

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

CASE STUDY 1:

Part A

1. (d) The Company is not required to appoint Woman Director as its paid-up capital does not exceed ₹ 100 Lacs as well as the Turnover does not exceed ₹ 300 Lacs as per the Audited Balance Sheet dated 31.03.2021.

Reason: Second proviso to section 149(1) of the Companies Act, 2013 provides that at least one woman director shall be on the Board of such class or classes of companies as prescribed in Rule 3 of the Companies (Appointment and Qualification of Directors) Rules, 2014.

Rule 3 provides that the following classes of companies shall appoint at least one woman director-

- (i) Every listed company;
- (ii) Every other public company having -
paid-up share capital of one hundred crore rupees or more; or
turnover of three hundred crore rupees or more.

Explanation- For the purposes of having a woman director on the board, it is clarified that the paid-up share capital or turnover, as the case may be, as on the last date of latest audited financial statements shall be taken into account.

2. (c) It shall be filled by the Board by appointing an Additional Director.

Reason: The casual vacancy arises when any director appointed in the general meeting vacates his office before the expiry of his term. Thus, such appointment of the director who vacates his office must have been made in the general meeting and the said casual vacancy shall be filled by the Board and subsequently approved by the members in the immediate next general meeting as per section 161(4) of the Companies Act, 2013. However, if the casual vacancy so filled is again vacated due to some casual occurrence, then it cannot be said to be a casual vacancy because it arose against an appointment which was not made in the general meeting. Such type of vacancy needs to be filled by the Board by appointing an additional director.

3. (a) The Directors of the Company shall be disqualified from being reappointed as a director of that company or appointed in any other company for a period of 5 years, from the date on which his company fails to do so.

Reason: Sub-section (2) of Section 164 of the Companies Act, 2013 prescribes disqualifications which get attached to a person if he is or has been a director of a company which has committed default as under—

His company has not filed financial statements or annual returns for any continuous period of 3 financial years; or

His company has failed to repay the deposits accepted by it or pay interest thereon or to redeem

any debentures on the due date or pay interest due thereon or pay any dividend declared and such failure to pay or redeem continues for 1 year or more.

In both the above cases of default, the director concerned shall not be eligible to be re- appointed as a director of such defaulting company or appointed in some other company for period of 5 years from the date on which the said company has committed default.

4. (b) All such Public Companies which have paid up share capital of ₹ 10 Crores or more or whose turnover is ₹ 100 Crores or more or all such public companies which have in aggregate outstanding loans, debentures and deposits exceeding ₹ 50 crores shall have at least 2 Directors as Independent directors.

Reason: As per section 149(4) of the Companies Act, 2013 every listed public company shall have 1/3rd of the total number of directors as independent directors.

The Central Government is empowered to prescribe certain minimum number of independent directors in case of any class or classes of public companies. Taking a step in this direction, Rule 4 of the Companies (Appointment and Qualification of Directors) Rules, 2014 has been framed which states that the following class or classes of companies shall have at least two directors as independent directors:

(1)	all such public companies which have paid up share capital of 10 crore rupees or more; or
(2)	all such public companies which have turnover of 100 crore rupees or more; or
(3)	all such public companies which have, in the aggregate, outstanding loans, debentures and deposits, exceeding 50 crore rupees.

5. (c) The adjourned meeting cannot be held only on National Holidays. Diwali, not being a national holiday, the meeting can be held.

Reason: When a board meeting is adjourned due to lack of quorum, then under section 174(4) of the Companies Act, 2013 the adjourned meeting can be held on the same day at the same time and place in the next week or if that day is a national holiday, till the next succeeding day, which is not a national holiday, at the same time and place, unless the Articles provide otherwise.

Since said section specifies exclusion of only a national holiday, any original/adjourned/ committee meetings can be held on Sundays and other holidays. In view of this provision, the adjourned meeting of the Board of 'Happy Crunch Ltd.' can be held on the day of Diwali without involvement of any illegality.

Part B

6. Computation of the cost of the factory

Description	Included in P.P.E. (₹ '000)	Explanation
Purchase of land	20,000	Both the purchase of the land and the associated legal costs are direct costs of constructing the factory.
Preparation and leveling	600	A direct cost of constructing the factory
Materials	12,160	A direct cost of constructing the factory

Employment costs of construction workers	2,800	A direct cost of constructing the factory for a seven-month period
Direct overhead costs	1,400	A direct cost of constructing the factory for a seven-month period
Allocated overhead costs	Nil	Not a direct cost of construction
Income from use as a car park	Nil	Not essential to the construction so recognized directly in profit or loss
Relocation costs	Nil	Not a direct cost of construction
Opening Ceremony costs	Nil	Not a direct cost of construction
Finance Costs	933.33	Capitalize the interest cost incurred in a seven-month period (purchase of land would not trigger off capitalization since land is not a qualifying asset. In fact, the construction started from 1st May, 2021)
Investment income on temporary investment of the loan proceeds	(100)	Offset against the amount capitalized
Demolition cost recognized as a provision	5,680	Where an obligation must recognize as part of the initial cost
Total	43,473.33	

Computation of accumulated depreciation

Total depreciable amount	23,473.33	All of the net finance cost of 833.33 (933.33 – 100) has been allocated to the depreciable amount. Also, acceptable to reduce by allocating a portion to the non-depreciable land element principle.
Depreciation must be in two parts:		
Depreciation of roof component	117.37	$23,473.33 \times 30\% \times 1/20 \times 4/12$
Depreciation of remainder	136.93	$23,473.33 \times 70\% \times 1/40 \times 4/12$
Total Depreciation	254.30	
Computation of carrying amount	43,219.03	$43,473.33 - 254.30$

