Deepak's residence as his flight to his hometown Jaipur, Rajasthan was scheduled tomorrow. Aakash is currently working in Universal bank, a reputed bank in the South Africa. After being known to the condition of Deepak, Aakash decided to help Deepak by suggesting him an idea of business which could be done after due research and appropriate consultation. Deepak responded in affirmative to proceed further. Aakash is a person who is a friend of Dujon Sobers, the purchase manager of Universal bank. Dujon generally acquires his purchase orders from India for the import of bank electronic accessories such as biometric machines, cash counting machines etc. Aakash immediately called Dujon to know the prospects of acquiring material from other suppliers in India as Aakash was desperate to include Deepak in the list of those prospective sellers and even Dujon provided assurance to Aakash that he would do his level best to procure material from the reference of Aakash provided the material meets the quality standards and other terms which are framed as per the bank's policies. Dujon apprised Aakash of all the formalities which are needed to be done like bid price, quality, time of shipment etc. Deepak has the apprehensions that if 100% exports are done, there may not be the need for GST registration if the separate sales in domestic market are lower than Rs. 40 lakhs.

Aakash on the perusal of Dujon first suggested Deepak to send free samples of Biometric fingerprint machines. Deepak enquired and researched for the same in domestic market and after due scrutiny and research, he decided to choose the manufacturer, Biotechno private limited from Mumbai to be the one from whom he would supply the material. At first, he procured 3 machines from company at market price and sent the same as sample to South Africa. As per estimates of Deepak and Aakash, there would come fixed operational expenses of around Rs. 3,60,000 and variable expenses of 1,000 per unit. Further selling and administrative expenses are expected at Rs. 2,00,000, irrespective of quantum of units sold.

After having received the biometric machines, the purchase department of Universal bank was satisfied with the quality of machines and since it was being offered at lower price than other bidders, Dujon called upon Deepak to send the first formal consignment of 1,000 biometric machines at Rs. 1,600 per machine. One of the conditions of Universal bank was that the supplier should be registered as a company as per the law of land and thereafter imports would be from India through designated official channels.

Meanwhile, Deepak made up mind to resign from the company. First, he decided to meet the directors in this regard and then send a formal resignation letter. He approached directors and described his intention to resign so that he could start his new business and concentrate fully thereon. Since Deepak was very hardworking, loyal and trustworthy, the directors were reluctant to leave such kind of person from company; the directors instead offered him a proposal to form the new company under 55:45 shareholding. The investment of 55% is to be done by Iktara limited and rest by Deepak. Voting powers are to be given as per the proportionate share of capital contribution. In this manner, new company which would be formed will be the subsidiary of Iktara limited. The directors saw it as an opportunity to diversify their operations and make their operations global, although very small in the initial stage. Since Deepak was always short of funds in the past and he had the obvious reasons for the future too, so he came under the influence of directors to go along. For this purpose, it was decided to form a company with two directors and Deepak eventually becomes

one of the directors of company. A consultant was hired, and he decided to charge Rs. 30,000 for the incorporation of company and to do other necessary statutory registrations. Rs. 30,000 is to be charged as an expense in the books after incorporation of company.

The company namely, Softbharti private limited was incorporated on 1st April 2020 and thereafter its first board meeting was done on 10th May, 2020 wherein resolution for appointment of auditor was passed. The auditor who is appointed is the same as of Iktara limited. Deepak attended the board meeting through video conferencing as he was in his hometown, Rajasthan at that time, although another director was physically present at the board meeting. Further, the Company secretary is of doubt that whether quorum for the purpose of board meeting would be held as void ab initio.

For the year ending 31st March, 2021, Softbharti private limited on the insistence of Deepak has made donations amounting Rs. 25,000 in cash to Seva Jagriti Sansthan.

It is worthwhile to note that the financials of Iktara limited are prepared as per Ind AS since the same are applicable on it.

During the year, Iktara Ltd. has further acquired 60% of the ordinary shares of another company, Maya private limited for Rs. 80 lacs. The fair value of its identifiable net assets is Rs. 135 lacs. The fair value of the 40% of the ordinary shares owned by non-controlling shareholders is Rs. 55 lacs. Carrying amount of Maya private ltd.'s net assets is Rs. 105 lacs.

Following are the draft results of Softbharti private limited for the year ending 31st March, 2021

Profit and Loss account

Particulars	Amount (Rs.)
Revenue from operations	10,00,000
Other Income	1,00,000
Total Revenue	11,00,000
Expenses:	
Purchase of stock in trade	5,00,000
(Increase)/Decrease in stock in trade	(50,000)
Employee benefits expense	1,75,000
Depreciation	30,000
Other expenses	90,000
Total	7,45,000
Profit before tax	3,55,000
Current tax	1,06,500
Deferred tax	6,000
Total tax expense	1,12,500
Profit for the year	2,42,500

Balance Sheet

Particulars	Amount (Rs.)
EQUITY AND LIABILITIES	
(1) Shareholders' Funds	
(a) Share Capital	1,00,000

(b) Reserves & Surplus	2,27,500
(2) Non-Current Liabilities	
(a) Long Term Provisions	25,000
(b) Deferred tax liabilities	6,000
(3) Current Liabilities	
(a) Trade Payables	11,000
(b) Other Current Liabilities	45,000
(c) Short Term Provisions	1,06,500
TOTAL	5,21,000
ASSETS	
(1) Non Current Assets	
(a) Fixed Assets (net)	1,00,000
(b) Long Term Loans and Advances	40,000
(c) Other Non Current Assets	50,000
(2) Current Assets	
(a) Current Investments	30,000
(b) Inventories	80,000
(c) Trade Receivables	55,000
(d) Cash and Bank Balances	1,15,000
(e) Other Current Assets	51,000
TOTAL	5,21,000

Additional Information of Softbharti private limited:

Deferred tax of Rs. 6,000 is created due to following temporary difference:

Difference in depreciation amount as per Income tax and Accounting profit = Rs. 6,000 (DTL)

There is only one fixed asset in the company, whose closing balance as at 31st March, 2021 is as follows:

Asset description	As per Books	As per Income tax
Fixed asset	Rs. 1,00,000	Rs. 80,000

Current tax is calculated at 30% on PBT- Rs. 3,55,000 without doing any adjustments related to Income tax.

