

Roll No.

Total No. of Case Study Questions – 5

Total No. of Printed Pages – 31

Time Allowed – 4 Hours



Maximum Marks – 100

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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 of 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.

Candidate 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 2023-24 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, 2022 shall be relevant.

Candidate may use calculator.

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CASE STUDY – 1

Fashion India Limited (FIL), based in Chandigarh is one of the globally leading textile manufacturing company in India since last 40 years and is driven by its differentiation strategy based on innovation, branding & sustainability. As a leading textile company in India, FIL's key focus is on the domestic market with sustainable textiles and on building a strong B2C presence while continuing to grow its export business. The Company's manufacturing facilities, located in India, are equipped to deliver high-quality products, as per international standards. The strong, ethical and compliant corporate governance mechanism is one of the core aspects of its policy structure. Management of the Company consists of well qualified and experienced professionals who are responsible for driving growth whilst ensuring compliance with the laws of land.

Due to competition in the market, the Company continuously reviews its product range and enhances its existing products by developing new models to meet the demands of its customers. FIL's research and development team developed a new product "Gladden" which has lifelong anti-microbial properties and odour prevention benefits and can keep the linens fresh for a longer time. This new product was approved by the management in July 2022 and was launched in December 2022. Gladden is now about to enter the maturity stage of its life cycle. Research by the marketing team indicates that demand of the product 'Gladden' in the domestic market is price sensitive. The likely market responses are as follows:

Selling price per unit (₹)	1,550	1,400	1,325	1,260	1,100
Sales demand per week (units)	6,000	8,500	10,500	11,750	12,500

The variable cost per unit for manufacturing 'Gladden' is ₹ 850 and the attributable fixed cost is ₹ 2,50,000 including all overheads and administrative expenses. Also the price charged by competitors is in the range of ₹ 1,250.

The Production department believes that, for producing "Gladden" existing machinery cannot be used and a specific type of machinery is required. The required machinery is being manufactured in India only by two companies namely RFD Ltd. (a company engaged in the manufacturing and exports of textile machinery) and SED Ltd. (a subsidiary of German company engaged in

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manufacturing all types of machinery according to the requirements of customer). Upon evaluation, FIL concluded that as RFD Ltd takes a period of 2 to 3 months, they would approach RFD Ltd for buying the machinery. An agreement to purchase the machinery was entered on August 10, 2022 with a clause that FIL will have to settle the consideration of machinery purchased by issuing its equity shares. FIL agreed to the clause and order was confirmed. Machinery was supplied vide invoice dated October 25, 2022 and delivered on November 1, 2022. Agreed purchase consideration was ₹ 150 Lakhs and the fair value of the machinery supplied was estimated to be ₹ 160 Lakhs. As agreed, FIL issued 1,00,000 equity shares of face value ₹ 100 each to RFD Ltd.

One of the product, 'Slimmer' introduced in the year 2016, is at the end of its life cycle and Company's revenue from it is declining at a very fast pace. The Company's marketing team in Mumbai has been approached by M/s Tulip Exports Limited (TEL), a merchandise exporter, to buy 500,000 units of its product 'Slimmer' at the rate of ₹ 750 each. Historically, the Company did not venture into such type of business and whenever goods were exported, the same was done directly and not through any merchant exporter. One of the clauses of purchase, imposed by TEL is that, the product will be supplied by FIL at the concessional rate of GST (normal GST rate is 5%). This proposal was discussed and approved by the management, and the legal team was entrusted to ensure all the legal compliances pertaining to offer of TEL would be satisfactorily vetted. Specified goods were supplied vide invoice dated June 1, 2023 and received by TEL in its warehouse for further packing on June 5, 2023. Payment for goods was received as per the agreed terms on June 15, 2023. During the Statutory Audit, the statutory auditors sought evidence of goods exported to TEL (which were supplied at concessional rate). FIL replied to the auditor that, TEL neither supplied any export proof to them, nor they have demanded it.

M/s Cotton Garments Inc. (buyer) from (a US based company dealing in high end garments) was regularly getting customer queries about availability of "Gladden" in its retail stores. Senior Management of Cotton Garments Inc. contacted FIL for supply of 10,000 units. Price per unit agreed was ₹ 1500, making total contract value ₹ 1.5 crores as per contract dated December 1, 2022. As Cotton Garments Inc., was professionally managed, during the finalization of the purchase

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agreement, a clause was inserted stating that if goods were not supplied within 3 months (March 1, 2023), FIL will pay interest at the rate of LIBOR + 100 basis points on the advance of ₹ 1 crore given on December 31, 2022. FIL could only supply 2,000 units of Gladden on time and could not supply remaining 8,000 units due to paucity of raw material. Management of FIL met the top leaders of Cotton Garments Inc., and explained the reasons for not being able to supply the remaining units and requested for waiver of interest. However, the management of Cotton Garments Inc., waived the interest with a condition that the remaining advance be returned to them immediately. FIL requested for a period till January 31, 2024, to which buyer agreed.

FIL earned good profits by launching the product "Gladden" and overall profitability was also good for the financial year 2022-2023. As a result, the management decided to pay interest of 3 years upfront on the debentures outstanding in books of accounts (with a balance maturity period of 3 years). Total interest payment amounted to ₹ 600 Lakhs. While preparing financial statements for the year ended March 31, 2023, the management treated 2/3rd interest as deferred revenue expenditure and recorded an expense of ₹ 200 Lakhs only for the financial year 2022-2023. The statement of Profit and Loss of the Company reflected a profit of ₹ 2,000 Lakhs before adjustment of interest of ₹ 200 Lakhs and charge of depreciation on new machinery purchased (depreciation rate – 15%). The final profit for tax purposes was yet to be computed by the Finance team of the Company.

As FIL is having surplus funds, one of its directors, Mr. S proposed an investment of ₹ 100 Lakhs in equity shares of reputed companies as part of Company's investment plan. For seeking approval for the said proposal, the board meeting of the Company was called, which was attended by five directors out of seven directors and the proposal was agreed by only three directors present.

