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PAPER – 6F: MULTIDISCIPLINARY CASE STUDY

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

All your workings should form part of your answer.

CASE STUDY-1**CONTAINS: PART-A AND PART-B****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.

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 unaudited draft Balance Sheet as at 31st March, 2020 as given below and the disclosures made in the notes of accounts by the Company.

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

HEADING	NOTE NUMBER	31 ST MARCH, 2020	31 ST MARCH, 2019
EQUITY AND LIABILITIES			
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 LIABILITIES			
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		XXXXX	XXXXX

(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.

- (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 is not maintainable as there is a difference in the amount mentioned in the demand notice and the application filed under the Code.*

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.

- 1.1. Compliance Audit of applicable laws and regulations is mandatory for all Public Companies incorporated and registered under the Indian Companies Act, 2013.
- (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.
- 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?
- (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 269T 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:
- (A) Contingent Liability
 - (B) Crystallized Liability

- (C) *Constructive Obligation*
(D) *Construction Obligation*
- 1.4. *In respect of the data provided in para (5) above state the correct option under the Insolvency and Bankruptcy Code, 2016*
- (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?*
- (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.*

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.*
- 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.*

ANSWER TO CASE STUDY 1

PART – A

- 1.1 (D)
1.2 (D)
1.3 (B)

1.4 (A)

1.5 (A)

PART – B

1.6 Following Errors have been noticed in presentation, as per Division II of Schedule III:

- (i) Balance sheet should begin with Assets on top and then, Equity and Liabilities should be presented.
- (ii) Under the main heading of Non-Current Assets, following sub-headings are provided in the format as per Division II:
 - (a) Property, plant and equipment
 - (b) Capital work-in-progress

In view of the above, the Fixed asset- Tangible should be presented as “Property, Plant and Equipment”. CWIP should be presented as “Capital Work in Progress”.

Under Ind AS Schedule III, ‘Capital Advances’ are not to be classified under ‘Capital Work in Progress’, since they are specifically to be disclosed under ‘Other non-current assets’.

- (iii) ‘Deferred Tax Assets’ (DTA) should be presented under “Non-Current Asset”. It should be the net balance of Deferred Tax Asset, after adjusting the balance of deferred tax liability (DTL), if the enterprise has a legally enforceable right to set off assets against liabilities representing current tax; and it relates to the same governing tax laws.

Deferred Tax Liabilities has been correctly shown under Non-Current Liabilities.

Since both DTA and DTL are appearing in the balance sheet and that too arisen from same jurisdiction, Omega Soft tech Ltd. should offset Deferred Tax Asset & Deferred Tax Liabilities and the break-up of Deferred Tax Asset & Deferred Tax Liabilities into major components of the respective balance should be disclosed in ‘Notes to Account’. Hence, net figure to be disclosed under heading of ‘non-current’ item is to be based on whichever is higher - DTA or DTL.

- (iv) Trade receivables shall be presented under sub-heading “Financial assets” under heading “Current Assets”.
- (v) Share capital and Reserves & Surplus need to be presented under the heading “Equity”. The heading Equity is missing in the balance sheet given in the question. Further, the heading ‘Reserves & Surplus’ is shown under ‘Other Equity’ under Ind AS based balance sheet.
- (vi) Debit balance of ‘profit and loss’ would be presented as negative balance under “Retained Earnings” in sub-heading “Other Equity” in the notes to accounts. Such

balance of "Other Equity" even if negative, would be presented on face of balance sheet under the heading "Equity".

- (vii) Share Capital includes 'Share application money pending allotment' which is incorrect. Under Ind AS based balance sheet, 'Share application money pending allotment' forms part of 'Other equity'.
- (viii) Similarly, Division II of Schedule III requires 'Employee Stock Option outstanding' should be disclosed under the sub-sub-heading 'Other reserves' of 'Reserves and Surplus' of "Other Equity" in the notes to accounts which should be presented on face of balance sheet under the heading "Equity". In other words, Ind AS Schedule III requires 'Share Options Outstanding Account' to be shown as a part of 'Reserve and Surplus' under 'Other Reserves'.
- (ix) Share application money refundable should be presented under the sub-sub-heading "Other Financial Liabilities" under the sub-heading "Financial Liability". As this is refundable and not pending for allotment, hence, it should not form part of equity. Further, depending upon the maturity i.e. current or non-current, it shall be placed under the head accordingly.
- (x) Trade payables should be presented under sub-heading "Financial liabilities" under the heading "Current liabilities". Subsequent to notification by Ministry of Corporate Affairs dated October 11, 2018 under Section 467(1) of the Companies Act, 2013, Trade Payables should be disclosed as follows:
 - (A) total outstanding dues of micro enterprises and small enterprises; and
 - (B) total outstanding dues of creditors other than micro enterprises and small enterprises.