7. Computation of Income of Riddhi Siddhi Traders Pvt. Ltd. chargeable to tax for the A.Y.2021-22

Particulars		Amount (₹)
Net Profit as per Profit & Loss A/c		52,80,000
Add:	Difference in the value of Stocks found on survey under Sec 133A on 31.03.2021 chargeable as Income (Refer Note 1)	7,50,000
		60,30,000
Less:	Income Tax refund credited in P& L A/c out of which Interest is to be shown separately under the head "Income from other Sources"	40,000
		59,90,000
Add:	Expenses disallowable or to be considered separately but charged in P & L A/c.	
	Repair expense on rented premises where assessee is under no obligation to incur is not allowable under section 30(a)(i). However, if such expenses are incurred for carrying business efficiently, the same is allowed under section 37.	--
	Advertisement in the souvenir of Political party is not allowed under section 37(2B) (Refer Note 3)	5,000
	Payment made to the wife of a director examined as per section 40 A (2) and excess payment is disallowed (Refer Note 5)	1,50,000
	Payment made to electoral trust by cheque (Refer Note 6)	1,00,000
	Penalty levied by GST department for delayed filing of returns not allowed as being paid for infraction of law. (Refer Note 7)	10,600
	Depreciation as per books	1,43,000
	30% Interest paid on loan paid to Mr. Raj, without deduction of TDS not allowed as per Sec 40(a) (ia)	36,000
		64,34,600
Less:	Depreciation allowable as per Income Tax Act, 1961.	1,20,000
		63,14,600
Less:	Income from specified business (warehousing charges) credited to P & L A/c, to be considered separately. (Refer Note 8)	15,00,000
Income from business (other than specified business)		48,14,600
Computation of Income/Loss from specified business (Refer Note 8)		
Income from specified business		15,00,000
Less:	Deduction under section 35AD @100% of ₹25 Lacs	25,00,000

Loss from specified business to be carried forward as per section 73A		(10,00,000)	
Income from other sources			
Interest on Income Tax refund			9,140
GROSS TOTAL INCOME			48,23,740
Less:	Deduction under Section 80GGB		
	Contribution to Political Party (Refer note 3)	5,000	
	Contribution to an Electoral trust (Refer Note 3)	1,00,000	1,05,000
	TOTAL INCOME		47,18,740

Notes:

1. The business premises of the company were surveyed and differences were found in closing & opening stocks as well as sales. These differences were accepted by the assessee. This will result in change in Gross Profit as of 31st March 2021 which has been worked out as follows:

Revised Trading Account

Particulars	Amount (₹)	Particulars	Amount (₹)
Opening Stock	17,50,000	Sales (3,11,00,000+1,50,000)	3,12,50,000
Purchases	2,51,50,000	Closing Stock	25,00,000
Freight & Cartage	2,52,000		
Gross Profit	65,98,000		
	3,37,50,000		3,37,50,000

The difference of Gross Profit of ₹ 7,50,000 (65,98,000 - 58,48,000) is to be added to as Income of the business of the year.

2. Bonus for the previous year 2019-20 paid after the due date for filing return for that year would have been disallowed under section 43B for the PY 2019-20. However, when the same has been paid in December 2020, it should be allowed as deduction in the PY 2020-21. Since it is already included in the amount of bonus to staff debited to P & L A/c, no adjustment is required.
3. Amount of ₹ 5,000/- paid for advertisement in the souvenir issued by a political party is disallowed under section 37(2B). However, such expenses are eligible under section 80GGB as it is considered as contribution under Sec 293A of the Companies Act, 1956. 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 ₹ 30,000 paid for non-fulfillment 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 ₹ 50,000 is the reasonable payment for the wife of Director, working as a junior lawyer, since junior advocates of High Courts normally charge only ₹ 50,000 for the same opinion and therefore, the balance ₹ 1,50,000 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 ₹ 25,500 paid on the delayed deposit of goods and services tax is for breach of contract and hence, is allowable as deduction. However, penalty of ₹ 10,600 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 ₹ 25 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.

CASE STUDY 2:

Part A

1. (b) 7 days, 27EQ

Reason: The person responsible for collecting tax shall deposit the TCS amount within 7 days from the last day of the month in which the tax was collected. Every tax collector shall submit Statement of TCS in Form 27EQ in respect of the tax collected by him.

2. (c) ₹ 1,593

Reason: The Government of India (GOI) in the Finance Bill, 2020 introduced a new sub section (1H) to section 206C of the Income Tax Act, 1961 (IT Act) that "Every person, being a seller, who receives any amount as consideration for sale of any goods of the value or aggregate of such value exceeding fifty lakh rupees in any previous year, other than the goods being exported out of India or goods covered in sub-section (1) or sub-section (1F) or sub-section (1G) shall, at the time of receipt of such amount, collect from the buyer, a sum equal to 0.1 per cent of the sale consideration exceeding fifty lakh rupees as income-tax." However, due to Covid-19, the rate of TCS has been reduced from 0.1% to 0.075% till 31.03.2021 as per GOI Press Release dated 13 May 2020. CBDT also clarified that the GST portion included in sale value would attract TCS u/s 206C(1H) of the Act.

Hence amount of TCS would be calculated as follows:

Taxable value = 18,00,000

Add GST = 18,00,000 * 18% = 3,24,000

Total Invoice value = 21,24,000

TCS = 0.075% on 21,24,000 = 1,593

3. (b) Once E-way bill is generated, it can be edited for any mistake.

Reason: Once e-way bill is generated, it cannot be edited for any mistake. However, it can be cancelled within 24 hours of generation.

4. (c) Gain - ₹ 3 Lakhs

Reason: As per IndAS 21 "The effects of change in foreign Exchange Rates" the asset and liability would initially be recognised at the rate of exchange in force at the transaction date i.e. 01.01.2021. Therefore, amount initially recognised would be ₹ 68,00,000 (\$ 1,00,000 * ₹ 68)

The liability is a monetary item, so it is retranslated using the rate of exchange in force at 31.03.2021. This makes the closing liability of ₹ 65,00,000 (\$ 1,00,000 * ₹ 65)

The exchange gain of ₹ 3,00,000 (₹ 68,00,000 - ₹ 65,00,000) on translation of monetary items is recognised in statement of profit and loss.