MCQ: Provide the correct option to the following Questions **5×2**
=10

- 1.1. Which of the above five selling prices should be charged for product 'Gladden' in domestic market and what will be the status of established selling price when it moves from growth stage to maturity stage ?

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- (a) Selling price to be adopted is ₹ 1,325 and price is likely to be reduced gradually when the product moves from growth stage to maturity stage.
- (b) Selling price to be adopted is ₹ 1,550 and price is likely to remain constant when the product moves from growth stage to maturity stage.
- (c) Selling price to be adopted is ₹ 1,260 and price is likely to be in line with the price charged by competitors.
- (d) Selling price to be adopted is ₹ 1,325 and price is unlikely to be reduced and likely to be fairly constant when the product moves from growth stage to maturity stage.

1.2. As per Ind AS 102 – Share Based Payment, what should be the price and the date for recording the machinery purchased from RFD Ltd ?

- (a) ₹ 150 Lakhs on November 1, 2022
- (b) ₹ 160 Lakhs on November 1, 2022
- (c) ₹ 100 Lakhs on November 1, 2022
- (d) ₹ 150 Lakhs on October 25, 2022

1.3. By which date FIL should have exported all the goods and whether it is possible to refund advance outstanding on January 31, 2024 without intervention of any authority as per Foreign Exchange Management Act, 1999 ?

- (a) FIL should have exported all the goods by December 31, 2023 and no permission from any authority is needed to refund the advance amount on January 31, 2024.
- (b) FIL should have exported all the goods by December 1, 2023 and no permission from any authority is needed to refund the advance amount on January 31, 2024.
- (c) FIL should have exported all the goods by December 31, 2023 and permission from Reserve Bank of India is needed to refund the advance amount on January 31, 2024.
- (d) FIL should have exported all the goods by December 1, 2023 and permission from Reserve Bank of India is needed to refund the advance amount on January 31, 2024.

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1.4. As the investment proposal of Mr. S, was approved by only three directors, out of five directors present in the board meeting :

- (a) The Company can go ahead with such investment plan, as majority of the directors present at the board meeting agreed to the proposal of investing funds amounting to ₹ 100 Lakhs in equity shares of reputed companies.
- (b) The Company cannot invest funds amounting to ₹ 100 Lakhs in equity shares of reputed companies, as all the 5 directors present at the meeting did not agree to such investment plan.
- (c) The Company cannot invest funds amounting to ₹ 100 Lakhs in equity shares of reputed companies, as the total strength of 7 directors must attend the board meeting and all must consent to such investment plan.
- (d) The Company cannot invest amounting to ₹ 100 Lakhs in equity shares of reputed companies, as the investment plan did not receive the consent of $\frac{3}{4}$ th majority of the directors present i.e., four out of present.

1.5. Which of the following statements is not correct in relation to transaction entered between TEL and FIL ?

- (a) Goods need to be exported by December 31, 2023 and TEL needs to provide copy of shipping bill or bill of export to FIL along with proof of export general manifest.
- (b) TEL shall be registered with an Export Promotion Council and can export the goods only under LUT / bond and cannot export on payment of IGST.
- (c) TEL needs to indicate the GSTIN of FIL and the tax invoice number issued by FIL in shipping bill or bill of export.
- (d) FIL will be eligible for refund of ITC on account of inverted tax structure as per the provisions of GST Act.

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Descriptive Questions

- 1.6 Compute the profit of FIL for tax purposes, along with detailed notes, considering all the eligible deductions based on the facts mentioned in the case study. 5
- 1.7. One of the Marketing Managers believes that a product can also be sold below marginal cost. Is his view appropriate ? Indicate the situations where pricing below marginal cost can be adopted. 5
- 1.8. "Historically, FIL had not exported through a merchant exporter." Explain the meaning of Merchant exporter. Under what circumstances goods can be supplied to merchant exporter at concessional rate of GST ? 5

CASE STUDY 2

Power Equipment Limited (PEL), headquartered in New Delhi, is engaged in production of various electrical, electronic, and mechanical equipments for various sectors, including transmission, transportation, oil & gas, and other allied industries. PEL is also engaged in the designing, engineering, manufacturing, construction, testing, commissioning and servicing of a wide range of products, systems and services for the core sectors of the economy. The Company has capacity to deliver 10,000 MW power equipment p.a., to address the growing demand for power generation equipment.

The Company has also started exporting its power and industry segment products and services since year 2019. Till now, Company mainly carried out its operations using internal funds, bank borrowing and unsecured loans. Newly appointed CFO of the Company, Mr. Guru in his first meeting with board of directors, proposed an IPO to gets the Company's shares listed on the stock exchanges in India, rather than increasing debt.

Management was convinced with the presentation given by Mr. Guru and was positive of the recommendations made by him. Consultants were appointed to assist the Company for preparation and necessary filings for IPO, as the management knew that it is a technical process and requires preparedness in terms of business model, listing down Company's strengths and weaknesses, reason for public issues, arranging for various permissions, disclosures to be

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made in various documents etc. Consultants worked day and night to meet the deadline and were ready with draft prospectus and other documents. The documentation and draft prospectus included certification of current and past years' financial statements. Since Mr. Guru had joined recently as CFO of the Company, he was apprehensive about signing the documents containing financial information relating to earlier periods. When he expressed his apprehension, the management suggested that he could appoint a CA Firm, to review the documents he was supposed to sign-off, which would provide him additional comfort.

