DISCLAIMER

This Suggested Answers hosted on the website do not constitute the basis for evaluation of the student's answers in the examination. The answers are prepared by the Faculty of the Board of Studies with a view to assist the students in their education. Alternate Answers have been incorporated, wherever necessary. While due care is taken in preparation of the answers, if any errors or omissions are noticed, the same may be brought to the attention of the Director of Studies. The Council of the Institute is not in anyway responsible for the correctness or otherwise of the answers published herein.

Further, in the Elective Papers which are Case Study based, the solutions have been worked out on the basis of certain assumptions/views derived from the facts given in the question or language used in the question. It may be possible to work out the solution to the case studies in a different manner based on the assumption made or view taken.

PAPER – 6F: MULTI-DISCIPLINARY 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

About You

You are a knowledgeable Chartered Accountant and appointed as a partner in an established firm of Chartered Accountants based out of Mumbai. You are very much excited on your becoming a partner and cannot afford to wait to sign your first set of audited accounts.

A New Client

Your audit firm added a new client, "Sunshine Cot Spin Ltd" (SCSL), a family owned, closely held, Public Limited Company, located at Pune to act as the Statutory Auditors of the Company and audit the books of accounts of the Company for the financial year 2020-2021. The Company is engaged in spinning and weaving of cotton yarn. The Audit firm's Senior Partner, CA. Sriman Narayan, (fondly referred to as 'SN') has allocated the client to you to conduct the audit. The senior partner is very close to the family which owns the Company and you strongly believe that this is atleast part of the reason why the Company decided to appoint your audit firm.

About SCSL

SCSL has evolved to be a significant player in cotton yarn spinning in Pune, commanding a premium market for their products and also exports its products to several countries. SCSL has two manufacturing plants at Pune housing around 1.5 lakh sq ft each. The spinning division in factory 'A' has an installed capacity of 2.25 lakh spindles, producing around 20 tonnes of cotton yarn per day. The weaving division at factory 'B' has an installation of 50 Suzler projectile machines. The export sales constituted around 30% of the total revenues as at 31st March, 2021. In Nov 2019, the Company was awarded a certificate of recognition as an export house by the Joint Director of Foreign Trade. One of the Company's division is also continuously engaged in leasing of properties - Mobile Towers as its principal or ancillary generating activities. Going forward, the company's strategy is to expand their existing capacity in spinning and weaving as well as enter in the textile chain including processing, garments and home textiles. Their vision is to scale new heights in the textile industry from fibre to finished products and to be at the forefront of the industry.

Commencement of the Audit Process

The CFO of the Company made available to you the audited accounts of the last five years and the draft summary of management prepared financial statements for the FY 2020-2021 subject to audit of certain items that need clarifications and resolutions from the statutory auditors.

Before the commencement of the audit, you reviewed the Company's audited accounts of the previous year. You noticed that the Auditors Report was qualified due to non-compliance with a mandatory accounting standard with respect to valuation of a high valued property that the Company owns. The audit opinion adds that the auditor is unable to quantify the impact of this non-compliance with the accounting standard. At this point, you made a telephonic conversation with the previous auditor informing them about your firm's appointment as auditor and also discussed the qualification in the previous audit report.

You were wondering whether the audit qualification issued was appropriate in the circumstances and you feel that a 'limitation of scope' opinion may have been more appropriate rather than "except for dis-agreement with accounting treatment due to non-compliance with an accounting standard"…. You are considering the impact of this issue when CA.SN comes into your office. He provides you certain important inputs of SCSL and then asks whether you have any clarifications to be sought. At this juncture, you inform CA.SN what you have found. He immediately replies: "I don't see any issues. If the Company does not believe that it is worth paying for this information, then who are we to tell them otherwise. It is a family business after all. If we have to, then, we can also adopt the same approach as the previous auditors and qualify the audit report on the same grounds." CA.SN further stated that you should go ahead with the audit work and reassess the position once the audit fieldwork has been completed by your team.

Precarious situation and the way forward

Now you are in a very precarious situation. You need to build a strategy. On the one hand, as an individual, you don't feel like to compromise anything in the audit process as well as your Independence and on the other hand, the relationship of CA.SN with the Company matters you a lot. Finally, after a good thought, you have proposed to balance the situation with an appropriate presentation of a matter that needs proper reporting and / or by pointing out the legal position before hand with a view to avoid / rectify any lapse or shortcomings to the satisfaction of both the Company's management and CA.SN. You always believe in Professional Scepticism / Professional Judgement and is of the opinion that it is your legitimate right to advise your clients to comply with the rule of law, promote transparency in financial and business transactions, make your clients much more tax complaint vis-a-vis intelligent tax planning rather than tax dogging and tax evasion.

