

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

CASE STUDY 1:

Part A

1. (b) Rs. 1,560

Reason: Since Deepak has received the order for selling 1000 biometric machines

Variable expenses = Rs. 1,000 x 1,000 units = Rs. 10,00,000

Fixed expenses = Rs. 3,60,000 + Rs. 2,00,000 = Rs. 5,60,000

Total cost = Rs. 15,60,000

Cost per unit = Rs. 15,60,000/1,000 = Rs. 1,560

Selling price per unit = Rs. 1,600

Since selling price per unit is greater than cost per unit, Deepak may accept offer.

2. (c) By 30 April, 2020.

Reason: As per section 173(1) of Companies Act, 2013, every company shall hold the first meeting of the Board of Directors within thirty days of the date of its incorporation.

3. (a) Ind AS 110

Reason:

- Ind AS 110 'Consolidated Financial Statements' is applied in establishing principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.
- Ind AS 28 'Investments in Associates and Joint Ventures' is applied in the accounting for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.
- Ind AS 27 'Separate financial statements' is applied in accounting for investments in subsidiaries, joint ventures and associates when an entity elects, or is required by law, to present separate financial statements.
- Since Iktata limited prepares its financials as per Ind AS, so AS are not applicable on it, even in the case of consolidation.

4. (a) Quorum has been met

Reason: As per section 174(1) of Companies Act, 2013, quorum for a meeting of the Board of Directors of a company shall be one third of its total strength or two directors, whichever is higher, and the participation of the directors by video conferencing or by other audio visual means shall also be counted for the purposes of quorum under this sub-section.

Further, as per section 173(2) of Companies Act, 2013, the participation of directors in a meeting of the Board may be either in person or through video conferencing or other audio visual means, as

may be prescribed, which are capable of recording and recognising the participation of the directors and of recording and storing the proceedings of such meetings along with date and time.

However, following matters shall not be dealt with in any meeting held through video conferencing or other audio visual means-

- (i) the approval of the annual financial statements;
- (ii) the approval of the Board's report;
- (iii) the approval of the prospectus;
- (iv) the Audit Committee Meetings for consideration of financial statement including consolidated financial statement if any, to be approved by the board under sub-section (1) of section 134 of the Act and
- (v) the approval of the matter relating to amalgamation, merger, demerger, acquisition and takeover.

5. (d) Export sales should be added along with domestic sales.

Reason: As per section 2(6) of the CGST Act, 2017, "aggregate turnover" means the aggregate value of all taxable supplies (excluding the value of inward supplies on which tax is payable by a person on reverse charge basis), exempt supplies, exports of goods or services or both and inter-state supplies of persons having the same Permanent Account Number, to be computed on all India basis but excludes Central tax, State tax, Union territory tax, integrated tax and compensation cess.

Hence, exports sales would also be considered along with domestic sales to check whether aggregate turnover is below 40 lakhs or not.

Part B

6. If IND AS becomes applicable to any company, then IND AS shall automatically be made applicable to all the subsidiaries, holding companies, associated companies, and joint ventures of that company, irrespective of individual qualification of such companies.

In the given case it has been mentioned that the financials of Iktara limited are prepared as per Ind AS. Accordingly the results of its subsidiary, Softbharti private limited, should also have been prepared as per Ind AS. However, the financials of Softbharti private limited have been presented as per earlier accounting standards along with erstwhile Division to schedule III applicable to it.

Hence it is necessary to revise the financial statements of Softbharti private limited as per Ind AS after the incorporation of necessary adjustments mentioned in the question.

Accordingly, the revised financial statements of Softbharti private limited as per Ind AS and Division II to Schedule III of Companies Act, 2013 are presented as follows:

IND-AS STATEMENT OF PROFIT AND LOSS for the year ended 31st March, 2021

Particulars	Amount (Rs.)
Revenue from operations	10,00,000
Other Income (1,00,000 + 20,000) (refer note -5)	1,20,000
Total Revenue	11,20,000
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 Expenses	7,45,000
Profit before tax	3,75,000
Current tax (W.N.1)	1,25,700
Deferred tax (W.N.2)	(1,200)
Total tax expense	1,24,500
Profit for the year (A)	2,50,500
Other Comprehensive Income	
Items that will not be reclassified to Profit or Loss	
Remeasurements of net defined benefit plans	1,000
Income tax relating to items that will not be reclassified to Profit or Loss	
Remeasurements of net defined benefit plans (tax) [1000 x 30%]	(300)
Other Comprehensive Income for the period (B)	700
Total Comprehensive Income for the period (A+B)	2,51,200

IND-AS BALANCE SHEET as at 31st March, 2021

Particulars	Amount (Rs.)
ASSETS	
Non-current assets	
Property, plant and equipment	1,00,000
Financial assets	
Other financial assets (Long term Loans & Advances)	40,000
Deferred tax assets (1200-300)	900
Other non-current assets (capital advances) (refer note-1)	50,000
Current assets	
Inventories	80,000
Financial assets	
Investments (30,000 + 20,000) (refer note -5)	50,000
Trade receivables	55,000
Cash and cash equivalents/Bank	1,15,000
Other financial assets (Interest receivable on debtors)	51,000
TOTAL ASSETS	5,41,900
EQUITY AND LIABILITIES	
Equity	
Equity share capital	1,00,000
Other equity	2,51,200
Non-current liabilities	
Provisions (25,000 – 1,000)	24,000

