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FOR CA FINAL EXAM PREPARATION

CA Final 2020 Question Paper · Paper 6F Multidisciplinary Case Study

EXAM
CA Final

YEAR
2020

TYPE
Question Paper

SUBJECT
Paper 6F Multidisciplinary Case Study

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November 2020

Roll No. .....

Final New Syllabus

Paper - 6 F

Multidisciplinary Case Study

NOV 2020

Total No. of Case Study Questions – 5 Total No. of Printed Pages – **40**

Time Allowed – **4** Hours Maximum Marks – **100**

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

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

Answer in respect of Multiple Choice Questions are to be marked on the OMR answer sheet only.

Answers to other questions to be written on the descriptive type answer book.

Answers to MCQs, if written in the descriptive type answer book will not be evaluated.

Candidates may use calculator.

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CASE STUDY-1

CONTAINS : PART–A AND PART–B **25**

BACKGROUND

You are a part of a credible Chartered Accountants firm based out of Chennai. Your audit firm is engaged in traditional as well as in modern areas of practice such as Insolvency Resolution Professionals, Registered Valuers, Forensic Audit, International Taxation, Risk Management, etc., besides conducting regular Statutory Audits, Internal Audits and providing business advisory especially for start-ups.

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In view of your excellent communication and presentation skills with a sound clarity of thought on the technical aspects of a statute, you are very often specially chosen and consulted by a variety of large business houses. You are also known for your sharp acumen on Corporate Accounting, Indian Accounting and Auditing Standards and mandate best reporting practices.

Your institution deserves credit for making this possible and always advise your clients to comply with the rule of law, promote transparency in financial and business transactions, make your clients much more of a tax compliant vis-a-vis intelligent tax planning rather than tax dodging and tax evasion.

(1) Last Monday, you have been approached by Omega Soft Tech Ltd. represented by its new Managing Director, Mr. Ashish, an extrovert, holding a Doctorate degree in Financial Management from a reputed University of United Kingdom. He has taken over the mantle just a week ago from his father.

Considering the complex regulatory set-up in India, including the litigation settlement process, especially the time taken for disposal of cases by the judiciary and the penalties for non-compliances have been made more severe, Mr. Ashish wanted to know from you the current state of affairs, compliance audit of applicable laws and regulatory assessment hygiene which may potentially have an impact on the Company. You have consented to clarify all the doubts raised by Mr. Ashish.

At the outset, Mr. Ashish wishes to understand from you the requirements of the Companies Act, 2013 in the year end for preparation of Financial Statements and seeks your views on the correctness of the management prepared un-audited, draft Balance Sheet as at 31st March, 2020 as given below and the disclosures made in the notes of accounts by the Company.

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Draft Balance Sheet of Omega Soft Tech Ltd. as at 31st March, 2020 :

HEADING	NOTE NUMBER	31ST MARCH, 2020	31ST MARCH, 2019
EQUITY AND LIABILITES			
Share Capital (includes share application money pending allotment)	1	XXX	XXX
Reserves & Surplus	2	0	0
Employee stock option outstanding	3	XXX	XXX
Share application money refundable	4	XXX	XXX
NON-CURRENT LIABILITES			
Deferred tax Liability (Arising out of Indian Income Tax)	5	XXX	XXX
CURRENT LIABILITIES			
Trade Payables	6	XXX	XXX
Total		**XXXXX**	**XXXXX**
ASSETS			
NON–CURRENT ASSETS			
Fixed Assets – Tangible	7	XXX	XXX
CWIP (including capital advances)	8	XXX	XXX
CURRENT ASSETS			
Trade Receivables	9	XXX	XXX
Deferred Tax Assets (arising from Indian Income Tax)	10	XXX	XXX
Debit balance of Profit and Loss Account		XXX	XXX
Total		**XXXX**	**XXXXX**

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(2) Disclosures made in the notes forming part of the accounts :

(a) 'Share Capital Disclosures' :

The Company has only one class of shares i.e. Equity. In view of this, the rights, preference and restrictions with respect to such shares are not disclosed as they are not applicable to equity shares. Also, the reconciliation of each class of shares outstanding at the beginning and at the end of the period, was not disclosed.

(b) Reserves and Surplus Disclosures :

For each of the specified head of Reserves & Surplus, only the final amount at the end of the period were reflected without movement during the year i.e. addition and deduction since last balance sheet.

Also, Debit Balance of Statement of profit and loss was reflected on Assets side of the Balance Sheet instead of showing as a negative figure under the head Reserves & Surplus.

(c) Appropriations :

Appropriations and allocations such as dividend, transfer to/from reserves from Profit for the year were reflected on the face of the Statement of Profit and Loss.

(d) Trade Payables :

Trade Payables include dues payable in respect of statutory obligations like PF, dues towards purchase of fixed assets and other contractual obligations.

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(3) Further, Mr. Ashish informed you that during the financial year 2019-20, the Company had changed its method of accounting compared to the previous financial year (2018-19) and had reported a closing stock of computer peripherals amounting to ₹ 12 lakhs as on 31.03.2020. Also, the Company had borrowed a sum of ₹ 15 crores equally from two public sector banks and two NBFCs. The Company had promptly repaid few deposits amounting to ₹ 80 lakhs to the deposit holders.

(4) In the accounts of the Company, ₹ 1.25 crores towards accrual of certain liabilities relating to refurbishment of certain spares meant for a specialized operating machine is yet to be made. The spares for refurbishment were sent in March 2019. Completion of the refurbishment/receipt of spares by the Company is expected only in March, 2020.

