JPZ

Roll No. .....

Total No. of Questions : 5

Total No. of Printed Pages : 32 **Maximum Marks : 100**

Time Allowed : 4 Hours

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi will not be valued.

The Question Paper comprises five case study questions.

The candidates are required to answer any four case study questions out of five.

Answer in respect of Multiple-Choice Questions (MCQs) are to be marked on the OMR Answer Sheet as given on the Cover Page of the answer book.

Answer to MCQs, if written inside the descriptive type of answer book, will not be evaluated.

Candidates should answer the Case Study Questions as selected by him/her in totality i.e., MCQs as well as descriptive Questions of the same Case Study Question.

Candidates are not permitted to answer MCQs of one Case Study Question and the descriptive questions of another Case Study Question and vice-versa.

In case the Case Study Question pertains to Direct Taxes, assume the Assessment year 2024-25 unless otherwise stated in the question. Similarly, in case the Case Study Question pertains to Indirect Taxes, the Central Goods and Services Tax Act, 2017 and Integrated Goods and Services Tax Act, 2017 as amended by the Finance Act, 2023 shall be relevant.

Candidate found copying or receiving or giving any help or defying instructions of the invigilators or having/using mobile phone or smart watch will be expelled from the examination and will also be liable for further punitive action.

Candidate may use calculator.

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CASE STUDY – 1

Background :

Rajan Sharma, a resident Indian and an employee of a company manufacturing electrical equipments, attended a seminar on **'STARTUPS'** held in New Delhi. After the seminar, he carried out some research on certain emerging and promising startups in terms of business and profits as was discussed in the seminar.

Indian Scenario on Startups:

After a couple of days, one fine day, Rajan Sharma was discussing his research findings with his wife, Neha, and shared with her that India has emerged as one of the most vibrant startup ecosystems in the world. Over the past decade, India has witnessed a surge in the number of startups and today it is home to some of the most innovative and successful startups in the world. The Indian startup culture has grown rapidly and it has become an integral part of India's economic growth story. The Indian Government has taken several initiatives to promote entrepreneurship and innovation, making it easier for startups to do business in India. Despite the challenges, Indian startups have immense potential, and there are several opportunities available for them.

RST Electrical Traders :

Both Rajan and Neha were of the view that no growth can match the growth attained by a person in business and so they decided to start a business of trading in electrical items like switches, fans, electrical wires etc. (of which Rajan had some previous experience). Rajan commenced the business as a proprietorship concern in the name and style of **RST Electrical Traders (RST)**. RST did its first purchase of 6 lakh units of electrical switches @ ₹ 80 per unit on 13.03.2023 and sold all the purchased units @ ₹ 87 per unit till 31.03.2023. During the said period, Rajan Sharma withdrew ₹ 25.00 Lakh. The same traded item was available in the market @ ₹ 85 per unit as on 31.03.2023 as the item was in short supply for some business reasons.

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Proposal to start Manufacturing of Electrical Items:

Considering the brunt of increase in cost and wider competitive market, RST decided to increase its scale of operations and decided to enter into manufacturing of electrical items with effect from 01.04.2023 onwards.

Sale of Residential Property:

In order to fund the business, Rajan decided to dispose off one of his residential property situated at Ambala (Haryana) which is held in his name since 2020 (purchased for ₹ 45 Lakh). To carry out the sale, a local property dealer was hired to search a prospective buyer.

After finding and having discussions with various buyers, Mr. Rohit (resident as per the provisions of the Income Tax Act, 1961) was shortlisted and Rajan finalized the deal for ₹ 65 Lakh as sale consideration. The circle rate value (stamp duty value) of the property on the date of transfer was ₹ 90 Lakh.

Tax Deducted at Source:

Rajan was of the view that he will get the entire sale consideration in his bank account but Rohit informed him that as per the Income Tax Act, 1961 (the Act) he will be required to deduct TDS at the applicable rate and also the need to obtain a Tax Deduction Account Number (TAN). Though, Rohit deducted TDS of ₹ 65,000 but he did not deposit the same on time as the application for allotment of TAN was not filed by him. Rajan further knew that he will be required to pay income tax on capital gains as well.

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Arranging a Term Loan:

The manufacturing of electrical equipment is a complex process that involves a variety of stages: right from design, component sourcing, assembly, testing, enclosure manufacturing, quality control and to finally packaging. The manufacturing facility will be used for manufacturing not only switches but also other items. Hence, a larger space was needed, so RST decided to buy Land and Building in the nearby industrial area with total cost of land and building amounting to ₹ 150 Lakh. As the funds requirement was on higher side, so Rajan and Neha decided to approach IBL Bank for arranging a term loan. The credit manager of IBL Bank asked RST to submit prospective financial statements signed by a qualified Chartered Accountant. Accordingly, RST approached Manoj, a newly qualified Chartered Accountant for this purpose.

The credit manager also insisted that when assessing the presentation and disclosure of the prospective financial information and the underlying assumptions, in addition to the specific requirements of any relevant statutes, regulations as well as the relevant professional pronouncements, other relevant additional points may also be considered.

Government Order and GST:

After the loan was sanctioned, the manufacturing plant started commercial production. RST also started applying for orders under various tenders of Government procurement schemes. One Government School in rural area approved the quotation given by RST and issued a purchase order for purchase of 10,000 units of standard power plugs. The terms and conditions were that the specified units will be supplied at ₹ 40 per unit, wherein ₹ 30 will be paid by the School and the balance ₹10 will be paid by the Central Government. After the goods were supplied, price was re-negotiated it was agreed that total consideration to be paid will be ₹ 38 per unit only with no change in payment support from the Central Government.

