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FOR CA FINAL EXAM PREPARATION

CA Final 2024 Suggested Answers · Paper 6 Integrated Business Solutions

EXAM	YEAR	TYPE
CA Final	2024	Suggested Answers

SUBJECT	DATE
Paper 6 Integrated Business Solutions	November 2024

PAPER – 6: INTEGRATED BUSINESS SOLUTIONS

*The Question Paper comprises **five** case study questions.*

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

CASE STUDY – 1

CVV & Co., a Chartered Accountant firm, has been into practice since 2005 in Chandigarh. CA. Harsh Aggarwal and CA. Sandeep Jain started their firm after practicing individually for almost 10 years, CA. Anirudh joined the firm in 2010 and now the firm has grown into big firm of six partners. Over the years, the firm has flourished its practice in the areas of auditing, Direct and Indirect Taxation, FEMA consultancy and other related matters. Firm has some renowned clients and in order to ensure quality of services delivered, proper discussions take place between audit team members and audit manager. Currently Kamal, Mukesh, Rajesh and Kunal being articles of the firm are working with CA. Mayank Gupta, CA. Rahul Jain, CA. Sandeep Jain and CA. Ashish Gupta respectively for prestigious clients of the firm.

Mukesh assisting CA. Rahul Jain

Mr. Karan, the director of HCP Limited has called a meeting with CA. Rahul Jain who is handling all GST related works of clients for past 5 years to discuss some issues faced by the Accounts Department relating to GST. Meeting was joined by the General Manager-Accounts, who provided the following information:

(i) Company purchased three machines namely Machine X, Y and Z in March 2024. Necessary details of three machines are as follows :

Particulars	***Machine X***	***Machine Y***	***Machine Z***
Date of Purchase and installation	*01.03.2024*	*01.03.2024*	*01.03.2024*
Purchase price	*₹ 50,00,000*	*₹ 60,00,000*	*₹ 75,00,000*
IGST@ 18%	*₹ 9,00,000*	*₹ 10,80,000*	*₹ 13,50,000*

Invoice Value	*₹ 59,00,000*	*₹ 70,80,000*	*₹ 88,50,000*
Usage	*Exclusively for taxable supply*	*For exempt as well as taxable supply*	*For exempt supply*

As due date of GSTR 3B for the month of March 2024 is approaching, General Manager - Accounts wants to enquire about the eligible input tax credit on three machines. Value of taxable supplies and exempt supplies for the month of March 2024 is ₹ 1,500 lakhs and ₹ 300 lakh respectively.

(ii) Company has supplied goods on delivery challan for ₹ 5,00,000 on approval for sale or return basis to DEF & Co. on 01.03.2024 with the option of returning within 60 days. DEF & Co. signifies his approval for the whole of the above-mentioned goods on 15.05.2024.

(iii) Company sent 600 units of goods outside India for exhibition on 01.09.2023 accompanied with a delivery challan issued in accordance with the provisions contained in the CGST Rules. 400 units of goods were brought back on 20.02.2024 and remaining goods were not returned till 31.03.2024. Company has not raised any invoice in respect of goods not brought back till the end of the year.

CA. Rahul Jain delegated the said work to Mukesh to start initial working and then revert to him with his opinion.

Kamal assisting CA. Mayank Gupta

CA. Mayank Gupta is working on the applicability of Ind AS for various clients. VCM Limited is one of the prestigious clients of the firm. The accounts team of the company wants clarity on the treatment of the following transactions in the books of the accounts of the company as per the relevant Ind AS :

(i) A customer has instituted a lawsuit against VCM Limited with personal injury using the company's product. The company's lawyers estimate from the experience that as on 31.03.2024, the company has 35% chance of being ordered to pay the customer compensation of ₹ 16,00,000 and a 65% chance of being ordered to pay compensation of ₹ 5,00,000. The ruling is expected to take place by 31.03.2026. The risk-free rate on three years Government Bonds is 6%. Management estimates that 7% is an appropriate discount rate that reflects the risk specific to the liability.

(ii) To encourage entities to expand their operations in a specified development zone, Local government has offered entities, loan at concessional rate of interest of 6%. On 1st April 2023, Company has received a loan of ₹ 75,00,000 payable at the end of the 5th year. The prevailing market rate of interest is 10%. Interest is payable at the end of each year.

CA. Mayank Gupta delegated the said work to Kamal to start initial working and then revert to him with his opinion.

WECARE Educational and Medical Trust

WECARE Educational and Medical Trust (WCEMT) is registered under FCRA Act, 2010. Mr. Kamal Grover, Secretary of the trust visited the office to meet CA. Anirudh who is handling all FEMA related works of clients for past 6 years. He shared a notice received from Central Government regarding enquiry before cancellation of registration and suspension of certificate till the enquiry is completed. He informed that amount of ₹ 66,00,000 is lying in the bank account out of the total foreign contribution received as on date of receipt of notice. He wanted to enquire whether trust can continue to receive foreign contributions and how much of the amount they can spend for meeting the objectives of the trust.

Rajesh assisting CA. Sandeep Jain

Rajesh discussed the audit findings of two clients with CA. Sandeep Jain and provided him the audit files prepared during the course of audit. On reviewing each file, it is noticed as under :

(i) Moon Ltd.'s net profit is ₹ 250 lakhs on a turnover of ₹ 750 lakhs. There is a trade receivable of ₹ 120 lakhs outstanding in financial statement for which there is no chance of recovery as party has gone bankrupt and is absconding as on date. Debt has not been written off by Moon Ltd. despite being communicated.

(ii) Management of Prime Ltd. has not undertaken the physical verification of inventories at regular intervals. Inventories constitutes 30% of the total assets of the company. Due to non-maintenance of adequate inventory records at the factory, audit team could not undertake the physical verification of inventory. Hence value of inventory as on 31st March, 2024 could not be verified.

Kunal assisting CA. Ashish Gupta

CA. Ashish Gupta handles work relating to direct tax matters of its various clients and has a vast experience of 8 years. Mr. Karanveer, a non-resident visited CA. Ashish Gupta to discuss all the details of his income for the financial year 2023-24. He arrived in India on 25.02.2024. He has provided the following information:

	Equity shares of X Ltd. (Listed Indian Co.)	***Equity shares of Y Ltd. (Listed Indian Co.)***	***GDRs of Z Ltd.***	***GDRs of A Ltd.***
Date of purchase	*01.07.2020*	*01.08.2023*	*01.07.2020*	*01.07.2020*
Cost of acquisition	*₹ 90,00,000*	*₹ 50,00,000*	*₹ 20,00,000*	*₹ 12,00,000*
Sale consideration	*₹ 1,30,00,000*	*₹ 65,00,000*	*₹ 26,00,000*	*₹ 15,00,000*
Date of transfer	*28.02.2024*	*28.02.2024*	*15.03.2024*	*15.03.2024*
Expenditure on transfer	*₹ 26,000*	*₹ 13,000*	*₹ 5,000*	*₹ 3,000*

He acquired shares in both the companies by remitting US dollars on 15.06.2020. GDRs of Z Ltd. were sold to Mr. Sanjay, a non-resident outside India. Security transaction tax is paid at the time of transfer as well as at the time of acquisition of shares of X Ltd. and Y Ltd.

Exchange rates on various dates were as under:

Date	***TT Buying (1 US$)***	***TT Selling (1 US$)***
15.06.2020	*₹ 73.50*	*₹ 74.10*
01.07.2020	*₹ 75.50*	*₹ 76.20*
01.08.2023	*₹ 80.60*	*₹ 81.30*
28.02.2024	*₹ 82.80*	*₹ 83.50*
15.03.2024	*₹ 84.00*	*₹ 84.80*

On 1st March, 2024, Mr. Karanveer purchased a shop for ₹ 60,00,000 (Stamp duty value was ₹ 65,00,000). He also got a small plot of land by way of gift from his wife's cousin (Stamp duty value was ₹ 2,48,000). On 5th March, 2024, he purchased

1,000 shares in Bright Limited from his friend at ₹ 125 (outside stock exchange). The lowest market quotation in the Bombay Stock Exchange and the National Stock Exchange on the date of purchase was ₹ 210 and ₹ 218 respectively. He received ₹ 1,25,000 as interest on Non-Resident External Account maintained with bank in India and ₹ 1,75,000 as interest on Debentures of X Ltd. (Subscribed in convertible foreign exchange).

Multiple Choice Questions :

[Provide the correct option to the following questions]

1.1 What is the amount of provision to be recognized in books of accounts as at 31st March, 2024 in respect of lawsuit filed against VCM Limited? (Take PV factor up to three decimals)

(A) ₹ 8,85,000

(B) ₹ 8,27,475

(C) ₹ 7,72,605

(D) ₹ 7,87,650

1.2 What is the amount of Government grant to be recognized in books of accounts as on 01.04.2023 in respect of concessional loan received from the local Government?

(A) NIL as the facility offered by Local Government is in the nature of Loan

(B) ₹ 11,37,000

(C) ₹ 28,42,500

(D) ₹ 17,05,500

1.3 Which of the following options correctly state the date of issue of invoice in case of goods sent on sale or return basis to DEF Co.?

(A) 15.05.2024

(B) 14.07.2024

(C) 30.04.2024

(D) 28.08.2024

1.4 Which of the following statements are incorrect in relation to the consequences of suspension certificate of registration as per the provision of FCRA, 2010?

I. WCEMT shall not receive any foreign contribution during the period of suspension of certificate except on such terms and conditions, as specified by the Central government on the basis of application made by it.

II. WCEMT can receive foreign contribution upto $ 25,000 during the period of suspension of certificate with the prior permission of Reserve Bank of India.

III. WCEMT can spend up to ₹ 16,50,000 of the unutilized amount lying with it for the declared aims and objects without the prior approval of Central Government and remaining unutilized foreign contribution shall be utilized after revocation of suspension of the certificate of registration.

IV. WCEMT can spend up to ₹ 16,50,000 of the unutilized amount lying with it for the declared aims and objects with the prior approval of Central Government and remaining unutilized foreign contribution shall be utilized after revocation of suspension of the certificate of registration.