Accordingly, Mr. Guru took help of M/s RP & Associates, Chartered Accountants (an independent CA Firm) to review and validate the details disclosed in the financial information prepared for the purposes of IPO. Further, this review also included evaluation of non-compliances, if any, relating to direct taxes, indirect taxes, corporate laws and other financial regulations. After carrying out a detailed review, M/s RP & Associates, informed Mr. Guru about the following issues:

Issue 1

PEL regularly sent material to its job worker, ABC for technical work relating to high end electric wires. As and when required, the Company also gets certain machinery parts manufactured by job worker JHN for which dies & moulds are sent to JHN by PEL. As on March 31, 2023, the following data was made available by department handling GST for the Company:

S. No.	Particulars	Taxable value ₹ (Excl. GST)	Date of sending	Date of receipt- by Job worker	Status as on March 31, 2023
1	Material sent to ABC	2,50,000	March 25, 2022	March 28, 2022	Material lying With job worker
2	Material sent to ABC	1,50,000	March 28, 2022	April 2, 2022	--do--
3	Moulds & dies Supplied to JHN	5,00,000	March 1, 2022	March 12, 2022	Lying With job worker

Both moulds and material sent to job workers attract goods and service tax at the rate of 18%

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Issue 2

PEL has adopted Ind AS for the financial year 2022-23 and also calculated minimum alternate tax. Mr. Guru asked for details on the basis of which MAT was determined. DGM (Accounts), Mr. Rajan, has provided the following information for the same:

Transition date: April 1, 2022

Convergence amount i.e. amount adjusted in other equity on convergence date ₹ 120 Lakhs

Adjustment to be made in book profit of the year of convergence and each of the following five years ₹ 20 Lakhs each.

Both Mr. Guru and CA firm are skeptical about the data provided by Mr. Rajan relating to MAT computation.

Issue 3

During the financial year 2022-23, the Company received the following amounts by issuing share capital and debentures:

Transaction	₹ Lakhs	Towards
A	11.50	Shares
B	9.50 + 1.50 as application money	Shares
C	25.00	Debentures
D	9.75	Shares (Other than the amount of ₹ 2.25 Lakhs received on account of renewal of Debentures)

In relation to above, the Company has not filed any statement with Income tax department, as the management believes that no obligation arises for filing any statement relating to transactions of shares and debentures issued.

Issue 4

Company has made the following payments to various directors :

Name of Director	₹ Lakhs	Nature of payment
Promoter directors (3)	15	Sitting fee for attending four board meetings (equal payment to all three directors)
Shobhit - Independent Director	3	Sitting fee for attending four board meetings
Ms. Seema – Woman Independent Director	3	Sitting fee for attending four board meetings

Company has received a notice from Registrar of Companies that sitting fee paid is not as per the provisions of the Companies Act, 2013.

Issue 5

The Company has entered into a contract with a government corporation to supply certain equipment for ₹ 500 lakhs. There has been a short supply in the market and cost of the equipment had also increased. If the Company makes the supply, it will incur a loss of ₹ 50 lakhs. The penalty for non-performing of the contract is expected to be ₹ 30 lakhs. The supply is required to be made by June 30, 2023.

Issue 6

PEL while preparing financial statements for the financial year 2021-22, made an error by not recording the clearing and forwarding expenses amounting to ₹ 20 crores, pertaining to exports made during the said year. While preparing financial statements for the financial year 2022-23, management has corrected the error by recording those expenses as current year expenses. Tax team pointed out that these expenses will be disallowed, while computing income of the Company as prior period expenses. Management agreed to it, stating this action of paying taxes by recording in current year will save them from any non-compliance from accounting perspective and also at the end of current year, the balances of clearing and forwarding agent will be reflected appropriately.

Issue 7

After a detailed discussion about the issues in the financial statements, Mr. Guru and Mr. RP, partner of M/s RP & Associates, had a casual chat about general matters. During the conversation Mr. RP mentioned to Mr. Guru that CA. Safe, partner of Safe CA LLP, a Chartered Accountant firm, which the Company was evaluating to appoint as internal auditors was well known to him through his common friend. He asked Mr. Guru, whether he was aware about the case filed against Mr. Safe, for forgery of his uncle's Will. Mr. Guru said he was aware about the case and that the Court had pronounced Mr. Safe guilty of forgery, however, it was his personal matter and had no impact on his professional work.

MCQ: Provide the correct option to the following Questions :

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=10

2.1. Mr. Guru is of the opinion that all job work transactions outstanding on March 31, 2023 attract GST liability. Which of the following statements is correct ?

- (a) Yes, GST will apply on all three transactions as specified period has elapsed and total GST liability will be ₹ 1,62,000.
- (b) Yes, GST will apply on transactions of material only as specified period has elapsed and total GST liability will be ₹ 72,000. Transaction of moulds & dies are excluded from the provisions.
- (c) Yes, GST will apply on first transaction of material and transaction of moulds & dies, as specified period has elapsed and total GST liability will be ₹ 1,35,000
- (d) Yes, GST will apply but only on first transaction of material as for transaction amounting to ₹ 1,50,000 specified period has not elapsed and transaction of moulds & dies are excluded from the provisions. Total GST liability will be ₹ 45,000

2.2. Whether the data provided by Mr. Rajan is inappropriate as regards the terms he has used in relation to MAT computation ?

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- (a) Yes, April 1, 2022 is convergence date and not transition date. Also adjustment in the book profits need to be made of transition amount and not of convergence amount. The adjustment amount and period is correctly mentioned.
- (b) Yes, April 1, 2022 is correctly mentioned as transition date. Adjustment in book profits needs to be made of transition amount and not of convergence amount. The adjustment amount is ₹ 24 Lakhs as adjustment will be made in five years including year of convergence.
- (c) Yes, April 1, 2022 is convergence date and not transition date. Adjustment in book profits needs to be made of convergence amount as correctly mentioned. The adjustment amount and period is correctly mentioned.
- (d) Yes, April 1, 2022 is convergence date and not transition date. Adjustment in the book profits needs to be made of transition amount and not of convergence amount. The adjustment amount is ₹ 24 Lakhs as adjustment will be made in five years including year of convergence.

2.3. Is the management's contention that no obligation arises for filing any statement in relation to transactions of shares and debentures issued appropriate ?

