

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

CASE STUDY 1

Part A

1. (b) ₹ 66,50,000

Reason: Closing balance of investment in KTL at the end of the year -

	₹
Cost of acquisition of investment (including goodwill of ₹ 4 lakhs)	64,00,000
Add: Share in profit of KTL	2,25,000
Add: Share in OCI of KTL	1,00,000
Less: Share in dividend of KTL (₹ 3,00,000 x 25%)	(75,000)
Closing balance of investment	66,50,000

2. (a) Board resolution with unanimous approval would have been passed and there was no requirement to pass special resolution in the GM of the company as the specified limit had not been exceeded.

Reason: As per Section 186 of the Companies Act, 2013, a company is permitted to enter into transactions of giving loan or guarantee or providing security or acquiring of securities (*i.e.* shares, debentures, etc.), in the aggregate, upto 60% of its paid-up share capital (both equity and preference), free reserves and securities premium or 100% of its free reserves and securities premium, whichever is more. **Prior approval is required by a special resolution for exceeding limit.**

Any investment shall be made or loan or guarantee or security given by the company only after when the resolution sanctioning it is passed at a meeting of the Board **with the consent of all the directors present** at the meeting *i.e.* unanimous approval is required.

However, where a loan or guarantee is given or where a security has been provided by a company to its wholly owned subsidiary company or a joint venture company, or acquisition is made by a holding company, by way of subscription, purchase or otherwise of, the securities of its wholly owned subsidiary company, the requirement of passing a special resolution as required by Section 186 (3) shall not apply.

In the given instance, board resolution with unanimous approval would have been passed and there was no requirement to pass special resolution in the GM of Samya Ltd. as the specified limit had not been exceeded, as tabulated below:

Particulars	Samya Ltd. (₹ in lakhs)
Equity Share Capital	350
Less: Unpaid Calls	50
Add: General Reserve	150

Add: Profit & Loss A/c		40
Add: Dividend equalisation reserve		20
Total	(a)	510
60% of (a)	(b)	306
Total free reserves	(c)	210
Higher of (b) & (c)		306
Investment already made + proposed to be made (₹ 280 lakhs + ₹ 20 lakhs)		300

3. (c) ₹ 8 crore

Reason: According to the provisions of Section 180(1)(c) of the Companies Act, 2013, the borrowings should not exceed the aggregate of the paid-up share capital, free reserves and securities premium. While calculating the limit, the temporary loans obtained by the company from its bankers in the ordinary course of business will be excluded.

In the given instance, the aggregate of the paid-up share capital, free reserves and securities premium of PBL is tabulated below:

Particulars	Prag Bhara Ltd. (₹ in lakhs)
Equity Share Capital (Face-value: ₹100/ share)	1200
Less: Unpaid Calls	100
Add: General Reserve	350
Add: Profit & Loss A/c	80
Add: Securities Premium	170
Add: Dividend equalisation reserve	50
Total	<u>1750</u>
Loans already taken (₹ 600 lakhs + ₹ 400 lakhs - ₹ 50 lakhs, as it is a temporary loan)	<u>950</u>
Further borrowings that can be done without passing of special resolution	<u>800</u>

4. (b) 1,75,000 shares

Reason: According to Section 68(2), no company shall purchase its own shares or other specified securities, unless—

- (a) the buy-back is authorised by its articles;
- (b) a special resolution has been passed at a general meeting of the company authorising the buy-back:

However, nothing contained in this clause shall apply to a case where—

- (1) the buy-back is, 10% or less of the total paid-up equity capital and free reserves of the company; and
- (2) such buy-back has been authorised by the Board by means of a resolution passed at its meeting.

In the given instance, the aggregate of the paid-up share capital and free reserves of PBL is tabulated below:

Particulars	Prag Bhara Ltd. (₹ in lakhs)
Equity Share Capital (Face-value: ₹100/ share)	1200
Less: Unpaid Calls	100
Add: General Reserve	350
Add: Profit & Loss A/c	80
Add: Securities Premium	170
Add: Dividend equalisation reserve	50
Total (a)	1750
10% of (a)	175
Maximum shares that can be bought-back without approval by special resolution (₹ 175,00,000 / ₹ 100 per share)	1,75,000 shares

5. (d) ₹ 6,98,880

Reason: As per section 115-QA of the Income Tax Act, 1961, PBL shall pay tax @ 23.296% on the distributed income as follows:

Distributed Income = Buy back price – issue price (including premium) = 1,00,000 shares × (₹ 180 per share - ₹ 150 per share) = ₹ 30,00,000

Tax payable = ₹ 30,00,000 * 23.296% = ₹ 6,98,880

Part B

6. (i) (1) **Goodwill / capital reserve on the date of acquisition**

The cost of the investment is higher than the net fair value of the investee's identifiable assets and liabilities. Hence there is goodwill. Amount of goodwill is calculated as follows:-

	₹
Cost of acquisition of investment	64,00,000
PBL's share in fair value of net assets of KTL on the date of acquisition (₹ 2.4 crore * 25%)	(60,00,000)
Goodwill	4,00,000

Above goodwill will be recorded as part of carrying amount of the investment.

(2) **Share in profit and other comprehensive income of KTL**

	₹
Share in Profit of KTL (₹ 9 lakh x 25%)	2,25,000
Share in OCI of KTL (₹ 4 lakhs x 25%)	1,00,000

(ii) **Following entries would be passed in the books of PBL:**

Particulars	Debit (₹)	Credit (₹)
1) Initial entry to record investment done in associate		
Investment in KTL A/c	64,00,000	

To Bank A/c		64,00,000
2) Recording of share in the profit of the associate		
Investment in KTL A/c	2,25,000	
To Share in profit of investee (P&L)		2,25,000
[PBL share in profit would be ₹ 2,25,000 (₹ 9 lakh x 25%)]		
3) Recording of share in the other comprehensive income (OCI) of the associate		
Investment in KTL A/c	1,00,000	
To Share in OCI of investee (OCI)		1,00,000
[PBL share in OCI would be ₹ 1 lakh (₹ 4 lakhs x 25%)]		
4) Recording of dividend distributed by associate		
Dividend Receivable A/c	75,000	
To Investment in KTL A/c		75,000
[PBL share in dividend would be ₹ 75,000 (₹ 3 lakhs x 25%)]		

7. (i) PBL should record full loss of ₹ 4,00,000 (20,00,000 – 16,00,000) in its books as that would represent the impairment loss because the market value has actually declined. This loss would have been recorded even if PBL would have first impaired the asset and then sold to VPL at zero profit / loss.