(A) I and II

(B) I, II and III

(C) II and III

(D) III and IV

1.5 What is the income from other sources of Mr. Karanveer for the A.Y. 2024-25?

(A) ₹ 12,41,000

(B) ₹ 5,08,000

(C) ₹ 8,85,000

(D) ₹ 3,85,000 ***(5 x 2 = 10 Marks)***

Descriptive Questions :

1.6 How CA. Sandeep Jain should deal with the issues in the respective audit report of Moon Ltd. and Prime Ltd.? ***(4 Marks)***

1.7 Compute the taxable income and tax liability of Mr. Karanveer for the Assessment year 2024-25. (Assume he has not exercised the option to shift out of the default tax regime u/s 115BAC) ***(5 Marks)***

1.8 (a) Advice the correct treatment of IGST paid on purchase of machines by HCP Limited in GSTR 3B to be filed for the month of March 2024 as per the relevant provisions of CGST/IGST Act, 2017. ***(3 Marks)***

(b) With reference to goods sent out of India by HCP Limited for exhibition, you are required to answer the following with explanation of relevant provision of CGST Act/rules :

(i) When is the supply of goods sent outside India said to take place? Whether invoice is required to be issued by HCP Limited in respect of goods not brought back?

(ii) Whether refund can be preferred by HCP Limited in respect of goods sent outside India but not brought back? ***(3 Marks)***

Tax Slab under new regime :

Income Tax Slab	***Tax Rate***
Up to ₹ 3,00,000	*Nil*
₹ 3,00,001 to ₹ 6,00,000	*5%*
₹ 6,00,001 to ₹ 9,00,000	*10%*
₹ 9,00,001 to ₹ 12,00,000	*15%*
₹ 12,00,001 to ₹ 15,00,000	*20%*
More than ₹ 15,00,000	*30%*

Surcharge Rate:

Income Slab	***Surcharge Rate***
Up to ₹ 50 Lakh	*NIL*
Above ₹ 50 Lakh and up to ₹ 1 Crore	*10%*
Above ₹ 1 Crore and up to ₹ 2 Crore	*15%*
Above ₹ 2 Crore and up to ₹ 5 Crore	*25%*

Health and Education Cess is 4%

Cost inflation index: F.Y. 2020-21: 301 and F.Y. 2023-24: 348.

SUGGESTED ANSWER

FINAL EXAMINATION: NOVEMBER 2024

ANSWER TO CASE STUDY 1

1.1 Option (C): ₹ 7,72,605

1.2 Option (B): ₹ 11,37,000

1.3 Option (C): 30.04.2024

1.4 Option (C): II and III

1.5 Option (B): ₹ 5,08,000

1.6 CA. Sandeep Jain should deal with the issues outlined in the case of Moon Ltd. and Prime Ltd. in the following manner:

(i) **In case of Moon Ltd.:** **As per SA 705**, "Modifications to the Opinion in the Independent Auditor's Report", the auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

In the given case of Moon Ltd., there is a **trade receivable of ₹120 lakhs** outstanding in the financial statement for which there is no chance of recovery as the party has gone bankrupt and is absconding as on date. In addition, the net profit of Moon Ltd. is 250 lakh rupees and Moon Ltd. has not written off the debt despite being communicated.

In such circumstances, CA. Sandeep Jain should express an **adverse opinion** in his audit report because the effects on the financial statements of such non recovery are **material and pervasive**.

(ii) **In case of Prime Ltd.:** In the present case, CA. Sandeep Jain is **unable to obtain sufficient and appropriate audit evidence** with respect to inventory of the company, neither the physical verification has been done by the management nor adequate inventory records are being maintained by the Prime Ltd. The audit team is also unable to undertake the physical inventory count and as such the value of inventory could not be verified. Further, inventory constitutes **30%** of the total assets of Prime Ltd., which is significant.

In the above case, the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the possible effects

on the financial statements of undetected misstatements, if any, **could be both material and pervasive**. Thus, CA. Sandeep Jain should give a **Disclaimer of Opinion**.

As per Companies Auditors' Report Order 2020 (CARO 2020) dated 25th Feb 2020, the audit report shall include a statement on the following matter:

Whether the physical verification of the inventory has been conducted at reasonable intervals by the management and whether, in the opinion of the auditor, the coverage and procedure of such verification by the management is appropriate. In view of the above the auditor should give a qualification in his report narrating the situation.

1.7 Computation of total income and tax liability of Mr. Karanveer for A.Y. 2024-25 under default tax regime

Particulars	Amount (₹)	Amount (₹)
Capital Gains		
Long term capital gain on sale of equity shares of X Ltd.		
Full value of consideration	1,30,00,000	
Less: Expenditure on Transfer	26,000	
Net consideration	1,29,74,000	
Less: Cost of Acquisition [Since tax liability is to be computed as per 115BAC, no foreign currency and indexation benefit available u/s 112A]	90,00,000	
		39,74,000
Short term capital gain on sale of equity shares of Y Ltd.		
Full value of consideration [₹65,00,000/83.15, being average of TTBR and TTSR on 28.2.2024]	$78,171.98	
Less: Expenditure on Transfer [₹13,000/83.15, being average of TTBR and TTSR on 28.2.2024]	$ 156.34	

Net consideration	$ 78,015.64	
Less: Cost of Acquisition [₹ 50,00,000/ 80.95, being average of TTBR and TTSR on 1.8.2023]	$ 61,766.52	
	$ 16,249.12	
TTBR as on 28.2.2024	82.80	
Short term capital gains [$ 16,249.12 × 82.80]		**13,45,427**
Capital gains on sale of GDRs of Z Ltd.		
Transfer of GDR by a non-resident to another resident outside India is not regarded as transfer		**-**
Long term capital gains on sale of GDRs of A Ltd.		
Full value of consideration	15,00,000	
Less: Expenditure on Transfer	3,000	
Net consideration	14,97,000	
Less: Cost of Acquisition	12,00,000	
Long term capital gains [No indexation benefit would be available]		**2,97,000**
Income from Other Sources		
Gift of plot from wife's cousin [Taxable, since stamp duty value exceeds ₹ 50,000 and wife's cousin does not fall within the definition of relative]	2,48,000	
Difference of ₹ 85,000 [₹ 85 (₹ 210, being lowest market quotation in recognized stock exchange – ₹ 125, being purchase price) × 1,000] in the value of shares of Bright Limited purchased from his friend [Taxable, since difference exceeds ₹ 50,000]	85,000	
Interest of ₹ 1,25,000 on NRE Account	-	

[Exempt under section 10(4)(ii)]		
Interest on debentures of X Ltd. [Subscribed in convertible foreign exchange]	1,75,000	**5,08,000**
Gross Total Income/Total Income		**61,24,427**
Gross Total Income/Total Income (Rounded off)		**61,24,430**
Tax Liability		
▪ Tax @10 u/s 112A on ₹ 38,74,000, being the amount in excess of ₹ 1 lakh on sale of equity shares of X Ltd.	3,87,400	
▪ Tax @15% u/s 111A on ₹ 13,45,427 on sale of equity shares of Y Ltd.	2,01,814	
▪ Tax @10% u/s 115AC on ₹ 2,97,000 on sale of GDRs of A Ltd.	29,700	
▪ Tax @20% u/s 115A on ₹ 1,75,000, being interest on debentures	35,000	
▪ Tax at slab rates on other income of ₹ 3,33,000	1,650	
		6,55,564
Add: Surcharge@10% [Since the total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore]		**65,556**
		7,21,120
Add: Health & Education Cess@4%		**28,845**
Tax liability		**7,49,965**
Tax liability (Rounded off)		**7,49,970**

ALTERNATIVE

The facts of the case study state that Mr. Karanveer is a non-resident Indian[1] and he has not exercised the option to shift out of the default tax regime. As he has purchased the specified asset, being shares of an Indian company in convertible foreign exchange, he is eligible to be governed by the provisions under Chapter XII-A unless he chooses to opt out of it.

Since there is no information in the facts about Chapter XII-A, the main solution is given by computing total income and tax liability of Mr. Karanveer as per the default tax regime ignoring the provisions of Chapter XII-A. However, considering that he has not opt out either of default tax regime or Chapter XII-A, alternate solution is given by computing the total income and tax liability of Mr. Karanveer under default tax regime along with the provisions of Chapter XII-A.

Computation of total income and tax liability of Mr. Karanveer for A.Y. 2024-25 under default tax regime with Chapter XII-A

Particulars	Amount (₹)	Amount (₹)
Capital Gains		
Long term capital gain on sale of equity shares of X Ltd.		
Full value of consideration [₹1,30,00,000/ 83.15, being average of TTBR and TTSR on 28.2.2024]	$1,56,343.96	
Less: Expenditure on Transfer [₹ 26,000/ 83.15, being average of TTBR and TTSR on 28.2.2024]	$ 312.69	
Net consideration	$ 1,56,031.27	
Less: Cost of Acquisition [₹ 90,00,000/ 75.85, being average of TTBR and TTSR on 1.7.2020] [No indexation benefit would be available]	$ 1,18,655.24	
	$ 37,376.03	
TTBR as on 28.2.2024	82.80	
Long term capital gains [$ 37,376.03 × 82.80]	30,94,735	

[1] Since Mr. Karanveer has a NRE account maintained in India, he is an Indian citizen or Person of Indian Origin

Less: Exemption u/s 115F [₹ 30,94,735 × 1,25,000/1,29,74,000	29,817	
		30,64,918
Short term capital gain on sale of equity shares of Y Ltd.		
Full value of consideration [₹65,00,000/ 83.15, being average of TTBR and TTSR on 28.2.2024]	$78,171.98	
Less: Expenditure on Transfer [₹ 13,000/ 83.15, being average of TTBR and TTSR on 28.2.2024]	$ 156.34	
Net consideration	$ 78,015.64	
Less: Cost of Acquisition [₹ 50,00,000/80.95, being average of TTBR and TTSR on 1.8.2023]	$ 61,766.52	
	$ 16,249.12	
TTBR as on 28.2.2024	82.80	
Short term capital gains [$16,249.12 × 82.80]		**13,45,427**
Capital gains on sale of GDRs of Z Ltd.		
Transfer of GDR by a non-resident to another resident outside India is not regarded as transfer		**-**
Long term capital gains on sale of GDRs of A Ltd.		
Full value of consideration	15,00,000	
Less: Expenditure on Transfer	3,000	
Net consideration	14,97,000	
Less: Cost of Acquisition	12,00,000	
Long term capital gains [No indexation benefit would be available]		**2,97,000**
Income from Other Sources		
Gift of plot from wife's cousin [Taxable, since stamp duty value exceeds ₹ 50,000 and wife's cousin does not fall	2,48,000	

within the definition of relative]		
Difference of ₹ 85,000 [₹ 85 (₹ 210, being lowest market quotation in recognized stock exchange – ₹ 125, being purchase price) × 1,000] in the value of shares of Bright Limited purchased from his friend [Taxable, since difference exceeds ₹ 50,000]	85,000	
Interest of ₹ 1,25,000 on NRE Account [Exempt under section 10(4)(ii)]	-	
Interest on debentures of X Ltd. [Subscribed in convertible foreign exchange]	1,75,000	**5,08,000**
Gross Total Income/Total Income		**52,15,345**
Tax Liability		
▪ Tax @10 u/s 115E on ₹ 30,64,918, being the LTCG on sale of equity shares of X Ltd.	3,06,492	
▪ Tax @15% u/s 111A on ₹ 13,45,427 on sale of equity shares of Y Ltd.	2,01,814	
▪ Tax @10% u/s 115AC on ₹ 2,97,000 on sale of GDRs of A Ltd.	29,700	
▪ Tax @20% u/s 115E on ₹ 1,75,000, being investment income	35,000	
▪ Tax at slab rates on other income of ₹ 3,33,000	1,650	
		5,74,656
Add: Surcharge@10% [Since the total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore]		**57,466**
		6,32,122
Add: Health & Education Cess@4%		**25,285**
Tax liability		**6,57,407**
Tax liability (Rounded off)		**6,57,410**