5. (b) ₹ 1,00,000

Reason: As per Sec 197(5) of Companies Act, 2013, a director may receive remuneration by way of fee for attending meetings of the board or Committee thereof or for any other purpose whatsoever as may be decided by the Board subject to conditions imposed by Rule 4 of the companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 as under-

- The sitting fees shall not exceed ₹ 1,00,000 per meeting of the Board or Committee thereof
- The sitting fee payable to the independent directors and women directors shall not be less than that payable to other directors. (As per Proviso to Rule 4)

Part B

6. a) Rule 138(1) of CGST Rules, 2017 provides that e-way bill is mandatorily required to be generated *inter alia* if a registered person causes movement of goods of consignment value exceeding ₹ 50,000 in relation to a supply. Further explanation 2 to Rule 138(1) stipulates that the consignment value of goods shall be value determined in accordance with the provisions of Sec 15, declared in an invoice, a bill of supply or a delivery challan as the case may be, issued in respect of the said consignment and also includes CGST, SGST/UGST, IGST and cess charged, if any, in the document and shall exclude the value of exempt supply of goods where the invoice is issued in respect of both exempt and taxable supply of goods.

Accordingly, in the given case the consignment value will be as follows-

= ₹ 48,000 * 1.18 = ₹ 56,640

Since the movement of goods is in relation to supply of goods and the consignment value exceeds ₹ 50,000, e-way bill is mandatorily required to be issued in the given case.

- b) **Consequence of non-issuance of e-way bill:** It is mandatory to generate e-way bill in all cases where the value of consignment being transported is more than ₹ 50,000 and it is not otherwise exempted in terms of Rule 138(14) of CGST Rules, 2017. If e-way bills, wherever required, are not issued in accordance with the provisions contained in rule 138, the same will be considered as contravention of rules. As per Sec 122(1)(xiv) of CGST Act, 2017, a taxable person who transports any taxable goods without the cover of specified documents (e-way bill is one of the

specified documents) shall be liable to penalty of ₹ 10,000 or tax sought to be evaded (wherever applicable) whichever is greater.

Moreover, as per Section 129(1) of CGST Act, 2017, where any person transports any goods or stores any goods while they are in transit in contravention of the provisions of this Act or the Rules made thereunder, all such goods and conveyance used as a means of transport for carrying the said goods and documents relating to such goods and conveyance shall be liable to detention or seizure.

7. a) Kunal Textiles

S.No.	Particulars	Amount (₹)
1)	Sales up-to 30-09-2020	85 Lakhs
2)	Amount received up-to 30-09-2020	45 Lakhs
3)	Amount received from 01-10-2020	40 Lakhs
	Amount Liable to TCS u/s 206 C(1H)	35 Lakhs (on the amount exceeding ₹ 50 Lakhs)

Amount of TCS should be ₹ 35 Lakhs x 0.075% = ₹ 2,625

Madhu Textiles

S.No.	Particulars	Amount (₹)
1)	Sales upto 30-09-2020	65 Lakhs
2)	Amount received upto 30-09-2020	55 Lakhs
3)	Sale made on or after 01.10.2020	30 Lakhs
4)	Amount received from 01-10-2020	40 Lakhs
5)	Total Sales to Madhu Textiles	95 Lakhs
	Amount Liable to TCS u/s 206 C(1H)	40 Lakhs (required to collect TCS only on the amount received on or after 30.09.2020, because receipts from 1 st April, 2020 exceeds the threshold limit of ₹ 50 lakhs)

Amount of TCS should be ₹ 40 Lakhs x 0.075% = ₹ 3,000

b) The due dates for filing of TCS returns are mentioned below: –

Quarter	Due Date	Due date of issuance of certificate
Q1. April to June	15th of July	30 th of July
Q2. July to Sep	15th of October	30 th of October
Q3. Oct to Dec.	15th of January	30 th of January
Q4. Jan to Mar	15th of May	30 th of May

8. The managerial remuneration shall be computed in accordance with the provisions laid down in section 198 of the Companies Act 2013-

Particulars	Amount (₹)
Net profit	19,50,000
Less: Capital profits on sale of building (Note 1)	1,50,000
Salaries & Wages (Note 2)	-
Sundry repairs to fixed Assets (Note 2)	-
Compensation from breach of contract (Note 2)	-
Depreciation (Note 2)	-
Loss on Sale of Investments (Note 3)	-
Interest on unsecured loans (Note 2)	-
Interest on debentures (Note 2)	-
Add: Repair expenses to fixed assets (Capital in Nature) (Note 4)	3,00,000
Net profits as per section 198	21,00,000

Therefore, the overall maximum managerial remuneration shall be 11% of the Net profits computed in accordance with section 198 i.e. $11\% \times 21,00,000 = ₹ 2,31,000$.

Notes:

- 1) As per section 198(3), credit shall not be given for profits from the sale of any immovable property or fixed assets of a capital nature comprised in the undertaking or any of the undertakings of the company, unless the business of the company consists, whether wholly or partly, of buying and selling any such property or assets; provided that where the amount for which any fixed asset is sold exceeds the written-down value thereof, credit shall be given for so much of the excess as is not higher than the difference between the original cost of that fixed asset and its written-down value.

Accordingly, the calculation of capital profit is computed as under:

Profit = Selling Price – Written down value

7,50,000 = Selling Price – 9,00,000.

Therefore, Selling Price = 16,50,000.

Capital profit = 16,50,000 – 15,00,000 (original cost) = 1,50,000

- 2) According to section 198 (4), the following sums shall be deducted:
 - a) All the usual working charges – salaries and wages are considered as usual working charges.
 - b) expenses on repairs, whether to immovable or to movable property, provided the repairs are not of a capital nature.

- c) any compensation or damages to be paid in virtue of any legal liability including a liability arising from a breach of contract.
- d) interest on debentures issued by the company.
- e) interest on unsecured loans and advances.
- f) depreciation to the extent specified in section 123.