Following entry should be passed in the books of PB:

Particulars	Debit (₹)	Credit (₹)
Bank A/c	16,00,000	
Loss on sale of asset A/c	4,00,000	
To Asset A/c		20,00,000

- (ii) (a) In the given instance, cash calls will not be subject to GST since the operating member is not carrying out an activity for another for consideration. Here, the money paid for purchase of machinery is merely in the nature of capital contribution and is therefore a transaction in money.
- (b) GST would have been applicable in the case if the operating member, Samya Ltd. had used its own machinery for oil production, then it would had been amount to providing of 'service' within the scope of 'supply' because here operating member would have been recovering the cost appropriated towards machinery & services from other JV member in the participating interest ratio. [Circular No. 35/9/2018 GST dated 05.03.2018].
8. (i) M/s Tripathi & Associates are unable to obtain sufficient appropriate audit evidence about the financial information of a joint venture investment that represents over 70% of the entity's net assets. The possible effects of this inability to obtain sufficient appropriate audit evidence are both material and pervasive to the consolidated financial statements.

Therefore, the statutory auditor should issue a disclaimer of opinion.

The relevant extract of the Disclaimer of Opinion Paragraph and Basis for Disclaimer of Opinion paragraph is as under:

Disclaimer of Opinion

We do not express an opinion on the accompanying financial statements of Samya Ltd. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

The Group's investment in its joint venture Vasudhara (P) Ltd. is carried at ₹ 3 crores on the Group's consolidated balance sheet, which represents over 70% of the Group's net assets as at March 31, 2022. We were not allowed access to the management and the auditors of Vasudhara (P) Ltd., including Vasudhara (P) Ltd.'s auditors' audit documentation. As a result, we were unable to determine whether any adjustments were necessary in respect of the Group's proportional share of Vasudhara (P) Ltd.'s assets that it controls jointly, its proportional share of Vasudhara (P) Ltd.'s liabilities for which it is jointly responsible, its proportional share of Vasudhara (P) Ltd.'s income and expenses for the year, (and the elements making up the consolidated statement of changes in equity) and the consolidated cash flow statement.

- (ii) The provisions of the Arbitration and Conciliation Act, 1996 outlines the requirements of a valid arbitration agreement. One of such requirements is clarity of consent i.e. the intention to go to arbitration must be clear in other words there must be consensus ad idem. Utilization of vague words cannot be considered as adequate.

Further the Arbitration and Conciliation Act, 1996 envisages the possibility of an arbitration agreement coming into being through incorporation i.e. arbitration agreement through reference. In other words, parties to an agreement could agree to arbitrate by referring to another contract containing an arbitration agreement.

In the given scenario, it is an arbitration agreement through reference, but the terms and conditions of the said agreement are vague and not clear and therefore the said agreement is not a valid arbitration agreement as the italicized portion in the agreement clearly highlights the need for further agreement between the parties.

Accordingly in the given instance, the parties will not be able to refer the disputes, if any, to arbitration since the terms and conditions of arbitration agreement through reference are vague and not clear and thus the arbitration agreement is not valid in law.

CASE STUDY 2

Part A

1. (b) Yes, the Managing Director cannot be appointed for a term exceeding five years at a time and no re-appointment can be made earlier than one year before the expiry of his term.

Reason: Section 196 of the Companies Act, 2013 contains the provisions for appointment of Managing Director, Whole Time Director or Manager. According to the sub-section (2),

- a. No company shall appoint or re-appoint any person as its managing director, whole-time director or manager for a term exceeding five years at a time.
- b. It is further provided that no re-appointment shall be made earlier than one year before the expiry of his term.

2. (b) Special Notice to Members.

Reason: Section 201 of the Companies Act, 2013 contains provisions which need to be followed for seeking approval from the Central Government if an application is made under Section 196 for the appointment of a person as Managing Director who has attained the age of seventy years but in whose case the appointment could not be regularised by passing a special resolution though votes cast in favour of the motion exceeded the votes cast against the motion. Non-passing of special resolution as before also contravenes Schedule V. Accordingly, for regularizing the appointment the company would apply to the Central Government for approval based on the fact that majority of the shareholders are in favour of such appointment as they find this appointment to be most beneficial to the company. It may be noted that now no approval is required for managerial remuneration in any case.

The process for seeking approval as given in Section 201 and Rule 7 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 is stated as under:

- (i) **Making of Application for Approval:** Every application made to the Central Government under Section 196 shall be in Form No. MR-2 as prescribed by Rule 7 and shall be accompanied by the specified fee. Rule 7 also requires that every such application shall be made to the Central Government within a period of ninety days from the date of such appointment.
- (ii) **General Notice to Members:** Before any application is made by a company to the Central Government under section 196, a general notice to the members of the company shall be issued by or on behalf of the company, indicating the nature of the application proposed to be made.
- (iii) **Publication of Notice:** Such notice shall be published:
 - at least once in a newspaper in the principal language of the district in which the registered office of the company is situated and circulating in that district; and
 - at least once in English in an English newspaper circulating in that district.
- (iv) **Attaching of Notice with the Application:** The copies of the notices, together with a certificate by the company as to the due publication thereof, shall be attached to the application.

3. (d) ITC availed in books of account should be reversed for both sets distributed as gifts and sets stolen since no tax is paid on outward supply.