1.8 (a) Computation of ITC credited to Electronic Credit Ledger and amount of ITC to be added to the output tax liability in GSTR-3B for the month of March 2024

Particulars	(₹)
Capital goods used exclusively for taxable supply [Since used exclusively for taxable supply, full ITC is available]	9,00,000
Capital goods used exclusively for exempt supply [Since used exclusively for exempt supply, ITC is not available]	Nil
Capital goods used for both taxable and exempt supply - Common credit [Commonly used for taxable and exempt supplies]	10,80,000
Total ITC credited to Electronic Credit Ledger for the month of March	**19,80,000**
Common credit for the month of March = Total common credit ÷ 60 = 10,80,000 ÷ 60	18,000
Common credit attributable to exempt supplies in a month = (E ÷ F) × Common credit for the month of March where, 'E' is the aggregate value of exempt supplies, made, during the tax period, and 'F' is the total turnover in the State of the registered person during the tax period = (300 lakh/1,800 lakh) × ₹ 18,000 (rounded off)	3,000
Amount to be added to the output tax liability for the month of March	**3,000**

(b) (i) The activity of sending specified goods out of India for exhibition is not a supply, but is in the nature of "**sale on approval basis**". The specified goods sent out of India are required to be either sold or brought back within the **stipulated period of 6 months** from the date of removal.

Therefore, the supply of the **200 units which were neither sold abroad nor brought back within 6 months** from the date of removal is deemed to have taken place on the expiry of said **6 months**, i.e. on **01.03.2024**.

Invoice in respect of said 200 units will be issued on expiry of 6 months from the date of removal, i.e. on 01.03.2024.

(ii) HCP Limited **may claim refund of accumulated input tax credit** in accordance with the provisions contained in section 54(3) of the CGST Act, 2017 read with rule 89(4) of the CGST Rules, 2017 in respect of zero-rated supply of 200 units **after he has issued the tax invoice on the date specified above.**

CASE STUDY - 2

Green Energy Ltd. (GEL) based in Chennai is well established player in manufacturing and export of power storage equipment. GEL was incorporated in August, 2010 with technology driven business model in mechanical engineering founded by energetic entrepreneurs by name Vijay and Rishi. Vijay is a management graduate from leading management institute in India and Rishi who is slightly older, is a person with engineering background and holding MBA qualification from an American university. They were childhood friends and they thought that their educational background would have synergetic effect to success and glory in the long run. Considering the thrust of the Government of India in green energy to make our country power surplus and reduce environmental damage happening through traditional coal based power generation method, the duo decided to do backend support as their contribution to nation building by engaging in the business of manufacturing of solar panels and solar modules, for storing solar power.

Product of GEL would provide enormous comfort and support to companies moving to green energy to have reasonable power cost with efficient long-term operations and survival. However, the trickle-down effect of the venture is in nascent stage and the business is poised for making giant strides in near future. The time period between the purchase of raw materials and completion of final product to make the buyers ready for power storage would take 10 months for GEL. Customers purchased them immediately once they were ready for installation but the payment was made with a credit period of 6 months. The company took a long-term loan from ABC Ltd. for managing capital expenditure pertaining to new project. However, the installments due in the financial year 2023-2024 could not be paid on time and as a consequence the loan became repayable on demand on 31st day of March, 2024. GEL negotiated in June, 2024 with the lender ABC Ltd for not demanding the entire payment of loan as a consequence of its breach. The lending institution appreciated the attitude and

aptitude of entrepreneurs and wanted their journey to blossom in to a great success story. It was decided between the borrower and the lender before approval of audited financial statements of GEL, such that the lender ABC Ltd. will not demand repayment of loan in spite of the breach of repayment terms by GEL.

The duo thought over the matter of having some financial crunch and considering many elite international business houses prefer to support such new angel units decided to raise funds through External Commercial borrowing (INR denominated) by issuing Non-Convertible Debentures with maturity period of 7 years. The foreign investors who will be subscribing to the said debentures requested for interim financial report (to be prepared as per IND AS). GEL instructed GM Finance to prepare the same and provide a copy of the same to auditors for overall review. On reviewing the same, one of the audit team members, Robin, observed the following and is of the view that the treatment/disclosure done for all four issues mentioned below in interim financial report is not as per guidelines prescribed under IND AS :

- *one item of extraordinary nature has not been shown (Issue I)*
- *reversal of impairment loss recognized in a previous interim period in respect of goodwill (Issue II)*
- *disclosure of only basic earnings per share has been made (Issue Ill)*
- *Insignificant changes in contingent ·liabilities has not been disclosed (Issue IV)*

GEL submitted the same interim financial report to investors and went ahead with ECB issue.

Proceeds from issue (INR 4 Crores) will be used for repayment of outstanding balance of Loan of ABC Ltd. (INR 2.50 Crores and working capital purposes INR 1.50 Crores). GEL however did not hedge the exposure of ECBs (principal as well as the coupon) and used the exchange rate prevailing on the date of settlement (01.06.2024) for conversion to rupee as against the exchange rate on the date of agreement (20.05.2024).

GEL is working continuously on improving the production efficiency for a particular product "SAT". SAT was an innovative product introduced for the first time by GEL in the market. Market accepted the product with both hands and company received regular orders for the same. However, existence of competitive products recently has forced GEL not to increase the price for some time. In order to maintain good margin, GEL adopted change in technology by which its productivity increased by 25% due to labour efficiency such that it can produce 10 units in 10 hours. The revised

standard labour requirement is 0.75 hours per unit. The details of actual and budget for the month of January, 2024 is given below :

Particulars	***Original standard***	***Revised standard***	***Actual***
No. of units	*3,000*	*3,000*	*3,600*
Labour rate (per hr.)	*₹ 30*	*₹ 30*	*₹ 25*

While implementing new technology, GEL availed the technical services of Mark Ltd., UK on 20th December, 2023 who raised the invoice for GBP 1,00,000 on 28th December, 2023. GEL made payment on 22nd January, 2024.

Once the efficiency was established by costing department of GEL, company started filing its quotations with various government departments for supply of 'SAT' at a price par with its competitors. One of the friends of Rishi, Raman, who has been working with Kerala State Electricity Board (KSEB) for last few years met him in the market and invited him to his office. To his surprise, Raman was heading the purchase department and asked him to submit the quotation for supply of 'SAT' with KSEB. After getting the required approvals, officials of KSEB issued a purchase order and entered into a contract with GEL for supply of twenty lakh units of product with total supply value of ₹ 20 Crores. GEL supplied the product as per terms and conditions of the purchase order and that too· before the deadline. KSEB withheld ₹ 2 Crores which is payable after 12 months and paid the balance after deducting TDS under the Income-tax Act and under GST. GEL earned net profit of ₹ 2 Crores from this supply.

Vijay always had passion in stock market operations. He thought that close study of stock market provided enough and more ideas to improve his overall business acumen and appreciate macro-economic variables. Further the rising level of stock market made him like fear of missing out (FOMO) on making quick money. He could not curb his FOMO and did the following transactions of shares and commodities during the financial year 2023-24 in recognized stock exchange:

	Aggregate value	***Profit (loss)***
Day trade transactions in BSE	*₹ 85,00,000*	*₹ 7,00,000*
Day trade transactions in NSE	*₹ 67,00,000*	*₹ (6,00,000)*
Commodity derivative trade in recognized stock exchange	*₹ 52,00,000*	*₹ 2,00,000*

After getting some experience of stock and commodity market, Vijay formed a view that professionals only could handle the investments and there is no point in burning the hard earned money through unprofessional techniques. Accordingly, he discussed the same with Rishi and proposed that a portfolio may be created of the profit earned by GEL from supplies made to KSEB and CA. Kiran, who is an expert in handling such portfolios, should be appointed for managing it. The terms of his remuneration will be that CA. Kiran is eligible for 0.20% of portfolio as fee. Also, he is eligible for a fee incentive @ 1% which will be linked to gross return in excess of the portfolio maximum value since its inception. The Maximum value of the portfolio reached ₹ 2.20 Crores in last 6 months.

Multiple Choice Questions :

[Provide the correct option to the following questions]

2.1 How income of Vijay from day trade in shares and commodity derivatives trade is liable to tax under the Income-tax Act, 1961?

(A) Regular business income (non-speculation income) ₹ 3,00,000

(B) Business income (non-speculation) from commodities derivative ₹ 2,00,000 and speculation business income from day trade in share ₹ 1,00,000

(C) ₹ 3,00,000 being speculation income consisting of both day trade in shares and commodities derivative trade

(D) Non-speculation business income from day trade in shares ₹ 1,00,000 and business income being speculation income from commodities derivative ₹ 2,00,000

2.2 Which of the following statements is/are correct in relation to ECBs raised by GEL?

I. Use of ECB proceeds for repayment of Loan of ABC Ltd. is not permitted.

II. Use of ECBs proceeds for working capital is not permitted.

III. GEL has not followed the guidelines by not hedging the ECB exposure.

IV. Exchange rate as on 20.05.2024 should have been used for conversion.

Options:

(A) Only Statement I

(B) Statement I and III

(C) Only Statement II

(D) Statement I, II and IV

2.3 Whether the issues raised by Robin on interim financials submitted were valid and required changes in such interim report?

(A) Only Issue I and IV have been validly raised and required changes in interim financial report

(B) All the issues raised were valid and the effect of all four issues required changes in interim financial report

(C) Only Issue II and Issue III have been validly raised and required changes in interim financial report

(D) Only Issue I have been validly raised and required changes in interim financial report

2.4 If returns on the portfolio for the specified period is 20%, how much fee is payable by GEL to CA. Kiran?

(A) ₹ 60,000

(B) ₹ 2,04,000

(C) ₹ 68,000

(D) ₹ 86,000

2.5 How much of the amount would have been deducted by KSEB as TDS under Income-tax Act and under the applicable GST law?