(5) Further, Mr. Ashish wants to know the legal remedies available in India under the Insolvency and Bankruptcy Code, 2016 as to how the settlement of the dues would be prioritized as compared to various secured creditors of the defaulting company including a foreign subsidiary at the time of insolvency. To have a hands on practical situation, he submitted that a Bank being a financial creditor, sent a demand notice for a claim of ₹ 15 crores on M/s. D Ltd., (a subsidiary of Omega Soft Tech Limited) being the Corporate Debtor on 6th March, 2020. When the petition was filed before NCLT under Insolvency and Bankruptcy Code, 2016, the Bank claimed that M/s. D Ltd. has defaulted ₹ 25 crores instead of original amount of ₹ 15 crores. NCLT appointed an interim insolvency resolution professional M/s. D Ltd. & made an appeal with NCLT demanding that the Bank's claim in not maintainable as there is a difference in the amount mentioned in the demand notice and the application filed under the Code.

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Asks from You,

You are requested to advise Mr. Ashish based on your understanding of his requirements, issues and clarifications sought to the following questions. You can make relevant assumptions, if any, as may be required to explain your views so as to provide a holistic and relevant feedback.

PART–A

Read carefully the following and provide the correct option. No reasoning is required. **2×5 =10**

1.1. Compliance Audit of applicable laws and regulations is mandatory for all Public Companies incorporated and registered under the Indian Companies Act, 2013. **2**

(A) No. It is applicable only when a Company is investigated by the Serious Fraud Investigation Office (SFIO) under the Companies Act, 2013.

(B) Yes. It is a part of the Internal Audit exercise mandatorily stipulated under the Companies Act, 2013.

(C) Yes. It is mandatory for all companies whether private or public incorporated and registered in India.

(D) It is not specifically mandated for all public companies incorporated and registered in India.

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1.2. In the light of the information provided in para (3) above, state which among the below transactions which were undertaken by the Company needs to be reported by the Statutory Auditors under fiscal laws ? **2**

(i) ₹ 15 crores loan taken, which is exceeding the limit specified under Section 269 SS of the Income Tax Act, 1961.

(ii) Changed its method of accounting from the previous financial year.

(iii) Repayment of deposits of ₹ 80 lakhs which is exceeding the limit specified under Section 269 T of the Income Tax Act, 1961.

(iv) Reporting of closing stock of computer peripherals worth ₹ 12 Lakhs only.

(A) (i), (iii) & (iv)

(B) (ii) & (iii)

(C) (i) & (iii)

(D) (i), (ii), (iii) & (iv)

1.3. In respect of data provided in para (4) above, the amount to be accrued, if any, in connection with the refurbishment of spares as at 31.03.2019 referred to above would be in the nature of : **2**

(A) Contingent Liability

(B) Crystallized Liability

(C) Constructive Obligation

(D) Construction Obligation

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1.4. In respect of the data provided in para (5) above state the correct option under the Insolvency and Bankruptcy Code, 2016 **2**

(A) Contention of M/s. D is not correct as there is no requirement of demand notice in case of financial creditor.

(B) Contention of M/s. D is correct as without serving a demand notice for accurate amount by financial creditor, application for corporate insolvency resolution process is not maintainable.

(C) Contention of M/s. D is not correct as the demand notice was served on it.

(D) Contention of M/s. D is correct and justifiable in the eyes of law.

1.5. Under the Insolvency and Bankruptcy Code, 2016 (IBC, 2016), which of the following is not part of the objectives for introduction of IBC, 2016 ? **2**

(A) Holding promoters personally financially liable for the defaults of the firms that they control.

(B) Avoiding destruction of value.

(C) Improve handling of conflicts between creditors and debtors through process of negotiation.

(D) Clear allocation of losses during downturn.

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PART–B

1.6. In the draft Management prepared Balance Sheet of Omega Soft Tech Limited as at 31st March, 2020, comment on the errors that the Company has made in the presentation of the draft Balance Sheet as at 31.03.2020 in terms of Schedule III to the Companies Act, 2013. **10**

1.7. State the non-disclosures made by the Company in para 2 (a) to (d) above pursuant to financial statements disclosure requirements as enshrined in Schedule III to the Companies Act, 2013. You may provide your answer only in the light of Schedule III as the disclosure requirements specified in Schedule III are in addition to and not in substitution of the Disclosure Requirements specified in Ind AS prescribed under the Companies Act, 2013. **5**

CASE STUDY-2

CONTAINS : PART–A AND PART–B **25**

You are an open minded, highly sensible, competent professional with value added, decision making capabilities. You have the ability to forecast the consequences of grey areas and matters of concern relating to the existing costing, capital budgeting, standard setting practices followed by the corporates and help them in providing alternative remedial measures duly aligned with the emerging financial reporting processes. You have a sharp acumen of Ind AS and Corporate Laws advising the Board of many reputed Companies.

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You advocate that it is very fundamental to any business to keep updating the business strategies and plans to suit the changing business scenario. In the modern market place, there is no mercy for the mediocre. The rule applies to all the sectors of Indian economy, be it a small scale industry or a big contributor to the GDP.

SINDHUJA FOUNDRIES LIMITED (SFL)

SFL is a fast emerging Company involved in development of castings for automobiles and tractors to industrial engines, construction equipment and power generation equipment. It even caters to the exceptionally high standards of Defense applications. SFL hones its skills by enhancing its development capabilities with the most complex castings. The indigenous expertise that drives the organization enables it to keep pace with the constantly changing requirements of the market. It produces cast iron cylinder blocks, cast iron cylinder heads and cast iron transmission housings. It has won the much coveted quality certifications including ISO 9000, QS 9000 and ISO 14001 certifications that endorse its capabilities. The top Management of SFL is driven by a highly competent Board of Directors. The Board drives the business plans, operating, investment and financing activities besides all key decisions.