The directors have recommended dividend of Rs. 15,000 for year ending March, 2021 which has been deducted from reserves and surplus. Dividend payable of Rs.15,000 has been grouped under 'other current liabilities'.

The company has **defaulted** in certain payment, the details of which is as follows:

Government statutory dues – Rs. 15,000 (which is grouped under 'other current liabilities')

This amount has not been paid till the date.

The capital advances amounting Rs. 50,000 are grouped under 'Other non-current assets'.

Other current assets of Rs. 51,000 comprise Interest receivable on debtors.

Current investments of Rs. 30,000 are in shares of a company which was done with the purpose of trading, current investments have been carried at cost in the financial statements. The fair value of current

investments in this case is Rs. 50,000 as at March 31, 2021. Assume that increase in fair value through profit and loss is also taxable.

Following transaction has been **omitted** in the financials of Softbharti private limited for the year ending 31st March, 2021:

Actuarial gain on employee benefit measurements = 1,000

Please note that financial statements for FY 2020-2021 have not been yet approved and you are required to ignore the MAT calculations.

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

1. At which minimum price, Deepak should accept the offer of selling one machine to Universal bank?
 - (a) Rs. 1,600
 - (b) Rs. 1,560
 - (c) Rs. 1,000
 - (d) None of the above.
2. By which time the company, Softbharti private limited, should have held its first board of directors meeting?
 - (a) By 31 May, 2020
 - (b) Private limited company is exempted of first meeting of board of directors.
 - (c) By 30 April, 2020
 - (d) Within 30 days of the appointment of auditor.
3. Which Ind AS/AS does the Iktara limited is required to apply for consolidation of Softbharti private limited's financials?
 - (a) Ind AS 110
 - (b) Ind AS 28
 - (c) Ind AS 27
 - (d) AS 21
4. Whether the quorum required for conduct of board meeting of Softbharti private limited has been met on 10th May, 2020?
 - (a) Quorum has been met.
 - (b) Quorum has not been met.
 - (c) Quorum is not met but it can be ratified by the shareholders.
 - (d) Quorum is not met but it can be ratified by the registrar of companies.
5. As Deepak thinks that export sales are not included in the definition of aggregate turnover since export sales are exempt from tax. Whether export sales should also be added along with the domestic sales while checking the aggregate turnover in such a situation?
 - (a) Export sales should be added along with domestic sales barring SAARC nations.
 - (b) Export sales should not be added along with domestic sales.
 - (c) Export sales should not be added if central government's permission in the form of certificate has been taken to exclude export sales from criteria of 'aggregate turnover'.
 - (d) Export sales should be added along with domestic sales.

Part B- Descriptive Questions

6. Whether the financial statements of Softbharti private limited are correctly presented as per the applicable financial reporting framework. If not, prepare the revised financial statements of Softbharti private limited after the careful analysis of facts and information mentioned in the case study.

(10 Marks)

7. Calculate the non-controlling interest in the books of Iktara limited for the investment made in Maya private limited by both the methods mentioned in Ind AS 103.

(5 Marks)

CASE STUDY 2

GLA Enterprises Pvt Ltd. (GLA) is a company based out of Pune. It manufactures and sells a part of certain component used in car assembly. The part sold by GLA is known as SBH-201 in trade terms. Usually, order for annual requirement is obtained from the customer by February every year and accordingly the production planning happens at GLA.

For FY 2020-21, the company has received an order of 30,000 units from Tada Motors, to be supplied evenly on monthly basis. Another order for the similar part known as MBH-198 is for 15,000 units from Force Motors.

A common component which is required in both the orders is currently procured from an outside vendor at a price of Rs. 760 per unit. The unit information about the two products is as follows:

Particulars	Selling price per unit	Contribution per unit
SBH-201	Rs. 10,000	Rs. 2,400
MBH-198	Rs. 9,800	Rs. 2,200

Until last year, only Tada Motors used to purchase the product. Since the company had a success in converting another customer (Force Motors), the FY20-21 would be quite different. The production manager is of the opinion that if the requirement is for 50,000 units, we can produce that component in-house and it will lead to better quality and faster output. He also estimated the following unit costs to implement the in-house production option:

Direct material – Rs. 340, Direct labour – Rs. 310, Factory overheads (60% variable) – Rs. 150

Total unit cost = Rs. 800

Since, the component is an internal matter of the company, it has no impact on the selling price and does not result any additional cost of marketing.

The selling price quoted above are all-inclusive price of the parts to be supplied to the respective customers at their premises on monthly basis.

The premises of Tada Motors are situated at Chinchwad which is 35km away from the factory of the company and that of Force Motors is in Chakan which is 55km away. The monthly transportation cost for the company for Tada Motors' order is Rs. 5,950 p.m. and for Force Motors' order is Rs. 9,350 p.m.

Apart from transportation, other overheads incurred in servicing the customers are as follows:

Particulars	Tada Motors	Force Motors
Quarterly meeting	Rs. 1,000	None
Annual meeting	Rs. 5,000	Rs. 4,000
Coordinator's salary* (based on time allocation estimate)	Rs. 12,000 per month	Rs. 18,000 per month

*One full-time resource is employed for coordination at a monthly salary of Rs. 30,000. This person directly reports to the director of the company.