Reason: Clause (h) of section 17(5) of CGST Act provides that ITC in respect of goods that are disposed of by way of gift or free samples is not available. Also, ITC is blocked on lost goods, stolen goods, destroyed goods and goods that are written off. This is because principally, ITC is available only for payment of tax on output supply. If no tax is payable on output supply, ITC on inputs/input services/capital goods relating to such output supply is not eligible. Hence, ITC on gifts and free samples is blocked as no tax is payable on its outward supply. In case of lost/destroyed/stolen written off goods also, ITC is not available as these goods cannot be said to have been used for making a taxable supply.

4. (c) If transport and other infrastructure facilities are not adequately available.

Reason: A firm generally decides to outsource:

- If it costs less rather than to manufacture it internally;
- If the return on the necessary investment to be made to manufacture is not attractive enough;
- If the company does not have the requisite skilled manpower to make;

- If the concern feels that manufacturing internally will mean additional labour problem;
- If adequate managerial manpower is not available to take charge of the extra work of manufacturing;
- If the component shows much seasonal demand resulting in a considerable risk of maintaining inventories;
- If transport and other infrastructure facilities are adequately available;
- If the process of making is confidential or patented;
- If there is risk of technological obsolescence for the component such that it does not encourage capital investment in the component.

5. (a) Fixed and variable activities.

Reason: Activity Based CVP Analysis- CVP analysis would indicate how many units need to be sold, such that the contribution can cover such fixed expenses (overheads) to arrive at the break- even point. This approach would be accurate as long as majority of the activities have costs as the volume driver. In such cases, the critical activity level for break-even can be clearly identified. However, there are certain activities that are not related to volume of production at all. They occur irrespective of volume of production. Such activities can be identified using the activity-based costing approach. Analysis of an organization's activities based on activity-based costing method can be broadly classified into:

- (i) Unit level (output) activities: Activities performed each time a product is manufactured. As explained above, this varies in direct proportion to the volume of production. The *cost driver* would be the production volume.
- (ii) Batch-level activities: Certain activities are done for "a batch of production" rather than for "a unit volume of output". Examples are set-up activities or processing purchase orders (material procurement). An example of setup in a manufacturing context is changing machine specifications to meet product specifications.
- (iii) Product sustaining activities: These are activities performed to support production or sale of a specific type of product. Examples of such activities would be designing a product, designing production processes, drawing process charts, maintaining product specifications, developing special testing routines or technical enhancements (engineering change orders) or advertising for a particular product.
- (iv) Facilities level activities: Activities performed for the general operations of business. They cannot be traced to any particular product. Examples include depreciation of factory building or the rent paid on it, insurance on the building, costs of training employees etc.

Part B

6. **Computation of ITC available with HappyHomes Ltd. for the month of April:**

Particulars	ITC (₹)
Life Insurance premium paid by the company on the life of factory employees [Note 1]	Nil
Raw materials purchased [Note 2]	Nil
Trucks purchased for delivery of output goods [Note 3]	80,000
Work contractor's service [Note 4]	40,000
Capital goods purchased in respect of which depreciation is claimed on the tax component [Note 5]	Nil
Goods sent to job worker's premises [Note 6]	-

Total ITC available	1,20,000
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Notes:

- (1) ITC on life insurance service is available only when it is obligatory for an employer to provide said services to its employees under any law for the time being in force. Since it is not obligatory for the employer in the instant case and thus, the ITC thereon is blocked [Second proviso to section 17(5)(b)].
- (2) ITC cannot be taken since invoice is missing and delivery challan is not a valid document to avail ITC [Section 16(2)(a)].
- (3) Section 17(5)(a) blocks ITC in respect of only those motor vehicles which are used for transportation of persons albeit with certain exceptions. Thus, ITC on motor vehicles used for transportation of goods is allowed.
- (4) ITC is blocked on works contract services when supplied for construction of an immovable property. However, "construction" includes only that repairs which are capitalized along with the said immovable property.

In this case, since repairs of building is debited to P & L Account, the same does not amount to 'construction' and hence ITC thereon is available [Section 17(5)(c)].

- (5) ITC is not available when depreciation has been claimed on the tax component of the cost of capital goods under the Income-tax Act [Section 16(3)].
- (6) The principal is entitled to take ITC of inputs sent for job work even if the said inputs are directly sent to job worker. However, where said inputs are not received back by the principal within a period of 1 year of the date of receipt of inputs by the job worker, it shall be deemed that such inputs had been supplied by the principal to the job worker on the day when the said inputs were received by the job worker [Sub-sections (2) and (3) of section 19].

Hence, the ITC taken by HappyHomes Ltd. in the month of September last year is valid and since one year period has yet not lapsed in April, there will be no tax liability on such inputs.

7. The managerial remuneration shall be computed in accordance with the provisions laid down in section 198 of the Companies Act 2013.

Particulars	Amount (₹)
Net profit	18,00,000
Less: Capital profits on sale of building (Note 1)	2,00,000
Salaries & Wages (Note 2)	-
Sundry repairs to fixed Assets (Note 2)	-
Subsidy from the government (Note 3)	-
Compensation from breach of contract (Note 2)	-
Depreciation (Note 2)	-
Interest on unsecured loans (Note 2)	-
Interest on debentures (Note 2)	-
Add: Repair expenses to fixed assets (Capital in Nature) (Note 5)	5,00,000
Loss on Sale of long-term Investments (Note 4)	4,00,000
Net profits as per section 198	25,00,000

Therefore, the overall maximum managerial remuneration shall be 11% of the Net profits computed in accordance with section 198 i.e. $11\% \times 25,00,000 = ₹ 2,75,000$.

Notes:

1. As per section 198(3), credit shall not be given for profits from the sale of any immovable property or fixed assets of a capital nature comprised in the undertaking or any of the undertakings of the company, unless the business of the company consists, whether wholly or partly, of buying and selling any such property or assets; provided that where the amount for which any fixed asset is sold exceeds the written-down value thereof, credit shall be given for so much of the excess as is not higher than the difference between the original cost of that fixed asset and its written-down value.