Since all of the above charges are already deducted while arriving at net profit, no effect will be given.

- 3) According to section 198(5), loss of a capital nature including loss on sale of the undertaking or any of the undertakings of the company or any part thereof shall not be deducted. In the given question, the investments are current in nature and accordingly no effect is given as it is already deducted while arriving at net profit.
- 4) According to section 198(4), expenses on repairs, whether to immovable or to movable property is deducted only for repairs which are not capital in nature. Accordingly, we have added back to the net profit.

CASE STUDY 3:

Part A

1. (b) ₹ 4,94,500

Reason:

Particulars	Amount
Cost of machinery inclusive of accessory (FOB) (See note)	\$ 7,000
Total (in Indian ₹) US \$ 7000 * ₹ 70 (being Exchange Rate)	₹ 4,90,000
Add: Local Agency Commission	₹ 4,500
FOB Value as per Customs	₹ 4,94,500

Note:

- 1) As per Accessories (Conditions) Rules, 1963, accessories and spare parts compulsorily supplied with main implements are chargeable at the same rate applicable to main machine. Therefore, such accessories shall also be chargeable with duty at the rate applicable to the machinery i.e. 10% ad valorem
- 2) Agency Commission, which is incurred in India, is not regarded as Buying Commission and therefore will be added to determine customs FOB Value.

2. (a) ₹ 6,00,400

Reason:

Particulars	Amount
Cost of machinery inclusive of accessory (FOB) (See note)	\$ 7,000
Total (in Indian ₹) US \$ 7,000* ₹ 70 (being Exchange Rate)	₹ 4,90,000

Add: Agency Commission	₹ 4,500
FOB Value as per Customs	₹ 4,94,500
Add: Cost of insurance (\$ 100 * ₹ 70)	₹ 7,000
Add: Air freight restricted to 20% of FOB Value as per customs	₹ 98,900
CIF Value/Assessable Value	₹ 6,00,400

Note: Actual Air freight is \$ 2,000, it is limited to 20% of Custom FOB value of Goods as per Rule 10(2) of Custom Valuation Rules

3. (b) ₹ 1,46,017

Reason:

Particulars	Amount (₹)
Assessable Value (A)	6,00,400
Add: Basic Custom Duty (10%) (B)	60,040
Add: SWS @10% on BCD (C)	6,004
Total for Integrated Tax u/s 3(7) CTA, 1975 (D)	6,66,444
Integrated Tax @ 12% of ₹ 6,66,444 (rounded off) (E)	79,973

Total Custom Duty Payable = (B) + (C) + (E) i.e. ₹ 1,46,017

4. (c) ₹ 2,00,000

Reason: Income from other sources- Difference between the aggregate fair market value of shares of a closely held company and the consideration paid for purchase of such shares is deemed as income in the hands of the purchasing company under section 56(2)(x). Since the difference exceeds ₹ 50,000, the entire sum is taxable.

10,000 shares * (60 - 40) = ₹ 2,00,000

5. (b) (i), (iii), (iv), (v)

Reason: While applying input method, a careful consideration should be given for events that do not depict a direct relationship between entity's inputs and transfer of control of goods or services. For example, when cost-based input method is used, an adjustment may be required when cost incurred is not proportionate to entity's progress in satisfying its performance obligation. In such cases, the best reflection is to adjust the input method to recognise revenue only to the extent of costs incurred. Such recognition of revenue to the extent of costs incurred is appropriate, if at contract inception, all the following conditions exist:

- (i) The goods do not represent a distinct performance obligation;
- (iii) Customer is expected to obtain control of the goods significantly before receiving the services;
- (iv) Cost of such goods is significant relative to the total expected costs to complete the performance obligation; and

- (v) The entity procures the goods from a third party and does not significantly involve in designing / manufacturing the goods (even if the entity is a principal in the arrangement between the entity and end customer).

Part B

6. Computation of total income of MVS Private Ltd. For the A.Y. 2021-22

Particulars	Amount (₹)
Profits and gains of business or profession	
Net profit for the year as per profit and loss account	75,00,000
Add: Expenses debited to profit and loss account but not allowable	
Contribution to Employees' Welfare Trust disallowed under section 40A(9)	2,00,000
Expenses on course fee and hostel expenses for MBA course of a close relative of a director, who is not in employment of MVS Private Ltd., is not deductible under section 37 [Enkay (India) Rubber Co. Ltd. V CIT] Such expenditure is not incurred wholly and exclusively for the purposes of business. Hence, it should be added back to compute business income.	7,80,000
Expenses on installation of traffic signal, to facilitate its employees to overcome traffic jam and be on time, is in the interest of the business so that the work gets completed on time, and is hence, an allowable expense under section 37 (1)	
Expenses on distribution of gift items to dealers under sales incentive scheme would promote goodwill and is made in the interest of business. Such gifts are prompted by commercial expediency and hence, the expenditure is allowable under section 37 (1)	
Expenses on travelling to Singapore of the wife of Managing Director on the invitation of Trade and Commerce Chamber, Singapore, are an allowable expense on the grounds of commercial expediency and business considerations.	
Increase in liability due to change in currency rate and paid to the suppliers of machinery is to be added to cost of the asset as per section 43A. Hence, it should be added back to compute business income.	3,00,000
Payments to a contractor for repair work in a day by two separate vouchers in cash, is not an allowable expense as per section 40A(3), since the aggregate payments in a day exceeds the limit of ₹ 10,000	27,000
Interest of ₹ 2 lakhs paid in March, 2021, on which tax deducted at source was remitted to the government before the due date of filing of return (i.e. before 31 st October, 2021), is allowable as per section 40(a)(ia).	
Total	88,07,000