The company's directors are in advanced stage of negotiation and discussion with other customers regarding its product and why they should choose the company instead of their competitors.

While the discussions are going on, the company has called you for the meeting with the board of directors. You're a CA who's working as a business consultant to the company. One of the agenda items in the board meeting is also to close the audit points raised by the company's auditor for the financial year ended on 31st March 2021.

Other items in the agenda include consultancy regarding some financial decisions to be taken by the company which have long term implications on the financials of the company.

During FY 2020-21, the following points were observed by the auditor:

1. GST input credit was wrongly claimed on food bills of directors who were travelling for customer meetings etc. The total amount of such ITC was Rs. 6,145 for the year.
2. Employer's contribution to EPF of Rs. 3,15,000/- for the month of March 2021, was deposited on 29th July, 2021. The net profit is arrived at after debiting this amount.
3. During the year, the company had incurred Repair & Maintenance cost of Rs. 2 lacs on the Plant & Machinery of which expenses worth Rs. 1.5 lacs were of capital nature but the entire amount was debited to P&L account.
4. The payment of Rs. 30 Lakhs to a contractor for processing raw material made during the year without deduction of tax is debited to statement of profit and loss. This amount includes Rs. 20 Lakhs for purchase of material and Rs. 10 Lakhs towards labour charges which is separately shown in bills submitted.
5. A sundry creditor whose amount of Rs. 32 Lakhs was outstanding since long time, has been settled for Rs. 26 Lakhs on 31.03.2021 based on compromise settlement. The amount waived has been credited to the statement of profit and loss.

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

1. What remedy is available for the wrongly claimed ITC in GST returns?
 - (a) It can be reversed in subsequent GST returns.
 - (b) Since the amount is small, it can be ignored.
 - (c) In the annual return and reconciliation statement it needs to be shown and GST to be paid on the same.
 - (d) Revised returns can be filed for the respective months.
2. Employer's contribution to EPF as stated in point no (2) is:
 - (a) Allowed as deduction as it has been deposited before due date of filing of return under section 139(1).
 - (b) Rs. 3,15,000 shall be deemed to be income of the company u/s 2(24)(x). The same will not be allowed as deduction in computation of income chargeable to tax.
 - (c) Rs. 3,15,000 cannot be allowed as deduction even if remitted to respective authorities within the due date of filing return of income u/s 139(1).
 - (d) Rs. 3,15,000 shall not be allowed as a deduction because it is paid beyond the due date prescribed under the EPF Act.
3. What is the impact of capital expense being debited to P&L account as given in point no. 3 of case study?
 - (a) Value of P&M will go up and profit will increase (loss will decrease).

- (b) Value of P&M will go up and profit will decrease (loss will increase).
- (c) Value of P&M will come down and profit will increase (loss will decrease).
- (d) Value of P&M will come down and profit will decrease (loss will increase).
4. What is the amount of disallowance for TDS non-compliance from the facts given in point no. 4 in case study?
- (a) Rs. 3 Lakhs
- (b) Rs. 10 Lakhs
- (c) Rs. 30 Lakhs
- (d) Rs. 9 Lakhs
5. From facts given in case study point no. 5, Rs. 6 Lakhs credited to statement of profit and loss would -
- (a) not be taxable since it is a capital receipt.
- (b) be taxable under the head PGBP.
- (c) be taxable under the head Capital Gain.
- (d) be exempt under Section 10.

Part B- Descriptive Questions

6. Whether the current practice of procuring the component from third party vendor is better than in-house production of the component to be used in the company's products, in financial terms? Evaluate. All working should form part of the answer. **(5 Marks)**
7. A third customer and a couple of others are in the pipeline and due for conversion any time soon. The management wants to know the customer-level profitability of Tada Motors and Force Motors so that they can take a suitable decision regarding the price to be quoted to the potential new customers. Derive customer profitability based on the available information. Make suitable assumptions if necessary. All working should form part of the answer. **(5 Marks)**
8. A delivery van of the kind the company uses for supplying its finished goods to two companies currently, is available at a finance cost of 8% p.a. for a price of Rs. 6 Lacs to be repaid over 4 years. The same vehicle can be used for picking-up material from vendors who are currently charging the cost of transport in the purchase price. The overall cost reduction if the goods are picked-up from vendor premises within Pune city would be Rs. 2,15,000 p.a. according to purchase manager of the company. If a full-time driver is employed to drive the delivery van at a salary of Rs. 15,000 p.m. (CTC), he could be deployed for both incoming and outgoing material within the city and also for petty transport needs whenever required. If the life of the vehicle is 7 years and the cost of running, repairs and maintenance is Rs. 30 per km of full-load, should the company buy such a vehicle instead of outsourcing the same? EMI amount for Rs. 1 Lac for 4 years at 8% interest rate is 2441.3. **(5 Marks)**

CASE STUDY 3

Cheerful & Healthy Limited is a company involved in manufacturing business of various types of cupboards and tables. Mr. X is one of the directors of the company. Mr. Y is brother of Mr. X, and is director in a nother company namely, Calm & Helpful Private Limited which is involved in manufacturing business of chairs and dining tables. Both the companies are registered in India. The following is the paid-up share capital and turnover of both the companies for the financial year 2019-20:

Name of the Company	Paid up share capital	Turnover
Cheerful & Healthy Limited	94 cr.	250 cr.
Calm & Helpful Private Limited	105 cr.	272 cr.

Cheerful & Healthy Limited is an unlisted public limited company and Calm & Helpful Private Limited is an unlisted company.