Accordingly, the calculation of capital profit is computed as under:

Profit = Selling Price – Written down value

6,00,000 = Selling Price – 6,00,000.

Therefore, Selling Price = 12,00,000.

Capital profit = 12,00,000 – 10,00,000 (original cost) = 2,00,000

2. According to section 198 (4), the following sums shall be deducted:
 - a. All the usual working charges – salaries and wages are considered as usual working charges.
 - b. Expenses on repairs, whether to immovable or to movable property, provided the repairs are not of a capital nature.
 - c. Any compensation or damages to be paid in virtue of any legal liability including a liability arising from a breach of contract.
 - d. Interest on debentures issued by the company.
 - e. Interest on unsecured loans and advances.
 - f. Depreciation to the extent specified in section 123.

Since all of the above charges are already deducted while arriving at net profit, no effect will be given.

3. According to section 198 (1), credit shall be given for bounties and subsidies received from any government, or any public authority constituted or authorised in this behalf, by any government, unless and except in so far as the Central Government otherwise directs.
4. According to section 198(5), Loss of a capital nature including loss on sale of the undertaking or any of the undertakings of the company or any part thereof shall not be deducted. In the given question, the said investments are long term investments and capital in nature and accordingly added back to net profit as it is already deducted while arriving at net profit.
5. According to section 198(4), expenses on repairs, whether to immovable or to movable property is deducted only for repairs which are not capital in nature. Accordingly, we have added back to the net profit.

CASE STUDY 3

Part A

1. (b) ₹ 4 lakhs, due to which an ordinary resolution would have been required to be passed.

Reason: Section 181 of the Companies Act, 2013, applicable to both public and **private companies**, empowers the Board of Directors to contribute to bona fide charitable and other funds up to a particular limit which if exceeded needs to be permitted by company **through passing an ordinary resolution.**

Limit on contribution by the Board of Directors: The Board is empowered to contribute any amount in any financial year if the aggregate amount of such contribution **does not exceed five per cent of the average net profits of the company for the three immediately preceding financial years.**

Where the above limit is exceeded: In case the aggregate contribution amount in any financial year is beyond the limit specified for the Board, prior permission of the company in general meeting shall be required for such contribution.

Here, the average net profits of Jas Jagish Ltd. during the preceding 3 financial years was ₹ 4 crore and it donated a sum of ₹ 24 lakhs i.e. it donated in excess ₹ 4 lakhs [(4 crore*5%) – 24 lakhs], due to which an ordinary resolution would have been required to be passed.

2. (a) No, the answer will remain the same and Mr. Sameer was not required to take any permission for holding such position in the trust.

Reason: Section 181 of the Companies Act, 2013, applicable to both public and private companies, so, the answer will remain the same as aforesaid

Permission granted generally: Members of the Institute in practice be generally permitted to engage in the certain categories of occupations, for which no specific permission from the Council would be necessary in individual cases.

One such category prescribed is honorary office leadership of charitable-educational or other non-commercial organisations. Accordingly, Mr. Sameer was not required to take any permission for holding such position in the trust.

3. (a) Yes, provided GoDaddy Inc. also provide such services to non-registered persons in India.

Reason: As per section 24(11) of the CGST Act, every person supplying online information and data base access or retrieval (OIDAR) services from a place outside India to a person in India, other than a registered person would be required to take GST registration in India.

GoDaddy Inc., a USA based, company provides web-hosting services in India i.e. online information and data base access or retrieval (OIDAR) services. It would be required to take GST registration only if it provides such services to non-registered persons in India as well.

4. (c) No, as his partner is an employee of the said trust.

Reason: The Council of the ICAI has decided not to permit a Chartered Accountant in employment to certify the financial statements of the concern in which he is employed, or of a concern under the same management as the concern in which he is employed, even though he holds certificate of practice and that such certification can be done by any Chartered Accountant in practice. This restriction would not however apply where the certification is permitted by any law. **The Council has also decided that a Chartered Accountant should not by himself or in his firm name:**

- a. accept the Auditorship of a college, if he is working as a part-time lecturer in the college.
- b. **accept the Auditorship of a Trust where his partner is either an employee or a trustee of the Trust.**

5. (b) No, it was prohibited to accept such donation.

Reason: The electoral trust shall not accept contributions from a foreign source as defined in section 2(j) of the Foreign Contribution (Regulation) Act, 2010.

Foreign Source [Section 2(1)(j)]

Foreign Source includes— a company within the meaning of the Companies Act, 1956 (presently, the Companies Act, 2013) and more than one-half of the nominal value of its share capital is held, by a Foreign company.

Here, 53% shares of Nishalya Ltd. are held by Trium Inc., a USA based company and so it is a foreign source and accordingly the electoral trust was prohibited from accepting donation from it.

Part B

6. **Current tax**= Taxable profit x Tax rate = ₹ 2.08 crore x 25% = ₹ 52 lakhs

Computation of Taxable Profit:

		₹ in lakhs	
Accounting profit		200	
Add: Donation not deductible		16	
Less: Excess Depreciation (12-4)		<u>(8)</u>	
Total Taxable profit		<u>208</u>	
		₹ in lakhs	₹ in lakhs
Profit & loss A/c	Dr.	52	
To Current Tax			52

Deferred tax:

Machine's carrying amount according to Ind AS = ₹ 236 lakhs (₹ 240 lakhs – ₹ 4 lakhs)

Machine's carrying amount for taxation purpose = ₹ 228 lakhs (₹ 240 lakhs – ₹ 12 lakhs)

Deferred Tax Liability = ₹ 8 lakhs x 25%

		₹ in lakhs	
Profit & loss A/c	Dr.	2	
To Deferred Tax Liability			2

Tax reconciliation in absolute numbers:

		₹ in lakhs
Profit before tax according to Ind AS		200
Applicable tax rate @ 25%		
Tax		50
Expenses not deductible for tax purposes (₹ 16 lakhs x 25%)		4
Tax expense (Current and deferred)		54

Tax rate reconciliation:

Applicable tax rate	25%
Expenses not deductible for tax purposes	<u>2%</u>
Average effective tax rate	<u>27%</u>

7. (i) Computation of taxable income of public charitable trust

Particulars	(₹ in lakhs)
(i) Income from properties held by trust (net)	40
(ii) Voluntary contributions received	40
(iii) Voluntary contributions received with a specific direction that such donation shall form part of the corpus of the trust (See note below)	40
	120
Less: 15% of income eligible for retention / accumulation without any conditions	(18)
	102
Less: Amount applied for the objects of the trust	95
Taxable Income	7

Note: As per section 11(1)(d), voluntary contributions made with a specific direction that they shall form part of the corpus of the trust is an exempted income. However, with effect from A.Y. 2022-23, in order to avail the exemption, such corpus donations should be invested or deposited by the trust in one or more of the forms or modes specified in section 11(5). Since the trust has not invested the corpus donation of ₹ 40 lakhs in the specified mode, the same will be taxable under section 11(1)(a).

(ii) Applicability of Accounting Standards to Charitable and/or Religious Organisations –

The Preface to the Statements of Accounting Standards states: “The Institute will issue Accounting Standards for use in the presentation of the general purpose financial statements issued to the public by such commercial, industrial or business enterprises as may be specified by the Institute from time to time and subject to the attest function of its members”.

The reference to commercial, industrial or business enterprises in the aforesaid paragraph is in the context of the nature of activities carried on by an enterprise rather than with reference to its objects. It is quite possible that an enterprise has charitable objects but it carries on, either wholly or in part, activities of a commercial, industrial or business nature in furtherance of its objects. The Board believes that Accounting Standards apply in respect of commercial, industrial or business activities of any enterprise, irrespective of whether it is profit oriented or is established for charitable or religious purposes. Accounting Standards will not, however, apply to those activities which are not of a commercial, industrial or business nature. (e.g. an activity of collecting donations and giving them to flood affected people).

It is also clarified that exclusion of an entity from the applicability of the Accounting Standards would be permissible only if no part of the activity of such entity was commercial, industrial or business in nature. For the removal of doubts, it is clarified that even if a very small proportion of the activities of an entity were considered to be commercial, industrial or business in nature, then it could not claim exemption from the application of Accounting Standards. The Accounting standards would apply to all its activities including those which were not commercial, industrial or business in nature.

8. Computation of net GST liability of Supatra Foundation for March, 2021

Particulars	Note	(₹)
Amount received for renting of commercial property owned by the trust	1	80,000
Fees received for a badminton training camp organized for 2 weeks for children under 18 years	2	Exempt
Educational programme organized for persons under the age of 65 years residing in a rural area	3	30,000
<u>Value of Taxable Supply</u>		1,10,000
GST payable @ 18% on forward charge basis		19,800
Less: ITC		(19,800)
Net GST payable		Nil
<u>Services to be taxed on reverse charge basis</u>		
Consultancy services received for purpose of providing charitable activities from a firm based in Germany	4	Exempt
Web-hosting services received from GoDaddy Inc., a USA based company	5	20,000
GST payable @ 18% on reverse charge basis i.e. GST payable in cash		3,600

Notes:

1. Rent of commercial property owned by trust is liable to GST.
2. As per Entry 80 of Notification No. 12/2017-CT (Rate), such services are exempt.
3. Taxable, as not covered by Entry 66 of Notification No. 12/2017-CT (Rate), as educational programme organized for persons **over** the age of 65 years residing in a rural area is exempt.
4. As per Entry 10 of Notification No. 9/2017-IT (Rate), such import of services is exempt.
5. Web-hosting services amount to online information and database access or retrieval services as per section 2(17) of the IGST Act, 2017 and are taxable on reverse charge basis as Supatra Foundation is not a non-taxable online recipient.

Also, such services are not exempt as per Entry 10 of Notification No. 9/2017-IT (Rate).

CASE STUDY 4

Part A

1. (b) Yes, the partners of M N Shah & Co., will accept CA Bhavesh as an Auditor Partner as they would continue to be qualified to undertake the Audit of all in Option Ltd., because his brother holds the shares of the mentioned Company whose face value is less than the exempted limit.

Reason: Under sub-section (3) of section 141 along with Rule 10 of the Companies (Audit and Auditor) Rules, 2014, the following person shall not be eligible for appointment as an auditor of a company-

a person who, or his relative or partner is holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company.

It may be noted that the relative may hold security or interest in the company of face value not exceeding rupees one lakh.

It may also be noted that the condition of rupees one lakh shall, wherever relevant, be also applicable in the case of a company not having share capital or other securities:

In the event of acquiring any security or interest by a relative, above the threshold prescribed, the corrective action to maintain the limits as specified above shall be taken by the auditor within 60 days of such acquisition or interest.

In the given case, face value of shares is only ₹ 90,000 which is less than ₹ 1,00,000.

2. (c) Risk Identification/ Risk Assessment

Reason: Risk assessment assesses the level of risk in the various business processes. Risk assessment focuses on the business environment, regulatory environment, organization structure, organizational and business environmental changes and specific concerns of management and the audit committee to determine the areas of greatest risk.

Risk identification is the process of identifying and assessing threats to an organization, its operations, and its workforce.

3. (a) Inherent Risk

Reason: The major components of audit risk are described in the Table below-

Nature	Description	Commentary
Inherent Risk	Susceptibility of an assertion to a misstatement that could be material, individually or when aggregated with other Mis-statements, assuming that there are no related controls. Inherent risk is addressed at both the financial statement level and at the assertion level. For example, technological developments might make a particular product obsolete, thereby causing inventory to be more susceptible to overstatement.	These are the business and other risks that arise from the entity's objectives, nature of operations and industry, the regulatory environment in which it operates and its size and complexity. The risks of material misstatement will vary based on the nature of the account balance or class of transaction. Risks of particular concern to the auditor might include: <ul style="list-style-type: none"> • Complex calculations which could be misstated; • High value inventory; • Accounting estimates that are subject to significant measurement uncertainty; • Lack of sufficient working capital to continue operations; • A declining or volatile industry with many business failures; and • Technological developments that might make a particular product obsolete.