Accordingly, you made a detailed audit program and deputed your audit team to look meticulously into every material aspects and conduct the audit from the propriety angle. You also instructed that all observations made by the audit team would be reviewed by you with proper assessments to ensure that the financial statements reflects a true and fair view.

Review of accounts and records

On a review of the books of accounts, draft financial statements / minutes of the Board meetings and other secretarial and regulatory records, the following observations were made by your audit team:

1. *During the FY 2020-2021, the company had entered into certain related party transactions. A payment of ₹ 4 lakhs per month was made to a partnership firm which is a 'related party' within the meaning of the Companies Act, 2013 for marketing services rendered by them. Based on an independent assessment, the consideration paid was higher than the arms length by ₹ 0.50 lakhs per month. Whilst the transactions was accounted in the financial statements based on the amounts paid, no separate disclosure of this related party transaction has been made in the notes to accounts forming part of the financial statements highlighting the same as related party transaction. Further, regarding related party transactions, the Management of the Company has insisted the statutory auditors to rely on the management representation letter regarding the proper accounting, presentation and disclosure of such related party transactions.*
2. *The long term borrowings from a subsidiary Company has no written terms and neither the interest nor the principal has been repaid so far.*
3. *Certain computers and peripherals were received from the subsidiary company free of cost, the value of which is ₹ 0.75 lakhs and no accounting or disclosure of the same has been made in the notes to accounts.*
4. *The Company also sells its products to local dealers in Maharashtra. One of the conditions of sale is that interest will be charged at the rate of 2% p.m., for delayed payments. On scrutiny of the accounts, the audit team found that the percentage of interest recovery is only 10% on such overdue outstanding due to various reasons. During the year 2020-21, the Management has recognized the entire interest receivable as income in the Statement of Profit and Loss.*
5. *One of their division also deals in Leasing of properties - Mobile Towers. The accountant showed the rent arising from the leasing of such properties as 'other income' in the Statement of Profit and Loss.*
6. *During the course of the audit, you were provided with various oral representations during meetings and discussions. Whereas, while finalizing the audit, you requested the Management to provide all such oral representations into writing. The Management has informed you that since it has provided you full access to whatever records, documents and evidences were available with them without any exception, providing any representations in writing to external auditors is not possible. They have requested you to co-relate the same with the oral representations.*

7. *You as the engagement partner has requested the Management to provide email addresses of trade receivables of the company for the purpose of obtaining balance confirmation from the trade receivables. The Management asked its Sales Manager to send confirmation requests to the trade receivables and collect all the responses and provide the same to the Auditors. The Management informed that confirmation with respect to two of its trade receivables namely X Limited and Y Limited will not be available as a dispute is going on with them. With respect to other trade receivables, the Sales Manager provided you all the balance confirmations.*
8. *While verifying the inventories as on 31st March, 2021, you observed that significant amount of inventories belonging to the Company are held by third parties. However, the Company has kept all the records of the inventories maintained by the third parties.*
9. *SCSL purchased new computers for ₹ 10 lakhs on October 5, 2020, installed the same in its office and put the said computers to use on the same date.*
10. *The Company has incurred an expenditure of ₹ 10 lakhs on advertisement in a souvenir of a registered political party.*

11 *While preparing the Ind AS financial statements for the previous year ended 31.03.2020, SCSL has observed that it had presented certain material liabilities as non-current in its financial statements for the year ended 31.03.2019. While preparing annual financial statements for the year ended 31.03.2021, management discovers that these liabilities should have been classified as current. The Management intends to restate the comparative amounts for the prior period presented (i.e as at 31.03.2020).*

12 *Other Issues of Management for your professional advice SCSL is considering a new sales strategy for one of its small subsidiary company that will be valid for the next 4 years. They want to know the value of new strategy. Following information relating to the year which has just ended is available:*

Income Statement

Amount (in ₹ '000)

Sales	*20,000*
Gross Margin (20%)	*4,000*
Administration, Selling and Distribution Expenses (10%)	*2,000*
PBT	*2,000*
Tax (30%)	*600*
PAT	*1,400*
Balance Sheet Information	
Fixed Assets	*8,000*
Current Assets	*4,000*

Equity	*12,000*

If it adopts the new strategy, sales will grow at the rate of 20% per year for three years. The gross margin ratio, assets turnover ratio, the capital structure and the income tax rate will remain unchanged. Depreciation would be 10% of net fixed assets at the beginning of the year. The company's target rate of return is 15%.