Current liabilities	
Financial liabilities	
Trade payables	11,000
Other financial liabilities (Refer note 3)	15,000
Other current liabilities (Govt. statutory dues) (Refer note 2)	15,000
Current tax liabilities	1,25,700
TOTAL EQUITY AND LIABILITIES	5,41,900

STATEMENT OF CHANGES IN EQUITY for the year ended 31st March, 2021

A. EQUITY SHARE CAPITAL

	Balance (Rs.)
As at 31st March, 2020	-
Changes in equity share capital during the year	1,00,000
As at 31st March, 2021	1,00,000

B. OTHER EQUITY

	Reserves & Surplus
	Retained Earnings (Rs.)
As at 31st March, 2020	-
Profit for the year	2,50,500
Other comprehensive income for the year	700
Total comprehensive income for the year	2,51,200
Less: Dividend on equity shares (refer note – 4)	-
As at 31st March, 2021	2,51,200

Disclosure forming part of financial statements:

Proposed dividend on equity shares is subject to the approval of the shareholders of the company at the annual general meeting and not recognised as liability as at the Balance Sheet date.

(refer note-4)

Notes:

- Assets for which the future economic benefit is the receipt of goods or services, rather than the right to receive cash or another financial asset, are not financial assets.
- Liabilities for which there is no contractual obligation to deliver cash or other financial asset to another entity, are not financial liabilities.
- Other current financial liabilities

Particulars	Amount (Rs.)
Balance of other current liabilities as per financial statements	45,000
Dividend declared for FY 2020-2021 (Note – 4)	(15,000)
Reclassification of government statutory dues payable to 'other current liabilities'	(15,000)
Closing balance	15,000

4. As per Ind AS 10, 'Events after the Reporting Period', If dividends are declared after the reporting period but before the financial statements are approved for issue, the dividends are not recognised as a liability at the end of the reporting period because no obligation exists at that time. Such dividends are disclosed in the notes in accordance with Ind AS 1, Presentation of Financial Statements.
5. Rs. 20,000 has been added due to increase in fair value of investments which are classified as FVTPL since they are held for the purpose of trading.

Working note no 1 : Calculation of Current tax (Provision for tax) for FY 2020-2021

Particulars	Amount (Rs.)	Remarks
Profit before tax	3, 75,000	
Adjustments:		
Add: Pre incorporation expenses	24,000	(30,000/5) x 4; As per section 35D of Income Tax Act,1961
Add: Cash donations to Seva Jagriti Sansathan	25,000	As per section (Section 40(A)3) of Income Tax Act,1961
Add: Depreciation as per Companies Act	30,000	Disallowed as per Income Tax Act,1961
Less: Depreciation as per Income Tax Act (W.N.3)	(50,000)	Allowed as per Income Tax Act,1961
Add: Government statutory dues	15,000	As per section 43B of Income Tax Act,1961
Taxable Profit	4,19,000	
Tax on taxable profit (Rs. 4,19,000) at the rate of 30% = Rs. 1,25,700		

Working note no 2 : Calculation of Deferred tax on Temporary differences as per Ind AS-12 for FY 2020-2021

Item	Carrying amount base (Rs.)	Tax base (Rs.)	Difference (Rs.)	DTA/DTL @ 30% (Rs.)
Property, Plant and Equipment	1,00,000	80,000	20,000	6,000-DTL
Pre-incorporation expenses	Nil	24,000	24,000	7,200-DTA
Net DTA/DTL				1,200-DTA

Working note no 3 : Calculation of Depreciation as per Income Tax Act,1961

Closing balance of fixed assets as at 31st March,2021 as per company's books is Rs. 1,00,000. During the year, Rs. 30,000 has been charged as depreciation as per Companies Act, 2013. Hence in the beginning of asset acquisition during the year, fixed asset opening balance would have been Rs. 1,30,000 (Rs.1,00,000 + Rs.30,000).

In the additional information provided for Softbharti private limited, it is given that closing balance of fixed asset at the year end as per Income Tax is Rs. 80,000.

It implies that during the year, Rs. 50,000 [Rs.1,30,000 (opening balance as per Income Tax)-Rs. 80,000 (closing balance as per Income Tax)] was charged as depreciation as per Income Tax Act, 1961.

7. Paragraph 19 of Ind AS 103 states that for each business combination, the acquirer shall measure at the acquisition date components of non-controlling interest in the acquiree that are present ownership

interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either:

- (a) fair value; or
- (b) the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets.

Accordingly, non-controlling interests will be measured in either of the following manner in the books of Iktara limited:

(a) If non-controlling interests are measured at fair value: (Rs. in lacs)

Identifiable net assets at fair value	Dr	135	
To Non-controlling interest			55
To Investment in Maya private ltd.			80

NCI = Rs. 55 lacs

(b) If non-controlling interests are measured at proportionate share of identifiable net assets:

(Rs. in lacs)

Identifiable net assets at fair value	Dr	135	
To Non-controlling interest			54
To Investment in Maya private ltd.			80
To Capital Reserve			1

NCI = Rs. 54 lacs

CASE STUDY 2:

Part A

1. (c) In the annual return and reconciliation statement it needs to be shown and GST to be paid on the same.

Reason: Since wrong claim of ITC pertains to various months throughout the year, it is not appropriate to reverse the entire credit in a particular month. Moreover, format of annual return has specific provision for reconciliation wherein adjustments like these can be made and the GST amount can be paid at the time of annual return.

2. (a) Allowed as deduction as it has been deposited before due date of filing of return under section 139(1).