4. (c) Yes, the Company is mandatorily required to appoint Internal Auditor as Total Outstanding Loans from Banks during the previous year exceeds the exempted limit.

Reason: As per section 138 of the Companies Act, 2013, following class of companies (prescribed in rule 13 of Companies (Accounts) Rules, 2014) shall be required to appoint an internal auditor which may be either an individual or a partnership firm or a body corporate, namely-

- (a) every listed company;
- (b) every unlisted public company having- paid up share capital of 50 crore rupees or more during the preceding financial year; or turnover of 200 crore rupees or more during the preceding financial year; or outstanding loans or borrowings from banks or public financial institutions exceeding 100 crore rupees or more at any point of time during the preceding financial year; or outstanding deposits of 25 crore rupees or more at any point of time during the preceding financial year; and
- (c) every private company having- turnover of 200 crore rupees or more during the preceding financial year; or outstanding loans or borrowings from banks or public financial institutions exceeding 100 crore rupees or more at any point of time during the preceding financial year.

5. (d) Review of Internal Control System & Procedures.

Reason: The scope of internal auditor's work should include a review of-

Internal Control System & Procedures
Custodianship & Safeguarding of Assets
Compliance with Policies, Plans, Procedures & Regulations
Relevance & Reliability of Information
Organisational Structure
Utilisation of Resources
Accomplishment of Goals & Objectives

Review of Internal Control System and Procedures - The review of internal control system and procedures involves assessing the design and operational efficiency and effectiveness of the internal control system to strengthen the overall internal control environment of the entity. The objective to review is to minimise the overall internal audit risk, i.e., the inherent risk, control risk and detection risk.

Review of three-way matching internal control involves matching of Purchase Orders, Goods Receipt Notes and Invoice to ensure all the ordered quantity of the intended goods have been received and invoiced accordingly. The failure of this internal control may involve over-invoicing, over-payment, non-receipt, or under-receipt of goods.

As far as possible, controls should be in-built in the operating functions, if they are to be cost-effective.

The establishment of a separate credit control department would not be justified if the objective of reducing credit risk and minimising debt recovery period could be met through controls in-built in the accounting and sales systems, especially in smaller and medium- sized concerns.

Internal Control System should be reviewed considering the limitations of internal controls, i.e., cost-benefit comparison, human errors, collusion, and abuse by process owners.

Collusion of payment authorizer and payment maker to overpay a related party; those charged with governance themselves overriding the internal controls with *malafide* intention, etc.

Part B

- 6. (a)** Investment property is held to earn rentals or for capital appreciation or both. IND AS 40 shall be applied in the recognition, measurement and disclosure of investment property. An investment property shall be measured initially at its cost. After initial recognition, an entity shall

measure all of its investment properties in accordance with IND AS 16's requirements for cost model.

The measurement and disclosure of Investment property as per IND AS 40 in the Balance Sheet would be depicted as follows:

Particulars	Period ended 31st March, 2022 (₹ in crores)
Gross Amount:	
Opening balance (A)	15.00
Additions during the year (B)	4.00
Closing balance (C) = (A) + (B)	19.00
Depreciation:	
Opening balance (D)	3.75
Depreciation during the year (E) (0.75 + 0.10)	0.85
Closing balance (F) = (D) + (E)	4.60
Net balance (C) - (F)	14.40

The changes in the carrying value of investment properties for the year ended 31st March, 2022 are as follows:

Amount recognized in Profit and Loss with respect to Investment Properties:

Particulars	Period ending 31st March, 2022 (₹ in crores)
Rental income from investment properties (1.00 + 0.50)	1.50
Less: Direct operating expenses generating rental income (10+2.50+3+3+2.50+2.25)	(0.23)
Profit from investment properties before depreciation and indirect expenses	1.27
Less: Depreciation	(0.85)
Profit from earnings from investment properties before indirect expenses	0.42

Disclosure Note on Investment Properties acquired by the entity:

The investment properties consists of Property A and Property B. As at March 31, 2022, the fair value of the properties is ₹ 15.00 crores. The valuation is performed by independent valuers, who are specialists in valuing investment properties. A valuation model as recommended by International Valuation Standards Committee has been applied. The Company considers factors like management intention, terms of rental agreements, area leased out, and life of the assets etc. to determine classification of assets as investment properties.

The Company has no restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

Description of valuation techniques used and key inputs to valuation on investment properties:

Valuation technique	Significant unobservable inputs	Range (Weighted average)
Discounted cash flow (DCF) method	Estimated rental value per sq. ft. per month Rent growth per annum Discount rate	₹ 50 to ₹ 60 10% every 3 years 12% to 13%

(b) As on 31.03.2022

As at 31st March, 2022, Kundan Gems Pvt. Ltd. must transfer the property from investment property to property, plant and equipment since there is a change in use of the said building.

The transfer should be made at its carrying amount of Building A i.e., ₹ 10.50 Crores calculated as below:

Particulars	Amount (₹' Crores)
Cost of Building A	15.00
Less : Depreciation up-to FY 2021-22	4.50
Net Carrying Value	10.50

Since recoverable amount of the property as on 31st March, 2022 is ₹ 10.00 Crores, impairment loss ₹ 50.00 Lacs should be recognized in the Statement of Profit and Loss. So, the carrying amount of Investment property at 31st March, 2022 would be ₹ 10.00 Crores.

The entity must disclose the reclassification.

From April, 2022, Kundan Gems Pvt. Ltd. will depreciate the building over its remaining useful life of 14 years.