(A) ₹ 36 lakhs each under the Income tax Act, 1961 and under the IGST Act.

(B) ₹ 40 lakhs under the Income-tax Act, 1961 and, 36 lakhs under the IGST Act.

(C) ₹ 40 lakhs each under the Income tax Act, 1961 and under the IGST Act.

(D) ₹ 36 lakhs under the Income-tax Act, 1961 and, 40 lakhs under the IGST Act. ***(5 X 2 = 10 Marks)***

Descriptive Questions :

2.6 Will you classify the inventory and trade receivables of GEL as current assets?

Would your answer be different if the production time is 13 months and the credit period allowed to the customers is 15 months?

How would you classify the liability due to ABC Ltd. as on 31st March, 2024 in spite of the default in repayment of installment of loan? ***(5 Marks)***

2.7 Do you think that transaction between GEL and Mark Ltd. attracts any GST under Goods and Service Tax Act? If Yes, then who has to deposit GST and in which month? If no, state the relevant legal provision for the same.

(5 Marks)

2.8 Calculate the variances for GEL in respect of manufacture of part 'SAT' by

(i) Traditional variance analysis ; and

(ii) Operational variances including planning variances. ***(5 Marks)***

ANSWER TO CASE STUDY 2

2.1 Option (B): Business income (non-speculation) from commodities derivative ₹ 2,00,000 and speculation business income from day trade in share ₹ 1,00,000

2.2 Option (C): Only Statement II

2.3 Option (C): Only Issue II and Issue III have been validly raised and required changes in interim financial report

2.4 Option (A): ₹ 60,000

2.5 As far as the answer to GST law is concerned, TDS is required to be deducted under GST law is ₹ 36 lakhs under the IGST Act. In respect of Income tax law, KSEB entered into a contract with GEL for the supply of 20 lakhs unit of product "SAT" with total value of ₹ 20 crores. There should be a work contract to deduct tax u/s 194C. However, in this case, since there is no information regarding usage of the raw material provided by KSEB for manufacturing the product, this contract is a contract for 'sale'. Hence, tax u/s 194C would not be deducted. For purchase of goods, section 194Q cast a responsibility on any person, being a buyer who is responsible for paying any sum to any resident-seller for purchase of goods of the value or aggregate of such value exceeding ₹ 50 lakhs in a previous year, to deduct tax at source @0.1% of such sum exceeding ₹ 50 lakhs. In this case, KSEB is

required to deduct tax at source u/s 194Q @0.1% on ₹ 19,50,00,000, being the sum exceeding ₹ 50 lakhs. Tax to be deducted is ₹ 1,95,000.

2.6 (i) Inventory and debtors need to be classified in accordance with the requirement of Ind AS 1, which provides that an asset shall be classified as current if an entity expects to realise the same or intends to sell or consume it in its normal operating cycle. In this case, time lag between the **purchase of inventory and its realisation into cash is 16 months** [10 months + 6 months]. Both inventory and the debtors would be **classified as current if the entity expects to realise these assets in its normal operating cycle.**

(ii) **No, the answer will be the same** as the classification of debtors and inventory depends on the expectation of the entity to realise the same in the normal operating cycle. In this case, **time lag between the purchase of inventory and its realisation into cash is 28 months**

[13 months + 15 months]. Both inventory and debtors would be classified as current if the entity expects to realise these assets in the normal operating cycle.

(iii) As per para 74 of Ind AS 1, where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity does not classify the liability as current**, if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach**.

In the given case, ABC Ltd. (the lender) agreed not to demand payment after the reporting date but before the financial statements were approved for issuance. Hence, **the liability should be classified as non-current** in the financial statement as at 31st March, 2024.

2.7 In the given case, the since service provider – Mark Ltd. is outside India, and the service recipient – GEL is in India and given service does not get covered under any of the specific provisions of section 13, place of supply will be governed by the default provision, i.e. **location of recipient of service, which in this case is Chennai (India)**.

Further, the given case is **import of service** as the supplier of service is located outside India, the **recipient of service is located in India and the place of supply of service is in India.**

Since the services are imported for a consideration from an unrelated person, the **same tantamounts to supply and are liable to GST.**

As per *Notification No. 10/2017 IT(R) dated 28.06.2017*, if a service is supplied by a person located in a non-taxable territory to a person located in the taxable territory, other than non-taxable online recipient, **the tax is payable by the recipient of service under reverse charge**.

Therefore, **GEL Ltd. will pay GST under reverse charge** on £ 1,00,000 paid by it to Mark Limited in UK.

The time of supply of services taxable under reverse charge is the earlier of the following:

- **Date of payment, or**
- **Date immediately following 60 days since issue of invoice by the supplier.**

Thus, time of supply is **22nd January, 2024**.

Since tax liability arises in January, 2024, payment is to made in the month of **February, 2024**.

2.8 Workings

To calculate the original time required for 10 units, we can use the fact that productivity increased by 25%, meaning the new time is 75% of the original time.

Let the original time for 10 units be x. After a 25% productivity increase, the new time is 0.75x, and we know this equals 10 hours:

$0.75x = 10$

Solving for x:

$x = 10/0.75$

$x = 13.33$ hours

The original time to produce 10 units was 13.33 hours.

Original Standards (ex-ante)		Revised Standards (ex-post)		Actual (3,600 units)	
3,600 units × 1.33. hr. ×₹ 30.00	₹ 1,44,000	3,600 units × 0.75 hr.×₹ 30.00	₹ 81,000	3,600 units x 1 hr. ×₹ 25	₹ 90,000

Computation of Variances

(i) Traditional Variances

Efficiency Variance = (4,800 hrs. – 3,600 hrs.) × ₹ 30

= **₹36,000 (F)**

Rate Variance = (₹ 30 – ₹ 25) × 3,600 hrs.

= **₹ 18,000 (F)**

Total Variance = ₹ 36,000 (F) + ₹ 18,000 (F) = **₹ 54,000 (F)**

(ii) Operational Variances

Efficiency Variance = (2,700 hrs. – 3,600 hrs.) × ₹ 30.00

= **₹27,000 (A)**

Rate Variance = (₹ 30 – ₹25) × 3,600 hrs.

= **₹ 18,000 (F)**

Total Variance = ₹ 27,000 (A) + ₹ 18,000 (F) **= ₹ 9,000 (A)**

Planning Variances

Efficiency Variance = (4,800 hrs. – 2,700 hrs.) × ₹ 30

= **₹ 63,000 (F)**

Rate Variance = (₹ 30 – ₹ 30) × 2,700 hrs. = **₹ 0**

Total Variance = ₹ 63,000 (F) + ₹ 0 **= ₹ 63,000 (F)**

Note:

While solving this question **actual hourly rate** of production has been considered **1 hour per unit** as question clearly states that *GEL adopted change in technology (by which its productivity increased by 25%) due to labour efficiency such that it can produce 10 units in 10 hours*. Therefore, computation of **original standard time** is required to be computed by doing reverse calculations as given in working. The Standard Time arrived to **1.33...hour per unit**. **Revised standard time** is given **0.75 hour per unit**. However, this question can also be solved by taking alternative assumptions.

CASE STUDY - 3

Maximo Ltd., Kolkata was promoted by Anand a renowned Industrialist in the year 2008. In the initial years Anand incubated the venture closely and later opted for professional management which was successfully carried out besides listing of the company's shares in Bombay stock exchange. Paid-up share capital of Maximo Limited is ₹ 100 Crores, comprising of 100 Lakhs equity shares of ₹ 100 each, held by ₹ 1,000 shareholders. The company is a manufacturing company, engaged in manufacture of dairy products and fruit concentrates. The company has activities at various locations based on raw material source and availability of appropriate competent work force and other key factors. The geographical spread was advantageous to the company to swap raw materials, finished goods, employees besides product supply and distribution.

Maximo Ltd. imported new machineries from USA by air on CIF basis for USD 1,00,000. The air freight was USD 12,000; insurance USD 8,000. Later, it negotiated the price again with the supplier and the re-negotiated price was fixed as USD 95,000. The exchange rate on the date of bill of entry (25.06.2023) was 1 USD = ₹ 84 and on the date of arrival of aircraft (07.07.2023) was 1 USD = ₹ 82. Both the exchange rates are as notified by CBIC. BCD rate on 25.06.2023- 8% and on 07.07.2023- 10%. There is no change in Social Welfare Surcharge between date of filing of Bill of Entry and date of arrival of aircraft.

Maximo Ltd. was interested in expanding its operations outside India and in pursuit of the same planned to install a manufacturing facility at Australia where the Indian diaspora evinced enormous interest for the products since it was with Indian technique of manufacture of eatables. For the proposed project, it requires a net fund (after fund raising expenses) of 20 million Australian Dollars. In order to fund this project, it proposes to issue GDRs by issuing foreign currency bonds through an approved intermediary in Australia. The entire GDRs issued would be purchased by non-residents in Australia. The expenses and flotation cost of GDRs would be 5% of the gross proceeds. Further, the following additional information is also given:

(i) the expected market price of each share at the time of issue of GDR ₹ 300 (face value =₹ 100 each);

(ii) 2 shares shall underly each GDR and shall be priced at 10% discount to market price;

(iii) Expected exchange rate 1 Australian Dollar= ₹ 60;

(iv) Dividend expected to be paid is 30% with growth rate 12%.

For packing its products in a unique way, Maximo Ltd. incorporated a 100% owned subsidiary company by name Hi-Quality (P) Ltd at Chennai. Hi-Quality (P) Ltd. is meant to manufacture empty containers through automated machine enabled production process, ensuring its production process meets world class performance standard under TPM approach. It works double shift a day of 8 hours each which includes 30 minutes lunch/dinner break and 15 minutes tea break. The following information is per shift for 10th March, 2024 :

Unplanned down time	*20 minutes*
Standard cycle time	*2 minutes per bottle*
Quality loss, scrap, rejection	*10%*
Total quantity produced	*200 bottles*

90 shareholders holding 10 Lakhs equity shares of Maximo Ltd., are concerned with the flouting of norms fixed for extraction and usage of ground water, beyond permissible limits in various plants of Maximo Limited. Despite repeated representations from shareholders, Maximo Ltd. has not taken any corrective action. Therefore, group of these 90 shareholders have made a petition before NCLT in Dec 2023. NCLT, on receipt of the petition, has commenced proceedings in Feb 2024. However, out of these 90 shareholders, 40 shareholders holding 4 Lakhs shares, have withdrawn their consent in March 2024, for filing petition before NCLT.