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Mr. S. Abhi, Special Director (Costing and Accounts) of SFL based out of Chennai approached you last week seeking your views and solutions on certain matters that they are facing in controlling costs and improving the profitability amidst growing tension with the management. They also wish to seek your advice on disclosures affecting Ind AS and certain other matters. You have accepted the invitation.

COST OVERVIEW

The Company uses and adopts variance analysis and standard costing approach for setting and monitoring costs. Mr. Abhi has provided you as under, the details of variance between standards and the actuals of FY 2018-2019 and 2019-2020 which is placed for your evaluation.

Particulars	Budgeted	Actuals	Variance
Sales/production (sets in units)	6,50,000	5,00,000	1,50,000
Sales (in ₹)	10,00,00,000	8,50,00,000	1,50,00,000
Less : Variable costs (in ₹)	6,55,00,000	5,65,00,000	90,00,000
Less : Fixed Costs (₹)	3,45,00,000	3,25,00,000	20,00,000
Profit (₹)	2,00,00,000	1,60,00,000	40,00,000

Besides standard cost based monitoring, the Company also prepares value added statements. Mr. Abhi, has provided you a statement of Profit and Loss of SFL for the year ended 31.03.2020 as under :

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STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED MARCH 31, 2020.

Particulars	Schd.	(₹) ('000)	(₹) ('000)
Income			
Sales			62,40,000
Other Income			55,000
Total			62,95,000
Expenditure			
Operational and Production Expenses	1	43,20,000	
Administrative Expenses	2	1,80,000	
Finance Costs	3	6,24,000	
Depreciation		16,000	(51,40,000)
			11,55,000
Provision for Taxation			(55,000)
			11,00,000
Balance as per Balance Sheet			60,000
			11,60,000
Transferred to Fixed Assets :			
Replacement Reserve		4,00,000	
Dividend paid		1,60,000	(5,60,000)
Surplus carried over to Balance Sheet			6,00,000

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Sch-1

(₹) ('000)

Production and Operating Expenses	32,10,000
Consumption of Stores	40,000
Local tax	8,000
Salaries to administrative staff	6,20,000
Other manufacturing expenses	4,42,000
Total	**43,20,000**

Sch-2

Administrative expenses include salaries to Directors ₹ 5,000.

Sch-3

Interest and other charges include :

Interest on Fixed loan from bank - ₹ 51,000

Interest on working capital loan from bank - ₹ 1,29,000

GST amounts to one-tenth of total value added by manufacturing and trading activities. Balance after adjustments are other charges which are related to trading activities.

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BUDGET OVERVIEW

The Budgets are set by the Board which is pushed down to various teams and the actuals are regularly compared with the budgets for taking remedial actions in case of any adverse situations. As compared to earlier years, it was found that of late, the variance between the budget and the actual is widening and has become a cause of concern to the top management. Under the circumstances, it was emphasized that every personnel in the Company should participate in the budgetary process and perhaps even asking every manager to set his own targets and consolidate the same for setting the target for the Company.

YOUR PROPOSAL

After carefully analyzing all the above inputs provided by the Special Director (Costing and Accounts), you have suggested the following measures :

A.	Introduction of transparency in the reporting process by making an integrated report, value added report and strong human resource accounting details which would involve only one time investment but would lead to getting new orders by 5,000 sets.
B.	Innovative reporting mechanism for better transparency and better monitoring
C.	Introduction of incentive based compensation system for reducing variable cost by ₹ 15 per set and increase in the production and sales by 10,000 sets.
D.	Introduction of modernization in the production process to increase the efficiency of the production process

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CORPORATE CULTURE

Whilst the Company is historically Board managed, nevertheless, it believes in the principle of developing with everyone. SFL looks at its responsibilities to all stakeholders and is equally concerned with the society, environment and work force. To follow its principle of collective growth, SFL provides several benefits and values to its employees as value addition. SFL spends on an average ₹ 20 Lakhs on various CSR activities which is the approved budget every year. Going forward, the top Management is also exploring the possibility of accruing the CSR for each year based on the budget as more sum could be expended in later years after its accumulation. Apart from the CSR involvement, SFL has also a policy of environment conservation and accordingly has set up a small renewable energy plant out of solid waste and the power so generated is consumed on its own to support its manufacturing plants.

Other matters concerning opinion having an impact on presentation of accounts :

(A) The Company has made a contribution of ₹ 3.5 lakhs during the financial year ended 31.03.2020 to a political party for running a school, situated in the village where most of the workers of the Company reside. It is admitted that the benefit of the school is mostly for the children of the workers of the Company. The Company has not made sufficient profits in the last four years.

(B) An Inter Corporate Deposit of ₹ 75 lakhs has become overdue. The Company has disclosed this in the notes to accounts in Note No. 15 in Schedule No. 21 stating that ₹ 75 lakhs is overdue from XYZ Ltd. and the said Company is in the process of liquidation. The Management is taking steps to appoint the liquidator.

(C) The Company had 9 Directors on the Board. 2 offices of the directors have fallen vacant.