Less: Expenditure allowable as deduction but not debited to profit and loss account	
Audit fees paid for the year ended 31.3.2020 for which tax was not deducted in the F.Y. 2019-20 but was deducted and paid in F.Y 2020-21, is allowable as deduction in the A.Y. 2021-22, as per the proviso to section 40(a)(ia)	1,80,000
Depreciation on the amount of ₹ 3 lakhs added in cost of Machinery was put to use for more than 180 days	45,000
Income under the head Profits & Gains of Business or Profession	85,82,000
Income from other sources Difference between the aggregate fair market value of shares of a closely held company and the consideration paid for purchase of such shares is deemed as income in the hands of the purchasing company other section 56(2) (x). Since the difference exceeds ₹ 50,000, the entire sum is taxable.	2,00,000
Total INCOME	87,82,000

Computation of tax liability of MVS Private Ltd. For the A.Y. 2021-22

Particulars	Amount (₹)
Tax on ₹ 87,82,000 @ 25%	21,95,500
Add: Health & Education cess @ 4%	87,820
Total tax payable	22,83,320

7. Costs to be incurred comprise two major components – elevators and cost of construction service

- (a) The elevators are part of the overall construction project and are not a distinct performance obligation.
- (b) The cost of elevators is substantial to the overall project and are incurred well in advance.
- (c) Upon delivery at site, customer acquires control of such elevators.
- (d) And there is no modification done to the elevators, which the company only procures and delivers at site. Nevertheless, as part of materials used in overall construction project, the company is a principal in the transaction with the customer for such elevators also.

Therefore, applying the guidance on input method –

- The measure of progress should be made based on percentage of costs incurred relative to the total budgeted costs.
- The cost of elevators should be excluded when measuring such progress and revenue for such elevators should be recognized to the extent of costs incurred.

The revenue to be recognized is measured as follows:

Particulars	Amount (₹)
Transaction price	60,00,000
Costs incurred:	
(a) Cost of elevators	10,00,000
(b) Other costs	7,00,000
Measure of progress:	7,00,000/35,00,000 = 20%
Revenue to be recognised:	
(a) For costs incurred (other than elevators)	Total attributable revenue = 50,00,000 % of work completed = 20% Revenue to be recognised = 10,00,000
(b) Revenue for elevators	10,00,000 (equal to costs incurred)
Total revenue to be recognised	10,00,000 + 10,00,000 = 20,00,000

Therefore, for the year ended 31st March, 2021, the company shall recognize revenue of ₹ 20,00,000 on the project.

CASE STUDY 4:

Part A

1. (a) The Partnership Firm can opt for presumptive scheme under section 44AD.

Reason: Section 44AD of the Income Tax Act, 1961 would be applicable to Partnership Firm. Thus, XYZ & Co. can declare the minimum profit @ 8% of the turnover as its turnover during the P.Y. 2020-21 is not expected to exceed ₹ 2 crores. If the firm does not opt for presumptive income scheme under section 44AD, it has to get its books of account audited u/s 44AB of the said Act.

2. (c) He need not get his books of accounts audited u/s 44AB of the Act.

Reason: Though Section 44AD of the Income Tax Act, 1961 is applicable to an Individual, it is not applicable to person carrying on agency business. In the given case, since, Mr. Anurag is running an agency business, he cannot take the benefit of section 44AD. His total turnover during the F.Y. 2020-21 is not expected to exceed ₹ 1 crore, therefore, he need not get his books of accounts audited u/s 44AB of the said Act.

3. (a) TDS u/s 192 of the Income tax Act, 1961.

Reason: Section 195 requires deduction of tax at source by any person responsible for making payment to a non-resident, any interest or any other sum chargeable under the provisions of the Income-tax Act, 1961 (other than income chargeable under the head "Salaries"). Section 192(1) requires "any person" responsible for paying income under the head "Salaries" to deduct tax at

source. Therefore, even if the payer is a foreign company, section 192 would be applicable. TDS provisions under section 192 are attracted, if the salary payable to a non-resident is chargeable to tax in India. Under section 9(1)(ii), income which falls under the head "Salaries" shall be deemed to accrue or arise in India, if it is earned in India. Salary payable for service rendered in India shall be regarded as income earned in India. Therefore, salary paid to Mr. Raghav, a non-resident, attracts tax liability in India, as he has rendered services in India.

4. (d) TDS u/s 194J is applicable on such payments but the threshold limit is w.r.t each kind of payment and therefore, no TDS liability in this case.

Reason: The limit of ₹ 30,000 for non-deduction of tax under section 194J would apply separately for fees for professional services and fees for technical services. This means that if a person has rendered services falling under both the categories, tax need not be deducted if the fee for each category does not exceed ₹ 30,000 even though the aggregate of the amounts credited to the account of such person or paid to him for both the categories of services exceed ₹ 30,000. Therefore, ACD Ltd. is not required to deduct tax at source in respect of the fees either at the time of credit or at the time of payment.

5. (b) The entire grant should be recognised immediately in profit or loss.

Reason: Government grants, including non-monetary grants at fair value, should be recognised only when there is reasonable assurance that:

- (a) the entity will comply with the conditions attaching to them; and
- (b) the grants will be received.

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised in profit or loss of the period in which it becomes receivable.

Part B

6. Applicability of Income tax Audit on –

PQR Ltd.

The provisions relating to tax audit under section 44AB of the Income Tax Act, 1961 apply to every person carrying on business, if his total sales, turnover or gross receipts in business exceed the prescribed limit of ₹ 1 crore (Provided that in the case of a person whose aggregate of all amounts received including amount received for sales, turnover or gross receipts during the previous year, in cash, does not exceed five per cent of the said amount and aggregate of all payments made including amount incurred for expenditure, in cash, during the previous year does not exceed five per cent of the said payment, the limit of one crore rupees shall change to five crore rupees) and to a person carrying on a profession, if his gross receipts from profession exceed the prescribed limit of ₹ 50 lakhs in any previous year. However, the term "sales", "turnover" or "gross receipts" are not defined in the Act, and therefore the meaning of the aforesaid terms has to be considered for the applicability of the section.