Reason: As per Section 43B, Employer's contribution to EPF is allowable as deduction, since the same has been deposited on or before the due date of filing of return under section 139 (1).

3. (d) Value of P&M will come down and profit will decrease (loss will increase).

Reason: When a capex (capital expenditure) is treated as opex (operating expenditure), the value of assets will come down (as that portion of expense is reduced from the block of capital assets) and profit will come down (in case of loss, it will further increase) to that extent.

4. (a) Rs. 3 Lakhs

Reason: Section 40(a)(ia) of Income Tax Act provides for disallowance of expenses attracting TDS if TDS provisions are not complied with on those expenses. Under this section, 30 % of any sum paid to any resident on which tax is deductible is disallowed if tax is not deducted at source. In this

case, TDS provisions under Section 194C are attracted on labour charges which are shown separately in the bills.

5. (b) be taxable under the head PGBP.

Reason: Waiver of Rs. 6 Lakhs from the sundry creditors is a benefit in respect of a trading liability by way of remission or cessation thereof and is taxable under section 41(1).

Part B

6. **Evaluation of cost-benefit analysis in a make or buy decision:**

In-house production cost

Particulars	Cost p/u
Direct material	340
Direct labour	310
Variable factory overheads (60% of 150)	90
Total variable cost per unit	740

Since, only variable cost matters in this decision-making, the cost of in-house production works out to Rs. 740 per unit which is lower than the buying cost of Rs. 760 per unit.

It means that for every lot of 50,000 units of production, the company can make an additional profit of Rs. 10 Lacs (Rs. 20*50,000 units) by making the component in-house rather than buying it from third party vendors.

Hence, the management is advised to go for the option of in-house production.

7. **Decision Support on pricing based on customer profitability**

Particulars	Tata Motors	Force Motors
Order size(units) (A)	30,000	15,000
Selling price p/u (B)	10,000	9,800
Annual revenue (A) x (B) = (C)	3000,00,000	1470,00,000
Contribution p/u (D)	2,400	2,200
Annual contribution (A) x (D) = (E)	720,00,000	330,00,000
Transportation cost (F)	71,400	1,12,200
Quarterly meeting cost (G)	4,000	-
Annual meeting cost (H)	5000	4,000
Coordinator's salary (I)	1,44,000	2,16,000
Net annual contribution (E) - (F) to (I)	717,75,600	326,67,800
Margin of net contribution (I)/(A)	23.93%	22.22%

Although there are some minor cost factors after the gross contribution, the main difference is due to lower selling price for Force Motors. The net contribution margin ranges from 22% to 24% which should be a guiding factor for the pricing of new orders from new customers.

8. **Advice on outsourcing vs. own operation of transport services:**

Direct amount paid to third-party transport operator – Rs. 5,950 + Rs. 9,350 = Rs. 15,300

Annual cost = 15,300 x 12 = Rs. 1,83,600

Now, let's look at the cost of operating own-transport service:

EMI on loan – 2441.3 x 6 = Rs. 14,647.8 per month.

For 4 years the total EMI = 7,03,094.4 Say – 7,03,100

If the cost is Rs. 6 lacs, the interest element is Rs. 1,03,100

Life of the vehicle is 7 years, so annual depreciation is Rs. 85,714 and equalised cost of finance = Rs. 14,729 per annum.

Annual cost of ownership of vehicle = Rs. 1,00,443

In addition, the cost of a full-time driver = Rs. 1,80,000 per annum.

So, the fixed cost per annum comes to Rs. 2,80,443

Since there's a saving of Rs. 215,000 due to reduction of cost of purchase when the inward transport is done by the company, the fixed cost of ownership per annum will be less than that in the case of outsourcing.

In this decision, variable cost does not play a role since it depends on the no. of shipments and the distance travelled, the more the no. of trips the more savings because the cost of hiring will always involve the variable cost plus a certain percentage towards recovery of fixed cost of the vendor and a profit margin.

In this case, the management is advised to go for purchase of its own delivery van.

CASE STUDY 3:

Part A

1. (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.
Reason: According to Section 138 of the Companies Act, 2013 (prescribed in Rule 13 of Companies (Accounts) Rules, 2014) each and every unlisted public company which has a paid-up share capital of Rs. 50 crores or more during the preceding financial year is required to appoint an internal auditor.
2. (d) Calm & Helpful Private Limited is a private company having a turnover of more than Rs. 200 crores during the financial year 2019-20.
Reason: According to Section 138 of the Companies Act, 2013 (prescribed in Rule 13 of Companies (Accounts) Rules, 2014) each and every private company which has a turnover of Rs. 200 crores or more during the preceding financial year is required to appoint an internal auditor.
3. (a) Managing Director of Cheerful & Healthy Limited.
Reason: According to Section 140 of the Income Tax Act, 1961 if a company has a managing director then that managing director is authorized to verify the Return of Income of that company.
4. (c) Any 1 of the remaining 5 directors of Cheerful & Healthy Limited.
Reason: According to Section 140 of the Income Tax Act, 1961 if because of certain reasons which are unavoidable, the managing director of a company is unable to verify the return of income of that company then any one of the director of that company can verify the return of income of that company.
5. (d) Any 1 director of Calm & Helpful Private Limited.
Reason: According to Section 140 of the Income Tax Act, 1961 any company which does not have a managing director then any one of the director of that company is authorized for the purpose of verifying the return of income of that company.