Cheerful & Healthy Limited consisted of 10 directors and 1 managing director, whereas Calm & Helpful Private Limited consisted of 4 directors.

During the financial year 2020-21, the Assessing officer of Cheerful & Healthy Limited, issued a direction for Special Audit of books of accounts of the company for the financial year 2018-19. The direction was issued after considering the whole situation and obtaining the previous approval of Principal Chief Commissioner of Income Tax. Further the company was also given a proper opportunity of being heard. After hearing about Special Audit, Mr. H who was one of the directors of the said company had following perceptions and queries relating to conduct of such special audit of books of accounts of the company:

- (1) Special Audit was not required for the company as its books of accounts for the financial year 2018-19 have already been audited according to the provisions of Companies Act, 2013.
- (2) In case Special audit is required for the company then, whether such audit would be conducted by a Chartered Accountant who would be appointed by Assessing Officer?
- (3) Whether expenses relating to Special Audit of the company would be decided by the Assessing Officer?
- (4) After Expenses relating to Special Audit have been decided, whether they would be paid by the company?

Four years back (i.e. on 01/04/2017), the net worth of Cheerful & Healthy Limited and Calm & Helpful Private Limited was Rs. 297 cr. and Rs. 209 cr. respectively. Further, Cheerful & Healthy Limited also had a subsidiary by the name of Extremely Capable Limited which was an unlisted public limited company.

Mr. X and Mr. Y while enjoying tea-time in the evening were discussing about the appointment of tax auditor and internal auditor to upgrade their knowledge. Mr. X was of the opinion that tax auditor of a company can only be appointed by members of that company in general meeting. Further, Mr. Y added that internal auditor of a company can also be appointed as tax auditor of that company.

Cheerful & Healthy Limited has two offices, one office known as the main office in State N of India and other office known as branch office in State W of India. The manufacturing business of various types of cupboards and tables is being done from main office as well as from branch office. While discussing about the GST registration requirement of the company with brother, Mr. Y, Mr. X was of the opinion that the company must obtain registration for the purpose of Goods and Services Tax, only for the main office located in State N of India and not for the branch office located in State W of India.

Further, his brother, Mr. Y added that Permanent Account Number is not required for the purpose of obtaining registration for Goods and Services Tax.

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

1. During the financial year 2020-21, Cheerful & Healthy Limited is required to appoint an internal auditor because of which of the following reason:
 - (a) Cheerful & Healthy Limited is an unlisted public company having paid up share capital of more than Rs. 5 crores during the financial year 2019-20.
 - (b) Cheerful & Healthy Limited is an unlisted public company having paid up share capital of more than Rs. 30 crores during the financial year 2019-20.
 - (c) Cheerful & Healthy Limited is an unlisted public company having paid up share capital of more than Rs. 45 crores during the financial year 2019-20.
 - (d) Cheerful & Healthy Limited is an unlisted public company having paid up share capital of more than Rs. 50 crores during the financial year 2019-20.

2. Calm & Helpful Private Limited is required to appoint an internal auditor during the financial year 2020-21 because:
 - (a) Calm & Helpful Private Limited is a private company having a turnover of more than Rs. 45 crores during the financial year 2019-20.
 - (b) Calm & Helpful Private Limited is a private company having a turnover of more than Rs. 105 crores during the financial year 2019-20.
 - (c) Calm & Helpful Private Limited is a private company having a turnover of more than Rs. 180 crores during the financial year 2019-20.
 - (d) Calm & Helpful Private Limited is a private company having a turnover of more than Rs. 200 crores during the financial year 2019-20.
3. Who is authorized for the purpose of verifying the Return of Income of Cheerful & Healthy Limited:
 - (a) Managing Director of Cheerful & Healthy Limited.
 - (b) Managing Director and Any two of the directors of Cheerful & Healthy Limited.
 - (c) Managing Director and Any three of the directors of Cheerful & Healthy Limited.
 - (d) Managing Director and Any four of the directors of Cheerful & Healthy Limited.
4. Suppose that Managing Director and five directors of Cheerful & Healthy Limited are on a visit outside India and none of them can verify the Return of Income of the company. In such situation who among the remaining five directors of Cheerful & Healthy Limited is authorized to verify the Return of Income of the company:
 - (a) Any 2 of the remaining 5 directors of Cheerful & Healthy Limited.
 - (b) Any 4 of the remaining 5 directors of Cheerful & Healthy Limited.
 - (c) Any 1 of the remaining 5 directors of Cheerful & Healthy Limited.
 - (d) Any 3 of the remaining 5 directors of Cheerful & Healthy Limited.
5. For Calm & Helpful Private Limited, who will be authorized to verify the Return of Income:
 - (a) Any 3 directors of Calm & Helpful Private Limited.
 - (b) Any 2 directors of Calm & Helpful Private Limited.
 - (c) Each one of the 4 directors of Calm & Helpful Private Limited.
 - (d) Any 1 director of Calm & Helpful Private Limited.

Part B- Descriptive Questions

6. Provide an answer to the following questions relating to Special Audit of Cheerful & Healthy Limited:
 - (a) Chartered Accountant for the purpose of Special Audit would be appointed by whom?
 - (b) The books of accounts for the financial year 2018-19, have already been audited according to the provisions of Companies Act, 2013. Can Special Audit still be conducted?
 - (c) Expenses relating to Special Audit would be decided by whom?
 - (d) After the expenses related to Special Audit have been decided then they would be paid by whom?

(4 Marks)
7. After reading and understanding the information provided in the case study, answer the questions that follow:
 - (a) Are Indian Accounting Standards applicable on Cheerful & Healthy Limited from 01/04/2017?
 - (b) From 01/04/2017 what can be said about the applicability of Indian Accounting Standards on Calm & Helpful Private Limited?