1.7 (a) Share Capital Disclosures:

As per Division II of Schedule III to the Companies Act, 2013, the following requirements apply against the stated issues:

In General Instruction 6D 'Equity', for each class of share capital, a company shall disclose the following in the notes to accounts:

- (d) a reconciliation of the number of shares outstanding at the beginning and at the end of the reporting period
- (e) the rights, preferences and restrictions attaching to each class of shares including restrictions on the distribution of dividends and the repayment of capital

On the basis of above lines, company should disclose the rights, preferences and restrictions attaching to equity shares even if they are of one class only. Further a reconciliation of the number of shares outstanding at the beginning and at the end of the reporting period should also be disclosed.

(b) Reserves and Surplus Disclosures:

As per Division II of Schedule III to the Companies Act, 2013, the following requirements apply against the stated issues:

In the Reserves and Surplus, a company shall disclose the following in the notes to accounts:

Additions and deductions since last balance sheet to be shown under each of the specified heads under Reserves and Surplus.

Also, debit balance of statement of profit and loss shall be shown as a negative figure under the head "Surplus". Similarly, the balance of "Reserves and Surplus", after adjusting negative balance of surplus, if any, shall be shown under the head "Reserves and Surplus" even if the resulting figure is in the negative.

On the basis of above lines, company should disclose the movement of Reserves & Surplus during the year and further, debit balance of statement of profit and loss cannot be shown in the assets side of balance sheet.

(c) Appropriations:

As per Division II of Schedule III to the Companies act, 2013, the following requirements apply against the stated issue:

In the Reserves and Surplus, a company shall disclose the following in the notes to accounts:

Surplus *i.e.*, balance in Statement of Profit and Loss disclosing allocations and appropriations such as dividend, bonus shares and transfer to/ from reserves, etc.;

Accordingly, appropriations and allocations as stated above should not be reflected on the face of the statement of Profit and Loss. Instead, they should have been adjusted through Reserves and Surplus.

(d) Trade payables:

As per Guidance Note on Division II of Schedule III to the Companies Act, 2013, the following requirements should apply:

A payable shall be classified as 'trade payable' if it is in respect of the amount due on account of goods purchased or services received in the normal course of business.

Hence, amounts due under contractual obligations or which are statutory payables can no longer be included within Trade Payables. Such items may include dues payable in respect of statutory obligations like contribution to provident fund or contractual obligations like contractually reimbursable expenses, amounts due towards purchase of capital goods, etc.

CASE STUDY-2**CONTAINS: PART-A AND PART-B**

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.

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.

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:

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

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.

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

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.

PART-A

Read carefully the following and provide the correct option. No reasoning is required.

- 2.1. Giving utmost freedom and flexibility to set their own targets in the setting process has the potential danger of having:
 - (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 :
 - (A) No
 - (B) Yes
 - (C) Yes, with the approval of CSR Committee.

- (D) Yes, when eligible projects are identified.
- 2.3. Regarding contribution of ₹ 3.5 lakhs during the financial year ended 31.03.2020 to a political party for running a school:
- (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.
- 2.4. Regarding the overdue inter-corporate deposits:
- (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:
- (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.

- 2.7. From 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.