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Investment in Mutual Funds:

At the end of the financial year 2023-24, RST earned handsome profits from the business. After meeting all the financial obligations, Rajan had ₹ 10 Lakh on hand which he decided to invest. One of his friends, who has been in the capital markets advised him to invest in the stock market.

Not convinced with the idea, he took an opinion from Mr. Raj, an independent financial consultant. Raj after understanding his concern that he has never dealt in the share market earlier and is thus hesitant to invest in stock market, Raj accordingly, guided him to invest in mutual funds which give fair returns and also experts will be handling their money.

He also suggested him some mutual funds (MF) on the basis of past returns as follows:

Particulars	MF A	MF B	MF C	MF D
Amount of Investment (₹)	1,00,000	2,00,000	1,50,000	1,25,000
NAV at entry date (₹)	10	10	10	10
Dividend received (₹)	1,750	1,200	200	1,625
NAV as on date (₹)	11.00	11.10	11.25	10.60

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MULTIPLE CHOICE QUESTIONS:

Please provide the correct option to the following questions: (5 × 2 =10 Marks)

1.1 Rohit deducted TDS of ₹ 65,000 but could not deposit the same on time as the application for allotment of Tax Deduction Account Number was not filed by him. Examine the correct legal position regarding the correct amount of Tax to be Deducted at Source and the need for obtaining TAN in the light of the provisions of the Income Tax Act, 1961.

(A) Rohit was required to deduct TDS of ₹ 90,000 and to obtain Tax Deduction Account Number.

(B) Rohit correctly deducted TDS of ₹ 65,000 and is required to obtain Tax Deduction Account Number.

(C) Rohit correctly deducted TDS of ₹ 65,000 but was not required to obtain Tax Deduction Account Number.

(D) Rohit was required to deduct TDS of ₹ 90,000 but was not required to obtain Tax Deduction Account Number.

1.2 RST seeks your guidance on GST liability for supply of standard power plugs to government school explaining on which amount GST output liability arises and how to treat the reduction in price after re-negotiation. Identify the correct statement from the following:

(A) GST will be paid on ₹ 40 per unit and no adjustment for ₹ 2 will be made.

(B) GST will be paid on ₹ 30 per unit and no adjustment for ₹ 2 will be made.

(C) GST will be paid on ₹ 38 per unit after the adjustment for ₹ 2.

(D) GST will be paid on ₹ 28 per unit after the adjustment for ₹ 2.

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1.3 What amount Rajan should have withdrawn considering the 'Financial Capital Maintenance' at current purchasing power? If further withdrawal amount is available, also indicate the same.

(A) ₹ 13 Lakh. No further amount available.

(B) ₹ 12 Lakh. No further amount available.

(C) Withdrawal amount is within the permissible limit and further ₹ 17 Lakh can be withdrawn.

(D) ₹ 18 Lakh. No further amount available.

1.4 Which Mutual Fund would you suggest to Rajan for investment purposes, if period of investment is same in all the four schemes?

(A) Mutual Fund A.

(B) Mutual Fund B.

(C) Mutual Fund C.

(D) Mutual Fund D.

1.5 RST approached Manoj for signing prospective financial statements to be submitted to bank for availing term loan to buy new Land & Building. Manoj agreed for the assignment and prepared a report incorporating some clauses to ensure that no professional misconduct is attracted. Which of the following is not a correct inclusion in the report on prospective financial statements?

(A) Prospective financial statements containing statement of negative assurance as to whether the assumptions provide a reasonable basis for the prospective financial information.

(B) Prospective financial statements containing reference to the Standards on Auditing applicable to the examination of prospective financial information.

(C) Prospective financial statements containing appropriate caveats concerning the accuracy of the results indicated by the prospective financial information.

(D) Prospective financial statements containing reference to the purpose and restricted distribution of the prospective financial information.

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1.6 In case if Rajan would have decided to sell urban agricultural land instead of residential property in Ambala and if the value of purchase of such land was ₹ 45 Lakh, sale price is ₹ 65 Lakh and circle rate value (stamp duty value) is ₹ 90 Lakh, then, comment on the liability to deduct TDS by the purchaser, explaining the relevant provisions of the Income Tax Act, 1961. (4 Marks)

1.7 Rajan considered the returns of all the four mutual funds but before proceeding further, he wanted to know from you the following:

(i) State the mutual fund which compares the returns generated with the underlying Index?

(ii) Explain the role of fund managers of such funds in the light of 'Tracking Error'. Also state the reasons for tracking error and how Tracking Error is calculated. (5 Marks)

1.8 When assessing the presentation and disclosure of the prospective financial information and the underlying assumptions, in addition to the specific requirements of any relevant statutes, regulations as well as the relevant professional pronouncements, what are the other relevant additional points that need to be considered ? (6 Marks)

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CASE STUDY – 2

Background

Sosmitha Sharma, based out of Mumbai, is an extrovert Chartered Accountant, with excellent communication and inter-personal skills, possessing rich experience in handling Financial Reporting, Direct Taxation, Strategic Cost and Performance Management and Corporate and Economic Laws. Academically and Technically erudite over the subject, she is a much sought after professional by reputed listed Companies in view of her sharp knowledge and acumen.

Appointment as a CFO

Recently, she has been appointed in the coveted position of Chief Financial Officer (CFO) of **ARC Pipe Fittings Limited (ARC)** a listed entity. Immediately after taking over her mantle, Sosmitha Sharma was assigned the task of finalizing the annual accounts of ARC for the financial year ended 31st March, 2024 including the preparation of standalone and consolidated financial statements of the Company as a whole and further to resolve any matters / issues concerning group companies.