At this juncture, before proceeding further, Mr. SN has desired to have an interim meeting with you to get an hands on summary of the audit observations and also with proper solutions to address them. So get ready to comprehend, analyse and apply to arrive at a correct solution to the issues given here under:

You are requested to provide the correct option to the following questions. Please indicate your option in capital letters. No reasoning is required. Note that the financial statements of the Company for the year under review are prepared using IND AS and your answers on Direct Tax Laws should relate to Assessment Year 2021-22.

1.1 In respect of the inputs given in para (1) above, is there any further responsibility of the statutory auditor with regard to the other formalities to be performed for related party transactions (RTP)?

(A) There is no further responsibility as the best audit evidence for the RTP is the Management representation letter.

(B) There is no further responsibility, as the statutory auditor is responsible for verifying the balances and disclosure of RTPs. The identification of RTPs is the responsibility of the Management.

(C) Yes, the statutory auditor has the responsibility to perform the audit procedures to identity, assess and respond to the material misstatements arising from the entity's failure to account for/ disclose related party relationships, transactions and balances.

(D) Yes, the statutory auditor has the ultimate responsibility to detect fraud and error with respect to RTPs.

1.2 With respect to the inputs given in para (7) above, which of the following is warranted as per the requirement of the relevant SA?

(A) As the Statutory Auditor, you should not have relied on the explanation provided by the Management with respect to the trade receivables namely X Limited and Y Limited and you should have performed alternative procedures with respect to such trade receivables.

(B) As the Statutory Auditor, based on the risk assessment and materiality, you should have obtained direct responses atleast from some significant, if not all, trade receivables instead of the sales manager receiving direct responses and forwarding the same to you.

(C) Both (A) and (B)

(D) You should give a qualified opinion as balance confirmations with respect to two trade receivables were not available.

1.3. With respect to the inputs given in para (9) above, the allowable depreciation under the Income Tax Act would be:

(A) ₹ 1.5 Lakhs

(B) ₹ 2 Lakhs

(C) ₹ 3 Lakhs

(D) ₹ 4 Lakhs

1.4 With respect to the inputs given in para (10) above, which of the following statement is correct as per the Income Tax Act?

(A) Such expenditure is an allowable deduction while computing its business income.

(B) Such expenditure is not an allowable deduction while computing its business income.

(C) Such expenditure is not an allowable deduction while computing its business income but is allowable as a deduction from gross total income.

(D) Such expenditure is neither allowable as a deduction from business income nor allowable as a deduction from gross total income.

1.5 With respect to the inputs given in para (11) above, which of the following statement is valid as per the Companies Act, 2013?

(A) Change in Estimate - Restatement of previous year comparative is not required.

(B) Change in Estimate - Restatement of previous year comparative is required.

(C) Prior period error - Restatement of previous year comparative is not required.

(D) Prior period error - Restatement of previous year comparative is required.

(2 x 5 = 10 Marks)

1.6 With reference to the case study, comment on whether communication made with the previous auditor is in line with relevant clause of Schedule to the Chartered Accountants Act, 1949 and Code of Ethics. ***(3 Marks)***

1.7 Comment whether the classification referred in para (5) above is correct or not in the light of Schedule III to the Companies Act, 2013. ***(4 Marks)***

1.8 In respect of the inputs given in para (12) above, determine the incremental value due to adoption of the new strategy in line with the strategic financial management principles adopted by the company. ***(8 Marks)***

ANSWER TO CASE STUDY 1

PART – A

1.1 (C)

1.2 (C)

1.3 (B)

1.4 (C)

1.5 (D)

PART – B

1.6 As per Clause (8) of Part I of the First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant is deemed to be guilty of professional misconduct if he accepts a position as auditor previously held by another chartered accountant or a certified auditor who has been issued certificate under the Restricted Certificate Rules, 1932 without first communicating with him in writing.