ANSWER TO CASE STUDY 2**PART – A**

- 2.1 (D)
2.2 (A)
2.3 (D)
2.4 (A)
2.5 (C)

PART – B**2.6 Workings**

Particulars	Budget	Actual	Variance
Sales / Production (units)	6,50,000	5,00,000	(1,50,000)
Sales (₹)	10,00,00,000	8,50,00,000	(1,50,00,000)
Less: Variable Costs (₹)	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	NIL	(40,00,000)	(40,00,000)

Statement of Reconciliation - Budgeted Vs Actual Profit

Particulars	(₹)
Budgeted Profit	NIL
Sales Volume Variance (A)	(79,61,538)
Sales Price Variance (F)	80,76,923
Variable Cost Variance (A)	(61,15,385)
Fixed Cost Variance (F)	20,00,000
Actual Profit	(40,00,000)

Calculation of Variances**Sales Variances**

Volume = Standard Contribution – Budgeted Contribution

$$= \text{Standard Contribution} \times (\text{Actual Quantity} - \text{Budgeted Quantity})$$

$$= \frac{\text{₹}3,45,00,000}{6,50,000} \times (5,00,000 - 6,50,000)$$

$$= 79,61,538 \text{ (A)}$$

Price = Actual Contribution – Standard Contribution

$$= \text{Actual Sales Quantity} \times (\text{Actual Contribution} - \text{Standard Contribution})$$

$$= 5,00,000 \text{ units} \times \left[\left(\frac{\text{₹}8,50,00,000}{5,00,000} - \frac{\text{₹}6,55,00,000}{6,50,000} \right) - \frac{\text{₹}3,45,00,000}{6,50,000} \right]$$

$$= 80,76,923 \text{ (F)}$$

Note: Price Variance can also be calculated through Sales Value approach i.e. based on the price. However, price variance would be the same.

Variable Cost Variances

Cost = Standard Cost for Production – Actual Cost

$$= \text{Actual Production} \times (\text{Standard Cost per unit} - \text{Actual Cost per unit})$$

$$= 5,00,000 \text{ units} \times \left[\left(\frac{\text{₹}6,55,00,000}{6,50,000} - \frac{\text{₹}5,65,00,000}{5,00,000} \right) \right]$$

$$= 61,15,385 \text{ (A)}$$

Fixed Cost Variances

Expenditure = Budgeted Fixed Cost – Actual Fixed Cost

$$= \text{₹}3,45,00,000 - \text{₹}3,25,00,000$$

$$= \text{₹}20,00,000 \text{ (F)}$$

[Note: This question has been solved by reconciling NIL budgeted profit with the actual loss of ₹ 40,00,000]

2.7

Sindhuja Foundries Limited (SFL)

Value Added Statement for the year ended 31st March, 2020

	(₹)	(₹)	%
Sales			62,40,000
Less: Cost of bought in material and services:			

Production and operational expenses ₹ (32,10,000+40,000+4,42,000)		36,92,000	
Administrative expenses ₹ (1,80,000– 5,000)		1,75,000	
Interest on working capital loan		1,29,000	
GST (Refer to working note)		1,80,000	
Other charges ₹ (4,44,000–1,80,000)		<u>2,64,000</u>	<u>(44,40,000)</u>
Value added by manufacturing and trading activities			18,00,000
Add: Other income			<u>55,000</u>
Total Value Added			<u>18,55,000</u>
Application of Value Added:			
To Pay Employees:			
Salaries to Administrative staff		6,20,000	33.42
To Pay Directors:			
Salaries and Commission		5,000	0.27
To Pay Government:			
Local Tax	8,000		
Income Tax	<u>55,000</u>	63,000	3.40
To Pay Providers of Capital:			
Interest on Fixed Loan	51,000		
Dividend	<u>1,60,000</u>	2,11,000	11.37
To Provide for Maintenance and Expansion of the Company:			
Depreciation	16,000		
Fixed Assets Replacement Reserve	4,00,000		
Retained Profit ₹ (600 - 60)	<u>5,40,000</u>	<u>9,56,000</u>	<u>51.54</u>
		<u>18,55,000</u>	<u>100.00</u>

Reconciliation between Total Value Added and Profit before Taxation:

Particulars	(₹)	(₹)
Profit before Tax		11,55,000
Add back:		
Depreciation	16,000	

Salaries to Administrative Staff	6,20,000	
Director's Remuneration	5,000	
Interest on Fixed Loan	51,000	
Local Tax	<u>8,000</u>	<u>7,00,000</u>
Total Value Added		<u>18,55,000</u>

Note: It is assumed that no input tax credit is received for this amount of GST.