- (c) From point of view of Extremely Capable Limited, are Indian Accounting Standards applicable?
- (d) What would happen regarding applicability of Indian Accounting Standard on Cheerful & Healthy Limited for the financial statements relating to financial year 2020-21? **(4 Marks)**
8. Mr. X and Mr. Y had certain opinions on appointment of tax & internal auditor. After reading and understanding those opinions answer the following questions:
- (a) Is it correct that tax auditor of a company can only be appointed in general meeting of that company by the members of that company? Explain your answer with the help of a reason.
- (b) The opinion that internal auditor of a company can also be appointed as tax auditor of that given company, is correct or not? Give reason for your answer. **(3 Marks)**
9. Mr. X and Mr. Y had certain opinions on GST registration.
- (a) Is the opinion of Mr. X in this regard correct? Provide proper explanation for your answer.
- (b) Are the thoughts of Mr. Y appropriate? Give reason to justify your answer. **(4 Marks)**

CASE STUDY 4

M4 Home Private Limited incorporated in May 2020 having its registered office in New Delhi started construction of its premises building in NOIDA by using pre-fabricated structure common and prevalent in these times and building comprising about 1,00,000 square ft of covered area was ready to use by the end of July 2020 at a cost of Rs. 6.50 crores. The company also obtained GST registration in month of May 2020 in state of Uttar Pradesh.

The company had already ordered in advance import of certain textile machinery from South Korea at a cost of about Rs. 7.65 crore. However, due to COVID-19 induced lockdown, the machinery shipments had stuck at Mundra port in Gujarat. Further, indigenous previously used machinery at a cost of about Rs. 2.00 crores was also planned for installation. Considering nation-wide lockdown and consequent disruptions in logistics and supply chain, the company was able to bring imported as well as indigenous machinery to its premises in NOIDA only in 1st week of August 2020 and was able to kick start its commercial production of textile made-ups from 1st September 2020 only.

The made ups of company got a very good response in the overseas market of USA under *brand of M4* and the company had captured good chunk of export orders via *digital and online marketing platforms* beating its Chinese rivals resulting in export turnover of Rs. 50.00 crores during the year ended 31st March, 2021. The company had also credited duty drawback from customs authorities amounting to Rs. 2.00 crores in its statement of profit and loss for the same period. During the year ended 31st March, 2021, the company has also incurred research and development expenditure of Rs. 10.00 lakhs. The financial statements of the company reflected a net profit before tax amounting to Rs. 7.50 crores.

The finished products exported by the company carried a GST rate of 5% during year 2020-21. Further, during year ended 31st March, 2021, the company had availed input tax credit of Rs. 2.00 crore, the break-up of which is given as under: -

Eligible ITC on inputs	Rs. 1.50 crores
Eligible ITC on capital goods	Rs. 0.36 crores
Eligible ITC on services	Rs. 0.14 crores

The company had exported its products on payment of *IGST* in accordance with provisions of GST law prevalent during year 2020-21. The company has also filed its periodical returns by stipulated due dates in accordance with provisions of law.

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

1. As discussed above, the company is engaged in export on payment of IGST. Below are given certain assertions relating to preparation of invoice and related matters. Which of the following assertions

regarding preparation of an invoice for export transaction is *MOST LIKELY* in conformity with relevant legal provisions?

- (a) The company is legally bound to raise a tax invoice in Indian Rupees only for its products exported in accordance with relevant rules and foreign currency amount is to be converted into Indian Rupees in tax invoice by using RBI reference rate in relation to date of invoice.
 - (b) The company is legally bound to raise a tax invoice in Indian Rupees as well as commercial invoice in foreign currency in accordance with relevant rules and procedures governing such transactions. Further, foreign currency amount is to be converted into Indian Rupees in tax invoice by using exchange rate in accordance with exchange rate notification issued by CBIC relevant in relation to date of invoice.
 - (c) The company is legally bound to raise a tax invoice in Indian Rupees only for its products exported in accordance with relevant rules and foreign currency amount is to be converted into Indian Rupees in tax invoice by using TT buying rate in relation to date of invoice.
 - (d) The company is legally bound to raise a tax invoice in Indian Rupees as well as commercial invoice in foreign currency in accordance with relevant rules and procedures governing such transactions. Further, foreign currency amount is to be converted into Indian Rupees in tax invoice by using TT selling rate in relation to date of invoice.
2. Consider below given statements regarding tax liability of the said company under provisions contained in GST laws and rules made there under:

Statement I--- The overall IGST liability of the company pertaining to supplies in relation to export in 2020-21 was Rs. 2.50 crores and it was discharged by the company by availing ITC on inputs of Rs.1.50 crores and balance of Rs.1.00 crore was discharged by company in cash. After discharge of liability and filing of periodical returns consisting of GSTR- 3B and GSTR-1, the above said amount of Rs.2.50 crore was refunded/refundable directly by customs in bank account of company.

Statement II--- The overall IGST liability of the company in 2020-21 pertaining to supplies in relation to export was Rs.2.50 crores and it was discharged by the company by availing ITC on inputs of Rs.1.50 crores, ITC on capital goods of Rs.0.36 crore and ITC on services of Rs.0.14 crores and balance of Rs.0.50 crore was discharged by company in cash. After discharge of liability and filing of periodical returns consisting of GSTR- 3B and GSTR-1, the above said amount of Rs.2.50 crore was refunded /refundable directly by customs in bank account of the company.