Observations

At the initial stage, Sosmitha Sharma had internal discussions with the staffs of the company positioned at various levels to have an overview about the Company, the organisation chart, the internal financial controls etc., Subsequently, while analysing and going through the books of accounts of ARC and the connected records, documents, information and explanations obtained from the Senior and Middle level staffs together with the filings made with the Stock Exchanges, Sosmitha Sharma observed and took note of the following matters:

Extracts from the draft consolidated financial statements as at 31st March, 2024

Particulars	Attributable to ARC.	Non-controlling interest	Total (₹ in Crore)
Profit for the year	5.5	0.5	6.0
Other Comprehensive Income	0.6	Nil	0.6
Total Comprehensive Income	6.1	0.5	6.6

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Filings with Stock Exchanges:

ARC made the following compliances for the first quarter (April to June 2023), as required by the SEBI (LODR) Regulations, 2015:

(i) It submitted its unaudited quarterly financial statements to the recognized Stock Exchange on 11th August, 2023.

(ii) It submitted its quarterly compliance report on Corporate Governance on 10th July, 2023.

The Capital Structure and the Long Term Finance of ARC comprised of the following:

(i)	**Equity Shares:** 25 Crore, Equity Shares at the beginning of the year. The Company had further issued 6.25 Crore Equity Shares on 1st July, 2023 at full market value.
(ii)	**Redeemable Preference Shares:** 9.10 Crore, Redeemable Preference Shares which were in issue for the whole of the year ended 31st March, 2024. The dividend policy on these preference shares was solely at the behest (discretionary) of the Board.
(iii)	**Convertible Debentures:** 7% Convertible Debentures aggregating to ₹ 19.5 Crore was issued on 1st April, 2022 and repayable on 31st March, 2026 at par.
(iv)	Interest on the Convertible Debentures is payable annually.
(v)	As an option to repayment at par, the holder, on maturity, can elect to exchange their convertible debentures for 11.25 crore ordinary equity shares in the Company.
(vi)	It is observed that as at 1st April, 2022, the prevailing market interest rate for four year convertible debentures which had no right of conversion was 7.5%.
(vii)	Using an annual discount rate of 7.5%, the present value of ₹ 1 payable in four years is ₹ 0.75 and the cumulative present value of ₹ 1 payable at the end of years one to four is ₹ 3.35.
(viii)	For the year ended 31st March, 2024, ARC declared dividends as under: (i) Dividend of 11 paise per ordinary Equity Share and (ii) Dividend of 6 paise per share on the Redeemable Preference Shares.

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MATTERS CONCERNING GROUP COMPANIES:

ABC Neo Computabs Limited (ABC)

ABC is one of the niche group companies of ARC which is engaged in the production of Computer Tablets (CT). The Company produces the above tablets through several different automated machines installed in the plant. The plant operates in double shift a day consisting of 8 hours with 30 minutes lunch break and tea break of 15 minutes.

The top management of the ABC has requested Ramesh Sharma to analyze the 'Overall Equipment Effectiveness'(OEE) for one of the automated machines called Zebra X in consideration of the data given below:

Zebra X - 27th June, 2024, Thursday

Unexpected Repairs, Breakdown, and Start up Time	86 Minutes.
Quality Rejections (loss) due to scrap and rework	36 CTs.
Total Quantity Produced	290 CTs.

Swan Limited

Swan Limited, an Indian Company provides technical services to a Company, Eagle Inc., located in a notified jurisdictional area (NJA) for a consideration of ₹ 96 lakh in November, 2023. It charges ₹ 97 lakh for similar services rendered to Noble Inc., which is not located in an NJA. Noble Inc. is not an associated enterprise of Swan Limited.

Acquisition of BGT Ltd by SGT Limited.

SGT Ltd. is proposing to acquire BGT Ltd. The relevant financial details of both the companies prior to the merger announcements are as under:

	SGT Ltd.	BGT Ltd.
Market price per share	₹ 55	₹ 30
No. of outstanding shares	24 lakh	12 lakh

The exchange ratio agreed to is 0.5 and the proposed merger is expected to generate positive gains with a present value of ₹ 300 lakh.

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Statutory Audit

Rajesh Suresh & Associates are the Statutory Auditors of ARC for the Financial Year 2023-24. During the course of audit, Rajesh, the engagement partner, performed risk assessment procedures and related activities for use in identifying the risks of material misstatement due to fraud.

While performing the exercise, he observed that a misstatement has been made resulting from a fraud or a suspected fraud as a result of which he encountered exceptional circumstances that led to a precarious situation on the ability of the auditor to continue performing the audit.

MULTIPLE CHOICE QUESTIONS:

Please provide the correct option to the following questions: (5 × 2 = 10 Marks)

2.1 Based on the inputs provided in the case study, the 'Availability Ratio' for the automated machine of ABC Neo Computabs Limited would be :

(A) 90.11%

(B) 80.23%

(C) 82.08%

(D) 91.04%

2.2 Based on the inputs provided in the case study, the 'Quality Ratio' for the automated machine of ABC Neo Computabs Limited would be:

(A) 37.59%

(B) 43.79%

(C) 87.59%

(D) 75.17%

2.3 Whether the provisions of transfer pricing would be attracted in Swan Limited's case? What shall be the amount to be considered as the income arising from the transaction between Swan Limited and Eagle Inc.?

(A) Yes, ₹ 96 lakh.