Working Note:

Computation of GST

Particulars		(₹)
Interest and other charges		6,24,000
Less: Interest on Fixed loan from Bank	51,000	
Interest on working capital loan from Bank	<u>1,29,000</u>	<u>(1,80,000)</u>
GST and other charges		<u>4,44,000</u>

Let GST be x; thus, other charges = 4,44,000 -x

Thus, x = 1/10 x [62,40,000 - {36,92,000+ 1,75,000+ 1,29,000+ x + (4,44,000-x)}]

= 1/10 x [62,40,000 - 44,40,000] = 1,80,000

Other charges = 4,44,000 - 1,80,000 = 2,64,000.

CASE STUDY-3

CONTAINS: PART - A AND PART - B

Brief facts of the Case :

- 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, 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 had 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.

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 Assessee 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.
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 /TR 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.
- (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.

PART-A

Read carefully the following and provide the correct option. No reasoning is required.

- 3.1. The Assessing Officer shall, before issuing any notice under section 148 of the Income Tax Act, 1961:
- (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 :
- (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 ?
- (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.
- 3.4. Whether the Proceedings initiated u/s 148 instead of section 153C be quashed?
- (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:
- (A) Assessment Proceedings;
- (B) Settlement commission;
- (C) Search and seizures;
- (D) 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.
- 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.

ANSWER TO CASE STUDY 3

PART – A

- 3.1 (A)
- 3.2 (B)
- 3.3 (C)
- 3.4 (A)
- 3.5 (C)

PART – B

- 3.6 Section 147 provides that if the Assessing Officer has **reason to believe that any income chargeable to tax has escaped assessment for any assessment year**, he may, subject to the provisions of sections 148 to 153, assess or reassess such income and also any other income chargeable to tax which has escaped assessment and which comes to his notice subsequently in the course of the proceedings under this section, or re-compute the loss or the depreciation allowance or any other allowance, as the case may be, for the relevant assessment year.

As per section 148, before making the assessment, reassessment or re-computation under section 147, the Assessing Officer shall serve on the assessee, a notice requiring him to furnish a return within such period as may be specified in the notice, a return of his income or the income of any other person for whom he is assessable under the Act, during the previous year corresponding to the relevant assessment year in the prescribed form and verified in the prescribed manner and setting forth such other particulars may be prescribed. The provisions of this Act shall apply accordingly as if such return were a return required to be furnished under section 139.

The Assessing Officer shall, before issuing any notice under this section, **record his reasons for doing so**.

Therefore, for making reassessment u/s 147, there are two requirements -

- (i) the Assessing Officer should have “reason to believe” that income chargeable to tax has escaped assessment; and
- (ii) he has to serve on the assessee a notice requiring him to furnish return within such period as may be specified in the notice and should **record his reasons for issue of such notice**.

Under the provisions of section 153C, these requirements are obviated by using the non obstante clause in the said section. In other words, under section 153C, the Assessing Officer is **not** required to satisfy these conditions before issue of notice. The only requirement is that a search action u/s 132 is conducted and the Assessing Officer is satisfied that “assets/ documents” found during search belongs to or relates to other person. Therefore, though the Assessing Officer is empowered to tax the income escaping tax under section 147 and 153C, section 153C comes into operation where there is search under section 132 and it overrides anything contained in, inter alia, section 147.

Therefore, in a case where the provisions of section 153C are attracted, the Assessing Officer is **not** justified in completing the assessment u/s 147.

- 3.7 153C provides for assessment or reassessment of income of any other person. Notwithstanding anything contained in, inter alia, sections 147 and section 148, where the Assessing Officer is satisfied that -

- (a) any money, bullion, jewellery or other valuable article or thing seized or requisitioned belongs to; or
- (b) any books of account or documents seized or requisitioned pertain to; or
- (c) any information contained therein, relates to,

any person, other than the person referred to in section 153A, then, the books of account or documents or assets, seized or requisitioned shall be handed over to the Assessing Officer having jurisdiction over such other person.