7. (a) As per section 50B, any profits and gains arising from the slump sale effected in the previous year shall be chargeable to income-tax as capital gains arising from the transfer of capital assets and shall be deemed to be the income of the previous year in which the transfer took place.

If the assessee owned and held the undertaking transferred under slump sale for more than 36 months before slump sale, the capital gain shall be deemed to be long-term capital gain. Indexation benefit is not available in case of slump sale as per section 50B(2).

Ascertainment of tax liability of Sensque Technologies Pvt. Ltd. from slump sale of Software unit

Particulars	Amount (₹' lacs)
Full value of consideration for slump sale of Software Unit	770
Less: Cost of acquisition, being the net worth of Software Unit	370
Long term capital gains arising on slump sale	400
(The capital gains is long-term as the Software Unit is held for more than 36 months)	
Tax liability on LTCCG	
Under section 112 @ 20% on ₹ 400 lacs	80.00
Add: Surcharge@ 7%	5.60
	85.60
Add: Health and Education cess@4%	3.424
	89.024

Working Note: Computation of net worth of Software Unit

	Amount (₹' lacs)
(1) Book value of non-depreciable assets	
(i) Land (Revaluation not to be considered)	80
(ii) Debtors	220
(iii) Inventories	70
(2) Written down value of depreciable assets under section 43(6) (See Note below)	180
Aggregate value of total assets	550
Less: Current liabilities of Software unit	180
Net worth of software unit	370

Note: For computing net worth, the aggregate value of total assets in the case of depreciable assets shall be the written down value of the block of assets as per section 43(6).

(b) Tax advice

Transfer of any capital asset by a holding company to its 100% Indian subsidiary company is exempt from capital gains under section 47(iv). Hence, the Company should try to acquire the remaining 26% equity shares in S Limited then make the slump sale in the above said manner, in which case the slump sale shall be exempt from tax. For this exemption, the Company will have to keep such 100% holding in S Limited for a period of 8 years from the date of slump sale, otherwise the amount exempt would be deemed to be income chargeable under the head "Capital Gains" of the previous year in which such transfer took place.

Alternatively, if acquisition of 26% share is not feasible, Sensque Technologies Pvt. Ltd. may think about demerger plan of Software Unit to get benefit of section 47(vib) of the Income-tax Act, 1961.

CASE STUDY 5

Part A

1. (b) 7

Reason: As per Regulation 17A of the SEBI (LODR), a person cannot be a director in more than 7 listed entities.

According to Section 165(1) of the Companies Act, 2013, a person shall not hold office as director, including any alternate directorship, in more than 20 companies at the same time.

Further, out of the above limit of 20 companies, the maximum number of public companies in which a person can be appointed as a director shall not exceed 10.

It may be noted that the limit of public companies (i.e. 10) shall include directorship in private companies that are either holding or subsidiary company of a public company.

However, the limit of directorships of 20 companies shall not include the directorship in a dormant company; as also in a Section 8 company.

In the given case,

Type of Company	To count	Number of directorships
Listed Public Company	Yes	4
Unlisted Public Company	Yes	1
Private Limited Company	Yes	8
Dormant Company	No	-
Company registered u/s. 8 of the Companies Act, 2013	No	-
Total		13
Mr. Dishant can accept directorships in how many more private limited companies engaged exclusively in commercial business actively? (20-13)		7

2. (d) In four more companies.

Reason: As per Regulation 17A of the SEBI (LODR), a person cannot be a director in more than 7 listed entities.

According to Section 165(1) of the Companies Act, 2013, a person shall not hold office as director, including any alternate directorship, in more than 20 companies at the same time.

Further, out of the above limit of 20 companies, the maximum number of public companies in which a person can be appointed as a director shall not exceed 10.

It may be noted that the limit of public companies (i.e. 10) shall include directorship in private companies that are either holding or subsidiary company of a public company.

However, the limit of directorships of 20 companies shall not include the directorship in a dormant company; as also in a Section 8 company.

In the given case,

Type of Company	To count	Number of directorships
Listed Public Company	Yes	4
Unlisted Public Company	Yes	1
Private Limited Company which is subsidiary of an Unlisted Public Company	Yes	1
Private Limited Company	No	-
Dormant Company	No	-
Company registered u/s. 8 of the Companies Act, 2013	No	-
Total		6
Mr. Dishant can accept directorships in how many more public companies? (10-6)		In four more companies, out of which directorships allowed in case of listed companies will be limited to maximum three as Regulation 17A as aforesaid.

3. (c) Special resolution was required to be passed for the same and also particulars of such guarantee was to be entered in Form MBP-2 by 08.04.2021.

Reason: As per provisions of the Companies Act, 2013, every company shall, from the date of its incorporation maintain a register in Form MBP 2 and enter the particulars of loans and guarantees given, securities provided and acquisitions made. The entries in the register shall be made chronologically in respect of each such transaction within 7 days of making loan or giving guarantee or providing security or making acquisition

Here, guarantee is provided on 01.04.2021, **so particulars of such guarantee was to be entered in Form MBP-2 by 08.04.2021.**

Further, as per section 185 of the Companies Act, 2013, a company can provide guarantee in respect of loan sanctioned to its director provided a **special resolution** is passed in this regard

4. (b) ₹ 3,50,000

Reason: In this case, provisions of section 24(b) and section 80EEA of the Income-tax Act, 1961, respectively, are attracted.

Particulars	(₹)
Interest deduction for A.Y. 2022-23	
(i) Deduction allowable while computing income under the head "Income from house property" Deduction under section 24(b) ₹ 3,50,000, restricted to	2,00,000
(ii) Deduction under Chapter VI-A from Gross Total Income Deduction under section 80EEA ₹ 1,50,000 (₹ 3,50,000 – ₹ 2,00,000), restricted to	1,50,000
Total eligible deduction	3,50,000

Note: Interest payable during F.Y. 2021-22 was ₹ 3,50,000 i.e. ₹ 40,00,000 @ 10% p.a. for 6 months and ₹ 30,00,000 @ 10% p.a. for 6 months, as ₹ 10,00,000 principal repayment was made on 01.10.2021.