- (a) Management's contention is incorrect, as Statement of financial transactions is required to be filed and all the transactions of shares and debentures issued, are to be reported.
- (b) Management's contention is incorrect, as Statement of financial transactions is required to be filed and the transactions of shares issued (A and D) are to be reported.
- (c) Management's contention is incorrect, as Statement of financial transactions is required to be filed and only the transactions of shares (A, B and D) issued are to be reported.
- (d) Management's contention is incorrect, as Statement of financial transactions is required to be filed and the transactions of shares and debentures issued (A, B and C) are to be reported.

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2.4. Whether the sitting fee paid by Company to its directors as per the provisions of Companies Act, 2013 ?

- (a) No, sitting fee paid by Company to Independent directors cannot be less than that payable to other directors. Sitting fee paid to the other directors is in line with provisions of Companies Act, 2013.
- (b) No, sitting fee paid by Company to women director cannot be less than those paid to other directors. Sitting fee paid to the other directors is in line with provisions of Companies Act, 2013.
- (c) Sitting fee paid to directors cannot exceed ₹ 1 Lakh per meeting and sitting fee paid to Independent directors cannot be less than that payable to other directors.
- (d) No, sitting fee paid by Company to Independent and women directors cannot be less than that payable to other directors. Sitting fee paid to the other directors is in line with provisions of Companies Act, 2013.

2.5. What should have been the management's action on recording of clearing and forwarding expenses pertaining to the financial year 2021-22, while preparing the financial statements for the year ended March 31, 2023, to comply with the Indian Accounting Standards ?

- (a) Management is correct in its action and there is no non-compliance.
- (b) Management should have corrected the previous year figures, in the financial statements for the year ending March 31, 2023.
- (c) Management should have corrected the previous year figures to correct the error and it needs to prepare third balance sheet at the beginning of the preceding period.
- (d) Management should have corrected the previous year figures to correct the error and it needs to prepare third balance sheet at the end of the preceding period.

Descriptive Questions

2.6. PEL proposed to pay 5% of net profits as commission to its directors (other than managing and whole time directors). Comment whether PEL can pay such commission, as per the Companies Act, 2013.

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- 2.7. Instead of sending material for job work, if capital goods were sent to the job worker, would any GST liability arise as on March 31, 2023 ? On what date goods will be deemed to be supplied in case of capital goods sent to job work are not received within the stipulated time period ? Which document needs to be issued when goods are sent for job work and how many copies of that document are required to be made ? 3
- 2.8. In the background of facts mentioned in the issue 5 above, explain the accounting for such contracts, with reference to the relevant Ind AS. 4
- 2.9. In the background of provisions of the Chartered Accountants Act, 1949, explain the types of misconduct. Also, comment whether Mr. Safe is guilty of any professional misconduct. 4

CASE STUDY 3

G K N H & Co. LLP, Chartered Accountants (Firm), a five-decade old CA firm is headquartered in Mumbai and has offices across key cities in India. It caters to clients across diverse market segments including Industrial, Infrastructure, Consumer Products, Financial Services, Technology, Media and Entertainment and Telecommunications. It is led by a robust team comprising 15 Partners with rich experience, supported by over 100 talented professionals focused on providing high-quality audits, integrated with strong technical expertise, technology and data driven insights. The firm has established a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and regulatory / legal requirements, and that the reports issued by the firm or engagement partners are appropriate in the circumstances.

Benz India Limited (BIL), a listed entity engaged in the manufacturing and exports of speciality chemicals, has appointed the firm as its auditor for the financial year 2022-23, after its auditor resigned due to some negative media reports about BIL. Managing partners of the firm accepted the audit after internal discussions and assigned the engagement to its senior most partner, CA K who has prior experience of handling these types of assignments. CA K along with his audit team planned and commenced the audit for completing the work on time. The audit team drilled records, documents filed with legal authorities and stock exchanges and books of accounts maintained at the head office and identified the following five key areas at the initial stages of the audit. The following key areas were identified for review by the audit team, for their discussions with CA K:

Area 1

BIL submitted to stock exchanges that, it has constructed a new building for its factory premises. The new building construction started on April 1, 2022 and was completed by March 31, 2023. The expenditure incurred is as follows

April 2022 - ₹ 1.50 Crores

August 2022 - ₹ 1.50 Crores

October 2022 - ₹ 3.50 Crores

January 2023 - ₹ 1.00 Crore

To finance the construction of building, BIL obtained a specific loan of ₹ 3.00 Crores from its banker at an interest rate of 10% per annum, which was spent in April and August as mentioned above. The Company's other outstanding loans were ₹ 20.00 crores at an interest rate of 11% per annum and ₹ 10.00 crores at an interest rate of 12% per annum. Company has capitalized interest of ₹ 80.99 Lakhs in its books of accounts.

Area 2

During the financial year 2022-23, the share capital of the Company, changed as follows:

Date	Particulars	No. of Shares
April 1, 2022	Opening balance of outstanding equity shares	10,00,000
April 1, 2022	Opening balance of outstanding preference shares of ₹ 10 each	1,00,000
July 1, 2022	Issue of equity shares	1,00,000
January 1, 2023	Buy back of equity shares	50,000
January 1, 2023	Redemption of preference shares at ₹ 15 each	100,000
March 31, 2023	Closing balance of outstanding equity shares	10,50,000

Net profit as per the Statement of Profit and Loss Account is ₹ 735.00 Lakhs and retained earnings was ₹ 2,495 Lakhs after adjusting premium of ₹ 5.00 Lakhs charged to it. EPS calculated by the Company is ₹ 70.00

Area 3

The management has requested us, to provide certification in relation to compliance of Corporate Governance matters listed in SEBI (LODR) regulations. Though the other areas of certification seem to be complied with, certain non-compliances were noted in relation to formation of various committees and the audit team listed the following for further discussions:

Name of Committee	Chaired by	Meetings during the year
Audit Committee	Ms. Samantha - a non-executive director	3
Nomination & remuneration committee	Mr. John - an independent director	1
Stakeholders relationship committee	Mr. Pawan - a non-executive director	1

Area 4

BIL has supplied 10,000 MT of Chemical to Sysma Inc. in London during the financial year 2022-23. Price per MT was ₹ 2,000. Management has treated this transaction as normal exports and was confident that this view will be accepted as it is by Income Tax department as well. While reviewing the financial statements, it was found that:

Book value of assets of BIL: ₹ 500 Crores

Market value of assets of BIL: ₹ 750 Crores

Liabilities outstanding in books: ₹ 135 Crores (excluding contingent liabilities of ₹ 15 Crores)

Sysma Inc. has advanced loan of ₹ 260 crores to BIL and further CHEM Ltd. (a foreign company) hold 25% share capital of both BIL and Sysma Inc.