Part B

6. The answers relating to Special Audit of Cheerful & Healthy Limited are provided as follows:

- (a) According to Section 142 of the Income Tax Act, 1961, the Chartered Accountant for the purpose of Special Audit would be nominated by Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner.
 - (b) Special Audit can still be conducted because according to Section 142 of the Income Tax Act, 1961 even if books of accounts of a financial year of assessee have been audited under any law then also Assessing Officer of that assessee can direct such assessee for Special Audit of books of accounts for that financial year.
 - (c) Expenses relating to Special Audit would be decided by Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner according to the Section 142 of the Income Tax Act, 1961.
 - (d) According to Section 142(2D) of the Income Tax Act, 1961 after the expenses relating to Special Audit have been decided then they would be paid by assessee and in default of such payment, shall be recoverable from the assessee in certain specified manner.
- 7. (a)** From 01/04/2017 the Indian Accounting Standards are applicable on Cheerful & Healthy Limited because on 01/04/2017 it was an unlisted company having net worth of Rs. 297 crore (ie. more than or equal to Rs. 250 crore). According to rule 4 of the Companies (Indian Accounting Standards) Rules, 2015, Indian Accounting Standards are applicable from 01/04/2017 on each and every unlisted company having a net worth of more than or equal to Rs. 250 crore.
- (b)** Indian Accounting Standards are not applicable on Calm & Helpful Private Limited from 01/04/2017 because on 01/04/2017, Calm & Helpful Private Limited was an unlisted company having net worth of Rs. 209 crore which was less than Rs. 250 crore. According to rule 4 of the Companies (Indian Accounting Standards) Rules, 2015, from 01/04/2017 Indian Accounting Standards are applicable on each and every unlisted company which has a net worth of more than or equal to Rs. 250 crore.
- (c)** From 01/04/2017, Indian Accounting Standards are applicable on Extremely Capable Limited because according to rule 4 of the Companies (Indian Accounting Standards) Rules, 2015, Indian Accounting Standards are applicable from 01/04/2017 on that company which is subsidiary of that unlisted company which has a net worth of more than or equal to Rs. 250 crore on 01/04/2017. On 01/04/2017 Cheerful & Healthy Limited was an unlisted company, which had a net worth of Rs. 297 crore which is more than Rs. 250 crore. Thus, Extremely Capable Limited being a subsidiary of Cheerful & Healthy Limited, is also required to apply Indian Accounting Standards.
- (d)** Indian Accounting Standards would be applicable on financial statements of Cheerful & Healthy Limited for the financial year 2020-21 as well because according to rule 3 of the Companies (Indian Accounting Standards) Rules, 2015 on applicability of Accounting Standards, a company which follows the Indian Accounting Standards (Ind AS) in accordance with the provisions of rule 4 shall follow such standards only.
- 8. (a)** The opinion that tax auditor of a company can only be appointed in general meeting of that company by the members of that company is incorrect because it is not necessary that appointment of tax auditor of a company is made by members of that company in general meeting, such appointment can also be made by Board of Directors or it can also be made by officer if such officer has been authorized by Board of Directors of that company.

- (b) It is incorrect that internal auditor of a company can also be appointed as tax auditor of that company because internal auditor of a company in no situation can be appointed as tax auditor of that company.
9. (a) Two different registrations for the purpose of Goods and Services Tax should be obtained by Cheerful & Healthy Limited, one for the main office located in State N of India and another for the branch office located in State W of India because according to Section 25(2) read with Rule 11 relating to Registration of the CGST Act, a company having different branch offices in different States of India is required to obtain different registrations for Goods and Services Tax for each of its branch office in different State of India.
- (b) Permanent Account Number is required for the purpose of obtaining registration for Goods and Services Tax because according to Section 25(6) and Section 25(7) relating to Registration of the CGST Act, every person shall have a Permanent Account Number in order to be eligible for grant of registration.

CASE STUDY 4:

Part A

1. (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.

Reason: As per Rule 34 of CGST Rules, 2017, the rate of exchange for determination of value of taxable goods shall be the applicable rate of exchange as notified by the Board under section 14 of the Customs Act, 1962 for the date of time of supply of such goods in terms of section 12 of the Act. The exchange rate notifications are issued by CBIC in exercise of powers conferred under section 14 of Customs Act on a periodic basis and value of taxable goods as reflected in tax invoice has to be arrived at in accordance with such notification. Further, commercial invoice in foreign currency amount is required to be raised for export transaction in accordance with procedures of customs.

2. (a) Only Statement II is correct.

Reason: The IGST liability of company pertaining to zero-rated supplies (export) in 2020-21 is 5% of Rs. 50 crores i.e. Rs. 2.50 crore. It is discharged by setting off eligible ITC of Rs. 2.00 crore. It is immaterial whether ITC is availed on inputs, capital goods or input services. The export supplies are zero-rated supplies and IGST paid of Rs.2.50 crore was refunded/refundable directly in bank account of the company by customs upon monthly filing of GSTR-3B and GSTR-1 for each tax period. Further, filing of GSTR-9 is an annual affair and hence nothing to do with refund of IGST.

The refund by customs is system generated upon filing of GSTR-3B and GSTR-1 for each tax period. The invoices transmitted to customs via GST network are matched with shipping bills and others details which are also system driven and refund scroll is generated. After scroll generation, refund is credited in bank account of exporter.

3. (a) Combination [1] and [i].

Reason: The TDS amount to be deducted during financial year 2020-21 is as under-

TDS to be deducted on clearing charges of Rs. 2.00 lakhs u/s 194 C is 2% in case of payment to companies. However, due to Covid-19, the rates were reduced by 25% of applicable rates. Hence, applicable rate is 1.5% on amount of Rs.2,00,000/- which comes to Rs. 3,000/-.