Some of the points for merit consideration in this regard as discussed in the Guidance Note issued by ICAI are given below-

- (i) Discount allowed in the sales invoice will reduce the sale price and, therefore, the same can be deducted from the turnover.
- (ii) Cash discount otherwise than that allowed in a cash memo/sales invoice is in the nature of a financing charge and is not related to turnover. Therefore, should not be deducted from the turnover.

- (iii) Turnover discount is normally allowed to a customer if the sales made to him exceed a particular quantity. As per trade practice, it is in the nature of trade discount and should be deducted from the figure.
- (iv) Special rebate allowed to a customer can be deducted from the sales if it is in the nature of trade discount. If it is in the nature of commission on sales, the same cannot be deducted from the figure of turnover.
- (v) Price of goods returned should be deducted from the turnover even if the returns are from the sales made in the earlier year/s.
- (vi) Sale proceeds of any shares, securities, debentures, etc., held as investment will not form part of turnover. However, if the shares, securities, debentures etc., are held as stock-in-trade, the sale proceeds thereof will form part of turnover.

In the given case, PQR Ltd. is engaged in manufacturing business and also having 97% of the receipts and payments through account payee cheques. Therefore, the tax audit would be applicable if the turnover exceeds ₹ 5 crores during the financial year 2020-21. The calculation of effective turnover for the prescribed limit purpose, in accordance with above-mentioned conditions, is given below:

Turnover during the year	₹ 5,50,00,000
Less: (i) Discount allowed in the Sales Invoice	(₹ 9,50,000)
(ii) Trade Discount	(₹ 5,30,000)
(iii) Sales Return	(₹ 6,60,000)
Effective turnover	₹ 5,28,60,000

The expected effective turnover of PQR Ltd. is ₹ 5,28,60,000 which is over and above the prescribed limit for tax audit under section 44AB of the Income Tax Act, 1961. Thus, the provisions related to tax audit would be applicable to the company and would therefore be liable for tax audit.

7. Accounting treatment for:

First Grant

The first grant for "Clear River Project" involving research into effects of various chemicals waste from the industrial area in Madhya Pradesh, seems to be unconditional as no details regarding its refund has been mentioned. Even though the research has not been started nor any major steps have been completed by Spectra Limited to commence the research, yet the grant will be recognised immediately in profit or loss for the year ended 31st March, 2021.

Alternatively, in case, the grant is conditional as to expenditure on research, the grant will be recognised in the books of Spectra Limited over the year the expenditure is being incurred.

Second Grant

The second grant related to commercial development of a new equipment is a grant related to depreciable asset. As per the information given in the question, the equipment will be available for sale in the market from April, 2022. Hence, by that time, grant relates to the construction of an asset and should be initially recognised as deferred income. The deferred income should be recognised as income on a systematic and rational basis over the asset's useful life.

The entity should recognise a liability on the balance sheet for the years ending 31st March, 2021 and 31st March, 2022. Once the equipment starts being used in the manufacturing process, the deferred grant income of ₹ 2,00,000 should be recognised over the asset's useful life to compensate for depreciation costs.

Alternatively, as per Ind AS 20, Spectra Limited would also be permitted to offset the deferred income of ₹ 2,00,000 against the cost of the equipment as on 1st April, 2022.

For Flood related compensation

Spectra Limited will be able to submit an application form only after 31st May, 2021 i.e. in the year 2021-2022. Although flood happened in September, 2020 and loss was incurred due to flood related to the year 2020-2021, the entity should recognise the income from the government grant in the year when the application form related to it is submitted and approved by the government for compensation.

Since, in the year 2020-2021, the application form could not be submitted due to adoption of financials with respect to sales figure before flood occurred, Spectra Limited should not recognise the grant income as it has not become receivable as on 31st March, 2021.

8. Various TDS Compliances to be made by ABC Developers Ltd. are as follows:

- (i) Section 194H requires deduction of tax at source @ 5% (3.75% from 14.5.2020 to 31.3.2021) from commission and brokerage payments to a resident. However, no tax is to be deducted at source where the amount of such payment does not exceed ₹ 15,000.

In the given case, 'PQR Packaging Ltd.', the consignee, has not remitted the commission of ₹ 60,000 to the consignor 'ABC Developers Ltd.' while remitting the sales consideration.

Since the retention of commission by the consignee/agent amounts to constructive payment of the same to him by the consignor/principal, deduction of tax at source is required to be made from the amount of commission [CBDT Circular No.619 dated 4/12/1991].

Therefore, ABC Developers Ltd. has to deduct tax at source on ₹ 60,000 at the rate of 3.75%, amounting to ₹ 2,250.

- (ii) Section 192 provides that tax is required to be deducted on the payment made as salaries. Tax is to be deducted on the estimated income at the average of income tax computed on the basis of the rates in force for the financial year in which payment is made.

The employee may declare details of his other incomes (including loss under the head "Income from house property" but not any other loss) to his employer. In this case, since Mr. Raj has notified his employer ABC Developers Ltd. of loss from self-occupied house property, the employer has to take the same into consideration for deduction of tax at source.

Therefore, ABC Developers Ltd. is required to deduct tax at source on the salary of ₹ 60,000 per month paid to Mr. Raj, in the following manner:

Income under the head salaries (₹ 60,000 x 12)	7,20,000
Less: Standard deduction under section 16(ia)	<u>50,000</u>
	6,70,000
Loss under the head "house property"	<u>(90,000)</u>
Gross total income	5,80,000
Less: Deduction under Chapter VI-A	<u>Nil</u>
Total Income	<u>5,80,000</u>
Tax on ₹ 5,80,000	28,500
Add: Health and Education cess @ 4%	<u>1,140</u>
Tax to be deducted at source	29,640

- (iii) The definition of “work” under Explanation to section 194-C includes catering services and therefore, TDS provisions under section 194C are attracted in respect of payments to a caterer. As the payment exceeds ₹ 30,000, the Company is required to deduct tax at source at 2% on the payments made to catering organisation for the period between 1st April, 2020 to 14th May, 2020 and 1.5% from 15th May, 2020 to March, 2021. If the catering organization is an individual or HUF, then the tax deduction shall be @ 1% and 0.75% for the respective months.
- (iv) Section 194J provides for deduction of tax at source @ 10% (7.5% from 14.05.2020 to 31.03.2021) on any remuneration or fees or commission, by whatever name called, paid to a director, which is not in the nature of salary in respect of which tax is deductible at source under section 192. Hence, tax is to be deducted at source under section 194J @ 7.5% by ABC Developers Ltd. on the commission of ₹ 3,50,000 paid to DK, a part-time director. The tax deductible under section 194J would be ₹ 26,250, being 7.5% of ₹ 3,50,000.