The Assessing Officer having jurisdiction over the other person shall proceed against such other person and issue such other person notice and assess or reassess income of such other person in accordance with the provisions of section 153A only if he is satisfied that the books of account or documents or assets seized or requisitioned have a bearing on the determination of the total income of such other person for six assessment years immediately preceding the assessment year relevant to the previous year in which search is conducted or requisition is made and for the relevant assessment year or years referred to in section 153A(1).

The Assessing Officer contended that there is information for only one particular assessment year and notice u/s 153C has to be issued for last six years while there are no such seized documents for such action. For issue of notice u/s 153C, it is not necessary that seized documents have to be available indicating escapement of income for all six years. Even if the information relates to one year, notice has to be issued for all six years.

Therefore, in this case, since during search conducted in XYZ college, information in respect of capitation fees paid by the assessee for admission of his daughter in medical college was received by the Assessing Officer. 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, who had confirmed in the statement under oath that the college had received the donation as per the list given in which the assessee's daughter's name appeared.

Accordingly, the jurisdictional Assessing Officer should have proceeded to issue notice u/s 153C and make an assessment in accordance with the provisions of section 153A. However, the Assessing Officer issued notice u/s 148 to make an assessment under section 147, which is not correct, since the provisions of section 153C override section 148.

CASE STUDY-4

CONTAINS: PART-A AND PART-B

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.
- (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.
- (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 wider 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

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.

PART-A

You are requested to read carefully the following and provide the correct option. No reasoning is required.

- 4.1. Under the provisions of the Foreign Exchange Management Act, 1999 complete write-off of foreign exchange receivable arising out of export sales is permissible.
 - (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?
 - (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.
- 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,
 - (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.
- (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.
- 4.5. In the Company's Balance Sheet as at 31.03.2020, contained an item "goods in transit" in which the sub-head inventories 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:
- (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,
- (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?
- 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:
- (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?

ANSWER TO CASE STUDY 4**PART – A**

- 4.1 (A)
4.2 (D)
4.3 (C)
4.4 (A)
4.5 (A)

PART – B

- 4.6 (i) **Qualified and Independent Audit Committee:** As per Regulation 18(1) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, every listed entity shall constitute a qualified and independent audit committee in accordance with the terms of reference, subject to the following:

1. The Audit Committee shall have minimum three directors as members. Two-thirds of the members of audit committee shall be independent directors, **however, in case of a listed entity having outstanding SR (Superior Rights) equity shares, the audit committee shall only comprise of independent directors.**
2. All members of Audit Committee shall be financially literate and at least one member shall have accounting or related financial management expertise.

Explanation (i): The term “financially literate” means the ability to read Qualified and Independent Audit Committee and understand basic financial statements i.e. balance sheet, profit and loss account, and statement of cash flows.

Explanation (ii): A member will be considered to have accounting or related financial management expertise if he or she possesses experience in finance or accounting, or requisite professional certification in accounting, or any other comparable experience or background which results in the individual’s financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.

3. The Chairperson of the Audit Committee shall be an independent director and he shall be present at Annual General Meeting to answer shareholder queries.
4. The Company Secretary shall act as the secretary to the committee.
5. The Audit Committee at its discretion shall invite the finance director or the head of the finance function, head of internal audit and a representative of the

statutory auditor and any other such executives to be present at the meetings of the committee, provided that occasionally, the Audit Committee may meet without the presence of any executives of the listed entity.

- (ii) In the given situation two-thirds of the members of audit committee of NTASL are not independent directors whereas two-thirds of the members of audit committee shall be independent directors.

Further, **Chairman** of Audit Committee, **Mr. Y is non-independent director** whereas the **Chairperson of the Audit Committee shall be an independent director** as per LODR Regulations 2015.

In addition, **none of the member of the Audit Committee is having accounting or related financial management expertise** whereas as per LODR Regulations 2015 at least one member **shall have accounting or related financial management expertise**.

Thus, in view of above, **present constitution of Audit Committee of NTASL cannot be continued post listing of its securities in the Stock Exchange.**

- 4.7 Recognition of Asset:** The new server will produce economic benefits to company, and the cost is measurable. Hence, the item should be recognised as an asset. The original invoice for the plant did not specify the cost of the server; however, the cost of the replacement ₹ 6,00,000 can be used as an indication (usually by discounting) of the likely cost, two years previously.