TDS to be deducted on freight paid of Rs. 3.00 lakhs u/s 194 C is 1% in case of payment to individuals. However, due to Covid-19, the rates were reduced by 25% of applicable rates. Hence, applicable rate is 0.75% on amount of Rs.3,00,000/- which comes to Rs. 2,250/-.

TDS to be deducted on payment made to building contractor company of Rs. 1.50 crore u/s 194 C is 2% in case of payment to companies. However, due to Covid-19, the rates were reduced by 25% of applicable rates. Hence, applicable rate is 1.5% on amount of Rs. 1,50,00,000/- which comes to Rs.2,25,000/-.

Hence, total TDS to be deducted by company comes to Rs. 2,30,250/- (3,000+2,250+2,25,000).

The TDS rates were reduced by 25% vide CBDT press release dated 13th May, 2020 for the period from 14th May 2020 to 31st March, 2021.

It is to be remembered that TDS is not to be deducted on GST amount included in payments made to above service contractors in accordance with provisions of CBDT circular number 23/2017 dated 19.7.2017. Hence, for calculation of TDS, pre-GST amounts have to be arrived at.

Further, company has correctly availed IGST on services amounting to Rs. 51,000/-. The company is eligible to avail ITC on services for import of machinery amounting to Rs. 36,000/-. Further, credit of IGST paid on reverse charge basis by the company on freight services amounting to Rs. 15,000/- is also available to the company. The IGST on building contractor services is not eligible as amount would be capitalised under building and the same is blocked under section 17(5) of CGST Act.

4. (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.

Reason: Under section 46 of Customs Act, the importer of goods has to present to the proper officer electronically bill of entry. Therefore, bill of entry is appropriate document establishing import of goods. The bill of entry has to be submitted to the concerned bank branch through whom remittance was made as evidence for import of goods. It is not required to be submitted to GST office.

Bill of lading is issued in case of export transactions evidencing that goods have finally left the country.

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

Reason: Under section 128 of Companies act, 2013, books of accounts and records can be kept at place other than registered office of the company. The relevant form is AOC-5 which is to be filed on MCA portal in 7 days of passing board resolution.

Part B

6. In a major tax policy initiative, the government had reduced income tax rates on manufacturing domestic companies from assessment year 2020-21 and consequently section 115BAB was introduced by virtue of which tax on domestic manufacturing companies was reduced to 15% subject to fulfilment of certain conditions contained as under section 115BAB:-

- (a) the company has been set-up and registered on or after the 1st day of October, 2019, and has commenced manufacturing or production of an article or thing on or before the 31st day of March, 2023 and, —
- (i) the business is not formed by splitting up, or the reconstruction, of a business already in existence:

Provided that this condition shall not apply in respect of a company, business of which is formed as a result of the re-establishment, reconstruction or revival by the person of the business of any such undertaking as is referred to in section 33B, in the circumstances and within the period specified in the said section;

- (ii) does not use any machinery or plant previously used for any purpose.

Explanation 1.—For the purposes of sub-clause (ii), any machinery or plant which was used outside India by any other person shall not be regarded as machinery or plant previously used for any purpose, if the following conditions are fulfilled, namely:—

- (A) such machinery or plant was not, at any time previous to the date of the installation used in India;
- (B) such machinery or plant is imported into India from any country outside India; and
- (C) no deduction on account of depreciation in respect of such machinery or plant has been allowed or is allowable under the provisions of this Act in computing the total income of any person for any period prior to the date of the installation of machinery or plant by the person.

Explanation 2.—Where in the case of a person, any machinery or plant or any part thereof previously used for any purpose is put to use by the company and the total value of such machinery or plant or part thereof does not exceed twenty per cent of the total value of the machinery or plant used by the company, then, for the purposes of sub-clause (ii) of this clause, the condition specified therein shall be deemed to have been complied with;

- (iii) does not use any building previously used as a hotel or a convention centre, as the case may be, in respect of which deduction under section 80-ID has been claimed and allowed.

Explanation.—For the purposes of this sub-clause, the expressions "hotel" and "convention centre" shall have the meanings respectively assigned to them in clause (a) and clause (b) of sub-section (6) of section 80-ID;

- (b) the company is not engaged in any business other than the business of manufacture or production of any article or thing and research in relation to, or distribution of, such article or thing manufactured or produced by it.

Explanation.—For the removal of doubts, it is hereby clarified that the business of manufacture or production of any article or thing referred to in clause (b) shall not include business of,—

- (i) development of computer software in any form or in any media;
- (ii) mining;
- (iii) conversion of marble blocks or similar items into slabs;
- (iv) bottling of gas into cylinder;
- (v) printing of books or production of cinematograph film; or
- (vi) any other business as may be notified by the Central Government in this behalf; and

- (c) the total income of the company has been computed,—

- (i) without any deduction under the provisions of section 10AA or clause (iia) of sub-section (1) of section 32 or section 32AD or section 33AB or section 33ABA or sub-clause (ii) or sub-clause (iia) or sub-clause (iii) of sub-section (1) or sub-section (2AA) or sub-section (2AB) of section 35 or section 35AD or section 35CCC or section 35CCD or under any provisions of ⁷⁹[Chapter VI-A under the heading "C.—Deductions in respect of certain incomes" other than the provisions of section 80JJAA];

- (ii) without set-off of any loss or allowance for unabsorbed depreciation deemed so under section 72A where such loss or depreciation is attributable to any of the deductions referred to in sub-clause (i).