It must be pointed out that professional courtesy alone is not the major reason for requiring a member to communicate with the existing accountant who is a member of the Institute or a certified auditor. The underlying objective is that the member may have an opportunity to know the reasons for the change in order to be able to safeguard his own interest, the legitimate interest of the public and the independence of the existing accountant. It is not intended, in any way, to prevent or obstruct the change. When making the inquiry from the retiring auditor, the one proposed to be appointed or already appointed should primarily find out whether there are any professional or other reasons why he should not accept the appointment.

In the given situation, the incoming auditor has informed the previous auditor about their appointment and discussed about the qualifications given in audit report over telephone. Mere informing about appointment over telephone instead of writing is not correct in accordance with Clause 8. Therefore, the incoming auditor would be held guilty of professional misconduct under Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949 for not communicating with previous auditor in writing.

1.7 General Instructions for the Preparation of Statement of Profit and Loss of Division II under Schedule III to the Companies Act, 2013, requires revenue from operations to be separately disclosed in the notes, showing revenue from:

(a) Sale of products;

(b) Sale of services; and

(c) Other operating revenues

The term “other operating revenue” is not defined. This would include Revenue arising from a company’s operating activities, i.e., either its principal or ancillary revenue-generating activities, but which is not revenue arising from sale of products or rendering of services. Whether a particular income constitutes “other operating revenue” or “other income” is to be decided based on the facts of each case and detail understanding of the company’s activities.

The classification of income would also depend on the purpose for which the particular asset is acquired or held.

In the given case, it is mentioned that one of their divisions also **deals** in Leasing of properties – Mobile Towers. The company is primarily engaged in spinning and weaving of cotton yarn. The revenue arising out of mobile towers division may be considered as either its principal or ancillary revenue-generating activities. Accordingly, the rent arising from leasing of Mobile towers properties would be classified under the head “Revenue from Operations” in the Statement of Profit and Loss. Hence, it cannot be shown under the head “Other Income”.

1.8 Projected Balance Sheet

	Year 1	Year 2	Year 3	Year 4
Fixed Assets (40% of Sales)	9,600	11,520	13,824	13,824
Current Assets (20% of Sales)	4,800	5,760	6,912	6,912
Total Assets	14,400	17,280	20,736	20,736
Equity	14,400	17,280	20,736	20,736

Projected Cash Flows

	Year 1	Year 2	Year 3	Year 4
Sales	24,000	28,800	34,560	34,560
PBT (10% of sale)	2,400	2,880	3,456	3,456
PAT (70%)	1,680	2,016	2,419.20	2,419.20
Depreciation	800	960	1,152	1,382
Addition to Fixed Assets	2,400	2,880	3,456	1,382
Increase in Current Assets	800	960	1,152	-
Operating cash flow (FCFF)	(720)	(864)	(1,036.80)	2,419.20

Projected Cash Flows:-

Present value of Projected Cash Flows:-

Cash Flows	PVF at 15%	PV
-720	0.870	-626.40
-864	0.756	-653.18
-1,036.80	0.658	-682.21
		-1,961.79

Residual Value = 2419.20/0.15 = 16,128

Present value of Residual value = $16128/(1.15)^3$

= 16128/1.521 = 10603.55

Total shareholders' value = 10,603.55 – 1,961.79 = 8,641.76

Pre strategy value = 1,400 / 0.15 = 9,333.33

∴ Incremental Value of strategy = 8,641.76 – 9,333.33 = – 691.57

CASE STUDY - 2

You are a young dynamic Management Consultant of 30 years of age, having graduated from a top notch business school in India and later on obtained a Doctorate degree in Finance from USA. At the age of 27 years, you started a consultancy firm in Bengaluru, India for providing scratch to end business advisory solutions to start-up companies, especially on innovative ways to finance a start-up, direct taxes, financial reporting, legal advisory under FEMA, 1999 and Insolvency and Bankruptcy Code, 2016. Your clients are spread across the country and you have a sizeable team of professionals working under your entire advisory practice.

Your client, Soft Tech Automobile Solutions Private Limited (STAS) is one of the India's start-up companies incorporated at Delhi in the year 2017. The main objective of the Company is to develop a niche, never invented before, customized software packages for two and three wheeler automobile manufacturers in India and abroad. The Company is the first ever start-up company wholly owned, managed by women technocrats with only women employees. It was promoted by Ms. Sunandha and Ms. Pracheeti, IITians from Delhi.