Statement III--- The overall IGST liability of the company in 2020-21 pertaining to supplies in relation to export was Rs.2.50 crores and it was discharged by the company by availing ITC on inputs of Rs.1.50 crores, ITC on capital goods of Rs.0.36 crore and ITC on services of Rs.0.14 crores and balance of Rs.0.50 crore was discharged by company in cash. After discharge of liability and filing of periodical returns consisting of GSTR- 3B, GSTR-1, and GSTR-9, the above said amount of Rs.2.50 crore was refunded/refundable directly by customs in bank account of the company.

Statement IV--- The overall IGST liability of the company in 2020-21 pertaining to supplies in relation to export was Rs.2.50 crores and it was discharged by the company by availing ITC on inputs of Rs.1.50 crores, ITC on capital goods of Rs.0.36 crores and ITC on services of Rs.0.14 crores and balance of Rs.0.50 crore was discharged by company in cash. After discharge of liability and filing of periodical returns consisting of GSTR- 3B and GSTR-1, the above said ITC amounting to Rs.2.00 crore was refunded/refundable directly by customs in bank account of the company.

- (a) Only Statement II is correct.
- (b) Only Statement III is correct.
- (c) Only Statement I is correct.
- (d) Only Statement IV is correct.

3. The company had imported machinery worth Rs. 7.65 crores from South Korea. The said cost was CIF Mundra port. However, the company had incurred Rs. 2.36 lakhs as clearing charges paid to DK Services Private Limited (including Rs.0.36 lakhs on account of IGST) for availing services for getting consignments cleared from port.

Further, company had also incurred Rs.3.00 lakhs on account of freight paid to D Transport services (a proprietary concern). This proprietary concern is not registered taxpayer under GST and company has deposited IGST of Rs.0.15 lakhs on account of reverse charge.

Further, company had paid Rs.1.77 crore to building contractor company on account of services (including Rs.27,00,000/- on account of IGST) during year 2020-21. In context of above, consider the following table of compliances under income tax law as well as under GST law:

<i>Nature of Compliances</i>	<i>Appropriate response of company in accordance with law</i>
[1] Deduction of TDS under income tax law and availing of eligible ITC under GST law	[i] TDS of Rs. 2,30,250/- is deducted on account of above three transactions and company is availing ITC of Rs. 51,000/- in respect of these transactions
[2] Deduction of TDS under income tax law and availing of eligible ITC under GST law	[ii] TDS of Rs. 2,30,250/- is deducted on account of above three transactions and company is availing ITC of Rs. 36,000/- in respect of these transactions
[3] Deduction of TDS under income tax law and availing of eligible ITC under GST law	[iii] TDS of Rs. 3,07,000/- is deducted on account of above three transactions and company is availing ITC of Rs. 27,51,000/- in respect of these transactions
[4] Deduction of TDS under income tax law and availing of eligible ITC under GST law	[iv] TDS of Rs. 3,07,000/- is deducted on account of above three transactions and company is availing ITC of Rs. 27,36,000/- in respect of these transactions

Which of the following forms appropriate response by the company in accordance with law?

- (a) Combination [1] and [i]
 - (b) Combination [2] and [ii]
 - (c) Combination [3] and [iii]
 - (d) Combination [4] and [iv]
4. The company is under statutory obligation to submit documentary evidence regarding proof of import of machinery. Which of the following statements is correct in this regard?
- (a) Bill of lading is appropriate documentary evidence regarding evidence of import of machinery and its copy is required to be submitted to jurisdictional office of GST by importer.
 - (b) Bill of Entry is appropriate documentary evidence regarding evidence of import of machinery and its copy is required to be submitted to jurisdictional office of GST by importer.
 - (c) Bill of lading is appropriate documentary evidence regarding evidence of import of machinery and its copy is required to be submitted to the concerned branch of bank through whom import transaction was channelised.
 - (d) Bill of Entry is appropriate documentary evidence regarding evidence of import of machinery and its copy is required to be submitted to the concerned branch of bank through whom import transaction was channelised.
5. Under provisions of Companies Act, 2013, the books of accounts and records are required to be kept at registered office of the company. However, the manufacturing facilities of company are located in NOIDA in state of Uttar Pradesh. In light of above, advise recourse available to the company.

- (a) The company can keep books of accounts and records at NOIDA by filing form AOC-2 within 30 days of passing board resolution.
- (b) The company can keep books of accounts and records at NOIDA by filing form AOC-5 within 30 days of passing board resolution.
- (c) The company can keep books of accounts and records at NOIDA by filing form AOC-5 within 7 days of passing board resolution.
- (d) The company can keep books of accounts and records at NOIDA by filing form AOC-2 within 7 days of passing board resolution.

Part B- Descriptive Questions

6. The promoters of the company are law compliant and do not want to be seen on the wrong side of law. However, they are also prudent minded and want to take benefits/deductions/exemptions available legally and seek your advice.

Advise the company in accordance with policy pronouncements followed by legislative amendments to lower its tax liability for AY 2021-22, if any, quoting relevant provisions of law. However, if promoters are mistaken regarding any such legally permissible ways, advise regarding correct tax liability in light of provisions of law. Make suitable assumptions and ignore adjustment on account of depreciation under Companies Act and Income Tax Act.

(8 Marks)

7. The company has exported made-ups on payment of IGST. Discuss whether there was any other legally permissible way to export its goods keeping in view provisions of GST law. Also make a cross comparison of export on payment of IGST vs. other legally compliant way in terms of financial burden/benefit and procedural requirements to the taxpayer company. Make suitable assumptions.