If an appropriate discount rate is 5% per annum, ₹ 6,00,000 discounted back two years amounts to ₹ 5,44,200 [₹ 6,00,000 x 0.907*], i.e., the approximate cost of server before 2 years.

*(1/1.05)².

Depreciation on the value of server as per SLM basis (as assumed) will be ₹ 54,420 (₹ 5,44,200 / 10 years). The current carrying amount of the server which is required to be replaced of ₹ 4,35,360 would be derecognized from the books of account, (i.e., Original Cost ₹ 5,44,200 - Accumulated depreciation for past 2 years ₹ 1,08,840 (54,420 x 2))

The cost of the new server, ₹ 6,00,000 would be added to the cost of plant.

It will result in a revision of carrying amount of plant to ₹ 81,64,640. (i.e., ₹ 80,00,000** – ₹ 4,35,360 + ₹ 6,00,000).

**Original cost of plant ₹ 1,00,00,000 reduced by accumulated depreciation (till the end of 2 years) ₹ 20,00,000.

- 4.8 (i)** As per section 263, the Commissioner has the power to revise an order prejudicial to revenue, even if the order is the subject matter of appeal before Commissioner (Appeals). However, the power of the Commissioner under section 263 shall extend to only such matters as had not been considered and decided in such appeal. Here

again, the doctrine of partial merger would apply.

In a case where the appeal is pending but not yet decided, the Commissioner cannot exercise his revisionary jurisdiction in respect of those issues which are the subject matter of appeal. (CWT Vs. Sampathmal Cordia (2002) 256 ITR440 (mad.))

Thus, Commissioner cannot make a revision in respect of the matters covered in appeal but can do so in respect of other matters.

- (ii) As per section 264(4), the Commissioner shall not revise any order under section 264, where such order has been made the subject of an appeal to the Commissioner (Appeals). Thus, the concept of total merger would apply in the case of section 264.

Therefore, under section 264, the Commissioner cannot revise an order which is pending before the Commissioner (Appeals), even if the revision pertains to a matter, other than the matter(s) covered in the appeal. (Hindustan Aeronautics Ltd. Vs. CIT (2000) 243 ITR 898)

CASE STUDY - 5

CONTAINS: PART- A AND PART- B

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.

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-a-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.*
- (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.*
- (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 relates to one of the machinery:

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

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.

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:
- (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 public Companies.
- 5.2. The proposed appointment of Ms. Bright as an Independent Women Director in REL would be:
- (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 which is beyond the limit of 10 Public Companies.
- (D) Valid as her total holding of directorship in Public Companies is 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?
- (A) A Company having a paid up capital of ₹ one hundred crore.
- (B) A Company having a Turnover off 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.
- 5.4. Whether the appointment of Mr. Intelligent as the Joint Managing Director of REL is valid?
- (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?
- (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.

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,
- 5.7. 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.

- 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?*

ANSWER TO CASE STUDY 5**PART – A**

- 5.1 (D)
5.2 (B)
5.3 (D), (A), (B)
5.4 (D)
5.5 (A)

PART – B

- 5.6 If the Assessing Officer has **reason to believe that any income chargeable to tax has escaped assessment for any assessment year**, he may, subject to the provisions of sections 148 to 153, assess or reassess such income and also any other income chargeable to tax which has escaped assessment and which comes to his notice subsequently in the course of the proceedings under this section, or re-compute the loss or the depreciation allowance or any other allowance, as the case may be, for the relevant assessment year.

Before making the assessment, reassessment or recomputation under section 147, the Assessing Officer **shall serve** on the assessee, a notice requiring him to furnish a return within such period as may be specified in the notice, after recording his reasons for doing so. The provisions of this Act shall apply accordingly as if such return were a return required to be furnished under section 139.

Where the income which has escaped assessment amounts to or is likely to amount to ₹ 1 lakh or more, **notice u/s 148 has to be issued within 6 years from the end of the relevant A.Y.** with the prior approval of Principal Chief Commissioner/ Chief Commissioner/Principal Commissioner/ Commissioner.