Explanation.—For the removal of doubts, it is hereby clarified that in case of an amalgamation, the option under sub-section (7) shall remain valid in case of the amalgamated company only and if the conditions contained in sub-section (2) are continued to be satisfied by such company; and

- (iii) by claiming the depreciation under the provision of section 32, except clause (iia) of sub-section (1) of the said section, determined in such manner as may be prescribed.

[Explanation.—For the purposes of clause (b), the "business of manufacture or production of any article or thing" shall include the business of generation of electricity.]

Therefore, in light of above provisions of section 115BAB, tax on new domestic manufacturing companies is applicable at the rate of 15%. The company in question meets/has to meet all the criteria as discussed under:-

- [1] It is a company registered after 1st October 2019 and has started production within the period set out under provisions of section 115BAB.
- [2] Its business is not formed by splitting or reconstruction of business already in existence.
- [3] Although it has used plant and machinery previously used, it falls within overall cap of 25% stipulated u/s 115BAB. The total value of plant and machinery used by the company is Rs. 9.65 crores. However, value of machinery previously used is only Rs. 2.00 crore which is 20.72% of total value of plant and machinery. Hence, this newly set up domestic company satisfies this criterion also.
- [4] The company is engaged in business of manufacturing of an article or thing and research in relation to it.
- [4] The company's business does not fall into prohibited categories.
- [5] The company has not taken benefit of other beneficial provisions as listed out in Section 115BAB.
- [6] The company has to exercise its option by filing form 10-ID by due date of first return of income under section 139 for AY 2021-22.

Hence, a newly set up domestic manufacturing company, satisfying criteria stated under section 115BAB can take benefit of reduced income tax rate of 15% which is the lowest tax slab applicable to domestic companies. However, after taking into effect of surcharge and cess, effective tax rate comes to 17.16%.

Therefore, the company can avail benefit of lower tax rate on companies by fulfilling criteria stated in section 115BAB.

- 7. Under provisions of section 16(3) of IGST Act, 2017, a registered person making zero rated supply shall be eligible to claim refund under either of the following options, namely:—
 - (a) he may supply goods or services or both under bond or Letter of Undertaking, subject to such conditions, safeguards and procedure as may be prescribed, without payment of integrated tax and claim refund of unutilised input tax credit; or
 - (b) he may supply goods or services or both, subject to such conditions, safeguards and procedure as may be prescribed, on payment of integrated tax and claim refund of such tax paid on goods or services or both supplied, in accordance with the provisions of section 54 of the Central Goods and Services Tax Act or the rules made thereunder.

Therefore, under IGST Act, 2017, a taxpayer engaged in zero-rated supplies can make export without payment of tax under LUT or bond or alternatively, it can export on payment of IGST. In case of export under LUT/bond, refund of unutilised ITC would be refundable so that exports remain competitive. However, under Rule 89(4) of CGST Rules, 2017, net ITC means ITC on inputs and input services only. Hence, in case of export under LUT, ITC on capital goods is not refundable.

However, in case of export on payment of IGST, entire IGST paid would be refunded due to same reason. Hence, refund of ITC on input and input services is available under LUT route whereas refund of ITC on input, input services and capital goods is refundable on exports made on payment of IGST.

Export under LUT or bond

Tax liability	0
Refund of unutilized ITC	Rs.1.64 crore

Export on payment of IGST

Tax liability	Rs.2.50 crore
Set off by using ITC	Rs.2.00 crore
Set off by payment of cash	Rs.0.50 crore
Refund of IGST paid	Rs.2.50 crore

Hence, in export under LUT, ITC of input and input services amounting to Rs.1.64 crore is refunded/refundable. In case of export on payment of IGST, entire ITC of Rs.2.00 crore is refunded along with tax of Rs.0.50 crore deposited by company in cash.

Therefore, under export via LUT route, refund of ITC of Rs.1.64 crore would be available to the company. However, under export via payment of IGST, entire ITC of Rs.2.00 crore is refundable.

In terms of procedural requirements, separate refund application has to be filed electronically for exports under LUT. However, for exports on payment of IGST, refund is automatically granted by customs on valid filing of GSTR-3B and GSTR-1 and validation of tax invoice data with shipping bills and other information.

Further, in case of export under LUT, no tax is to be deposited by the company and refund of ITC has to be applied by way of separate application. Therefore, it does not involve any cash outgo.

In case of export on payment of IGST, it involves cash out go of Rs. 50.00 lakhs which is refunded automatically in a few days. Therefore, it involves temporary blockage of working capital for certain period of time. However, since refund process is system driven and automated as provided in rules under this route, it results in quicker refunds including refund of entire ITC and cash deposited.

CASE STUDY 5:

Part A

1. (c) Yes, it qualifies as a Supply even though no consideration has been charged for the same.

Reason: As per section 7(1)(c) read with Schedule I of the CGST Act, supply of goods or services or both between related persons without consideration when made in the course or furtherance of business qualifies as supply. Thus, the storage services provided by Punyabhumi Ltd. to Hamba Manufacturers Ltd. in course or furtherance of business qualifies as supply under GST even though no consideration has been charged for the same.