The CFO of Maximo Ltd. resigned in July 2023 due to some personal reasons. There was no replacement to the post. Mittal Associates a firm of CAs acted as statutory auditors of the company. The auditors have stated that the financial statements for the year ended 31st March, 2024 are not IND AS compliant. The financial statements have not yet been approved by the Board. It was pointed out that there were errors in the financial statements of preceding account year i.e. 2022-23 also. The Finance Manager claimed that there was a retrospective change in accounting policy which was made in FY 2022-23 but it was not followed or disclosed properly in the financial statements of accounting years 2022-23 and 2023-24.

Maximo Ltd. having its manufacturing and distribution plant in Thane, Maharashtra has in the month of November, 2023 collected GST at a rate lower

than what is prescribed in law. Thus, there was error in collection and remittance of GST (after ITC). A show cause notice (SCN) was issued under section 73(1) of CGST Act for payment of tax of ₹ 6,00,000 and interest amounting to ₹ 1,08,000. Maximo Ltd. is aware of the short collection and short payment of output tax by it. It neither paid the GST tax demand in response to the show cause notice nor offered any explanation for the same, even after passing 30 days from the date of issuing SCN.

Shortspan (P) Ltd. was promoted by Mukund, younger brother of Anand, in the year 2010. The ·activity of Shortspan (P) was manufacture of CD Players, which has become outdated in the recent times. Thus, there was a huge recession in business. The company Shortspan (P) Ltd. applied for insolvency and bankruptcy resolution process. Its application for corporate insolvency process has been admitted by the adjudicating authority in June, 2023 under the Insolvency and Bankruptcy Code, 2016. Shortspan (P) Ltd. has the following amounts brought forward as per the Income-tax Act, 1961 on 1st April, 2023 which are to be considered for set off while computing book profit under section 115JB :

Year ended	***Business Loss ₹***	***Unabsorbed depreciation ₹***
31.03.2021	*11,00,000*	*16,00,000*
31.03.2022	*Nil*	*10,00,000*
31.03.2023	*4,00,000*	*3,00,000*

Multiple Choice Questions:

[Provide the correct option to the following questions]

3.1 How many GDRs have to be issued by Maximo Ltd. to fund its expansion of operations by installing a manufacturing facility at Australia?

(A) 27,21,000

(B) 22,22,222

(C) 23,39,181

(D) 46,78,362

3.2 Assuming Maximo Ltd. issued GDRs in accordance with the scheme notified by the Central Government and was acquired by non-residents in Australia in foreign currency, what is the rate of tax at which Maximo Ltd. must deduct

at source on the interest on GDRs issued by it under the provisions of Income Tax Act, 1961?

Note : Ignore surcharge.

(A) 5.20%

(B) 10.40%

(C) 4.16%

(D) 20.80%

3.3 How much of the business loss and/or unabsorbed depreciation brought forward as per Income-tax Act, 1961 would be considered in computing the book profit under section 115JB of Shortspan (P) Ltd. for the assessment year 2024-25?

(A) ₹ 14,00,000

(B) ₹ 29,00,000

(C) ₹ 15,00,000

(D) ₹ 44,00,000

3.4 How much is the customs duty payable by Maximo Ltd. on import of new machineries from USA?

(A) ₹ 8,77,800

(B) ₹ 9,24,000

(C) ₹ 9,02,000

(D) ₹ 6,93,000

3.5 How much is the quantum of penalty leviable on Maximo Ltd. for not paying the GST due or offer explanation in response to the SCN issued by the Assessing Authority?

(A) ₹ 10,000

(B) ₹ 50,000

(C) ₹ 60,000

(D) ₹ 70,800 ***(5 x 2 = 10 Marks)***

Descriptive Questions :

3.6 Suggest the prescribed correction required under IND-AS to deal with errors discovered in Financial Statement of Maximo Limited. Please also suggest the treatment for the situation, if it is arising out of incorrect application of Accounting Policy as claimed by Finance Manager of Maximo Limited.

(5 Marks)

3.7 Based on the available production data for shifts in case study, evaluate whether Hi-Quality (P) Ltd. has achieved world class performance under TPM Approach? ***(5 Marks)***

3.8 State whether a petition u/s 241 of Companies Act, 2013 by the minority shareholders is maintainable. Also state whether there is any impact on the maintainability of petition due to withdrawal of consent by a group of members after commencement of proceedings. ***(5 Marks)***

ANSWER TO CASE STUDY 3

3.1 Option (C): 23,39,181

3.2 Option (B): 10.40%

3.3 Option (D): ₹ 44,00,000

3.4 Option (A): ₹ 8,77,800; **OR Option (B):** ₹ 9,24,000

This question can be solved in two alternative ways. Firstly, it can be considered that the re-negotiation took place ***before*** importation was completed. Secondly, it can be considered that the re-negotiation took place ***after*** importation was completed.

3.5 Option (C): ₹ 60,000

3.6 As per the definition given in Ind AS 8, **prior period errors** are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

(a) was available when financial statements for those periods were approved for issue; and

(b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements. Such errors include the effects of mathematical mistakes, **mistakes in applying accounting policies,** oversights or misinterpretations of facts, and fraud.

Further, paragraph 41 of Ind AS 8 states that errors can arise in respect of the recognition, measurement, presentation or **disclosure of elements of financial statements**

Financial statements do not comply with Ind AS if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are approved for issue. Material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period.

Unless impracticable, an entity shall correct material prior period errors retrospectively in the first set of financial statements approved for issue after their discovery by restating the comparative amounts for the prior period(s) presented in which the error occurred.

Brief Description on Ind AS 8

As per para 42 of Ind AS 8, an entity shall correct material prior period errors retrospectively in the first set of financial statements approved for issue after their discovery by:

(a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or

(b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

(i) Incorrect application and disclosure of retrospective application and disclosure of change in accounting policy

In case retrospective application of change in accounting policy or disclosures related to it have not been followed appropriately, it will also be considered as prior period errors.

Accordingly, in the financial statements for the year ended 31st March, 2024, **the comparative amounts as at 31st March 2023 would be restated** to reflect the correct retrospective application and disclosure of change in accounting policy. An entity is also required to **present a third balance sheet** as at the beginning of the preceding period i.e., as at 1st April 2022 in addition to the minimum comparative financial statements for the financial year 2022-2023, if the restatement has a material effect on the information in the balance sheet at the beginning of the preceding period.

Further, financial statements of subsequent periods need not repeat these disclosures.

(ii) Incorrect application of accounting policy

Even the incorrect application of accounting policy will constitute as prior period error and needs to be treated as per para 42 of Ind AS 8 as discussed above.

Accordingly, **incorrect application of accounting policy requires retrospective correction of an error** under Ind AS 8 assuming that the correct accounting policy is **to be followed since beginning of the recognition of the transaction.** Accordingly, in the financial statements **for the year ended 31st March, 2024, the comparative amounts as at 31st March, 2023 would be restated** to reflect the correct application and disclosure along with the **restated third balance sheet** as at the beginning of the preceding period, i.e., as at 1st April 2022.

When an entity is required to present an additional balance sheet as at the beginning of the preceding period, it must disclose the information as required by Ind AS 8 and also the information as explained in subsequent points. However, it need not present the related notes to the opening balance sheet as at the beginning of the preceding period.

3.7 Calculation of Planned Production Time

	Mins.
Total time	480
Less: Planned downtime	
tea break	15
lunch break	30
Planned Production Time	435

Availability Ratio = (435-20)/ 435×100

= **95.4%**

Actual Production = 200 BOTTLES *per shift*

Standard time = 2 minutes

Standard Time Required = 200 units × 2 minutes

= 400 minutes

Actual Time Taken = 435 mins. – 20 mins.

= 415 minutes

Performance Ratio = 400/ 415×100

= **96.39%**

Quality Ratio = (200-20)/ 200×100

= **90%**

Thus, **OEE** = 0.954 × 0.9639 × 0.90

= **82.76%**

Evaluation

The Overall Equipment Effectiveness (OEE) for the given scenario stands at **82.76%**, which falls short of the globally recognized benchmark of **85%**, as proposed by Seiichi Nakajima. A closer analysis reveals that while the **Availability Ratio** (95.4%) and the **Performance Ratio** (96.39%) surpass the ideal benchmarks of 90% and 95%, respectively, the **Quality Ratio** is notably deficient at **90%**, significantly below the target of 99%. This

disparity highlights a critical issue with product quality, as a defect rate of 10% (20 defective units out of 200) undermines the equipment's overall effectiveness, despite strong performance in other areas.

The high **Availability Ratio** reflects that the equipment is well-maintained and experiences minimal downtime, indicating effective maintenance practices and operational reliability. Similarly, the **Performance Ratio** suggests that the production speed closely matches the standard, with only a slight deviation in actual time taken (415 minutes) compared to the standard time required (400 minutes). These metrics demonstrate that the machine is being used efficiently and with minimal delays.

However, the **Quality Ratio** indicates substantial challenges in achieving defect-free production. This could stem from several factors, including process inefficiencies, substandard input materials, insufficient operator training, or inadequate quality control measures. The significant gap in quality performance has a compounding effect on the OEE, as even minor defects can lead to wasted resources, increased rework, and diminished customer satisfaction.

To bridge this gap and achieve world-class performance, it is critical to address the root causes of quality issues. Implementing stricter quality assurance protocols, enhancing supplier audits to ensure raw material compliance, and training operators to adhere to quality standards are immediate steps to consider. Additionally, leveraging advanced monitoring tools, such as real-time quality checks using IoT or automated systems, can help detect and address defects during the production process. These measures will not only improve the Quality Ratio but also contribute to sustained operational efficiency and reliability.

In conclusion, while the strong **Availability** and **Performance** ratios contribute positively to the OEE, the subpar **Quality Ratio** is a bottleneck that must be resolved to meet the ideal benchmark of **85%** and achieve world-class manufacturing standards. By focusing on quality improvements, the overall effectiveness of the equipment can be optimized, aligning the company with global best practices in Total Productive Maintenance (TPM).

Note: Any 2 points for evaluation are sufficient.

3.8 As per the provisions of Section 244, linked to Section 241, of the Companies Act, 2013, in the case of a company having share capital, members eligible to apply for oppression and mismanagement shall be lower of the following:

- 100 members; or
- 1/10th of the total number of members; or
- Members holding not less than 1/10th of the issued share capital of the company.

The share holding pattern of Maximo Limited is as follows:

₹ 1,00,00,00,000 equity share capital held by 1,000 members.