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PART–A

Read carefully the following and provide the correct option. No reasoning is required. 2×5 =10

2.1. Giving utmost freedom and flexibility to set their own targets in the budget setting process has the potential danger of having : 2

(A) Sheer Failure

(B) Non-Performance

(C) Resistance

(D) Slackness in Budget

2.2. Under the Indian GAAP, for financial statement preparation, accrual of CSR in the books of account based on the approved budget is permissible : 2

(A) No

(B) Yes

(C) Yes, with the approval of CSR Committee.

(D) Yes, when eligible projects are identified.

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2.3. Regarding contribution of ₹ 3.5 lakhs during the financial year ended 31.03.2020 to a political party for running a school : **2**

(A) There is no bar in making political contribution of ₹ 3.5 lakhs despite not having profits in the last four years as the benefit of the school is mostly for the children of the workers of the Company.

(B) The Company cannot make contribution to the political fund as it has not earned any profits in the last four years and is a violation of the provisions of the Companies Act, 2013 and should be qualified by the Auditor.

(C) The Company cannot make contribution to the political fund as it has not earned any profits in the last four years. It is, however, not a violation of the provisions of the Companies Act, 2013. But the Auditor need to qualify his report.

(D) As the contribution to the political fund is for the benefit of the school where children of the workers reside, it is neither a contravention of the provisions of the Companies Act, 2013 nor a matter of audit qualification. It is enough if the Company discloses such contribution in the notes forming part of the accounts.

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2.4. Regarding the overdue inter-corporate deposits : **2**

(A) Since the Company is in the process of liquidation, provision for the loss is required to be made in the accounts.

(B) No provision for the loss is required to be made in the accounts.

(C) No provision for the loss or compliances of any accounting standard is required since adequate disclosures have been made in the notes to accounts.

(D) The overdue inter-corporate deposit is safe and realizable in full as the management is taking steps to appoint a liquidator.

2.5. There were 10 directors in the Company. 2 offices of the directors have fallen vacant. The quorum for the Board meetings under the Companies Act, 2013 shall be : **2**

(A) 4

(B) 2

(C) 3

(D) 5

PART–B

2.6. By using Marginal Costing approach, reconcile the budgeted profit and the actual profit and also provide a statement of reconciliation. **7**

2.7. Form the inputs given in the Statement of Profit and Loss for the year ended March 31, 2019, prepare a Value Added Statement for the year ended on that date. Also, show the reconciliation between total value added and profit before taxation. **8**

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CASE STUDY-3

CONTAINS : PART–A AND PART–B 25

Brief facts of the Case :

1. The Assessee filed Income Tax Return declaring an income of ₹ 2,70,360 and agricultural Income of ₹ 53,830 on 11.10.2010. The Assessing Officer received information from the Investigation Wing that the Assessee had paid capitation fee of ₹ 24,50,000 and regular fee of ₹ 11,40,000 on account of fee & donation for admission of his daughter in P.G. Diploma during the financial year 2010-11. The Assessing Officer accordingly recorded reasons and issued notice u/s 148 of the Income Tax Act,1961.

The Assessee submitted that return filed on 11.10.2010 may be treated as return filed in response to notice u/s 148 of the Income Tax Act, 1961. During the course of assessment proceedings the Assessing Officer asked the Assessee to furnish the details of capitation fee paid to M/s XYZ College with regard to admission of Assessee's daughter. The Assessee denied any payment of ₹ 24,50,000 on account of donation to XYZ College.

The Assessee vehemently denied of any payment made towards donation of ₹ 24,50,000 on account of admission of his daughter named Dr. G as she secured the admission based on merit only. The Assessee's daughter Dr. G completed her MBBS in April, 2007 after completing her Internship. Further it was requested that copy of the sworn statement recorded u/s 132(4) of the Income Tax Act, 1961 along with copy of the written statement or affidavits of the person from whose premises the documents were recovered and presumptions were drawn by the Income Tax Department,

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and any document which is in the handwriting of the Assessee, be provided to us for our scrutiny. An opportunity for cross examining the said person (whose statement was recorded) was further requested. However, no such documents or opportunity to cross examine was allowed by the Income Tax Department. The Counsel of the Assessee was shown only typed list (cannot be considered as documentary or circumstantial evidence) and not the original diary which was also requested by the Counsel of the Assessee. The alleged list was not on letter head of the alleged XYZ College nor there was any name of the person who had signed the list. However, on enquiry it was informed that these were the initials of Chairman and Managing Trustee of the alleged XYZ College. It was further apprised that the Assessee has never met the Chairman and the Managing Trustee of the alleged XYZ College but he had paid his entire fees to the Accountant of the alleged Institute, receipts which have already been enclosed for your reference in our reply dated 24th June, 2016.

The Assessing Officer provided the list of students furnished by Shri. ABC, the Chairman and & the Managing trustee of the XYZ College wherein Shri. ABC had confirmed regarding unaccounted contribution i.e. Donation/capitation fee received from various persons.

The Assessing Officer pointed out that the name of the Assessee's daughter was appearing at Sr. No. ZZZ which showed that the XYZ College had received an amount of ₹ 24,50,000 from the Assessee's daughter. The Assessing Officer accordingly asked the Assessee to explain the source of donation made by him. The Assessee once again denied the payment of donation amounting to ₹ 24,50,000.

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The Assessing Officer observed that the contention of the Assessee was not acceptable since during the search proceedings u/s 132, the documents seized from the premises of M/s XYZ College and the list of students provided by the Chairman Sh ABC, wherein Sh ABC had confirmed in the statement under oath that the XYZ College had received the donation as per the list given by him in which the Assessee's daughter name appeared at Sr. No. ZZZ for the year 2009-10 showing receipt of ₹ 24,50,000. The Assessing Officer accordingly held that the Assessee had made the said payment from unaccounted sources and accordingly added the same to the total income of the appellant.