2. (d) Rs. 1,00,000

Reason: Paragraph 5(d) of Ind AS 115 excludes non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers. For example, this Standard would not apply to a contract between two oil companies that agree to an exchange of oil to fulfil demand from their customers in different specified locations on a timely basis. However, the current scenario will be covered under Ind AS 115 since the same is exchange of dissimilar goods or services. As per paragraph 47 of Ind AS 115, -an entity shall consider the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both. Paragraph 66 of Ind AS 115 provides that to determine the transaction price for contracts in which a customer promises consideration in a form other than cash, an entity shall measure the non-cash consideration (or promise of noncash consideration) at fair value. On the basis of the above, revenue recognised by Talktime Telecom Pvt. Ltd. will be the consideration in the form of power units that it expects to be entitled for talktime sold, i.e. Rs. 1,00,000 (40,000 units x Rs. 2.5). The revenue recognised by B Ltd. will be the consideration in the form of talk time that it expects to be entitled for the power units sold, i.e., Rs. 1,00,000 (2,00,000 minutes x Rs. 0.50).

3. (c) Rs. 6,25,000

Reason: The payment made for acquiring the licence to operate telecom services shall be subject to deduction as per the scheme in Section 35ABB. As per Section 35ABB, any amount actually paid for obtaining licence to operate telecommunication services shall be allowed as deduction in equal instalments during the number of years for which the licence is in force.

If the payment is made before the commencement of business: The deduction shall be allowed beginning with the year of commencement of business.

In any other case: It will be allowed commencing from the year of payment. Deduction shall be allowed up to the year in which the license shall cease to be in force.

The amount of deduction available for A.Y. 2021-22 is worked out below-

(1)	(2)	(3)	(4) = (3)/(2)
Previous year of payment	Unexpired period of license	Instalment paid (Rs.)	Deduction in respect of each instalment (Rs.)
2018-19	9 years	18,00,000	2,00,000
2019-20	9 years	18,00,000	2,00,000
2020-21	8 years	18,00,000	2,25,000
		54,00,000	6,25,000

The deduction under section 35ABB from assessment year 2021-22 shall be Rs. 6,25,000.

4. (d) Appointment of Chandragupta & Termination by him qualify as two different supplies.

Reason: As per section 7(1)(a), supply includes all forms of supply of goods or services or both made or agreed to be made for a consideration by a person in the course or furtherance of business. In the given case, Chandragupta has agreed to provide his services as a brand ambassador of the Company at an agreed annual consideration. Thus, his services fall within the purview of the term "supply" under GST where the consideration charged for such supply is Rs. 50 lakh per annum. Further, section 7(1A) provides that when certain activities or transactions

constitute a supply in accordance with the provisions of section 7(1), they shall be treated either as a supply of goods or supply of services as referred to in Schedule II of the CGST Act. Tolerating non-performance of a contract is an activity or transaction which is treated as a supply of service as per Schedule II and the person is deemed to have received the consideration in the form of fines or penalty and is, accordingly, required to pay tax on such amount. In the given case, since the company is tolerating the act of Chandragupta of terminating the contract before the expiry of its contract period, 50% of contract fee for 3 years amounting to Rs. 75 lakh is being received by it as a penalty for the same. The act of tolerating the non- performance of a contract by Chandragupta by the company is a supply of service where the consideration charged for such supply is Rs. 75 lakh [50% of (Rs. 50 Lakh × 3 years)].

5. (a) The decision of the Board of Directors is feasible and appropriate.

Reason: Section 123(3) of the Companies Act, 2013 provides that the Board of Directors of a company may declare interim dividend during any financial year out of the surplus in the Statement of Profit and Loss and out of profits of the financial year in which such interim dividend is sought to be declared. The amount of dividend including interim dividend should be deposited in a separate bank account within five days from the declaration of such dividend for the compliance of Section 123(4) of the said Act. Based on Section 2(35) of the Act, it can be said that since interim dividend is also a dividend, companies should provide for depreciation as required by Section 123 before declaration of interim dividend. However, the first proviso to Section 123(1) provides that a company may, before the declaration of any dividend in any financial year, transfer such percentage of its profit for that financial year as it may consider appropriate to the reserves of the company irrespective of the size of the declared dividend i.e. the company is not mandatorily required to transfer the profit to the reserves, it is an option available to the company to transfer such percentage. In the instant case, the Board has decided to pay interim dividend @15% of the paid-up capital. As given in the question, the company has complied with the depreciation requirement, the interim dividend can be declared without transferring such percentage of its profits to the reserves of the company.

Part B

6. Paragraph B19 of Ind AS 115 inter alia, states that, 'an entity shall exclude from an input method the effects of any inputs that, in accordance with the objective of measuring progress in paragraph 39, do not depict the entity's performance in transferring control of goods or services to the customer.'

In accordance with the above, the company assesses whether the costs incurred to procure the air conditioners are proportionate to the entity's progress in satisfying the performance obligation. The costs incurred to procure the air conditioners (Rs. 10,00,000) are significant relative to the total costs to completely satisfy the performance obligation (Rs. 40,00,000). Also, the Company is not involved in manufacturing or designing the air conditioners. Hamba Manufacturers Ltd. concludes that including the costs to procure the air conditioners in the measure of progress would overstate the extent of the entity's performance. Consequently, in accordance with paragraph B19 of Ind AS 115, the entity adjusts its measure of progress to exclude the costs to procure the air conditioners from the measure of costs incurred and from the transaction price. The entity recognises revenue for the transfer of the air conditioners at an amount equal to the costs to procure the air conditioners (i.e., at a zero margin).

The Company assesses that as at March, 2021, the performance is 20 per cent complete (i.e., Rs. 6,00,000 / Rs. 30,00,000). Consequently, the Company should recognise the following -

Revenue recognised is calculated as (20 per cent × Rs. 40,00,000) + Rs. 10,00,000.