The petition alleging oppression and mismanagement has been made by some members as follows:

(i) No. of members making the petition – 90

(ii) Amount of share capital held by members making the petition – ₹ 10,00,00,000

The petition shall be valid if it has been made by the lowest of the following:

- 100 members; or
- 100 members (being 1/10th of 1,000); or
- Members holding ₹ 10,00,00,000 share capital (being 1/10th of ₹ 1,00,00,00,000)

As it is evident, the petition made by 90 members meets the eligibility criteria specified under section 244, linked to Section 241, of the Companies Act, 2013 as it meets the minimum requirement of members holding not less than 1/10th of the issued share capital of the company in this case. Therefore, the petition is maintainable.

The consent to be given by a shareholder is reckoned at the beginning of the proceedings. The withdrawal of consent by any shareholder during the course of proceedings shall not affect the maintainability of the petition [*Rajamundhry Electric Corporation Vs. V. Nageswar Rao A.I.R.*].

ALTERNATIVE

As per the provisions of Section 244, linked to Section 241, of the Companies Act, 2013, in the case of a company having share capital, members eligible to apply for oppression and mismanagement shall be lower of the following:

- 100 members; or
- 1/10th of the total number of members; or
- Members holding not less than 1/10th of the issued share capital of the company.

The paid-up share capital of Maximo Limited is as follows:

₹ 1,00,00,00,000 equity share capital comprising of 100 Lakhs equity shares of ₹ 100 each held by 1,000 shareholders / members.

The petition alleging oppression and mismanagement has been made by some members as follows:

(i) No. of members making the petition – 90

(ii) Amount of paid-up share capital held by members making the petition – ₹ 10,00,00,000

The petition shall be valid if it has been made by the lowest of the following:

- 100 members; or
- 100 members (being 1/10th of 1,000); or
- Members holding not less than 1/10th of the **issued** share capital of the company.

The third condition in the provisions of Section 244 of the Companies Act, 2013 is based on 'Members holding not less than 1/10th of the <u>issued share capital</u> of the company'. The information of share capital represents the "Paid-up Share Capital." The issued share capital figure is not given nor the expression "Issued and Paid-up Share Capital" is used therein. As a result, the third condition cannot be tested/applied.

Hence, based on the information provided, it is evident that the petition should have been made by at least 100 shareholders/members under section 244, linked to Section 241, of the Companies Act, 2013. (i.e. least of

minimum 100 members or 1/10th of total 1,000 members) to make it admissible. **However, as the petition is made by 90 shareholders which is less than the required number of 100 shareholders, the petition shall not be maintainable.**

The consent to be given by a shareholder is **reckoned at the beginning of the proceedings.** The withdrawal of consent by any shareholder **during the course of proceedings shall not affect the maintainability of the petition** [*Rajamundhry Electric Corporation Vs. V. Nageswar Rao A.I.R.*].

CASESTUDY - 4

Welcome Industries Limited (WIL) is a two decade old company engaged in various businesses like Yarn manufacturing, petrochemicals, telecommunications and general insurance. Company is headed by Ms. Singhania. She is respected in the business world as sharp business women and is a firm believer in core business fundamentals and strong ethical values. WIL has its headquarters in Mumbai.

Melody Inc. (a U.S. based company) which runs retail chain stores worldwide is trying to setup its operations and enter in Indian market since last two years but could not frame proper entry policy. Its investments outside the U.S. have seen mixed results. Its operations and subsidiaries in Canada, the United Kingdom, Central America, South America and China are successful. Considering WIL's pan India offices and operations, Melody Inc. decided to start a partially owned subsidiary company with WIL. Accordingly, a new company, Welcome Melody Private Limited (WMPL) is formed by Melody Inc. as its largest shareholder holding 75% of the paid up share capital. WMPL will have its head office and registered office in Mumbai (Maharashtra).

WMPL will be operating retail chain stores throughout India in the times to come. To start with, first store will be opened in Mumbai. All the arrangements are being made to ensure that first visit of the customer in its first store should be a memorable one. Operations team suggested that billing counter (POS) should be technology driven and accordingly, new software has been purchased with the following details:

The cost for the software was ₹ 15,00,000 out of which ₹ 10,00,000 to be paid immediately and balance ₹ 5,00,000 in one-year time. The other related expenditure incurred was :

Legal fees : ₹ 72,000

Consultancy fees for implementation : ₹ 1,50,000

Cost of capital of the company is 10%.

The launch of the first store was successful and encouraging for the management. WMPL became a one-stop supermarket chain that offered its customers a wide range of basic home and personal products under one roof. Each WMPL store stocks of home utility products including food, toiletries, beauty products, garments, kitchenware, bed and bath linen, home appliances and more - available at competitive prices that its customers appreciate.

With its mission to be the lowest priced retailer in the regions it operates, WMPL business continues to grow with new locations planned in more cities. As per plans, three new stores were opened in Nasik, Nagpur and Aurangabad. It was decided that WMPL will buy all the immovable properties and no rent expenditure will be incurred. Capital outlay of opening new stores was in Crores, so WMPL borrowed funds from its holding company Melody Inc. The details of the funds borrowed are as follows:

Amount Borrowed : ₹ 35 Crore at Rate of Interest : 8% p.a.

MPL opened 25 stores throughout India and earned net profit (before tax) ₹ 6 Crore for F.Y. 2023-24. The EBITDA for the same period was ₹ 9 Crore and Interest paid to Melody Inc. was ₹ 2.80 Crore. For the same period Profit after tax was ₹ 4.50 Crore (Tax Rate 25%).

WMPL has decided to open a new store in Pune in April 2024. Land was purchased and establishment work was completed. Separate GST registration for Pune was taken in April 2024 and stock purchase for new store has also been done. The following further details were available on the date of registration :-

(Value in ₹ Crores)

	Entire Business	***Pune***
Value of Fixed Assets	*400*	*22*
Value of Current Assets	*500*	*50*
Value of Assets on which GST ITC has been taken (out of fixed assets and current assets reported above)	*160*	*40*
Unutilised GST	*25*	*2*

As per management projections, the new store at Pune will achieve good sales and accordingly it was decided to transfer some part of GST credit outstanding in electronic credit ledger of Mumbai to electronic credit ledger of separate Pune registration.

Accounts department has drafted a letter stating that credit of ₹ 2.50 Crore (on the basis of ratio of current assets) can be transferred to Pune registration.

Total current asset of WMPL as at 31.03.2023 were ₹ 500 Crore which included inventories amounting to ₹ 300 Crore. The carrying amount of inventories is after considering allowances for inventory shrinkages of ₹ 14.50 Crore. These inventories are held at the stores and distribution centres of the Company. Allowance for inventory shrinkage was an audit focus area since inventory counts were carried out at periodical intervals during the year and further judgmental factors are involved in identifying the amount of provision for shrinkages. Audit team of the company addressed the issue by obtaining an understanding, evaluating the design and testing the operating effectiveness of controls that the company has in relation to allowance for inventory shrinkage.

In order to improve its profitability, WMPL is looking to buy securities of XYZ Limited which is near bankruptcy. When the proposal came up for discussion in the meeting of board of directors, they unanimously decided to seek professional consultancy on investment in such securities. The appointed consultant did agree that such transactions can be profitable provided the strategy of investment followed involves the proper allocation of amount to be invested between debt and equity securities.

Multiple Choice Questions :

[Provide the correct option to the following questions]

4.1 At what amount software purchased for POS should be capitalised initially using the principles of concerned Ind AS?

(A) Total Cost to be capitalised is ₹ 15,26,545

(B) Total Cost to be capitalised is ₹ 16,04,545

(C) Total Cost to be capitalised is ₹ 16,76,545

(D) Total Cost to be capitalised is ₹ 17,22,000

4.2 Do you think company will be able to claim deduction of full amount of interest paid to Melody Inc. while filing ITR under the provisions of Income Tax Act, 1961? If not, what will be the amount of disallowance as deduction?

(A) No, amount of ₹ 0.40 Cr. will be disallowed as deduction on account of excess interest

(B) No, amount of ₹ 1.80 Cr. will be disallowed as deduction on account of excess interest

(C) No, amount of ₹ 0.16 Cr. will be disallowed as deduction on account of excess interest

(D) No, amount of ₹ 0.10 Cr. will be disallowed as deduction on account of excess interest

4.3 What strategy should be followed by WMPL Management to ensure that proposed investment in securities XYZ Ltd is profitable?

(A) Taking Long Position in Debt and Short Position in Equity

(B) Taking Long Position in Equity and Short Position in Debt

(C) Taking Long Position in Debt and Long Position in Equity

(D) Taking short Position in Debt and short Position in Equity

4.4 What will be your comments on draft letter of accounts department stating that GST input credit of ₹ 2.50 Crores can be transferred to Pune registration?

(A) The amount calculated is incorrect as the amount which can be transferred to Pune registration is ₹ 1.375 Crores

(B) The amount calculated is incorrect as the amount which can be transferred to Pune registration is ₹ 2 Crores

(C) The amount calculated is incorrect as the amount which can be transferred to Pune registration is ₹ 6.25 Crores

(D) The amount calculated is correct as output liability will arise on sales and stock is a part of current assets

4.5 How the shrinkage in inventories should be reported in audit report, in case WMPL was the listed company?

(A) The auditor should report the issue of shrinkages in inventories in 'Emphasis of matter paragraph' and also state how the matter has been dealt with by audit team

(B) The auditor should report the issue of shrinkages in inventories in 'Other matter paragraph' and also state how the matter has been dealt with by audit team

(C) The auditor should report the issue of shrinkages in inventories in 'Other matter paragraph'

(D) The auditor should report the issue of shrinkages in inventories in 'Key Audit matter paragraph' and also state how the matter has been dealt with by audit team ***(5 x 2 = 10 Marks)***

Descriptive Questions :

4.6 How WMPL will be able to earn profit by taking position in debt and equity securities of XYZ Limited? ***(4 Marks)***

4.7 Accounts department of WMPL is filing GSTR 3B for the month of September 2024 wherein total Taxable supplies reported are ₹ 50 Crore with output GST liability of ₹ 6.25 Crores. Input tax available in electronic credit ledger is ₹ 7.50 Crore and balance in electronic cash ledger is ₹ 75 Lakh. Whether WMPL is mandatorily required to utilize the balance in the electronic cash ledger while paying GST liability for the month of September 2024? Also state the nature of documents on the basis of which ITC would have been taken by WMPL. ***(5 Marks)***

4.8 WMPL is having intangible assets (including software purchased for POS). Guide the accounts department about the general disclosures to be made in financial statements relating to such intangible assets. Also list down the conditions, if any, for derecognition of intangible assets. ***(6 Marks)***

ANSWER TO CASE STUDY 4

4.1 Option (C): Total Cost to be capitalised is ₹ 16,76,545

4.2 Option (D): No, amount of ₹ 0.10 Cr. will be disallowed as deduction on account of excess interest

4.3 Option (A): Taking Long Position in Debt and Short Position in Equity

4.4 Option (B): The amount calculated is incorrect as the amount which can be transferred to Pune registration is ₹ 2 Crores

4.5 Option (D): The auditor should report the issue of shrinkages in inventories in 'Key Audit matter paragraph' and also state how the matter has been dealt with by audit team

4.6 An investor can earn profit from distressed securities by taking **long position in Debt and Short position in equity**.