Ever since the promoters started their venture, they have, within a span of one year, garnered about 15 reputed automobile companies in India and twelve foreign companies in USA as their customers with long term contracts and significant business in terms of volume and money value. The promoters have also formed a wholly owned subsidiary at Singapore which has a liaison office in Mumbai and currently has very limited operations in India. The Indian liaison office, at present, employs about 30 people primarily to represent the foreign subsidiary in dealing with the customers in India.

Because of their innovative and user friendly software package, that provides high value addition, and going by the success they reaped within a year, it is for sure, that, they would flourish and branch out in their business within the next five years of their establishment. In other words, the Company is also looking at rapid expansion over the next three years. Nevertheless, what disturbs them, is the infusion of initial funds and continued working capital in the start-up to meet their commitments.

STAS is well recognized for its governance standards and is very keen to implement its zero tolerance for non-compliances policy. Under the circumstances, they have reached out to you seeking your advice on strategic financial management vis-a-vis innovative ways to finance a start up, matters on financial reporting and direct taxation. Besides the above, they also wanted you to advise them on the regulatory provisions of FEMA, 1999, IBC Code, 2016 that may impact their business. Accordingly, they have requested you to join their internal brainstorming session organized to discuss and decide on the way forward. This meeting will be attended by Ms. Sunandha, Managing Director, Ms. Pracheeti, Joint Managing Director, Ms. Anjana, Chief Financial Officer, Ms. Samanvitha, Manager, Taxation and Ms. Jaishvitha, Company Secretary. Prior to the meeting, the promoters have informed you and given the following inputs:

(a) A few export invoices raised by the Company towards supply of goods or services were remaining outstanding from the foreign party (in excess of the stipulated thresholds for suo moto write oft) and despite the Company's best efforts, the amounts have become doubtful of recovery.

(b) During the financial year 2020-21, the Company had changed its method of accounting compared to the previous financial year (2019-20) and had reported a closing stock of computer peripherals amounting to ₹ 2 lakhs only as on 31.03.2021. Also, the Company had borrowed a sum of ₹ 10 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.

(c) The Company acquired 5 state of the art, hitech computers, peripherals and servers (herein after referred to as 'Plant') at a cost of ₹ 2 Crores (with no break down 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 ₹ 60,00,000. The discount rate assumed is 5%

(d) The statutory Auditors of the Company, M/s. DEF & Associates, where CA. Mr. F, who is one of the partners of the audit firm who does not sign the audited financials of the Company had borrowed a sum of ₹ 4 lakhs from the subsidiary company for a short term 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) Ms. Suman, sister of Ms. Sunandha, (the Managing Director of the Company) is a resident of Singapore and she owns an immovable property in Varanasi, which she inherited from her father, who was a resident in India. Currently, Ms. Sunandha uses the property.

(f) Ms. Pracheeti, the Joint Managing Director wants to know the legal remedies available in India for recovering amounts rightfully due to the Company in case of a wilful default by the customer. In this regard, she is curious to understand the legal provisions of Insolvency and Bankruptcy Code, 2016 which would come handy for enforcing timely actions by the defaulting customers, where required. She also wanted to understand how the settlement of the dues would be prioritized as compared to various secured creditors of the defaulting company at the time of insolvency.

(g) 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.

Asks from You

You are requested to advise STAS based on your understanding of their requirements, issues and clarifications sought. You can make relevant assumptions, if any, as may be required to explain your views so as to provide a holistic and relevant feedback. Your timely advices may go a long way to the dynamic women entrepreneurs in scaling new heights in their business operations. Good Luck........!

Provide the correct options to the following questions:

2.1 Under the provisions of the Foreign Exchange Management Act, 1999, amounts receivable referred in para (a) above:

(A) Will remain in the books for ever and nothing needs to be done.

(B) To be continued to be treated as good till such time the approval from the RBI/ Authorized Dealer is obtained for write-off.

(C) Can be written off in the accounts and claimed as an allowable expense for taxation purposes and the procedural aspects of approvals from the RBI /AD may be obtained later.

(D) To be provided for in the accounts towards doubtful receivables, disallowed for income tax computation purposes and the write-off to be effected in compliance with the FEMA/RBI directions and income tax requirements.

2.2 In the light of the information provided in para (b) 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) ₹ 10 crore loan taken, which is exceeding the limit specified under Section 269 SS of the Income tax Act, 1961.

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

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

(iv) Reporting of closing stock of computer peripherals worth ₹ 2 Lakhs only.