In the present case, time limit of 6 years from the end of the relevant assessment year (i.e., A.Y. 2012-13) would expire on 31.03.2019. Since the notice was issued on before 31.03.2019 i.e., 31.01.2019, it is valid in law, irrespective of the fact that the company has received such notice after the time limit of 31.3.2019. As per section 153, Assessing Officer is required to complete the assessment within 12 months from the end of the financial year in which the notice is served, since notice is served on the company on 28.2.2020, assessment is required to be completed on or before 31.3.2021.

Since the notice is issued within the time limit, it is a valid notice, and the company is required to furnish the return in accordance with notice issued u/s 148. After filing the return

of income in pursuance to the notice, the assessee may ask for the copy of reasons recorded for issue of notice u/s 148 and can file objection to the issuance of notice.

5.7 Comments on disclosures (as extracted) made by the company from the draft financial statements under Ind AS:

- (i) The term doubtful debts is an adjustment to the carrying amount of assets, hence no provision is created separately for it. As per Division II of Schedule III (for Ind AS based Financial Statements), provision for doubtful debts should be deducted from gross amount of trade receivables after disclosing all the categories of trade receivables rather than including it under provisions under current liabilities.
- (ii) Under Ind AS, there is no concept of 'Prior period items'. In case any error related to prior period is detected during the current year, then an entity shall correct such material prior period errors retrospectively in the first set of financial statements approved for issue after their discovery by:
 - (a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or
 - (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

Since in the question it is not mentioned that prior period income pertains to which accounting year, it is assumed that it relates to previous year. Therefore, comparative amounts shall be restated. Thus, showing prior period income under current year's 'other income' is not in accordance with Ind AS 8.

- (iii) As per Guidance Note on Division II of Schedule III, sale of manufacturing scrap arising from operations for a manufacturing company should be treated as 'other operating revenue' since the same arises on account of the company's main operating activity. Therefore, presenting it under 'other Income' is not a correct treatment.
- (iv) Employee benefits include termination benefits. Payment made during the year towards one-time voluntary retirement scheme is in the nature of termination benefits. Hence, it should be shown by an entity under employee benefit expenses only. Thus, the treatment done by the company is correct.

5.8 Revaluation of Machinery: According to Ind AS 16, when an item of property, plant and equipment is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of the revaluation, the asset is treated in **one of the following ways:**

- (a) *The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount.*

The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses.

In such a situation, the revised carrying amount of the machinery will be as follows:

(Amount in '000)

Gross carrying amount	₹ 250	[(200/120) x 150]
Net carrying amount	<u>₹ 150</u>	
Accumulated depreciation	<u>₹ 100</u>	(₹ 250 – ₹ 150)

Journal entry

Plant and Machinery (Gross Block)	Dr.	₹ 50	
To Accumulated Depreciation			₹ 20
To Revaluation Reserve			₹ 30

Depreciation subsequent to revaluation

Since the Gross Block has been restated, the depreciation charge will be ₹ 25 per annum (₹ 250/10 years).

Journal entry

Accumulated Depreciation	Dr.	₹ 25 p.a.	
To Plant and Machinery (Gross Block)			₹ 25 p.a.

Alternatively,

- (b) The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amount of the adjustment of accumulated depreciation forms part of the increase or decrease in carrying amount that is accounted for in accordance with Ind AS 16.

In this case, the gross carrying amount is restated to ₹ 150 to reflect the fair value and accumulated depreciation is set at zero.

Journal entry

Accumulated Depreciation	Dr.	₹ 80	
To Plant and Machinery (Gross Block)			₹ 80
Plant and Machinery (Gross Block)	Dr.	₹ 30	
To Revaluation Reserve			₹ 30

Depreciation subsequent to revaluation

Since the revalued amount is the revised gross block, the useful life to be considered is the remaining useful life of the asset which results in the same depreciation charge of ₹ 25 per annum as per Option A (₹ 150 / 6 years).

Journal entry

Accumulated Depreciation	Dr.	₹ 25 p.a.
To Plant and Machinery (Gross Block)		₹ 25 p.a.