Following are the examples of earning arbitrage profit:

(i) In case company's condition improves because of priority, the investor will get his interest payment which will be more than dividend on his short position in equity shares.

(ii) If company's condition further deteriorates the value of both share and debenture goes down. He will make good profit from his short position.

ALTERNATIVE

The WMPL will take **long position in Debt and Short Position in Equity** of XYZ Ltd.

This strategy will be profitable because if XYZ Ltd. go bankrupt though both Debt and Equity will lose value but since debt has a priority over Equity in repayment it will be a safe bet.

However, if financial position of company improves any loss on account of short position in Equity will be compensated by gain in the Debt position.

4.7 Since value of taxable supply of WMPL for the month of September 2024 exceeds ₹ 50 lakh, **rule 86B of the CGST Rules, 2017 is applicable to it.**

Thus, as per rule 86B, amount available in the electronic credit ledger **will be utilized only to the extent of 99% of the output tax liability** while discharging such tax liability. **Balance 1% of the output tax liability needs to be discharged from electronic cash ledger.**

In terms of the restriction imposed by rule 86B, WMPL can discharge 99% of its output tax liability, i.e. ₹ 6.1875 crores (99% of ₹ 6.25 crores) from the amount available in electronic credit ledger. However, it has to mandatorily

discharge the balance 1% of the output tax liability i.e. ₹ 6,25,000 (1% of ₹ 6.25 crores) through electronic cash ledger only.

The nature of documents on the basis of which ITC would have been taken by WMPL are:

(i) Invoice or revised invoice issued by the supplier of goods and/or services

(ii) Invoice issued by the recipient receiving goods and/or services from unregistered supplier in case of reverse charge, subject to payment of tax

(iii) Debit note issued by the supplier

(iv) Bill of entry or similar document prescribed under the Customs Act

(v) Document issued by input service distributor

4.8 (i) General disclosures w.r.t. intangible assets including acquisition of software

An entity should disclose the following for each class of intangible assets:

(a) whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortisation rates used;

(b) the amortisation methods used for intangible assets with finite useful lives;

(c) the gross carrying amount and any accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period;

(d) the line item(s) of the statement of profit and loss in which any amortisation of intangible assets is included; and

(e) a reconciliation of the carrying amount at the beginning and end of the period showing:

(i) additions, indicating separately those from internal development, those acquired separately, and those acquired through business combinations;

(ii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with Ind As 105 and other disposals;

(iii) increases or decreases during the period resulting from revaluations and from impairment losses recognized or reversed in other comprehensive income;

(iv) impairment losses recognized in profit or loss during the period;

(v) impairment losses reversed in profit or loss during the period;

(vi) any amortisation recognized during the period;

(vii) net exchange differences arising on the transaction of the financial statements into the presentation currency, and on the translation of a foreign operation into the presentation currency of the entity; and

(viii) other changes in the carrying amount during the period.

Note: Any 4 out of the 8 disclosures are sufficient.

(ii) Conditions for derecognition of intangible assets

An intangible asset should be derecognized:

(a) on disposal; or

(b) when no future economic benefits are expected from its use or disposal.

The disposal of an intangible asset may occur in a variety of ways (e.g. by sale, by entering into a finance lease, or by donation).

CASESTUDY - 5

Royal Enterprises Ltd. (REL), incorporated in 1996, is a public listed company headquartered in Mumbai, India. It has carved a niche for itself in the production of high quality industrial spare parts and railway coach components. Products of the company are sold both in domestic and international markets and thus company has good exposure in the domestic as well as foreign market. REL boasts a state of the art manufacturing facility equipped with advanced machinery and technology. Their production process adheres to stringent quality control

measures, ensuring their spare parts and rail coach components meet the highest standards of durability, functionality, and efficiency. The company's commitment to quality has earned them the trust and loyalty of its customers, establishing them as a reliable and dependable supplier in the industry. Financial statements of the company for the financial year 2023-24 have not yet been prepared.

Business of the company is growing and so does the requirement of accounting staff to be headed by qualified Chartered Accountant. Deepak Sharma, Chief Financial Officer (CFO) of the company has been asked by the company to create a position of GM Accounts and appoint qualified CA. for managing the accounting and compliances function effectively. Advertisement was given in all leading newspapers detailing the company's requirement and role the proposed job will need to cater. Numbers of applications were received by the company and all the candidates were competent and had good exposure in the fields of financial reporting, MIS reporting, FEMA, direct and indirect tax matters. CVs of all the candidates were analysed and twenty candidates were shortlisted.

As per policy of the company, candidates first have to appear for written test and then appear before interview panel to get selected. CFO has been asked to prepare a practical approach based case study involving recent developments in various areas relating to the operations of the Company, accounting and other technical aspects of Companies Act, GST, Custom, Direct taxes etc. CFO of the company took clues from the operations and areas of the company and using fictional data prepared a well drafted case study having the following issues. All the shortlisted candidates were asked to appear in written test on a particular date. CA. J also appeared in the written test and attempted well and was hoping for an interview call. To his surprise, he has not received a call and decided to have your opinion on the issues discussed in the written test. Accordingly, the discussion took place on the following issues:

Issue 1

REL in order to improve production efficiency imported machinery valuing ₹ 150 lakhs in June 2023 from Japan on which import duty at the rate of 15% was paid. Machinery was used in the factory to produce rail coach components for sale. After the installation of new machinery, no changes in the product price were made. When the statutory auditors were carrying out audit in March 2024, they observed this transaction of import of machinery and were of the view that import duty was payable at the rate of 12.5% and not 15%. Management asked for reason to which they responded that one of their clients (without naming it)

imported the same machinery and paid duty @ 12.5% only. Management decided to take a second opinion and second opinion also confirmed the view point of statutory auditors. REL then filed a claim in March 2024 for refund of excess import duty paid. However, the refund claim was rejected by the customs authorities.

REL imported one Steel cutting machine on 01.03.2021 which required some customization. REL identified that for customization of such machines, authorized dealer was JB enterprises who will carry out the necessary modifications. REL sent the machinery directly from the port to JB enterprises for job work and the same was received by JB Enterprises on 06.03.2021. Company had also sent moulds and dies having total invoice value of ₹ 94,400 (CGST 9% and SGST 9% included) on 02.03.2021 and was received by JB Enterprises on 05.03.2021. Machinery was received back on 04.03.2024 from JB Enterprises, but moulds and dies were not received till 31.03.2024.

Issue 2

REL entered into a contract with Prism motors Limited for sale of specific industrial spare parts and supplied the same having transaction value of ₹ 82 Crores during the year. Total Net worth and paid up share capital of Prism Limited was ₹ 90 Crores and ₹ 40 Crores (40,00,000 equity shares of ₹ 100 each) respectively. Mr. Raman, Director of REL holds 65,000 shares, his wife holds 12,000 and his brother's wife holds 4,000 shares of Prism Limited. He is also the director in Prism Motors Limited. Mr. Raman had disclosed his interest at the appropriate Board meeting. Goods have been supplied to Prism Limited on arm length' basis and no difference in price as compared to normal sales transactions price has been found. No prior approval has been obtained in respect of contract from Board of Directors and Shareholder. Total turnover of the REL for the year 2022-23 and 2023-24 is ₹ 800 Crores and ₹ 900 Crores respectively.

Issue 3

REL filed its return of income for the P.Y. 2021-22 on 30th October 2022 declaring income of ₹ 3,60,00,000. The return was processed by Central Processing Centre making an addition of ₹ 2,50,000 on account of arithmetical error and income was computed at ₹ 3,62,50,000 u/s 143(1). The return of income was selected for scrutiny assessment and order was passed under section 143(3) making the following additions to the returned income :

	₹
Addition on an estimated basis (not representing under reported income)	*3,00,000*
Addition on account of under reported income	*12,00,000*
Addition on account of claim of expenditure not supported by any documentary evidence	*9,00,000*

Tax rate applicable to company is 30%. Rate of surcharge is 7% and Health and Education Cess is 4%.

Issue 4

Company has placed an order for the CNC machine with the MNC Ltd., a German company. The delivery of machine is expected after three months from now. MNC Ltd. has quoted rate of € 85,000. It is anticipated that the exchange rate will decline by 4% over the three months period and in order to protect the euro payments after three months, Finance manager of the company has decided to hedge the risk involved in foreign currency transaction. He is looking forward to two options to hedge the transaction risk i.e. either Forward cover or Money market cover. The relevant spot and forward rates are:

	Spot	***3 month's Forward***
₹/€	*90.15/90.50*	*92.20/92.60*

The borrowing rates in India and Germany are 8% and 5.5% respectively and deposit rates are 6.5% and 4% respectively.

Issue 5

REL, being managed by Mr. Srivastav, Managing Director proposes to pay commission at the rate of six percent of the net profits to Mr. Srivastav. The company also proposes to pay suitable additional remuneration to Mr. Charan, a director for professional services rendered as industrial engineer, whenever such services are utilized.

The Article of Association of the company has fixed payment of sitting fee for each meeting of directors subject to a maximum of ₹ 50,000. In view of the increased responsibilities, the company proposes to increase the sitting fee to ₹ 75,000 per meeting for all the directors including independent directors.

Issue 6

New Project at Specified Development Zone

REL Limited is set to launch a new project for setting up a plant at Specified Development Zone due to various incentives provided by the State Government. Finance team of the company prepared a detailed project report for seven years for submission to bankers for borrowing purposes. The bankers of the company required an assurance report from a professional accountant on information contained in the project report. It has approached AKM and Associates, Chartered Accountants for an assurance report in respect of prospective information of a project. On-going through the project details, it is noticed that depreciation on fixed assets to be acquired has been calculated in accordance with provisions of Income Tax Act, 1961 and stock of finished goods has been valued at selling price. No disclosure has been made in this respect in the project report. AKM & Associates signed the given project report as it is without generating the UDIN with a view that UDIN is required for facts and figures of past period only and not for the events and actions that have not yet occurred.