(B) Yes, ₹ 97 lakh.

(C) No, ₹ 96 lakh.

(D) No, ₹ 97 lakh.

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2.4 ARC submitted its first quarter, unaudited quarterly financial statements to the recognized Stock Exchange on 11th August, 2023 and quarterly compliance report on Corporate Governance on 10th July, 2023. What shall be the last date of submission of quarterly financial statements to the Stock Exchange for ARC in case it was not able to submit the same on 11th August, 2023 and whether it can be submitted in unaudited form also?

(A) 15th August, 2023 and no, it needs to submit Financial Statements in audited form only.

(B) 31st July, 2023 and yes, it can submit Financial Statements in unaudited form also.

(C) 31st July, 2023 and no, it needs to submit Financial Statements in audited form only.

(D) 14th August, 2023 and yes, it can submit Financial Statements in unaudited form also.

2.5 What will be the true cost of the merger from the point of view of SGT Ltd.?

(A) ₹ 386 lakh.

(B) ₹ 360 lakh.

(C) ₹ 36 lakh.

(D) ₹ 1980 lakh.

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DESCRIPTIVE QUESTIONS:

2.6 In respect of relevant inputs given on Convertible Debentures in the case study, compute the following with reference to the relevant IND AS:

(i) The Liability and Equity Component on 7% Convertible Debentures. (3 Marks)

(ii) The finance cost and closing balance of 7% Convertible Debentures. (3 Marks)

2.7 Compute the basic and diluted earnings per share for the year ended 31st March, 2024 of ARC to be presented in its financial statements based on the inputs given above. Assume that the effective rate of income tax applicable to ARC is 22.5%. (4 Marks)

2.8 During the course of audit, Rajesh, the engagement partner when performing risk assessment procedures and related activities, observed that a misstatement has been made resulting from a suspected fraud which may lead to a precarious situation on the ability of the audit team to continue performing the audit. In such a situation, how the Statutory Auditors are expected to respond in this matter. (5 Marks)

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CASE STUDY – 3

LKG Limited

LKG Limited, (the Company) a listed company is engaged in infrastructure development, textiles manufacturing, and automotive parts manufacturing. Its Board of Directors is broad based, comprising of eminent personalities with financial acumen, retired administrative officers and bankers.

CA. Hrishikesh, is the Chief Financial Officer of the Company. He is assisted by CA. Mukesh for Accounts, CA. Vrinda for Direct Tax and CA. Sangeeta for Indirect Tax matters.

Transactions with MSME :

The Company provides you the following information in respect of the transactions with the manufacturers from whom it procures goods on credit basis.

Name	MSME Category	Purchase Amount (₹)	Date of Purchase of Goods	Actual date of Payment
ABC LLP	Medium	10,00,000	31st July, 2023	15th April, 2024
T Pvt Limited	Micro	5,00,000	30th September, 2023	15th September, 2023
XT Pvt Limited	Small	2,00,000	15th March, 2024	Not paid till 31st March, 2024 and paid on 15th April, 2024
TR Pvt Limited	Micro	5,00,000	25th March, 2024	30th March, 2024

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One of the group company of LKG Limited namely KGF Limited makes purchases from various manufacturers which include Micro, Small and Medium Enterprises. KGF Limited provides you the following information regarding the amounts payable as on 31st March, 2024 to its suppliers:

Name of the Supplier	MSME Category	Amount payable as on 31st March, 2024 (₹)	Outstanding since
ABC Private Limited*	Micro	5,00,000	15 March, 2023
XYZ LLP	Medium	10,00,000	1st March, 2024
DEF & Sons	Small	2,00,000	18th February, 2022
PQR Limited	Non-MSME	1,00,000	30th November, 2023

*Amount payable to ABC Private Limited is disputed.

Installation of a New Plant:

The Company has expanded its project by installing a new manufacturing plant called Machine 'Z'. The cost of the plant is ₹ 1,18,00,000 inclusive of GST of ₹ 18,00,000/-. The foundation for installation of the plant involving civil work of ₹ 10,00,000/- plus GST @ 18% has been incurred. The plant has been constructed with the issue of 10% redeemable preference shares. The said redeemable preference shares has been recognized as a financial liability as per IND AS. The borrowing cost, being dividend on preference shares eligible for capitalization has been worked out to be ₹ 5,00,000/-. The useful life of the plant is estimated to be 25 years and residual value is estimated to be nil. The plant commenced working from 1st March, 2024. The rate of depreciation as per income-tax rules is 15% and is eligible for additional depreciation.

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Appointment of an Independent Director

The Company proposes to appoint Ms. Devika as an independent director who is a law graduate and has been an employee in M/s. Legacorp, a corporate consulting firm in its AGM to be held on 15th April 2024. M/s. Legacorp has been giving consultation on various matters to the company and its associates. The total receipt of the Legacorp and its receipt from the company and its associates during the last 3 years have been as under:

Year	Receipt from the Company and its associates	Gross Turnover
2023-24	4,00,000	45,00,000
2022-23	4,50,000	50,00,000
2021-22	4,00,000	35,00,000

Issued concerning Group Companies:

AG Limited

AG Limited, one of the group companies of LKG Limited has a state of the art machinery categorized as Property Plant and Equipment in its financial statements. The carrying value of the above machinery in the Balance Sheet as at 31st March, 2024 is ₹250 Lakh. It was observed from the estimations made by the top management that the value in use is ₹ 200 lakh and the fair value less costs to sell is ₹190 lakh.