CASE STUDY 5:

Part A

1. (b) New Delhi

Reason: The Companies Act, 2013 vide section 380 states that every foreign company is required to deliver to the Registrar for registration, within 30 days of the establishment of office in India, documents which have been specified therein. According to the Companies (Registration of Foreign Companies) Rules, 2014, any document which any foreign company is required to deliver to the Registrar shall be delivered to the Registrar having jurisdiction over New Delhi.

2. (c) Non-resident

Reason: As per section 6(1) of the Income Tax Act, 1961, an individual is said to be resident in India in any previous year, if he satisfies any one of the following conditions:

- (i) He has been in India during the relevant previous year for a total period of 182 days or more, or
- (ii) He has been in India during the 4 years immediately preceding the relevant previous year for a total period of 365 days or more and has been in India for at least 60 days in the relevant previous year.

If the individual satisfies any one of the conditions mentioned above, he is a resident. If both the above conditions are not satisfied, the individual is a non-resident.

In the case of Mr. Mehta, his presence in India is as follows:

Previous year 2020-21:	105 [14+31+31+29]
Previous year 2019-20:	Nil
Previous year 2018-19:	Nil
Previous year 2017-18:	Nil
Previous year 2016-17:	Nil

Thus, Mr. Mehta is non-resident for the assessment year 2021-22 as he does not satisfy either of the basic conditions.

3. (a) Associated Enterprises.

Reason: ABC Inc, a foreign company, has advanced loan of ₹ 255 crores to PQR Ltd., an Indian company, which amounts to 56.67% of book value of assets of PQR Ltd. Since the loan advanced by ABC Inc. is 51% or more of the book value of assets of PQR Ltd., ABC Inc. and PQR Ltd. are deemed to be associated enterprises under the Indian transfer pricing regulations. The deeming provisions would be attracted even if there is a repayment of loan during the same previous year which brings down the said percentage below 51%.

4. (b) Two Independent Entities.

Reason: Kings plc, a foreign company has the power to appoint 44.44% (4 out of 9) of the directors of an Indian company, Golden Rivers Ltd. Two enterprises would be deemed to be associated enterprises if more than half of the board of directors of one enterprise are appointed by the other enterprise.

In this case, since Kings plc has the power to appoint only 44.44% (which is less than half) of the directors of an Indian company, Golden Rivers Ltd., Kings plc and Golden Rivers Ltd. are not deemed to be associated enterprises.

5. (c) Not a Foreign Company.

Reason: According to section 2(42) of the Companies Act, 2013, "Foreign company" means any company or body corporate incorporated outside India which-

(a) has a place of business in India whether by itself or through an agent, physically or through electronic mode; and

(b) conducts any business activity in India in any other manner.

According to the Companies (Registration of Foreign Companies) Rules, 2014, "electronic mode" means carrying out electronically based, whether main server is installed in India or not, including, but not limited to-

(a) business to business and business to consumer transactions, data interchange and other digital supply transactions;

(b) offering to accept deposits or inviting deposits or accepting deposits or subscriptions in securities, in India or from citizens of India;

(c) financial settlements, web-based marketing, advisory and transactional services, database services and products, supply chain management;

(d) online services such as telemarketing, telecommuting, telemedicine, education and information research; and

(e) all related data communication services,

whether conducted by e-mail, mobile devices, social media, cloud computing, document management, voice or data transmission or otherwise.

In the given situation, Zen Limited is registered in Thailand. However, it does not have a place of business in India whether by itself or through an agent, physically or through electronic mode; and does not conduct any business activity in India in any other manner. Mere holding of board meetings and executing business decisions in India cannot be termed as conducting business activity in India. Hence, Zen Limited is not a foreign company.

Part B

6. The residential status of a foreign company is determined on the basis of place of effective management (POEM) of the company.

For determining the POEM of a foreign company, the important criteria is whether the company is engaged in active business outside India or not.

A company shall be said to be engaged in “**Active Business Outside India**” (ABOI) for POEM, if

- the passive income is not more than 50% of its total income; and
- less than 50% of its total assets are situated in India; and
- less than 50% of total number of employees are situated in India or are resident in India; and
- the payroll expenses incurred on such employees is less than 50% of its total payroll expenditure.

RPP Ltd. shall be regarded as a company engaged in active business outside India for P.Y.2020- 21 for POEM purpose only if it satisfies all the four conditions cumulatively.

Condition 1: The passive income of RPP Ltd. should not be more than 50% of its total income

Total income of RPP Ltd. during the P.Y. 2020-21 is ₹ 264 crores [(₹ 60 crores + ₹ 120 crores) + (₹ 48 crores + ₹ 36 crores)]

Passive income is the aggregate of, -

- (i) income from the transactions where both the purchase and sale of goods is from/to its associated enterprises; and
- (ii) income by way of royalty, dividend, capital gains, interest or rental income;

Passive Income of RPP Ltd. is ₹ 120 crores, being sum total of:

- (i) ₹ 36 crores, income from transactions where both purchases and sales are from/to associated enterprises (₹ 12 crores in India and ₹ 24 crores in Thailand)
- (ii) ₹ 84 crores, being interest and dividend from investment (₹ 48 crores in India and ₹ 36 crores in Thailand)

Percentage of passive income to total income = ₹ 120 crore/ ₹ 264 crore x 100 = 45.45%

Since passive income of RPP Ltd. is **45.45%, which is not more than 50%** of its total income, the first condition is satisfied.