(7 Marks)

CASE STUDY 5

“PQRST & Co.” is an Audit Firm having partners “Mr. P”, “Mr. Q”, “Mr. R”, “Mr. S” and “Mr. T”, Chartered Accountants. This Firm was established 10 years ago by these Partners who were friends since College days and has made a remarkable success in Auditing & Taxation work till now. They have clients ranging from small traders to big multinational companies. They have set up a practice of all of them meeting and sitting together once a month to discuss and sort out various issues of their clients with each other as well as any issues related to their Profession. This time when they met, 3 major issues were scheduled to be discussed as follows-

- (i) Accounting & Taxation issues w.r.t. Hamba Manufacturers Ltd., one of their old clients.
- (ii) Accounting & Taxation issues w.r.t. Talktime Telecom Pvt. Ltd., one of their prime clients.
- (iii) Their eligibility as Partners to carry out various audits & ceiling limits.

Hamba Manufacturers Ltd. is in the business of manufacturing and trading in Electronics and it has its own sale depots as well apart from being a part of the Wholesale and Distribution channel. It also enters into contracts with different customers for Overhauling and Renovation services and has also set up a separate unit in its factory for research related to Biotechnology. One of the issues being discussed at the meeting is that this Company has its manufacturing unit in the State of Maharashtra. It stores the finished goods manufactured by it at a depot located in the State of Gujarat. The depot is owned by Punyabhumi Ltd. – a related person of Hamba Manufacturers Ltd. Punyabhumi Ltd. has not charged any consideration from it for usage of depot for storage purpose. There is a doubt raised by Mr. Q regarding such transactions as if they form supply or not under the GST law. They discussed about the term supply under the GST law and resolve out this issue. Mr. S, who is an expert in GST matters, deliberates that a taxable event is any transaction or occurrence that results in a tax consequence. Before levying any tax, taxable event needs to be ascertained. It is the foundation stone of any taxation system; it determines the point at which tax would be levied. Under the earlier indirect tax regime, the framework of taxable event in various statutes was prone to catena of

interpretations resulting in litigation since decades. The controversies largely related to issues like whether a particular process amounted to manufacture or not, whether the sale was pre-determined sale, whether a particular transaction was a sale of goods or rendering of services etc. The GST laws resolve these issues by laying down one comprehensive taxable event i.e. "Supply" - Supply of goods or services or both. Various taxable events namely manufacture, sale, rendering of service, purchase, entry into a territory of State etc. have been done away with in favor of just one event i.e. Supply. GST Law, by levying tax on the 'supply' of goods and/or services, departs from the historically understood concepts of 'taxable event' under the State VAT Laws, Excise Laws and Service Tax Law i.e. sale, manufacture and service respectively. In the GST regime, the entire value of supply of goods and /or services is taxed in an integrated manner, unlike the earlier indirect taxes, which were charged independently either on the manufacture or sale of goods, or on the provisions of services. He further deliberates on the meaning, scope and types of Supply as enshrined in Section 7 of the CGST Act, 2017 and the related conditions.

Mr. Q further tells them all that he is currently confused with one of the Supplies affected by Hamba Manufacturers Ltd. as to how to account for it in the Books of accounts for revenue recognition purpose. He tells them that the Company has entered into an agreement on 1st January, 2021 with a customer for renovation of hospital and install new air-conditioners for total consideration of Rs. 50,00,000. The promised renovation service, including the installation of new air-conditioners is a single performance obligation satisfied over time. Total expected costs are Rs. 40,00,000 including Rs. 10,00,000 for the air conditioners. The Company determines that it acts as a principal because it obtains control of the air conditioners before they are transferred to the customer. The customer obtains control of the air conditioners when they are delivered to the hospital premises. Company uses an input method based on costs incurred to measure its progress towards complete satisfaction of the performance obligation. As at 31st March, 2021, other costs incurred excluding the air conditioners are Rs. 6,00,000. This problem is solved by Mr. T, who is an expert in Ind AS matters as he tells them that there is this one standard which helps them out in such Revenue Recognition. This standard establishes principles to report useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The core principle is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard specifies the accounting for an individual contract with a customer. However, as a practical expedient, an entity may apply this Standard to a portfolio of contracts (or performance obligations) with similar characteristics if the entity reasonably expects that the effects of applying the Standard to the portfolio would not differ materially from applying this Standard to the individual contracts (or performance obligations) within that portfolio. Thus, he resolves this issue being faced by Mr. Q.

Moving on, Mr. R, who is working on the case of Hamba Manufacturers Ltd. with Mr. Q jointly is struggling with certain issues to be handled while calculating Profits for the Previous Year 2020-21 for the Company for Taxation purpose and puts forward the relevant information for discussion among them. Mr. S who is an expert in Income tax matters offers help in this case. He tells them that Hamba Manufacturers Ltd. has disclosed a net profit of Rs. 12.50 lacs for the year ended 31st March, 2021. Advertisement expenditure debited to profit and loss account includes the sum of Rs. 60,000 paid in cash to the sister concern of a director, the market value of which is Rs. 52,000. Repairs of plant and machinery debited to profit and loss account includes Rs. 1.80 lacs towards replacement of worn out parts of machineries. Such expenditure does not increase the future benefit from the asset beyond its previously assessed standard of performance. A sum of Rs. 6,000 on account of liability foregone by a creditor has been taken to general reserve. The original purchase was debited to the Profit & Loss Account in the A.Y.2016-17. Sale proceeds of import entitlements amounting to Rs. 1 lac has been credited to Profit & Loss Account, which the company claims as capital receipt not chargeable to income-tax. Being also engaged in the biotechnology business, the company incurred the following expenditure on in-house research and development as approved by the prescribed authority:

- (a) Research equipment purchased Rs. 1,50,000.
- (b) Remuneration paid to scientists Rs. 50,000.

The total amount of Rs. 2,00,000 is debited to the profit and loss account.