(Rs. 40,00,000 = Rs. 50,00,000 {transaction price} – Rs. 10,00,000 {costs of air conditioners}.)

Cost of goods sold is Rs. 6,00,000 of costs incurred + Rs. 10,00,000 costs of air conditioners.

As at 31st March, 2021

	Amount in Rs.
Revenue	18,00,000
Cost of goods sold	16,00,000
Profit	2,00,000

7. Computation of taxable income of Hamba Manufacturers Ltd. for the A.Y.2021-22

Particulars	Amount (Rs.)
Net profit as per profit and loss account	12,50,000
Add: Items debited to profit and loss A/c but not deductible or income to be taxed	
1. Payment of advertisement expenditure of Rs. 60,000	
(i) Rs. 8,000, being the excess payment to a relative disallowed under section 40A(2)	8,000
(ii) As the payment is made in cash and since the remaining amount of Rs. 52,000 exceeds Rs. 10,000, 100% shall be disallowed under section 40A(3)	52,000
2. Under section 31, expenditure relatable to current repairs regarding plant, machinery or furniture is allowed as deduction. The test to determine whether replacement of parts of machinery amounts to repair or renewal is whether the replacement is one which is in substance replacement of defective parts or replacement of the entire machinery or substantial part of the entire machinery [<i>CIT v. Darbhanga Sugar Co. Ltd. [1956] 29 ITR 21 (Pat)</i>]. Here expenditure on repairs does not bring in any new asset into existence. Such replacement can only be considered as current repairs. Hence, no adjustment is required. Further, as per ICDS V on Tangible Fixed Assets, only an expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance has to be added to the actual cost.	
3. Liability foregone by creditor chargeable as business income but not credited to profit and loss account [taxable under section 41(1)]	6,000
4. Sale proceeds of import entitlements. The sale of the rights gives rise to profits or gains taxable under section 28(iia). As the amount has already been credited to profit and loss account, no further adjustment is necessary.	-
5. Expenditure on in-house research and development is entitled to a weighted deduction of 100% of the expenditure (both capital and revenue) so incurred under section 35(2AB)(1). As the amount has already been debited to profit and loss account, no further adjustment is necessary	-
Taxable Income	13,16,000

- 8. Facts of the Case:** In the instant case, Mr. P is holding appointment in 4 companies, Mr. Q is holding appointment in 5 companies, Mr. R is holding appointment in 6 companies, whereas Mr. S is having appointment in 10 Companies and Mr. T is having appointment in 15 Companies. In aggregate all five partners are having 40 audits.

Provisions and Explanations: As per section 141(3)(g) of the Companies Act, 2013, 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 holding appointment as auditor of more than twenty companies other than one person companies, dormant companies, small companies and private companies having paid-up share capital less than Rs. 100 crore (private company which has not committed a default in filing its financial statements under section 137 of the said Act or annual return under section 92 of the said Act with the Registrar).

As per section 141(3)(g), this limit of 20 company audits is per person. In the case of an audit firm having 5 partners, the overall ceiling will be $5 \times 20 = 100$ company audits. Sometimes, a Chartered Accountant is a partner in a number of auditing firms. In such a case, all the firms in which he is partner or proprietor will be together entitled to 20 company audits on his account.

Conclusion:

- (i) Therefore, PQRST & Co. can hold appointment as an auditor of 60 more companies:

Total Number of Audits available to the Firm = 20×5 = 100

Number of Audits already taken by all the partners

In their individual capacity = $4+5+6+10+15$ = 40

Remaining number of Audits available to the Firm = 60

- (ii) With reference to above provisions, an auditor can hold more appointment as auditor = ceiling limit as per section 141(3)(g)- already holding appointments as an auditor. Hence,

(1) Mr. P can hold: $20 - 4 = 16$ more audits. (2) Mr. Q can hold: $20 - 5 = 15$ more audits. (3) Mr. R can hold: $20 - 6 = 14$ more audits. (4) Mr. S can hold $20 - 10 = 10$ more audits and (5) Mr. T can hold $20 - 15 = 5$ more audits.

- (iii) In view of above discussed provisions, PQRST & Co. can hold appointment as an auditor in all the 80 private companies having paid-up share capital less than Rs. 100 crore (private company which has not committed a default in filing its financial statements under section 137 of the said Act or annual return under section 92 of the said Act with the Registrar), 2 small companies and 1 dormant company as these are excluded from the ceiling limit of company audits given under section 141(3)(g) of the Companies Act, 2013.

- (iv) As per fact of the case, PQRST & Co. is already having 40 company audits and they can accept only 60 more company audits. In addition, they can also conduct the audit of one person companies, small companies, dormant companies and private companies having paid up share capital less than Rs. 100 crores (private company which has not committed a default in filing its financial statements under section 137 of the said Act or annual return under section 92 of the said Act with the Registrar). In the given case, out of the 80 private companies PQRST & Co. is being offered, 65 companies have paid-up share capital of Rs. 115 crore each.

Therefore, PQRST & Co. can accept the appointment as an auditor for 2 small companies, 1 dormant company, 15 private companies having paid-up share capital less than Rs. 100 crore (private company which has not committed a default in filing its financial statements under section 137 of the said Act or annual return under section 92 of the said Act with the Registrar.) and 60 private companies having paid-up share capital of Rs. 115 crore each in addition to above 40 company audits already held.