Multiple Choice Questions :

[Provide the correct option to the following questions]

5.1 Whether the rejection of refund of import duty by the customs authorities is correct?

(A) Rejection is not justified and authorities should grant the refund of excess import duty paid on machinery, as the machinery was not sold, hence the principle of unjust enrichment will not apply

(B) Rejection is justified as machinery is used for the manufacture of goods and the duty paid on the import of machinery has gone into the costing of the goods manufactured and sold, and thus passed on to the buyers. The principle of unjust enrichment will apply

(C) Rejection is not justified as no changes in the prices of products were made. The principle of unjust enrichment will not apply

(D) Rejection is justified as period for claim of refund has expired and the customs authorities can retain the excess payment of duty

5.2 How much expected loss is likely to be avoided by REL if it takes forward cover?

(A) ₹ 3,06,510

(B) ₹ 1,29,200

(C) ₹ 1,32,260

(D) ₹ 1,63,200

5.3 In light of provisions of GST and rules made thereunder, consider the following statements:

I. Machinery has been received back by REL within the stipulated time as per the GST Act, 2017, hence it will not be deemed as supply.

II. Machinery has not been received back by the company within the stipulated time as per the CGST Act, 2017, hence it will be deemed as supply to JB enterprises. Such supply is required to be included in form GSTR 1 and REL is required to pay tax on the same along with applicable Interest.

III. Moulds and Dies not received back within the stipulated time as per the CGST Act, 2017 will be deemed as supply on the day when received by JB enterprises. Such supply is required to be included in form GSTR 1 and REL is required to pay tax on the same along with applicable Interest.

IV. Detail of challan in respect of machinery received back from JB enterprises is required to be reported in Form GST ITC-03 to be furnished for the half year Oct 2023 to March 2024 on or before 25th April 2024.

Which of the above statement(s) is/are not in accordance with the provisions of CGST Act, 2017 and rules made thereunder?

(A) I only

(B) I and Ill

(C) I and II

(D) II, III and IV

5.4 Which of the following statement is correct in relation to contract for sale specific industrial spare parts entered with Prism Motors Limited as per the section 188 of Companies Act 2013?

(A) Contract for sale of goods with Prism Motors Limited is not valid as it is a related party transaction and transaction value exceeds 10% of the turnover of 2022-23 and requires the prior approval of the company by passing an ordinary resolution

(B) Contract for sale of goods with Prism Motors Limited is valid, though it is a related party transaction but transaction value does not exceed 10% of the turnover of 2023-24, hence does not require the prior approval of the company by passing an ordinary resolution

(C) Contract for sale of goods with Prism Motors Limited is not valid as it is a related party transaction and requires consent of Board of Directors given by resolution at a meeting of the Board even if entered at arm length's basis

(D) Contract for sale of goods with Prism Motors Limited is valid as it is not a related party transaction

5.5 What is the amount of penalty that can be levied as per the relevant provisions of Income Tax Act, 1961, on REL for AY 2022-23?

(A) ₹ 9,51,444

(B) ₹ 7,01,064

(C) ₹ 8,51,292

(D) ₹ 8,01,216 ***(5 x 2 = 10 Marks)***

Descriptive Questions:

5.6 Examine with reference to the provisions of the Companies Act, 2013, the validity of the proposal regarding remuneration and sitting fee to directors.

(5 Marks)

5.7 Advise the company whether it should adopt forward cover or money market cover? Under what circumstances, money market hedge is advantageous to forward hedge? ***(4 Marks)***

5.8 Advise how AKM and Associates will proceed in its assurance report, with matter relating to inconsistency in application of accounting policies in project report? Whether non generation of UDIN is justified? If not, then what are the consequences for not generating UDIN? ***(6 Marks)***

ANSWER TO CASE STUDY 5

5.1 Option (B): Rejection is justified as machinery is used for the manufacture of goods and the duty paid on the import of machinery has gone into the

costing of the goods manufactured and sold, and thus passed on to the buyers. The principle of unjust enrichment will apply.

5.2 Option (B): ₹ 1,29,200

5.3 Option (D): II, III and IV

5.4 Option (D): Contract for sale of goods with Prism Motors Limited is valid as it is not a related party transaction

5.5 Option (D): ₹ 8,01,216

5.6 Commission at the rate of 6% of the net profits to its Managing Director, Mr. Srivastav: Part (i) of the Second Proviso to Section 197(1) of the Companies Act, 2013, provides that except with the approval of the company in general meeting by a special resolution, the remuneration payable to any one managing director or whole time director or manager **shall not exceed 5% of the net profits** of the company and **if there is more than one such director then remuneration shall not exceed 10%** of the net profits to all such directors and manager taken together.

In the present case, since the REL is being managed by a Managing Director, the commission at the rate of 6% of the net profit to Mr. Srivastav, the Managing Director is not allowed and hence **approval** of company **in general meeting** is required by way of a **special resolution**.

Additional remuneration in capacity of professional services: The company also proposes to pay suitable additional remuneration to Mr. Charan, a Director, for professional services to be rendered by him as industrial engineer, whenever such services are utilized by the company:

(1) According to section 197(4), the remuneration payable to the directors of a company, including any managing or whole-time director or manager, shall be determined, in accordance with and subject to the provisions of this section, either

(i) by the articles of the company, or

(ii) by a resolution or,

(iii) if the articles so require, by a special resolution, passed by the company in general meeting, and

(2) the remuneration payable to a director determined aforesaid shall be inclusive of the remuneration payable to him for the services rendered by him in any other capacity.

(3) Any remuneration for services rendered by any such director in other capacity shall not be so included if—

(i) the services rendered are of a professional nature; and

(ii) in the opinion of the Nomination and Remuneration Committee, if the company is covered under sub-section (1) of section 178, or the Board of Directors in other cases, the director possesses the requisite qualification for the practice of the profession.

Hence, in the present case, the additional remuneration payable to Mr. Charan, a Director, for **professional services rendered by him as industrial engineer will not be included in the maximum managerial remuneration**. Accordingly, such additional remuneration shall be allowed but an opinion of Nomination and Remuneration Committee needs to be obtained.

Sitting Fee: Section 197(5) of the Companies Act, 2013 provides that a director may receive remuneration by way of fee for attending the Board/Committee meetings or for any other purpose as may be decided by the Board provided that the amount of such fees shall not exceed the prescribed amount. As per Rule 4 of the Companies (Appointment and Remuneration of Managerial personnel) Rules, 2014 the amount of sitting fees payable for attending meetings of the Board or Committees thereof may be decided by the Board but **such sitting fees shall not exceed 1 lakh rupee per meeting**. Further, the sitting fee payable to an independent director shall not be less than that payable to other directors.

From the above, it is clear that sitting fees can be increased from **50,000 rupees to 75,000 rupees per meeting by passing a resolution in the Board Meeting and altering the Articles of Association by passing a Special Resolution**. When sitting fees stands increased for other directors, it shall automatically be increased in case of independent directors because the latter cannot be paid less than that payable to former.

5.7 Amount Payable under Forward Cover (€ 85,000 × ₹ 92.60**) ₹ 78,71,000**

Money Market Hedge

To pay € after 3 months' company shall requires to borrow in ₹ and translate to € and then deposit in €.

For payment of € 85,000 in 3 months @ 4.00% interest p.a. the amount required to be deposited now (€ 85,000/1.01) = € **84,158.42**

With spot rate of 90.50 the ₹ loan needed will be = ₹ **76,16,337.01**

Loan repayable after 3 months @ 8.00% p.a. interest will be ₹ 76,16,337.01 (1.02) = ₹ **77,68,663.75**

Net Benefit = ₹ 78,71,000 – ₹ 77,68,663.75 = ₹ 1,02,336.25

In this case the money market hedge is a cheaper option.

Money market hedge is advantageous to forward cover as under:

(i) When forward contracts are not available or forward rates are not attractive.

(ii) As soon as we create money market hedge, we fix the future rate. This eliminates downside risk due to adverse exchange rate movements.

(iii) It is more flexible if we consider the amount to be covered.

5.8 (I) As per SAE 3400, "The Examination of Prospective Financial Information", it is the duty of a professional accountant to see that prospective financial information is based on a consistent basis with historical financial statements using appropriate accounting principles. Thus, AKM & Associates should consider whether: -

(a) the presentation of prospective financial information is informative and not misleading

(b) the accounting policies are clearly disclosed in the notes to the prospective financial information;

(c) The assumptions are adequately disclosed in the notes to the prospective financial information. It needs to be clear whether the assumptions represent management's best-estimates or are hypothetical and, when assumptions are made in areas that are material and are subject to a higher degree of uncertainty, this

uncertainty and the resulting sensitivity of results needs to be adequately disclosed.

(d) the date as of which the prospective financial information was prepared is disclosed. Management needs to confirm that the assumptions are appropriate as of this date, even though the underlying information may have been accumulated over a period of time.

(e) the basis of establishing points in a range is clearly indicated and the range is not selected in a biased or misleading manner when results shown in the prospective financial information are expressed in terms of a range and

(f) if there is any change in the accounting policy of the entity from that disclosed in the most recent historical financial statements, whether reason for the change and the effect of such change on the prospective financial information has been adequately disclosed.

Note: Any 4 points are sufficient.

In the given case, REL limited has **provided for depreciation on fixed assets to be acquired** in accordance with provisions of Income-tax Act, 1961 and **valued the stock of finished goods at selling price which are not consistent with historical financial statements**. In addition, no disclosure has been made in this respect in the project report.

In such a case, when presentation and disclosure are not adequate, **a qualified or adverse opinion should be given or withdrawal from engagement** should be made as appropriate by AKM & Associates.

(II) Apart from the above, AKM & Associates signed the given project report **without generating the UDIN which is not correct**. Contention of AKM & Associates that UDIN is required for facts and figures of past period only and **not for the events and actions that have not yet occurred is not tenable.**

(III) As per Chapter XIV, Unique Document Identification Number (UDIN) Guidelines, a member of the Institute in practice shall generate Unique Document Identification Number (UDIN) for all kinds of the

certification, GST and Tax Audit Reports and other Audit, Assurance and Attestation functions undertaken/signed by him mandatorily.

Further, as per Clause (1) of Part-II of Second Schedule to the Chartered Accountants Act, 1949 a member of the Institute, whether in practice or not, **shall be deemed to be guilty of professional misconduct**, if he contravenes any of the provisions of this Act or the regulations made there under or any guidelines issued by the Council.

The consequences for not generating UDIN are **that concerned Chartered Accountant who had signed the assurance report shall be held liable for professional misconduct** under Clause (1) of Part-II of the Second Schedule to the Chartered Accountants Act, 1949.