OPTIONS

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

(B) (ii) & (iii)

(C) (i) & (iii)

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

2.3 With respect to the acts carried out by CA. Mr. F, what can you infer about the appointment of M/s. DEF & Associates as Statutory Auditors of the Company?

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

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

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

(D) It is not valid since the indebtedness exceeds prescribed limit of ₹ 1 lakh.

2.4 Can Ms. Suman continue to hold the property?

(A) No, she cannot hold, transfer or invest in India, since she is resident outside India.

(B) Yes, she can continue to hold in India, since she is a person of Indian origin and the property is located in India.

(C) Yes, she can continue to hold in India, since this was inherited from a person who was resident in India.

(D) Yes, she can continue to hold in India, since her sister uses the property whenever she travels to Varanasi.

2.5 Under the Insolvency and Bankruptcy Code, 2016, with reference to information in para (f), the foreign subsidiary can initiate action against the defaulting companies in India for non-payment of its enforceable dues:

(A) For any amount in excess of US $ 100 in its capacity as financial creditor.

(B) For any amounts in excess of ₹ 10 million with the approval of NCLT.

(C) For any amount in excess of US $ 100 in its capacity as corporate debtor.

(D) For any amounts in excess of ₹ 10 million without the approval of NCLT.

(2 x 5 = 10 Marks)

2.6 Being the referred Management Consultant, what are some of the ways you would suggest STAS management to finance their start-up? ***(5 Marks)***

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

2.8 In respect of the information provided in para (g) above, please answer the following questions:

(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 STAS seek revision under Section 264 of the Income Tax Act, 1961 in respect of the matters other than those preferred in appeal? ***(5 Marks)***

ANSWER TO CASE STUDY 2

PART – A

2.1 (B)

2.2 None of the options given is correct.

2.3 None of the options given is correct.

2.4 (C)

2.5 (B)

PART – B

2.6 Every startup needs access to capital, whether for funding product development, acquiring machinery and inventory or paying salaries to its employee. Though we can think first of bank loans as the primary source of money, only to find out that banks are really the least likely benefactors for startups. So, we suggest innovative measures include maximizing non-bank financing.

Here are some of the sources for funding a startup:

(i) Personal financing: It may not seem to be innovative but you may be surprised to note that most budding entrepreneurs never thought of saving any money to start a business. This is important because most of the investors will not put money into a deal if they see that you have not contributed any money from your personal sources.

(ii) Personal credit lines: One qualifies for personal credit line based on one's personal credit efforts. Credit cards are a good example of this. However, banks are very cautious while granting personal credit lines. They provide this facility only when the business has enough cash flow to repay the line of credit.

(iii) Family and friends: These are the people who generally believe in you, without even thinking that your idea works or not. However, the loan obligations to friends and relatives should always be in writing as a promissory note or otherwise.

(iv) Peer-to-peer lending: In this process group of people come together and lend money to each other. Peer to peer lending has been there for many years. Many small and ethnic business groups having similar faith or interest generally support each other in their start up endeavors.

(v) Crowd funding: Crowd funding is the use of small amounts of capital from a large number of individuals to finance a new business initiative. Crowdfunding makes use of the easy accessibility of vast networks of people through social media and crowdfunding websites to bring investors and entrepreneurs together.

(vi) Micro loans: Microloans are small loans that are given by individuals at a lower interest to a new business ventures. These loans can be issued by a single individual or aggregated across a number of individuals who each contribute a portion of the total amount.

(vii) Vendor financing: Vendor financing is the form of financing in which a company lends money to one of its customers so that he can buy products from the company itself. Vendor financing also takes place when many manufacturers and distributors are convinced to defer payment until the goods are sold. This means extending the payment terms to a longer period for e.g. 30 days payment period can be extended to 45 days or 60 days. However, this depends on one's credit worthiness and payment of more money.

(viii) Purchase order financing: The most common scaling problem faced by startups is the inability to find a large new order. The reason is that they don't have the necessary cash to produce and deliver the product. Purchase order financing companies often advance the required funds directly to the supplier. This allows the completion of transaction and profit flows up to the new business.

(ix) Factoring accounts receivables: In this method, a facility is given to the seller who has sold the good on credit to fund his receivables till the amount is fully received. So, when the goods are sold on credit, and the credit period (i.e. the date upto which payment shall be made) is for example 6 months, factor will pay most of the sold amount up front and rest of the amount later. Therefore, in this way, a startup can meet his day to day expenses. ***(Any 5 points)***

2.7 The new component 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 component; however, the cost of the replacement ₹ 60,00,000 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, ₹ 60,00,000 discounted back two years amounts to ₹ 54,42,177 [₹ 60,00,000/$(1.05)^2$], i.e., the approximate cost of component before 2 years.