The Assesse preferred an appeal against the order u/s 147/143(3) of the Income Tax Act, 1961 dated 31.10.2016 passed by the Income Tax Officer, Ward-56, SSSS. Sh. DEF, CA attended on behalf of the appellant.

2. The Appellant has taken the following grounds of appeal :

That the Order u/s 147/143(3) of the Income Tax Act, 1961 dated 31.10.2016 is contrary to the facts and law of the case and, therefore, is liable to be quashed and demand of ₹ 13,56,760 including interest is to be deleted.

3. During the appellate proceedings, the Appellant raised additional grounds of appeal vide its letter dated 01.06.2018 which read as under :

(i) *The Ld. AO has erred on facts and law in assessing the appellant under section 147/143(3) of the Income Tax Act, 1961 without satisfying the substantive and procedural requirements under section 153C of the Income Tax Act. Assessment could have been made only under section 153C of the Act based upon document/information during search.*

(ii) *Without prejudice, the Ld. AO has erred on facts and in law in passing the assessment order under section 147/143(3) of the Income Tax Act, 1961 with the approval of the Additional CIT, Range-DDD, SSSS vide his letter F. No. Addl. NIL dated 23-04-2015.*

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4. Keeping in view the fact that the additional grounds raised by the Appellant (Assessee) were purely legal grounds, these grounds were admitted. A copy of the additional grounds of appeal were also forwarded to the Assessing Officer and the Assessing Officer was requested to give his comments with regard to the additional grounds of appeal.

The Assessing Officer vide report dated 30.10.2018 submitted as under :

(i) *An information in respect of capitation fees/donations paid over and above the regular course fee to XYZ College, SSSS was received in this office from Deputy Director of Income Tax (Inv.), Unit-56, SSSS, vide their office letter dated 10.03.2015, through the Pr. Commissioner of Income Tax, SSSS.*

(ii) *On perusal of the information it was found that the assessee had paid capitation/donation (over and above the regular course fee) of ₹ 24,50,000 and regular fee was also paid by DD of ₹ 4,35,000 and in cash ₹ 7,05,000 totalling to ₹ 35,90,500 on account of admission/study of his daughter named Dr. G in DCH course during the FY 2009-10 relevant to the Assessment Year 2010-11.*

(iii) *On the basis of the information, the then Assessing Officer enquired about the status of filing of ITR and formed his reason to believe that the amount of ₹ 35,90,500 chargeable to tax had escaped assessment and recorded his satisfaction and sought due approval from the Joint Commissioner of Income Tax, Range-DDD, SSSS vide letter no. NIL dated 20.04.2015 which was accorded by the Addl. CIT, Range-DDD, SSSS vide their office letter dated 23.04.2015. Subsequently, notice u/s 148 of the Act was issued to the assessee on 30.04.2015.*

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(iv) *On the contention of the assessee w.r.t. proceedings u/s 153A/153C of the Income Tax Act, 1961 raised during appellate proceedings, list was perused which was annexed with the reasons recorded for the issue of notice u/s 148 of the Act, and it is seen that there is information for only one particular Assessment year and there were no such seized books of accounts or documents or any money or bullion or jewellery or other valuable articles which were seized during search & pertaining to the assessee. So, the provisions of section 153C of the Act are not applicable in the case because provisions of this section are same as those in section 153A and notice u/s 153C were to be issued for last six years while there are no such seized documents for such action. There was list of donations and capitation fees found during search at the premises of XYZ College and statement on Oath. Hence, action taken u/s 148 by the then AO is correct.*

(v) *In view of the above, as against the additional grounds of appeal submitted by the assessee, it is found that due process was adopted for assessing the escaped income.*

5. Further, the Appellant has relied upon the decisions which are on the issue of powers of appellate authority, i.e. the jurisdiction of Ld. Commissioner of Income Tax, Appeals, to take decision on admission of additional grounds of appeal as provided u/s 250(5) of the Act.

6. A copy of the Assessing Officer report was provided to the Appellant. Authorised Representative of the Appellant vide written statement submitted dated 04.12.2018 once again reiterated the submissions made by his submissions dated 01.06.2018.

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MYC **Marks**

PART–A

Read carefully the following and provide the correct option. No reasoning is required. **2×5 =10**

3.1. The Assessing Officer shall, before issuing any notice under section 148 of the Income Tax Act, 1961, shall : **2**

(A) Shall record his reasons;

(B) Shall not record his reasons;

(C) Shall consult his senior officials;

(D) Shall request representation from Assessee.

3.2. When a notice u/s 148 is received by the Assessee, the first thing which the Assessee is required to do is that she/he :- **2**

(A) Should not give any response to the notice;

(B) Should file Income Tax Return;

(C) Should ask for the reasons for issue of notice under section 148;

(D) Should file an Appeal.

3.3. When the Assessee should file objections to the notice issued section 148 of the Income Tax Act, 1961 ? **2**

(A) After filing Income Tax Return;

(B) Before filing of Income Tax Return;

(C) After taking copy of the reasons recorded for issue of notice under section 148 of the Income Tax Act, 1961;

(D) Before taking copy of the reasons recorded for issue of notice under section 148 of the Income Tax Act, 1961.

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3.4. Whether the Proceedings initiated u/s 148 instead of section 153C be quashed ? **2**

(A) Yes, the Assessing Officer was not justified in reopening the assessment u/s 147 and his order was illegal and arbitrary;

(B) No, the Assessing Officer was justified in reopening the assessment u/s 147 and his order is not illegal and arbitrary;

(C) The Assessing Officer can complete Assessment Proceedings under both section 147 and 153C of the Income Tax Act, 1961;

(D) The Assessing Officer can complete assessment only after prior approval of senior official.