KP Limited and Replacement of Machinery:

Another Associate Company of LKG Limited is KP Limited which is having an old machine which is expected to give cash flow of ₹ 30,000 this year and at ₹ 30,000 in the next year. The present salvage value of the machine is at ₹ 80,000/- and in the next year, it is expected to be ₹ 60,000/. This machine can be replaced with new machine for ₹ 1,60,000/- and is much more efficient. This machine will give cash flow of ₹ 70,000/- every year for the next 3 years. The company is in a dilemma whether the machine should be replaced this year or should wait for one year. The opportunity cost for the company is 12%. Ignoring the tax effect, the company wants to know the optimal point as to when the company should replace the machine.

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XT Limited

The statutory auditors of the Company has been offered an audit assignment in respect of XT Limited, an associate Company of LKG Limited on the following terms:

(i) Charge fees @ 5% of its paid up capital + 0.1% of its profit before tax.

(ii) To impart training to staff of XT Limited and to recruit employees for the company.

One of the partners CA. Tanu has been teaching CA students during her free time for about 2-3 hours in a day. CA. Tanu is also responsible for signing the financial statements of XT Limited.

MULTIPLE CHOICE QUESTIONS:

Please provide the correct option to the following questions: (5 × 2 = 10 Marks)

3.1 The amounts payable to MSME by LKG Limited which would be disallowed under the Income tax Act, 1961 for non-payment within the stipulated time will be :

(A) ₹ 22,00,000.

(B) ₹ 2,00,000.

(C) ₹ 12,00,000.

(D) ₹ 17,00,000.

3.2 The impairment loss that should be recognized by AG Limited on 31st March, 2024 would be:

(A) ₹ 50 lakh

(B) ₹ 60 lakh

(C) No impairment

(D) ₹ 25 lakh

3.3 In respect of installation of a new plant Machine 'Z', the company can claim input tax credit of :

(A) ₹ 18,00,000 in respect of Plant and Machinery only.

(B) ₹ 1,80,000 in respect of Civil Works only.

(C) ₹ 19,80,000 in respect of both Plant and Machinery and Civil Works.

(D) No Input tax credit can be claimed.

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3.4 Can Ms. Devika be appointed as an Independent Director?

(A) Yes. She can be appointed as an independent director as she is only an employee of the consulting firm giving services to the company and its associates.

(B) Yes. She can be appointed as an independent director as only in one of the three years the receipt of the consulting firm is more than 10% of the gross turnover.

(C) No. She cannot be appointed as an independent director as she is an employee of the consulting firm giving services to the company and its associates.

(D) No. She cannot be appointed as an independent director as in one of the three years the receipt of the consulting firm has exceeded 10% of the gross turnover of the firm.

3.5 Which among the below are permitted as per Chartered Accountants Act, 1949?

(i) Charge fees @ 5% of its paid up capital + 0.1% of its profit before tax.

(ii) Train staff of XT Limited and to recruit employees for XT Limited.

(iii) Teaching CA students by CA. Tanu.

(A) (i) and (ii)

(B) (iii) only

(C) (ii) and (iii)

(D) (i), (ii) and (iii)

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DESCRIPTIVE QUESTIONS:

3.6 KP Limited wants to know the optimal point as to when the company should replace the old machine either this year or after one year. Based on the inputs given in the case study, show with necessary workings and arrive at the correct conclusions that you may draw with regards to the requirement of replacing the older machine. Ignore the tax effect. (5 Marks)

3.7 How the amounts payable to MSME as stated in the case study, will be disclosed in the 'notes forming part of the accounts' while preparing the final accounts of KGF Limited? Also, state the additional information that is required to be disclosed in the said notes. (5 Marks)

3.8 With reference to IND AS 12 on "Income Taxes", determine the tax base and accounting base of the plant Machine 'Z' as at 31st March, 2024 and the amount of taxable/deductible difference. (5 Marks)

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CASE STUDY – 4

Excellent Lighting Limited (ELL) is a Fast Moving Electrical Goods (FMEG) Company and a power distribution equipment manufacturer with a strong domestic presence in India. ELL enjoys market dominance across a wide spectrum of products, including Industrial and Domestic Circuit Protection Devices, Cables and Wires, Fans, Modular Switches, Home Appliances, Air Conditioners, Electric Water Heaters, Power Capacitors, Complete lighting units for domestic, commercial and industrial applications.

The New Management:

New Management took over the business in 2021 with the aim of becoming market leader in its segment. New ideas were welcomed from everybody associated with the company.

In its last meeting held in December 2021, the Board of Directors received a proposal from senior management that ELL can explore an opportunity of acquiring some existing companies dealing in different products and expand its product reach. Idea was taken in positive sense with the option that ELL can also think of quitting the products segment giving the least margin.

Acquisition of Tube Limited:

ELL acquired Tube Ltd. in a business combination on 01.01.2023 and did the following accounting treatment in its books of accounts:-

(i) For License held by Tube Ltd, transfer fee was paid by ELL to the regulator for transferring the License in the name of ELL. The said fee was added to the total consideration paid.

(ii) ELL measured the identifiable assets acquired and the liabilities assumed at their acquisition date net realizable values.

(iii) ELL settled the purchase consideration by transferring land to Tube Ltd. and adjusted the difference between the carrying amount of land and the fair value considered for purchase consideration in profit and loss account.

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Prior to acquisition, ELL exported its first consignment to Europe with taxable value being ₹ 25 crore. All the arrangements made and goods were dispatched to seaport for onward exports to the final destination i.e. Europe.

The following dispatch information is available for first export dispatch as per records:

Date on which goods left the factory for Port: 02.03.2022.