Area 5

During the year, BIL has received dividends from the following :

Name of Company	Status	₹ Lakhs
TIL Limited	Domestic company	50
MIL Limited (100% subsidiary)	Domestic company	20
Forge Limited	Foreign company	65
Benz Trust	Resident	15

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On June 30, 2023 BIL declared and distributed dividend amounting to ₹ 200 Lakhs to its shareholders.

BIL's legal team is of the view that, it can claim deduction for dividends u/s 80 M of the Income-tax Act, 1961 for an amount of ₹ 20 Lakhs, being dividend received from the subsidiary and Company followed the recommendation of legal department.

Area 6

The Company wants to analyze its overheads and provides you the following information:

Particulars	Budgeted	Actual
Overheads (₹)	6,000	5,800
Output (units)	3,000	3,200
Customer's deliveries (nos.)	30	28

The overhead relates to deliveries to customers.

MCQ: Provide the correct option to the following Questions :

**5×2
=10**

- 3.1. Whether BIL has correctly capitalized interest as per the Ind AS 23, assuming that expenditure is incurred at the beginning of the month ?
- (a) Interest amount capitalized ₹ 80.99 Lakhs is correct.
 - (b) Interest amount capitalized should have been ₹ 52.66 Lakhs
 - (c) Interest amount capitalized should have been ₹ 51.05 Lakhs
 - (d) Interest amount capitalized should have been ₹ 47.66 Lakhs
- 3.2. Whether view of legal department is correct about the deduction available to the Company u/s 80 M of the Income-tax Act, 1961 ?
- (a) Deduction recommended is wrong, as the correct eligibility is ₹ 135.00 Lakhs
 - (b) Deduction recommended is wrong, as the correct eligibility is ₹ 70.00 Lakhs
 - (c) Deduction recommended is wrong, as the correct eligibility is ₹ 85.00 Lakhs
 - (d) Deduction recommended is wrong, as the correct eligibility is ₹ 150.00 Lakhs

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3.3. Which of the following statement is appropriately indicates the transaction between BIL and Sysma Inc as per the provisions of Income-tax Act, 1961 ?

- (a) BIL and Sysma Inc will be deemed to be associated enterprises as substantial voting power is controlled by CHEM Ltd, even though loan advanced by Sysma Inc is less than specified percentage of market value of total assets of BIL and thus transfer pricing provisions will get attracted for the transaction.
- (b) BIL and Sysma Inc will not be deemed to be associated enterprises as substantial voting power is not controlled by CHEM Ltd and also loan advanced by Sysma Inc is less than specified percentage of market value of total assets of BIL and thus transfer pricing provisions will not get attracted for the transaction.
- (c) BIL and Sysma Inc will be deemed to be associated enterprises as loan advanced by Sysma Inc is more than specified percentage of book value of total assets of BIL even though, substantial voting power is not controlled by CHEM Ltd and thus transfer pricing provisions will get attracted for the transaction.
- (d) BIL and Sysma Inc will be deemed to be associated enterprises as loan advanced by Sysma Inc is more than specified percentage of book value of total assets of BIL and substantial voting power is also controlled by CHEM Ltd and thus transfer pricing provisions will get attracted for the transaction.

3.4. What qualifications will you recommend to the auditor, that should be given in relation to certification of compliance of corporate governance conditions ?

- (a) Audit Committee and Stakeholders relationship committee is not chaired by Independent Director.
- (b) Audit Committee is not chaired by Independent Director and also number of meetings held are less than the number of times prescribed.
- (c) Audit Committee and Stakeholders relationship committee is not chaired by Independent Director and also number of meetings are less than the number of times prescribed.
- (d) Stakeholders relationship committee is not chaired by an executive director and all the committees have met less than the number of times prescribed.

3.5. Considering the details mentioned in Area 6 above, the expenditure and efficiency variance will be

- (a) Expenditure variance ₹ 200 (A) and Efficiency variance ₹ 800(F)
- (b) Expenditure variance ₹ 800(F) and Efficiency variance ₹ 200 (A)
- (c) Expenditure variance ₹ 200(F) and Efficiency variance ₹ 800 (A)
- (d) Expenditure variance ₹ 800(F) and Efficiency variance ₹ 200(F)

Descriptive Questions

3.6. (a) Re-compute the EPS of the Company for the financial year 2022-23

6

(b) Shares are usually included in the weighted average number of shares from the date consideration is receivable. What will be the date of inclusion in the following circumstances ?

- (i) shares issued on the voluntary reinvestment of dividend on ordinary or preference shares
- (ii) shares issued as a result of the conversion of a debt instrument to ordinary shares
- (iii) shares issued in place of interest or principal on other financial instruments
- (iv) shares issued as consideration for the acquisition of an asset other than cash

3.7. If BIL and Sysma Inc are covered under transfer pricing and arm's length price is required to be determined for their transactions, what will be the factors for the purpose of selecting the most appropriate method for determining most reliable measure of an arm's length price ?

4

3.8. For shares issued during the year, whether the Company is required to submit any statement to Stock exchange under SEBI (LODR) Regulations 2015 ? Which authority of the Company should review those filings ?

5

CASE STUDY 4

Make in India initiative of Government of India has attracted investments from various corporates around the world and has given impetus to the indigenous entrepreneurs. Inspired by this initiative and a change in government policies, Mr. Shyam, Mr. Abraham, and Ms. Kavita, who have studied together in IIT, had

(20)

QRT

Marks

formed a company SAK Private Limited (SAK). SAK has been in the business of manufacturing and export of foot wear including premium sport shoes. It has become a known name in the last decade and is on a growth trajectory. Ms. Devika, Chartered Accountant, has been their CFO since the Company was founded and was a trusted advisor of the founder promoters. While finalizing accounts for the financial year 2022-23, she has doubts in respect of certain matters and approached you for your opinion.