The current carrying amount of the component which is required to be replaced of ₹ 43,53,742 would be derecognised from the books of account, (i.e., Original Cost ₹ 54,42,177 as reduced by accumulated depreciation for past 2 years ₹ 10,88,435, assuming depreciation is charged on straight-line basis.)

The cost of the new component, ₹ 60,00,000 would be added to the cost of plant, resulting in a revision of carrying amount of plant to ₹ 1,76,46,258 (i.e., ₹ 1,60,00,000* – ₹ 43,53,742 + ₹ 60,00,000).

*Original cost of plant ₹ 2,00,00,000 reduced by accumulated depreciation (till the end of 2 years) ₹ 40,00,000.

2.8

(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. The doctrine of partial merger would apply in this case. Even 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 Chordis (2002) 256 ITR 440 (Mad).**
(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), even if the revision pertains to a matter, other than the matter(s) covered in the appeal. Thus, the concept of total merger would apply in the case of section 264. Therefore, STAS cannot seek revision under section 264 even in respect of matters other than those preferred in appeal. **As held by Hon'ble Supreme Court in the case of Hindustan Aeronautics Ltd Vs CIT (2000) 243 ITR 898.**

CASE STUDY - 3

Your Position in the Professional Arena

You are an open minded, sensible, competent and innovative Management Consultant providing solutions in financial reporting, budgetary control, cost analysis, capital budgeting and other areas of costing and management reporting. You are also advising corporates on the implications of mergers and amalgamations covering various aspects inter-alia on the legal, business and corporate tax related matters.

You are specifically approached by various corporates to implement governance and ethics into the very fabric of the client's organization, revising and re-framing the compliance framework, policies, processes in line with the corporate & allied laws and other local regulations.

Professional Work

During the month of January 2021, six different Companies approached you seeking your advice with respect to their proposals as outlined below:

Proposals

(1) KG LIMITED (KGL)

KOL is a manufacturing company that produces a wide range of consumer products for home consumption. Among its popular brand are its energy efficient and environment friendly LED lamps. The Company has a quality control department that monitors the quality of production. As per the recent 'poor quality report', the current rejection rate of LED lamps is 5% of units input. 5,000 units input goes through the process each day. Each unit that is rejected costs ₹ 200 to the Company. The quality control department has proposed few changes to the inspection process that would enable early detection of defects. This would reduce the overall rejection rate from 5% to 3 % of units input. The improved inspection costs would cost the company ₹ 15,000 per day.

(2) GANGOTRI LIMITED (GL)

GL is intending to acquire Madhruk Limited (ML) (by merger) (a company not within the definition of a "small company" under the Companies Act, 2013) and the following information are available in respect of both the companies:

(In ₹)

Particulars	***Gangotri Limited***	***Madhruk Limited***
Total Current Earnings	*2,50,000*	*90,000*
Number of outstanding shares	*50,000*	*30,000*
Market price per share	*21*	*14*

Besides the above, GL has lent an amount of ₹ 10 lakhs to ML as an inter-corporate deposit (ICD) for meeting various working capital requirements in the year 2018 which is being rolled over every 6 months since ML is not in a position to repay the loan as per agreed tenure. It is also not servicing any interest and the amount of interest payable as per the terms is not recognized in the books of ML in view of uncertainties attached to revenue recognition.

The CFO of GL believes that this proposal of merger is completely workable and in fact the same needs to be mandatorily pursued through the fast track mechanism available under the regulatory framework. He further added that the ICD which remains as *outstanding from ML will also be eliminated on merger and hence the issue of repayment also does not arise.*

(3) EL GEE INDUSTRIES LIMITED (EGIL)

EGIL manufactures standard heavy duty steel storage racks for industrial use. Each storage rack is sold for ₹ 750 each. The Company produces 10,000 racks per annum. Relevant cost data per annum are as follows:

Cost Component	Budget	Actual	Actual Cost p.a. (₹)
Direct Material	5,00,000 sq. ft.	5,20,000 sq. ft.	20,00,000
Direct Labour	90,000 hrs.	1,00,000 hrs.	10,00,000
Machine Setup	15,000 hrs.	15,000 hrs.	1,50,000
Mechanical Assembly	2,00,000 hrs.	2,00,000 hrs.	30,00,000

The actual and budgeted operating levels are the same. Actual and standard rates of material procurement and hourly labour rate are also the same. Any variance in cost is solely on account of difference in the material usage and hours required to complete production. Aggressive pricing from competitors has driven down sales. A comparable rack is available in the market for ₹ 675 each. Shankar, the marketing manager has determined that in order to maintain the company's existing market share of 10,000 racks, EGIL must reduce the price of each rack to ₹ 675.