Date on which shipping bill filed: 05.03.2022.

Date on which ship carrying goods left India: 07.03.2022.

Goods were exported on payment of IGST (Integrated Goods and Service Tax) by depositing the amount in electronic cash ledger. Total IGST paid was ₹ 4.50 Crore. As the huge volume of export orders was pending, the entire operations team was busy in fulfilling the export orders on time and nobody cared for filing refund of IGST paid on exports.

As the end of F.Y. 2023-2024 approached, the compliance team filed an application for getting IGST refunds with the GST department on 28.02.2024. The company received a response from the department that their refund application is time barred and also company needed to file the refund application along with a certificate from a practicing Chartered Accountant that there is no unjust enrichment in the refund involved.

Post acquisition of Tube Limited, as at the end of the F.Y 2024, company achieved turnover of ₹ 650 Crore and was thinking of going public. Management had meetings with various professionals and they all agreed with the management plans. All the permissions were taken and prospectus filed with the concerned authority for getting the shares of the company listed on recognized stock exchanges. The issue price fixed was ₹ 100 per share.

Mixed response was received for the public issue and allotments of shares was done. Stock exchanges permitted the trading of shares w.e.f 01.08.2024. When the shares started trading, the price kept fluctuating and after a period of one hour there was a fall in price and it kept on trading for a price less than the issue price for consecutive seven working days. Meeting of consultants was called again and matter discussed and opinions were sought from all of them on how to stabilize the prices fall.

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Audit of Accounts by PQR & Co., Chartered Accountants:

For the year ended 31.03.2024, ELL prepared standalone financial statements and consolidated financial statements for the group as a whole (incorporating all the subsidiaries). Standalone financial statements of ELL and consolidated financial statements were audited by M/s PQR & Co., Chartered Accountants, Mumbai and standalone financial statements of subsidiaries were audited by XYZ & Associates based in Hyderabad. While preparing audit report on consolidated financial statements of ELL, auditors wanted to inform the various stakeholders of consolidated financial statements that financial statements and other financial information of components were not audited by them and thus their opinion on such matters are based on opinion given by component auditors. Financial statements of ELL for F.Y. 2023-2024 are drawn as per requirements of Ind AS.

Tax Computation Chart:

As per Income Tax computation chart prepared by the accounts department, Company will be required to pay MAT. Tax Auditors of the company have been requested to cross check and certify the same and ensure that guidelines prescribed are followed for calculating MAT as this is the first year of adoption of Ind AS and certain adjustments may be required to be made for such convergence. Head of the accounts department has made the following adjustments in book profits:

(i) Book profits has been increased with 1/3rd of the transitional adjustments.

(ii) For calculating transition amount, other equity adjustment includes capital reserve and adjustments in other comprehensive income.

(iii) Deferred taxes adjustments recorded on transition date has been ignored for computing transition amount.

ELL has implemented SAP/ERP for book keeping. Artificial Intelligence tools are being used for data analysis and algorithms to make decisions based on predictive methods. The Statutory Auditors also decided to use advanced audit tools and carry out the audit digitally. Accordingly, the audit team started understanding the automated environment of the company, types of controls implemented over automated environment and risks associated with it. As per audit manager, this is a next generation audit which is tech powered and data driven. The following statements has been made by audit manager (relating to the audit in technology driven audit procedures)

(i) Audit has moved from one data set to multiple data sets.

(ii) Audit has moved from embedded communication to separated communication.

(iii) Audit has moved from disconnected tools to integrated ecosystem services

(iv) Audit has moved from sampling populations to full population analysis.

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MULTIPLE CHOICE QUESTIONS:

Please provide the correct option to the following questions: (5 × 2 = 10 Marks)

4.1 Whether the accounting treatment/recording of assets and liabilities done in books at the time of acquisition of Tube Ltd. is as per guidelines prescribed under IND AS?

(A) Accounting treatment of Licence Fee and recording of identifiable assets and liabilities is incorrect. However, difference on transfer of land correctly recorded.

(B) Accounting treatment of Licence Fee is incorrect. However, assets and liabilities are correctly recorded. Also difference on transfer of land correctly recorded.

(C) Accounting treatment of Licence Fee and recording of identifiable assets and liabilities is correct. However, difference on transfer of land is incorrectly recorded.

(D) Assets are correctly recorded. However, treatment of Licence Fee and difference on transfer of land is incorrect in books of accounts.

4.2 Do you think that the reply by the GST department is correct in relation to time period of filing refund application and submission of a certificate of Chartered Accountant (CA) ?

(A) No, the GST department is not correct as refund application could have been filed till 01.03.2024. But the requirement of CA certificate is as per the requirements of law.

(B) No, the GST department is not correct as refund application could have been filed till 04.03.2024. But the requirement of CA certificate is as per the requirements of law.

(C) No, the GST department is not correct as refund application could have been filed till 06.03.2024. Also, CA certificate is not required as per the requirements of law.

(D) No, the GST department is not correct as refund application could have been filed till 31.03.2024. Also, CA certificate is not required as per the requirements of law.

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4.3 In case you are also a part of team of consultants, what technique can you suggest for providing price support under post listing price stabilizing mechanism?

(A) Company can use reverse green shoe option for providing price support under post listing price stabilizing within first 30 days from the day of listing even when no material disclosures have been made in draft offer and offer document.

(B) Company can use green shoe option for providing price support under post listing price stabilizing mechanism within first 30 days from the day of listing and material disclosures have been made in draft offer and offer document.