- I. The Company has a property with a carrying value of ₹ 50 Lakhs which was purchased in June 2018. For purchasing this property, the Company had issued share capital which was subscribed by two other companies. The Company received a show cause notice from Initiating Officer (IO) under the Prohibition of Benami Property Transactions Act, 1988 for treating the said property as benami property.
- II. The Company has offered discount voucher on sale of its sport shoes for every sale of ₹ 1500 on sales made through its retail outlet. This discount voucher entitles the holder to a discount of 30% which can be used for any future purchase up to ₹ 1500 in the next 60 days. During the coming 60 days, the Company also intends to offer a general festival discount of 15% on all sales. This 15% discount cannot be used in addition to 30% discount voucher. The Company estimates that there is 80% likelihood that a customer will redeem the voucher and on an average a customer will purchase additional products worth ₹ 750.
- III. The Company purchased a building for ₹ 20 lakhs on April 1, 2020 and was using it as its corporate office. The life of the building was estimated to be 20 years. On March 31, 2022, the fair value of the building was ₹ 16.40 lakhs, and the remaining useful life of the building was also estimated to be 20 years. The Company has been following the cost model for accounting of its property, plant and equipment and follows straight line method for provision of depreciation. During the year, the Company shifted its corporate office to a bigger place and decided to let out the old property. The property has been given on rent to a multinational company on October 1, 2022.

QRT

- IV. The Company has made purchases and sales of Bitcoins, during the year as under

Date	Particulars	Units	Amount ₹
June 15, 2022	Purchase	5,000	50,000
July 15, 2022	Sale	2,500	22,500
July 20, 2022	Sale	2,500	28,750
August 1, 2022	Purchase	10,000	1,50,000
August 16, 2022	Sale	5,000	77,500
August 31, 2022	Sale	4,000	56,000

- V. The Company is planning to invest its surplus funds in the bonds and provides the following information:

Face Value ₹ 10,000 to be redeemed at par at maturity.

Coupon rate 9 % per annum

Years to maturity 7 years

Yield to maturity (YTM) 10%

Years	1	2	3	4	5	6	7
PVIF(10%, n)	0.909	0.826	0.751	0.683	0.621	0.564	0.513

- VI. The Company had applied to bank for a loan. Credit team of bank while reviewing the loan application has observed that the Company already has machinery and building term loan accounts, though all of them were regular and no default of any nature has occurred. The only issue was, whether the boards of directors have the power to borrow more funds without any approval from the shareholders as per the provisions of the Companies Act, 2013. For this purpose, Company's financial statements were analyzed with the following details -

Particulars	₹ Lakhs
Share capital	100
Reserves and Surplus	250
Share premium	10
Secured loans	133
Cash credit limit	125
Unsecured loans	225

VII. Meanwhile, Shyam reached out to CFO with a personal query. His son Rohan wanted to pursue post graduate degree in hotel management from a leading university A in Switzerland. With his efforts, he was able to secure admission in other university B and response from university A was awaited. As per rules of University A, if Rohan gets admission he will be required to deposit the first year fee by December 1, 2023. Shyam got forward contract from BAZ Bank Limited on September 1, 2023 for fee amount i.e. 8,000 Swiss Francs @ of ₹ 30.00 expiring on December 1, 2023. On November 1, 2023, Rohan got news that University A has not given admission to him. Though he was disappointed but was happy with University B. Shyam now went to bank and cancelled the forward contract on November 1, 2023. The rates prevailing were

		November 1, 2023	December 1, 2023
Spot	CHF 1=	₹ 30.30	₹ 30.35
One-month forward		₹ 30.45	₹ 30.55

MCQ: Provide the correct option to the following Questions :

**5×2
=10**

- 4.1 In respect of notice received for benami property, the Company is required to make the following compliance:
- The board of directors is required to make a disclosure in its Directors' Report.
 - The Company is required to make the disclosure in notes to financial statements as additional regulatory information and Directors Report. The Statutory Auditors are not required to make any specific comments.
 - The Company is required to make a disclosure in notes to financial statements as additional regulatory information and the Statutory Auditors are also required to report in Company (Auditors' Report) Order, 2020.
 - Neither the Company, nor the Statutory Auditors are required to report.

- 4.2 Determine how many performance obligations the Company has and what will be the allocated transaction price ?
- Two performance obligations, allocated price for sport shoes sale is ₹ 1,415 and discount voucher ₹ 85.
 - One performance obligation, allocated price for sport shoes sale is ₹ 1,500.
 - Two performance obligations, allocated price for sport shoes sale is ₹ 1,275 and discount voucher ₹ 225.
 - Two performance obligations, allocated price for sport shoes sale is ₹ 1,320 and discount voucher ₹ 180.
- 4.3 At which value, on change in use of property, Investment property is recognized on the date of change and the depreciation to be charged in statement of profit and loss for the year ending March 31 2022 ?
- ₹ 17.50 lakhs, depreciation ₹ 1,00,000
 - ₹ 17.55 lakhs, depreciation ₹ 90,000
 - ₹ 15.94 lakhs, depreciation ₹ 92,000
 - ₹ 15.99 lakhs, depreciation ₹ 82,000
- 4.4 Whether the contention of bank, that the Directors of the Company cannot borrow further money from the bank, for importing machinery is correct considering the requirements of Companies Act, 2013 ?
- Bank's contention is correct as the borrowings excluding cash credit has exceeded the maximum permissible limit ₹ 350 Lakhs.
 - Bank's contention is correct as the total borrowings has exceeded the maximum permissible limit of ₹ 350 Lakhs.
 - Bank's contention is incorrect as the borrowings excluding cash credit are within the permissible limit of ₹ 700 Lakhs.
 - Bank's contention is partially correct as the borrowings excluding cash credit are ₹ 358 Lakhs and maximum permissible limit is ₹ 360 Lakhs.
- 4.5 What would be the loss incurred by Shyam on cancellation of the forward contract on November 1, 2023.
- ₹ 3,600
 - ₹ 2,800
 - ₹ 4,400
 - ₹ 2,400

(24)

QRT

Marks

Descriptive Questions

4.6 With reference to information given in point V above:

4+4

- (a) Compute the current market price of the bond
- (b) Explain Maculay's duration and compute the duration.