Condition 2: RPP Ltd. should have less than 50% of its total assets situated in India

Value of total assets of RPP Ltd. during the P.Y. 2020-21 is ₹ 1,464 crores [₹ 504 crores, in India + ₹ 960 crores, in Thailand]

Value of total assets of RPP Ltd. in India during the P.Y. 2020-21 is ₹ 504 crores

Percentage of assets situated in India to total assets = ₹ 504 crores/₹ 1464 crores x 100 = 34.43%

Since the value of assets of RPP Ltd. **situated in India is less than 50%** of its total assets, the second condition for ABOI test is satisfied.

Condition 3: Less than 50% of the total number of employees of RPP Ltd. should be situated in India or should be resident in India

Number of employees situated in India or are resident in India is 168. Total number of employees of RPP Ltd. is 384 [168 + 216]

Percentage of employees situated in India or are resident in India to total number of employees is $168/384 \times 100 = 43.75\%$

Since employees situated in India or are residents in India of RPP Ltd. **are less than 50%** of its total employees, the third condition for ABOI test is satisfied.

Condition 4: The payroll expenses incurred on employees situated in India or resident in India should be less than 50% of its total payroll expenditure

Payroll expenses on employees employed in and resident of India = ₹ 19.20 crores. Total payroll expenses = ₹ 48 crores (₹ 19.20 crores + ₹ 28.80 crores)

Percentage of payroll expenses of employees situated in India or are resident in India to the total payroll expenses = $19.20 \times 100/48 = 40\%$

Since the payroll expenses incurred on employees situated in India or resident in India **is less than 50% of its total payroll expenditure**, the fourth condition for ABOI test is also satisfied.

Thus, since RPP Ltd. has satisfied all the four conditions, the company would be said to be engaged in “active business outside India” during the P.Y.2020-21.

POEM of a company engaged in active business outside India shall be presumed to be outside India, if the majority of the board meetings are held outside India.

Since RPP Ltd. is engaged in active business outside India in the P.Y. 2020-21 and majority of its board meetings i.e., 5 out of 8, were held outside India, POEM of RPP Ltd. would be outside India.

Therefore, RPP Ltd. would be non-resident in India for the P.Y. 2020-21.

7. Contents of a Due Diligence Report

The contents of a due diligence report will always vary with individual circumstances. Following headings are illustrative:

Example of Headings of a Due Diligence Report
Executive Summary
Introduction
Background of Target company
Objective of due diligence
Terms of reference and scope of verification
Brief history of the company
Share holding pattern
Observations on the review
Assessment of management structure
Assessment of financial liabilities
Assessment of valuation of assets
Comments on properties, terms of leases, lien and encumbrances.

Assessment of operating results
◆ Assessment of taxation and statutory liabilities
◆ Assessment of possible liabilities on account of litigation and legal proceedings against the company
◆ Assessment of net worth
◆ Interlocking investments and financial obligations with group / associates companies, amounts receivables subject to litigation, any other likely liability which is not provided for in the books of account
◆ SWOT Analysis
◆ Comments on future projections
◆ Status of charges, liens, mortgages, assets and properties of the company
◆ Suggestion on ways and means including affidavits, indemnities, to be executed to cover unforeseen and undetected contingent liabilities
◆ Suggestions on various aspects to be taken care of before and after the proposed merger/acquisition.

8. (i) Calculation of capitalization rate on borrowings other than specific borrowings

Amount of loan (₹)	Rate of interest		Amount of interest (₹)
14,00,000	12%	=	1,68,000
<u>18,00,000</u>	11%	=	<u>1,98,000</u>
<u>32,00,000</u>			<u>3,66,000</u>
Weighted average rate of interest (3,66,000/32,00,000) x 100		=	11.4375%

(ii) Computation of borrowing cost to be capitalized for specific borrowings and general borrowings based on weighted average accumulated expenses

Date of incurrence of expenditure	Amount spent (₹)	Financed through	Calculation	(₹)
1 st April, 2020	3,00,000	Specific borrowing	3,00,000 x 9% x 10/12	22,500.00
1 st August, 2020	4,00,000	Specific borrowing	1,00,000 x 9% x 10/12	7,500.00
		General borrowing	3,00,000 x 11.4375% x 6/12	17,156.25
1 st October, 2020	7,00,000	General borrowing	7,00,000 x 11.4375% x 4/12	26,687.50

1 st January, 2021	2,00,000	General borrowing	$2,00,000 \times 11.4375\% \times 1/12$	<u>1,906.25</u>
				<u>75,750.00</u>

Note: Since construction of building started on 1st April, 2020, it is presumed that all the later expenditures on construction of building had been incurred at the beginning of the respective month.

(iii) Total expenses to be capitalized for building

Particulars	(₹)
Cost of building ₹ (3,00,000 + 4,00,000 + 7,00,000 + 2,00,000)	16,00,000
Add: Amount of interest to be capitalized	<u>75,750</u>
	<u>16,75,750</u>

(iv) Journal Entry

Date	Particulars		(₹)	(₹)
31.1.2021	Building account	Dr.	16,75,750	
	To Bank account			16,00,000
	To Interest payable (borrowing cost)			75,750
	(Being expenditure incurred on construction of building and borrowing cost thereon capitalized)			

Note: In the above journal entry, it is assumed that interest amount will be paid at the year end. Hence, entry for interest payable has been passed on 31.1.2021.

Alternatively, following journal entry may be passed if interest is paid on the date of capitalization:

Date	Particulars		(₹)	(₹)
31.1.2021	Building account	Dr.	16,75,750	
	To Bank account			16,75,750
	(Being expenditure incurred on construction of building and borrowing cost thereon capitalized)			