(C) Company can use under allotment option for providing price support under post listing price stabilizing mechanism within first 30 days from the day of listing and material disclosures have been made in draft offer and offer document.

(D) Company can use reverse green shoe option for providing price support under post listing price stabilizing mechanism within first 20 days from the day of listing and material disclosures have been made in draft offer and offer document.

4.4 How should PQR & Co. (auditor of consolidated financial statements) report its concern of audit of components by different auditor in its audit report on consolidated financial statements?

(A) It should be included in "Emphasis of Matter paragraph" of independent auditor's report by stating aggregate rupee amounts or percentages of total assets, revenues and cash flows of components included in the consolidated financial statements.

(B) It should be included in "Key Audit Matters paragraph" of independent auditor's report by stating aggregate rupee amounts of total assets, revenues and cash flows of components included in the consolidated financial statements.

(C) It should be included in "Other Matter paragraph" of independent auditor's report by stating aggregate rupee amounts or percentages of total assets, revenues and cash flows of components included in the consolidated financial statements.

(D) It should be included in "Key Audit Matters paragraph" of independent auditor's report by stating aggregate rupee amounts or percentages of total assets, revenues and cash flows of components included in the consolidated financial statements.

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4.5 Whether the calculation of book profit by accounts department is correct considering the three adjustments mentioned (transitional amount, other equity adjustments and deferred tax adjustment)?

(A) Adjustment of transitional amount and other equity adjustments are correctly done. Deferred Tax effects should have been considered for computing transition amount.

(B) Adjustment of transitional amount and other equity adjustments are incorrect. However, deferred tax effects has been correctly ignored for computing transition amount.

(C) Adjustment of transitional amount is correct but adjustments under other equity are incorrect. However, Deferred Tax effects has been correctly ignored for computing transition amount.

(D) Adjustment of transitional amount is incorrect but adjustments under other equity are correct. However, deferred Tax effects has been correctly ignored for computing transition amount.

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DESCRIPTIVE QUESTIONS:

4.6 In the light of the inputs given in the case study on acquisition of Tube Limited, state the circumstances as to when it is possible to gain control over Tube Ltd without transfer of consideration? (4 Marks)

4.7 As PQR & Co., Chartered Accountants, the Statutory Auditors of ELL obtain an understanding of the impact of using Artificial Intelligence on the company's business, its systems and financial reporting, state what important steps need to be considered by them in a changing technology environment ? (5 Marks)

4.8 Auditors are of the view that every information included in the notes to the separate financial statements of the ELL and its subsidiary need to be included in the consolidated financial statements also. Do you agree with auditors? If not, state the matters that need not be included in the consolidated financial statements? (6 Marks)

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CASE STUDY – 5

Background:

Sri Krishna Ltd., incorporated under the erstwhile Companies Act, 1956, is a pharmaceutical company. The issued and paid up share capital of Sri Krishna Ltd. is ₹ 5 Crore consisting of 5,00,000 equity shares of ₹ 100 each. The Company has 500 members on its register of members.

The Company is engaged in the manufacture of medicines and other chemical products and operates through its 14 branches all over India. It has its manufacturing plants at Pune in Maharashtra. Besides domestic sales, it also exports the medicines to various countries. While preparing and finalizing the financial statements as at and for the year ended 31st March, 2024, the following issues mandated attention:

A Charitable Trust was created by Sri Krishna Ltd. few years ago. The Trust obtained the required approval from the Income Tax Department. During the F.Y. 2023-24, the Trust sold an immovable property (acquired in F.Y. 2022-23) for ₹ 5,00,000 and its cost of acquisition was ₹ 3,80,000. Out of the sale consideration, the Trust purchased a new asset for ₹ 4,40,000 during the said financial year. Further, the Finance Secretary of the Trust informed that the proceeds from asset which was sold was utilized for the objects of the Trust to an extent of 60% only.

One of the Directors of Sri Krishna Ltd., who is also an Executive Secretary of a Devasthanam (Temple Administrators), which administers a popular temple, seeks your opinion with respect to taxation of following incomes earned by the Devasthanam during the financial year 2023-24 relevant to the Assessment Year 2024-25.

(i) Income from sale of sacred food items at subsidized price- ₹ 1,72,500 and

(ii) Rental Income from cottages built up for the devotees in the vicinity of agricultural land belonging to the temple- ₹ 43,75,600.

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On 1st April, 2023, Sri Krishna Ltd. provided a guarantee to its subsidiary – 'Little Limited' in connection with a loan of ₹ 10,00,000 taken by the said subsidiary from NILA Bank for three years at 7% interest p.a. The interest payments are to be made at the end of each year and the principal is to be repaid at the end of the loan term.

If Sri Krishna Ltd. had not issued a guarantee, NILA Bank would have charged Little Limited an interest rate of 11% p.a. Sri Krishna Ltd. has not charged any commission from Little Limited for providing the guarantee.

On 31st March, 2024, there is 1% probability that Little Limited may default on the loan repayment in the next 12 months. In case Little Limited defaults on the loan repayment, Sri Krishna Ltd. does not expect to recover any amount from Little Limited.

On 31st March, 2025, there is 4% probability that Little Limited may default on the loan repayment in the next 12 months. In case Little Limited defaults on the loan repayment, Sri Krishna Ltd. does not expect to recover any amount from Little Limited.