4.7 Explain 'Virtual Digital Asset' as per the Income-tax Act, 1961 and the taxability of such assets. Also, compute the tax liability of SAK for the sale and purchase of bitcoins made during the year.

4+3

CASE STUDY 5

CA Gudia is a qualified Chartered Accountant and in practice since year 2007 and has set up her own practice in Ludhiana, Punjab. She did her training from M/s H Singh & Associates, Chartered Accountants, Delhi. CA H is a son of sitting Member of Parliament, so good contacts and professional services has helped M/s H Singh & Associates earn and grow good number of clients in all fields of professional services.

CA Gudia was in good books of managing partner, so she got good exposure of various high profile assignments (like auditing listed companies, forensic audit of large borrowers of various nationalized and private sector banks, international taxation, corporate governance issues etc.). But the area which was close to her heart was rendering consultancy to high net-worth individuals (HNIs). She was so interested in this area that she kept herself updated on these issues on daily basis and knew that India is a preferred destination for HNIs and so decided to practice mainly in consultancy field. Her major expertise is in the field of consultancy to her clients regarding Foreign Exchange related matters (whether under FEMA or Indirect Taxation), Income tax matters including international taxation, Investment decision making and corporate matters pertaining to these areas. One of her colleague during training times, landed a good job in a top listed company of India. Since she was in regular touch with CA Gudia, she referred many clients to her.

QRT

(25)

QRT

Marks

Over a period of time, CA Gudia had a flourishing practice and she appointed four other Chartered Accountants as assistants. Every week CA Gudia, had a meeting with her team of CA's for update on issues with various clients. In one such weekly meeting, the following issues relating to key clients of the firm were discussed:

Client 1

XYZ Ltd, a listed company is a paper manufacturing company based at Surat, Gujrat, which has been in business for more than half a century. The Company has a good reputation in industry and was founded by Mr. Hanum in the year 1973. As years passed by, the Company has now gone global and has been in exports also. Presently, his grandson, Mr. Devesh an MBA from IIM Bangalore, is leading the business, as its Managing Director. CA Gudia, is the Company's consultant on various tax and accounting issues. Mr. Devesh approaches CA Gudia for seeking advice on various accounting and taxation related matters in the business. XYZ Ltd acquired 80% shares in its foreign subsidiary QR Ltd, four years ago. In the current year, the Company sold its entire investment in QR for ₹ 3,000 lakhs. The net assets of QR Ltd are ₹ 2,500 lakhs and the non-controlling interest in QR is ₹ 500 lakhs. The cumulative exchange differences that have arisen during the Company's ownership were gains of ₹ 500 lakhs, resulting in foreign currency translation reserve in respect of the subsidiary QR Ltd, having a credit balance of ₹ 400 lakhs, while the cumulative amount of exchange differences that have been attributed to the non-controlling interest is ₹ 100 lakhs. The Company has a total number of 11 directors and Mr. Rakha, the Chairperson of the Board is a non-executive director. Out of 11 directors, 5 were independent directors. During the year, the Company also received a Show Cause Notice from the State Pollution Control Board and the Company was in the process of responding to the same.

QRT

P.T.O.

Client 2

Alphan Ltd, imported machinery costing ₹ 70 lakhs from a reputed manufacturer of Malaysia. In accordance with the terms of payment, the Company was required to pay the cost of machinery in 6 equal monthly installments. The Company paid the installments as per terms and the machinery was delivered and installed at their new factory site.

Client 3

Duno Ltd declared and paid an interim dividend for the half year ended September 30, 2023. Dividend was paid to shareholders including NRIs and foreign company after deducting TDS @10%. The following data was available for dividend payments:

Resident Shareholders: ₹ 50 Lakhs (before TDS deduction) and TDS deducted ₹ 5 Lakhs

Non-Resident Shareholders-John: ₹ 25 Lakhs (before TDS deduction) and TDS deducted ₹ 2.5 Lakhs

During the year, Duno Ltd in order to increase sales of its product Polycotton, launched a mass advertising campaign. For the purpose of online advertisement, it utilized the services of Tel Inc (USA based online advertising company and not having any permanent establishment in India) and Superb (UK based online advertising company and not having any permanent establishment in India) which also owns and operates a digital platform. During the month ended October 31, 2023, the Company made payment of ₹ 2.50 Lakhs to Tel Inc and ₹ 0.75 Lakhs to Superb. Tax amounting to ₹ 0.975 Lakhs was withheld by the Company on these payments u/s 195 of the Income-tax Act, 1961.

Client 4

Raj, a HNI entered into agreement with Tanu, to purchase a vacant plot in Kochi.

The following are the details of the transaction:

Consideration agreed - ₹ 260 Lakhs

Stamp duty value - ₹ 285 Lakhs

Date of transfer - October 10, 2023

He enquired with his friends and colleagues and decided to enter into an agreement with Manu for construction of house on his plot. The following are the details of the agreement:

Total contract value - ₹ 175.00 Lakhs (Ready to move in house will be provided by contractor and Raj will only install TV and CCTV cameras at his own expense).

Construction will be completed in 11 months and payment terms will be 30% advance and balance in ten equated monthly payments.

Client 5

For visit to London, Ranjan will be getting the tickets booked and asked his travel agent M/s PTG Holidays to submit quotations. After going through the quotations of various airlines, flight of British Airways was selected and travel agent submitted the fare break up as follows :

Basic air fare : ₹ 45,000

Convenience fee : ₹ 1,500

Airport charges : ₹ 1,000

Misc. charges : ₹ 500

Total ₹ 48,000

As regards foreign currency to be carried during his visit, Ranjan had US \$10,000 (in hand, out of currency left during his short visit of 5 days to US in July 2023).