5. (d) ₹ 7,00,000

Reason:

Particulars	Amount in ₹	
Computation of GAV		
Step 1 Compute ER ER = Higher of MV of ₹ 10,00,000 p.a. and FR of ₹ 8,40,000 p.a., but restricted to SR of ₹ 9,60,000 p.a.	9,60,000	
Step 2 Compute Actual rent received/ receivable Actual rent received/ receivable for let out period less unrealized rent as per Rule 4 = ₹ 9,00,000 - ₹ 2,00,000	7,00,000	
Step 3 Compare ER and Actual rent received/ receivable		

Step 4 In this case the actual rent of ₹ 7,00,000 is lower than ER of ₹ 9,60,000 owing to vacancy, since, had the property not been vacant the actual rent would have been ₹ 10,00,000 (₹ 7,00,000 + ₹ 3,00,000, being notional rent for January, February and March,2022). Therefore, actual rent is the GAV.	7,00,000	
Gross Annual Value (GAV)		7,00,000

Part B

6. (I) (i) **Calculation of capitalization rate on borrowings other than specific borrowings:-**

Amount of loan (₹ in lakhs) (a)	Rate of interest (b)	Amount of interest (₹ in lakhs) (a×b)
400	12%	48
500	10.20%	51
<u>900</u>		<u>99</u>
Weighted average rate of interest = (99 L / 900 L) * 100		<u>11%</u>

(ii) **Computation of borrowing cost to be capitalized for specific borrowings and general borrowings based on weighted average accumulated expenses:-**

Date of incurrence of expenditure	Amount spent (₹ in lakhs)	Financed through Calculation	Calculation (₹ in lakhs)	(₹ in lakhs)
1st May, 2021	200	Specific borrowing	$200 \times 9\% \times 10/12$	15
1st September, 2021	180	Specific borrowing	$100 \times 9\% \times 10/12$	7.5
		General borrowing	$80 \times 11\% \times 6/12$	4.4
1st November, 2021	350	General borrowing	$350 \times 11\% \times 4/12$	12.8333
1st February, 2022	130	General borrowing	$130 \times 11\% \times 1/12$	11.9167
				<u>51.65</u>

Note: Since construction of building started on 1st May, 2021, it is presumed that all the later expenditures on construction of building had been incurred at the beginning of the respective month.

(iii) **Total expenses to be capitalized for building:-**

Particulars	(₹ in lakhs)
Cost of building ₹ (200L + 180L + 350L + 130L)	860
Add: Amount of interest to be capitalized	51.65
	<u>911.65</u>

(iv) **Journal Entry:-**

Date	Particulars	(₹ in lakhs)	(₹ in lakhs)
28.02.2022	Building account Dr. To Bank account To Interest payable (Being expenditure incurred on construction of building and borrowing cost thereon capitalized)	911.65	860 51.65

Note: In the above journal entry, it is assumed that interest amount will be paid at the year end. Hence, entry for interest payable has been passed on 28.02.2022.

- (II) **As per Ind-AS 23, 'Borrowing Costs'**, capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

An asset is normally ready for its intended use or sale when the physical construction of the asset is complete even though routine administrative work might still continue. If minor modifications, such as the decoration of a property to the purchaser's or user's specification, are all that are outstanding, this indicates that substantially all the activities are complete.

In the given case, the construction of building was completed by 28th February, 2022. Accordingly, Kiramji Ltd. should have capitalized borrowing costs only up to 28th February, 2022 as per the principles as aforesaid.

Manner of qualification in the audit report

"The statement of profit and loss and balance sheet comply with the accounting standards referred to in Section 133 of the Companies Act, 2013, except Indian Accounting Standard (Ind-AS) 23, 'Borrowing Costs', as interest payable on borrowings related to the acquisition of fixed assets has been capitalized for the period after which the asset was ready for its intended use. Consequently, the total comprehensive income for the year, the non-current assets and the other equity have been overstated by ₹ each as compared to the position which would have prevailed if the company had complied with the requirements of Ind-AS 23.

Subject to the above, we report that"

7. Computation of income from house property of Mr. Dishant for A.Y. 2022-23

Particulars	Amount (₹)
Annual Value of house used for self-occupation under section 23(2)	Nil
Less: Deduction under section 24 Interest on borrowed capital	
Interest on loan was taken for purchase of house on or after 1.4.99 - interest paid or payable subject to a maximum of ₹ 2,00,000 will be allowed as deduction.	2,00,000
Loss from house property	(2,00,000)

Computation of income from house property of Mr. Jayesh for A.Y. 2022-23

Particulars	Amount in ₹
Computation of GAV	
Step 1 Compute ER	
ER = Higher of MV of ₹ 10,00,000 p.a. and FR of	9,60,000

	₹ 8,40,000 p.a., but restricted to SR of ₹ 9,60,000 p.a.		
Step 2	Compute Actual rent received/ receivable Actual rent received/ receivable for let out period less unrealized rent as per Rule 4 = ₹ 9,00,000 - ₹ 2,00,000	7,00,000	
Step 3	Compare ER and Actual rent received/ receivable		
Step 4	In this case the actual rent of ₹ 7,00,000 is lower than ER of ₹ 9,60,000 owing to vacancy, since, had the property not been vacant the actual rent would have been ₹ 10,00,000 (₹ 7,00,000 + ₹ 3,00,000, being notional rent for January, February and March,2022). Therefore, actual rent is the GAV.	7,00,000	
	Gross Annual Value (GAV)		7,00,000
	<i>Less:</i> Municipal taxes (paid by the owner during the previous year) = 12% of ₹ 10,00,000		1,20,000
	Net Annual Value (NAV)		5,80,000
	<i>Less:</i> Deductions under section 24 30% of NAV = 30% of ₹ 5,80,000	1,74,000	1,74,000
	Income from house property		4,06,000