3.5. Section 132 of the Income Tax Act,1961 deals with : **2**

(A) Deals with Assessment Proceedings;

(B) Deals with settlement commission;

(C) Search and seizures;

(D) Deals with Advance Rulings.

PART–B

Answer the following with reference to the case study :

3.6. Discuss the provisions of section 147/148 of the Income Tax Act, 1961, and evaluate whether Assessing Officer was justified in completing the Assessment Proceedings u/s 147/143(3) of the Income Tax Act, 1961. **8**

3.7. Discuss the provisions of section 153C of the Income Tax Act, 1961 and evaluate in the light the assessment order passed by the Assessing officer. **7**

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CASE STUDY-4

CONTAINS : PART–A AND PART–B **25**

You are a young Management Consultant, having graduated from a top notch business school in India and later on became a Certified Public Accountant (CPA) from USA. At the age of 29 years, you started a consultancy firm in Jaipur, India for providing scratch to end business advisory and regulatory related solutions. Your clients are spread across the country and you have a sizeable team of professionals working under your entire advisory practice.

Your client, M/s. New Tech Automobile Solutions Limited (NTASL) is a start-up company incorporated in the year 2017. The Company develops a niche, never invented before, customized software packages for two and three wheeler automobile manufacturers in India and abroad.

NTASL is well recognized for its governance standards and is very keen to implement its zero tolerance for non-compliances policy. Though the Company including its wholly owned subsidiary has an adequate internal control mechanism and is managed by qualified/experienced professionals, yet as a matter of abundant precaution, they have reached out to you seeking your advice/clarifications on certain matters to doubly ensure that the growth plans does not result in regulatory non-compliances having an impact on the Company's reputation and brand image.

Accordingly, they have requested you to join their internal brain storming session organized to discuss and decide the way forward. Prior to the meeting, the promoters have informed you and given the following inputs :

(a) The Company is registered with the 'Software Technology Parks' but is not a status holder exporter.

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(b) The details of export sales and its realization during the preceding three financial years is as under :

Particulars	FY 2017-'18	FY 2018-'19	FY 2019-'20	Average
Export Turnover (US$)	50,000	2,50,000	4,50,000	2,50,000
Realization of export proceeds (US$)	30,000	2,00,000	3,00,000	1,76,667

(c) One of the export invoices amounting to US$ 20,000 raised by the Company in the FY 2017-18 was outstanding for more than one year as on 31st March, 2019 and despite the Company's best efforts, no amounts could be recovered and therefore, during the FY 2019-20, the Company had no other alternative than to write off the entire amount of US$ 20,000 without obtaining the approval from the Authorized Dealer (AD).

(d) The Statutory Auditors of the Company, M/s. XYZ & Associates, where CA. Mr. F, who is one of the partners of the audit firm and does not sign the audited financials of the Company, had borrowed a sum of ₹ 4 lakhs from the subsidiary company of NTASL for a short term period, repayable within 2 months. He had also purchased accounting software worth ₹ 1.10 lakhs from the said company. Both the sum borrowed and the cost of the accounting software are not yet paid by Mr. F.

(e) You were informed that for the purpose of carrying out the Statutory Audit, the Statutory Auditors of the Company would like to have the entire content of the Annual Report having various elements such as Notice calling the AGM, the Directors Report with annexures, Corporate Governance Report, Management Discussion and Analysis and other key financial highlights and the Management feels that these are beyond the purview of statutory auditors.

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(f) Further, the Management of the Company, as in the case of CFO, wants the Company Secretary also to be equally responsible for ensuring compliances and other reporting requirements relating to the financial statements under the Companies Act, 2013.

(g) In the Company's draft unaudited Balance Sheet as at 31.03.2020, the sub-head inventories contained an item "goods in transit" in which a consolidated amount aggregating the cost of raw materials in transit and loose tools billed on the Company but delivery not made to the Company had been specified.

(h) As at 01.04.2019, the composition of the Board of Directors of NTASL comprised of 7 directors as under :

S. No	Name	Designation
1.	Mr. X	Executive Chairman (Executive and Non-Independent)
2.	Mr. Y	Managing Director and CEO (Executive and Non-Independent)
3.	Mrs. Z	Women Director (Non-Independent)
4.	Mr. A	Independent
5.	Mr. B	Independent
6.	Mr. C	Independent
7.	Mr. D	Independent

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As at 01.04.2019, the constitution of the Audit Committee comprised of the following Directors :

Name	Designation
Mr. Y	Chairman
Mr. X	Member
Mrs. Z	Member
Mr. Y	Member

The majority of the members of the Audit Committee have the ability to read and understand the financial statements but none of them have accounting or related financial management expertise. During January, 2020, the Company went for an Initial Public Issue (IPO) and got its shares listed in a recognized Stock Exchange. Referring to SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015.

(i) The Company acquired 5 state-of-the art, hitech computers, peripherals and servers (herein after referred to as 'Plant') at a cost of ₹ 1 Crore (with no breakdown of the component parts). The estimated useful life is 10 years. At the end of the 2nd year, one of the major component (Server) has become obsolete and requires replacement as further maintenance is uneconomical. The balance of the plant is perfect and expected to last for next 10 years. The cost of the replacement of new component is ₹ 6,00,000. The discount rate assumed is 5%.