Ranjan decided to get those USDs converted into GBP from Yono Forex Services. He expects to receive 7,800 GBP on conversion of currencies. Rate he is getting for conversion are

US \$ Rate = ₹ 75 and GBP Rate = ₹ 95

Client 6

CA Gudia's firm was appointed as a joint auditor of Zemka Limited, along with M/s ABC & Co., and M/s KAP & Co., The scope of audit was agreed upon with other joint auditors as per the relevant Auditing Standards. As the Company has a substantial amount involved in property, plant and equipment (PPE), it was decided that all the three auditors will verify the records relevant to PPE. While forming an opinion, CA M, partner of M/s ABC & Co., was having a different opinion on PPE but CA N, partner of M/s KAP & Co., and CA Gudia were having same opinion. CA M wants to qualify capitalisation of post-acquisition costs incurred on PPE, whereas CA N and CA Gudia are of the opinion that the accounting treatment followed by the Company is correct.

Client 7

Mr. Siraj, was an old friend of CA. Gudia, whose income-tax returns were prepared and filed by CA. Gudia's office. Apart from remuneration from employment, he also had a part-time business. He had earned well for himself and had two properties. One is self-occupied and the second one was let out for part of the year. He also invested in shares and had capital gains during the year. He provided the following information for the year ended March 31, 2023:

- He received Salary of ₹ 45,000 per month from his employer.
- In business, he suffered a loss of ₹ 1,00,000.
- He has paid interest of ₹ 2,50,000 for property 1 which was self-occupied. Second property was let out for 3 months @ ₹ 25,000 per month. For this property, he has paid interest of ₹ 3,00,000.
- He earned interest from the saving bank of ₹ 15,000 and on Fixed deposits of ₹ 45,000
- During the year, he was having long-term capital gain of ₹ 50,000 and Short-term capital loss of ₹ 10,000.

He has no other tax savings during the year and does not opt for Section 115BAC.

(29)

QRT

Marks

MCQ: Provide the correct option to the following Questions :

**5×2
=10**

5.1 Whether the tax deducted by the Company on payments to resident shareholders, John, Tel Inc. and Superb is deducted correctly ?

- (a) Yes, except for TDS on payment to John which should have been ₹ 5.00 Lakhs.
- (b) Yes, except for TDS on payment to John which should have been ₹ 7.50 Lakhs.
- (c) No, TDS on payment to John should have been ₹ 5.00 Lakhs and payments to Tel Inc and Superb are liable for equalisation levy.
- (d) No, TDS on payment to John should have been ₹ 5.00 Lakhs and payments to Tel Inc is liable for equalisation levy. Payments to Superb are neither liable for tax deduction nor for equalisation levy.

5.2 Raj is not sure as to whether the transactions entered into with Tanu and Manu attracts any tax withholding provisions ?

- (a) Tax is required to be deducted @ 1% on consideration payable to Tanu and 5% on payment to be made to Manu. Raj is required to obtain TAN to comply these provisions.
- (b) Tax is required to be deducted @ 1% on stamp duty value of transaction with Tanu and @ 5% on payment to be made to Manu. Raj is not required to obtain TAN to comply these provisions.
- (c) Tax is required to be deducted @ 1% on consideration payable to Tanu and @ 1% on payment to be made to Manu. Raj is not required to obtain TAN to comply these provisions.
- (d) Tax is required to be deducted @ 1% on consideration payable to Tanu but not on payment to be made to Manu. Raj is not required to obtain TAN to comply these provisions.

QRT

P.T.O.

(30)

QRT

Marks

5.3 Is XYZ Ltd compliant with the requirements of appointment of independent directors ?

- (a) No, there is no non-compliance, as independent directors were more than 2 directors specified in the Companies Act, 2013.
- (b) Yes, there is non-compliance, as there should have been more than 6 independent directors specified in Regulation 17 and Regulation 17A.
- (c) No, there is no non-compliance, as there are 5 independent directors, which is more than 1/3 of the total directors in accordance with Regulations 17.
- (d) Yes, there is non-compliance, as all the directors should have been independent directors except the Chairman of the company.

5.4 As per the facts indicated under Client 2 above, relating to import of machinery from Malaysia by Alphan Ltd and its payment of cost in 6 equal monthly installments, which of the following statements is correct ?

- (a) Import of machinery is a 'Capital Account' transaction since the imported machinery is a fixed asset and shall be used for a long period by the Company.
- (b) Import of machinery is a 'Current Account' transaction since machinery shall be used in the production of saleable items by the Company.
- (c) Import of machinery is a 'Current Account' transaction since a short-term credit facility in the ordinary course of business was availed by the Company.
- (d) Import of machinery is a 'Capital Account' transaction since a long-term credit facility was availed by the company and the payment was made in more than three months.

QRT

(31)

QRT

Marks

- 5.5 What will be the valuation under GST, on which GST will be paid for the transactions with PTG Holidays and Yono Forex Services ?
- (a) ₹ 4,800 and ₹ 7,500
 - (b) ₹ 2,250 and ₹ 7,500
 - (c) ₹ 2,400 and ₹ 14,820
 - (d) ₹ 4,500 and ₹ 7,410

Descriptive Questions

- 5.6 As a joint auditor of Zemka Ltd, how should CA. Gudia address the disagreement with other joint auditors ? Explain in the background of relevant Standards on Audit. 4
- 5.7 Compute the total income of Mr. Siraj for the financial year 2022-23. 4
- 5.8 Compute the gain from disposal of shares of QR Ltd, which XYZ Limited has to record in its Consolidated Financial Statements. 4
- 5.9 As the Statutory Auditor of the XYZ Limited, what audit procedures should CA Gudia perform for the Show Cause Notice received from the State Pollution Board ? 3
-

QRT