Dev & Associates, Chartered Accountants, headed by CA Dev, is the principal Statutory Auditor of Sri Krishna Ltd. With respect to the audit of branches, the company has appointed seven Chartered Accountant firms, each firm to conduct the audit of two branches. The audit reports in respect of accounts of branches have already been sent to the principal auditor. While analyzing the work of the branch auditors, CA Dev, the engagement partner, asked the branch auditors to share with him a summary of the audit procedures and findings in respect of the accounts of the branches examined by them. CA Dev also asked one of the branch auditors to share his audit working papers with respect to the two branches examined by that branch auditor for his review and return.

Sri Krishna Ltd. is in the grip of serious apprehensions that its shares might be cornered by a group of unscrupulous persons and if it happens, it would certainly result in change in the Board of Directors which might be prejudicial to the public interest. A petition was submitted before the Tribunal signed by 70 members holding 10,000 equity shares of the company for the purpose of relief against oppression and mismanagement by the majority shareholders.

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A purchase order for supply of anti-viral tablet was placed with Sri Krishna Ltd. by the school education department of Tamil Nadu, India through its Chief Educational Officer to distribute it to the students studying in the schools. This supply is exempt from tax under a notification issued under Section 11 of the CGST Act. The raw material is exclusively procured for such supply, but packing material for the outer packets and the aluminum strips are the ones which are used for other taxable products of the factory as well.

In the month of July, 2023 the Turnover (exclusive of taxes) of the other taxable supplies amounted to ₹ 8 crore and the said exempted supplies amounted to ₹ 2 crore respectively. The ITC on packing material and the aluminum strips procured in July 2023 is ₹ 10,000 and ₹ 30,000 respectively.

Ms. Roshini, is the daughter of the Chief Educational Officer, who is working as a lecturer in an educational institution and is also doing higher studies (Ph.D) on part time basis. For that, she has been granted with a research assistance of ₹ 6,00,000 from an University for four years of study period. The University released ₹ 4,00,000 as three years fund. She spent ₹ 4,00,000 properly and requested the University to release the balance amount so that she can be able to finish the Thesis and submit it. The University sent an email to Ms. Roshini to submit the Utilization Certificate for the amount already released.

The Chief Educational Officer who is a well-known friend of CA Dev, requested him to issue a "Utilization Certificate" in this connection. After verifying all the vouchers and accounts, CA Dev issued the certificate. Ms. Roshini asked CA Dev for UDIN.

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MULTIPLE CHOICE QUESTIONS:

Please provide the correct option to the following questions: (5 × 2 = 10 Marks)

5.1 With reference to the incomes earned by the Devasthanam as stated in the case study, state which of the statement is correct with regard to its taxability under the provisions of the Income Tax Act, 1961

(A) Both the incomes are exempt from tax as "Deity" cannot be an Assessee;

(B) Only income from sale of sacred food is taxable since the other is an agricultural income which is exempt from tax.

(C) Both incomes are exempted since in the first case, Food is sold at subsidized rates and the other is an agricultural income which is exempt from tax.;

(D) Both incomes are taxable since "Deity" is also an Assessee under the Income Tax Act, 1961.

5.2 Sri Krishna Ltd. is in the grip of serious apprehensions that its shares might be cornered by a group of unscrupulous persons and if it happens, it would certainly result in change in the Board of Directors which might be prejudicial to the public interest. In order to protect this, how can the company impose restrictions on the transfer of its shares ? Choose the correct option from those given below:

(A) Sri Krishna Limited can make an application to the National Company Law Tribunal (NCLT) under the provisions of the Companies Act, 2013 for imposition of restrictions upon securities.

(B) Sri Krishna Limited can make an application to the Central Government under the provisions of the Companies Act, 2013 for imposition of restrictions upon securities.

(C) Sri Krishna Limited can make an application to the National Company Law Tribunal (NCLT) under the provisions of the Companies Act, 2013 for investigation into the ownership of company.

(D) Sri Krishna Limited can make an application to the Central Government under the provisions of the Companies Act, 2013 for investigation into the ownership of company.

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5.3 The amount of ineligible ITC in respect of procurement of packing material and aluminum strips in the month of July 2023 for the Government order is:

(A) ₹ 8,000

(B) ₹ 16,000

(C) ₹ 32,000

(D) ₹ 40,000

5.4 Which of the following statements is most appropriate regarding UDIN in the context of Utilization Certificate required by Ms. Roshini?

(A) It is mandatory to state UDIN in such type of certificates.

(B) It is desirable to state UDIN in such type of certificates.

(C) It is not required to state UDIN because the research is funded by an University, an educational institution which is exempted from Income Tax.

(D) It is not required to state UDIN because the students are exempted from getting UDIN for Utilization Certificate for any research assistance.

5.5 The amount of capital gain (arising out of sale of an immovable property) which shall be deemed to have been applied for charitable purpose of the Trust is:

(A) ₹ 3,00,000

(B) ₹ 2,64,000

(C) ₹ 36,000

(D) ₹ 72,000

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DESCRIPTIVE QUESTIONS:

5.6 With reference to the applicable IND AS, provide the accounting treatment with journal entry in respect of financial guarantee provided to Little Ltd. in the books of Sri Krishna Ltd., on initial recognition and in subsequent periods until 31st March, 2025.

Discount Factor for 11% to be used:

Year 1	0.901
Year 2	0.812
Year 3	0.731

(6 Marks)

5.7 Examine the provisions of the Companies Act, 2013, and decide whether the petition submitted by minority shareholders of Sri Krishna Ltd. is maintainable? Also explain the impact on the maintainability of the above petition, if subsequently 21 members, who had signed the petition withdrew their consent.

(4 Marks)

5.8 Is CA Dev correct in asking the branch auditors for sharing the audit working papers for his review? Explain.

(5 Marks)

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