(j) The income tax assessment of the Company was completed under Section 143(3) of the Income Tax Act, 1961 with an addition of income of ₹ 24 lakhs to the returned income. The Company had preferred an appeal before the Commissioner of Appeals which is pending disposal.

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PART–A

You are requested to read carefully the following and provide the correct option. No reasoning is required. 2×5 =10

4.1. Under the provisions of the Foreign Exchange Management Act, 1991 complete write-off of foreign exchange receivable arising out of export sales is permissible. 2

(A) No. It is not allowed.

(B) Yes. It can be done, subject to the condition that a credit note is raised by reversal of export sales subsequently.

(C) Only with the approval of the Authorised dealer.

(D) Only in compliance with the FEMA / RBI Guidelines.

4.2. With respect to the acts carried out by CA Mr. F, the partner of the audit firm, what can you infer about the appointment of M/s. XYZ & Associates as Statutory Auditors of the Company ? 2

(A) It is valid since the indebtedness is not with NTASL.

(B) It is valid since CA Mr. F is not signing the financials of NTASL.

(C) It is valid since the indebtedness is within the prescribed limits.

(D) It is not valid since the indebtedness exceeds prescribed limit of ₹ 5 lakhs.

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4.3. Statutory Auditors have an obligation to validate all the financial and non-financial data provided along with the audited financial statements as part of the Annual Report. **2**

(A) No, it is only a voluntary act on the part of the Statutory Auditors.

(B) Yes, as required under Auditing Standards.

(C) Limited only to financial information.

(D) Yes, to the extent it relates to the relevant information not reported as part of the financial statements.

4.4. The Company Secretary, similar to that of CFO, is equally responsible for ensuring compliances with the mandatory Ind Accounting Standards as applicable and other reporting requirements relating to the financial statements under the Indian Companies Act, 2013. **2**

(A) Yes, as is evident by his requirement to sign the audited financial statements wherever required.

(B) No.

(C) Yes. It is applicable for listed entities only.

(D) Depends on the decision of the Board.

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4.5. In the Company's Balance Sheet as at 31.03.2020, the sub-head inventories contained an item "goods in transit" in which a consolidated amount aggregating the cost of raw materials in transit and loose tools billed on the Company but delivery not made to the Company had been specified. The disclosures made by the Company which adopted IND AS for compilations of financial statements is : **2**

(A) Wrong. A separate sub-head of Loose Tools under heading of Inventories i.e. as a part of Current Assets must be shown;

(B) Correct. A separate sub-head of Loose Tools under heading of Inventories i.e. as a part of Current Assets need not be shown;

(C) Wrong. A separate head of Loose Tools under heading of Current Assets must be shown;

(D) Partly correct.

PART–B

4.6. In respect of the data provided in para (h) above, **5**

(i) State how a qualified and an independent Audit Committee should be constituted ?

(ii) Whether the present constitution of the Audit Committee can continue post listing of its securities in the Stock Exchange ?

4.7. In respect of the data provided in para (i) above, examine whether the cost of new component (server) be recognized as an asset, and, if so, what should be the carrying value of the plant at the end of the second year ? **5**

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4.8. In respect of the information provided in para (j) above, please answer the following questions with reference to the latest provisions applicable to A.Y. 2019-2020 : 5

(i) Can the Commissioner make a revision under Section 263 of the Income Tax Act, 1961 both in respect of matters covered in appeal and other matters ?

(ii) Can the assessee company seek revision under Section 264 of the Income Tax Act, 1961 in respect of the matters other than those preferred in appeal ?

CASE STUDY-5

CONTAINS : PART–A AND PART–B 25

The Company

Ram Equipments Limited (REL) is a listed Company incorporated on 08.06.1959 under the provisions of the erstwhile Companies Act, 1956, having its Registered Office at Ayodhya, Uttar Pradesh.

REL is a leading air compressor manufacturer with an extensive range of innovative and technologically advanced air compressors. True to the leadership position it aspires, REL has through the decades maintained a technological edge in the air compressor market with incremental and break through innovation, through incorporation of latest technologies in its product. It has secured ISO 9001:2008, ISO 14001:2015, ISO 45001:2018 and ISO 50001 certifications and has employed best-in-class practices and advanced capabilities to manufacture products to meet International Standards.

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BOARD OF DIRECTORS

The Company has a vibrant Board of Directors with a proper mix of both Executive and Non-Executive Directors, including Women Independent Directors. The CEO of the Company, Dr. Ram Varadaraj, a Phd in International Business from the University of Michigan, USA is a third generation entrepreneur from the illustrious family of Ram Bhakth, the founder of the Company. The Company adopts a robust corporate governance norms both in letter and spirit.

YOU ARE INVITED

Now, assume that you are an extrovert CA and possess excellent communication and presentation skills. You are invited on coming Friday, by the Chairman of the Audit Committee, for a business meeting, with a view to discuss certain matters that are proposed to be discussed at the forth coming Board Meeting and other matters seeking clarifications and/or on presentations in the financial statements. You consented to clarify all issues. On the appointed day of the meeting, you were provided with the following inputs :

BOARD MEETING

To further strengthen the Board vis-à-vis to strengthen the corporate governance to the maximum extent and in compliance of the requirements of the Companies Act, 2013 to have another women director and also an independent director on the Board, the Company proposes the following appointments at the Board Meeting scheduled to be convened on 10.10.2020 :

(a) To appoint Ms. Right as the women director in the place of Ms. Smart who had recently resigned from the position of Women Director. Ms. Right already holds directorship in twelve companies including ten public companies. She is a whole time Company Secretary in practice.