Now, Mr. P comes up with the case of Talktime Telecom Pvt. Ltd. He tells them all that -

- (a) this company entered into an agreement with B Ltd. which is engaged in generation and supply of power. The agreement provided that Talktime Telecom Pvt. Ltd. will provide 2,00,000 minutes of talk time to employees of B Ltd. in exchange for getting power equivalent to 40,000 units. Talktime Telecom Pvt. Ltd. normally charges Rs. 0.50 per minute and B Ltd. charges Rs. 2.5 per unit. Mr. P is unable to account for recognize revenue from this transaction and again Mr. T comes to his rescue to resolve this issue.
- (b) this Company is to provide telecom services in Mumbai, obtained a licence on 1.4.2018 for a period of 10 years ending on 31.3.2028 against a fee of Rs. 54 lacs to be paid in 3 installments of Rs. 18 lacs each by April, 2018, April, 2019 and April, 2020, respectively. The company has commenced business on 1.4.2019. He is struggling with the treatment of such transaction under the Income tax law and Mr. S, again comes forward to help.
- (c) the company has entered into a contract with an actor – Chandragupta - to act as their brand ambassador. The duration of the contract is 5 years and the contract fee payable to Chandragupta for being a brand ambassador is Rs. 50 lakh per annum. As per the terms of the contract, in case the contract is terminated by Chandragupta before the end of the contract period, Chandragupta will have to repay to the company 50% of the contract fee received by him till the time of termination of contract.
- (d) while adopting the accounts for the year, the Board of Directors of Talktime Telecom Pvt. Ltd. decided to consider the Interim Dividend declared @15% as final dividend and did not consider transfer of Profit to reserves.

Now, at last, Mr. T has this issue to be discussed among them all as to the ceiling applicable on each one of them and their firm w.r.t different types of audits, especially Company Audit. They discuss that before appointment is given to any auditor, the company must obtain a certificate from him to the effect that the appointment, if made, will not result in an excess holding of company audit by the auditor concerned over the limit laid down in section 141(3)(g) of the Companies Act, 2013 which prescribes that a person shall not be eligible for appointment as an auditor if he is in full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor, if such person or partner is at the date of such appointment or reappointment, already holding appointment as auditor of more than a prescribed number of companies other than some exceptions. In the case of a firm of auditors, this limit of prescribed number of company audits is decided accordingly as per law.

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

1. Whether the services given by Punyabhumi Ltd. to Hamba Manufacturers Ltd. qualify as supply under GST?
 - (a) No, as no consideration has been charged.
 - (b) No, as they are related persons & there can be no supply between Related Persons.
 - (c) Yes, it qualifies as a Supply even though no consideration has been charged for the same.
 - (d) Yes, it qualifies as a Supply because the transfer involves activity between two states.
2. How should revenue be measured in the case of Talktime Telecom Pvt. Ltd.'s contract with the company B Ltd. as per the solution that might have been provided by Mr. T?
 - (a) Rs. 25,000
 - (b) Rs. 50,000
 - (c) No Revenue recognition as it is a contract involving consideration in kind and just to be disclosed in the Notes to accounts.

- (d) Rs. 1,00,000
3. Explain what amount of payment made for licence fee by Talktime Telecom Pvt. Ltd. shall be, under the Income-tax Act, 1961, deductible for A.Y. 2021-22.
- (a) Rs. 54,00,000
 (b) Rs. 18,00,000
 (c) Rs. 6,25,000
 (d) Rs. 3,12,500
4. You are told that at the end of 3rd year, Chandragupta terminates the contract with Talktime Telecom Pvt. Ltd. He has received the contract fee for 3 years at the time of termination of contract. You are required to determine whether the given transaction(s) qualifies(y) as supply(ies) under the GST Law.
- (a) Only Appointment is a Supply.
 (b) Both Appointment of Chandragupta & Termination by him qualify as two legs of ONE Supply.
 (c) Only Termination is a Supply.
 (d) Appointment of Chandragupta & Termination by him qualify as two different supplies.
5. Assume that Talktime Pvt. Ltd. has complied with the depreciation requirement, comment upon the decision of its Board of Directors regarding payment of Dividend & transfer to reserves.
- (a) The decision of the Board of Directors is feasible and appropriate.
 (b) The Company should transfer amount out of profits and declare final dividend as well.
 (c) The Company should pay Final Dividend necessarily without any transfer to reserves.
 (d) Interim Dividend should not have been paid, but transfer of amount out of profits to reserves is mandatory.

Part B- Descriptive Questions

6. Under the contract obtained for renovation of hospital, whether Hamba Manufacturers Ltd. should include cost of the air conditioners in measure of its progress of performance obligation? How should revenue be recognised for the year ended March 2021? **(5 Marks)**
7. You are required to compute the taxable income (ignore the provisions of section 115BAA) of Hamba Manufacturers Ltd. for the Assessment year 2021-22, after considering the information as provided in the above case scenario, duly explaining the reasons for each item of adjustment. **(6 Marks)**
8. "Mr. P", "Mr. Q", "Mr. R", "Mr. S" and "Mr. T" are holding appointment as an Auditor in 4, 5, 6, 10 and 15 Companies respectively.
- (i) Provide the maximum number of Audits remaining in the name of "PQRST & Co."
 (ii) Provide the maximum number of Audits remaining in the name of individual partner i.e. "Mr. P", "Mr. Q", Mr. R, Mr. S and Mr. T.
 (iii) Can PQRST & Co. accept the appointment as an auditor in 80 private companies having paid-up share capital less than Rs. 100 crore which has not committed default in filing its financial statements under section 137 or annual return under section 92 of the Companies Act with the Registrar, 2 small companies and 1 dormant company?
 (iv) Would your answer be different, if out of those 80 private companies, 65 companies are having paid-up share capital of Rs. 115 crore each? **(4 Marks)**