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(b) To appoint Ms. Bright as an Independent Women Director. She holds directorship in eight public companies including Managing Directorship in two companies and directorship in six companies. These eight companies include directorship in REL also. In addition, she also holds alternate directorship in three companies and Independent directorship in three subsidiary companies of REL.

OTHER INPUTS SHARED :

(A) REL is also the holding Company of Alfa White Limited (AWL) with Beta Blue Private Limited (BBPL) as a subsidiary to AWL. Now, Mr. Intelligent is a Director (Operations) of Town City Limited, which is also a subsidiary of REL. Impressed by the performance of Town City Limited, the Directors of REL approached Mr. Intelligent to act as the Joint Managing Director of REL. Upon his favourable consent, the Company (REL) proposed to pass a Board Resolution through resolution (containing the terms and conditions of appointment including remuneration) by circulation.

(B) Also, the Board of Directors of BBPL, at their Board Meeting, wherein all the Directors present at the meeting, approved the resolution to appoint Mr. Intelligent as the Whole Time Director (WTD). Thereafter, BBPL also convened the general meeting for getting the approval of shareholders and passed an ordinary resolution to appoint Mr. Intelligent as the WTD. In the matter of the above appointments, both the Companies have duly complied with Schedule V of the Companies Act, 2013.

(C) The Assessing Officer suspects an income of ₹ 10 lakhs to have escaped assessment for AY 2012-13 and issues a notice u/s 148 issued on 31.01.2019 and received by the company on 28.02.2020.

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(D) The Management prepared financial statements of one of the subsidiary Company adhering to Ind AS as at 31.03.2020 and was made available to you. On a perusal of the same, you made the following observations :

(i) Provision for doubtful debts of trade debtors was grouped in "Provisions" under current liabilities.

(ii) In the Statement of Profit and Loss, prior period income was shown under "Other Income".

(iii) Sale proceeds of scrap incidental to manufacture were included in "Other Income".

(iv) Payment towards a one time voluntary retirement scheme introduced during the year was included in "Employee Benefit Expense".

(E) Revaluation of Plant and Machinery

The Company performed a revaluation of all its plant and machinery at the beginning of 01.04.2019. The following information relate to one of the machinery :

Particulars	Amount ₹ ('000)
Gross carrying amount	200
Accumulated depreciation (SLM)	(80)
Net carrying amount	120
Fair value	150

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The useful life of the machinery is 10 years and the Company uses Straight Line method of depreciation. The revaluation was performed at the end of 4 years.

Please go through carefully the above data / issues and answer the following questions in your capacity as a Chartered Accountant.

PART–A

Read carefully the following and provide the correct option. No reasoning is required. **2×5 =10**

Based on the above provided information and in the light of applicable provisions of the Companies Act, 2013, advise on the following multiple choice questions.

5.1. The proposed appointment of Ms. Right as the Women Director in REL would be : **2**

(A) Valid. Appointment of Women Director is a statutory requirement despite the number of her directorship in other Companies.

(B) Invalid as she is a whole time practicing Company Secretary.

(C) Invalid as she is already a director in 12 Companies.

(D) Invalid as the appointment will lead her directorship in 11 public Companies.

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5.2. The proposed appointment of Ms. Bright as an Independent Women Director in REL would be : 2

(A) Invalid as her total holding of directorship in Public Companies is 14 which is beyond the limit of 10 Public Companies.

(B) Invalid as her total holding of directorship in Public Companies is 11 which is beyond the limit of 10 Public Companies.

(C) Invalid as her total holding of directorship in Public Companies is 12 which is beyond the limit of 10 Public Companies.

(D) Valid as her total holding of directorship in Public Companies is 9 which is below the limit of 10 Public Companies.

5.3. In addition to a listed entity, which other Company is required to appoint a women Director ? 2

(A) A Company having a paid up capital of ₹ one hundred crore.

(B) A Company having a Turnover of ₹ three hundred crore.

(C). A Company having both - a paid up capital of ₹ one hundred crore and a Turnover of ₹ three hundred crore.

(D) A Company having either a paid up capital of ₹ one hundred crore or a Turnover of ₹ three hundred crore.

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5.4. Whether the appointment of Mr. Intelligent as the Joint Managing Director of REL is valid ? **2**

(A) Valid with further approval of the Central Government.

(B) Invalid as a person cannot hold more than one office as Managing Director.

(C) Valid as a Whole Time Key Managerial Person can hold office in its subsidiary also at the same time.

(D) Invalid due to passing of resolution through improper mode and absence of approval of general body resolution.

5.5. Whether the appointment of Mr. Intelligent as Whole Time Director in BBPL is valid ? **2**

(A) Yes. In view of Section 2(71), it is a deemed public company.

(B) Yes, subject to further approval of the Central Government.

(C) No. In view of the restriction placed under Section 203(3) on appointment in more than one company.

(D) No. BBPL is a private company and hence, Rule 8 & 8a of Companies (Appointment & Remuneration of Managerial Personnel) Rules, 2014 is not applicable.

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PART–B

5.6. In the light of the information given in summary of discussion (C) – 'Other Inputs' above, provide the course of action required on the part of the company. **5**

5.7. In the light of information provided in para (D)- 'Other Inputs' above, as a Chartered Accountant, give your comments to the disclosures made by the Company which adopted Ind AS for compilation of Financial Statements. **4**

5.8. In the light of information provided in para (E) – 'Other Inputs' above and Ind AS 16, explain how should the Company account for revaluation of Plant and Machinery and depreciation subsequent to revaluation ? **6**

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