(4) JM BAKES & CONFECTIONERS LTD (JMBCL)

JMBCL started a Bakery and Confectionery store. The MD of JMBCL, Mr. X contacted Mr. Y, representing Iyer & Co., Confectioners & Bakers (ICCB) for supply of cakes and biscuits. The communication between the parties were over email. On e-mail, there was a term of service between the parties containing that "any disputes regarding quality or delivery shall be submitted to arbitration conducted under the guidance of Indian Confectionery Manufacturers Association. Please place your order if the above terms and conditions are agreeable to you." X placed an order.

(5) SHANTHI BIOTECH LIMITED (SBTL)

SBTL had a paid up equity share capital of ₹ 20 crores divided into 20,00,000 equity shares of ₹ 10 each. The Company had 2,000 equity shareholders. A petition was submitted before the Tribunal signed by 320 members holding 40,000 equity shares of the Company for the purpose of claiming relief against oppression and mismanagement by the majority of the shareholders. Subsequently, 160 members, who had signed the petition withdrew their consent.

(6) SUPER SPINNING LTD (SSL)

While computing the statement of total income prepared in accordance with ICDS for the A.Y.2019-20, the following information was noted:

The amount of employee benefits include a sum of ₹ 4,50,000 in respect of bonus payable to employees. In the previous year 2018-2019, the Company and its employees union had a dispute over payment of bonus. In order to avoid late payment of bonus, the Company formed a trust and transferred the amount of bonus payable to employees to the said trust. The dispute was settled in the month of November, 2019 and the trust paid the amount of bonus to the employees on 30th December, 2020.

You are requested to provide the correct option to the following questions. Please indicate your option in capital letters. No reasoning is required.

3.1 Whether the proposal of Gangotri Limited for the merger of Madhruk Limited needs to be mandatorily pursued under "fast track mode"?

(A) Yes

(B) No

(C) Yes, as it involves capital reduction

(D) Would vary on a case to case basis depending on the contents of the scheme.

3.2 On giving effect to the scheme of merger, the ICD provided by Gangotri Limited (GL) to Madhruk Limited (ML):

(A) Will remain in the books of ML.

(B) Will be squared off.

(C) Will remain as a memorandum entry.

(D) Will remain only in the books of GL.

3.3 State which statement is correct with respect to the arbitration agreement made between JMBCL and ICCB under the provisions of the Arbitration and Conciliation Act,

(A) It is not valid agreement, as the terms of service is not contained in same document of agreement.

(B) It is not valid, as the agreement is not laid down in particular format formally.

(C) It is not valid, as communication over email of the term of services is not proper.

(D) It is valid arbitration agreement in writing contained in correspondence between the parties over email.

3.4 In respect of SBTL, as per the given facts:

(A) The petition becomes automatically void.

(B) The petition is nevertheless maintainable subject to the condition that approval of 80 members is obtained within a period of 30 days.

(C) The petition is nevertheless maintainable subject to the condition that approval of at least 40 members is obtained within a period of 30 days.

(D) It will not affect the maintainability of the petition.

3.5 While computing the total income of Super Spinning Limited (SSL), for the A.Y. 2019-20, the amount of bonus payable:

(A) Would be allowed as a deduction

(B) Would not be allowed as a deduction

(C) Would be partially allowed as a deduction

(D) No treatment is required. ***(2 x 5 = 10 Marks)***

3.6 With reference to the inputs given for KG Limited above, analyze the proposal and suggest if it would be beneficial for the Company to implement it. ***(3 Marks)***

3.7 With reference to the inputs given for Gangotri Limited as above:

(i) What is the present EPS of both the companies?

(ii) If the proposed merger takes place, what would be the new earnings per share for Gangotri Ltd. (assuming the merger takes place by exchange of Equity Shares and the Exchange Ratio is based on the Current Market Price)? Assume no synergy impact. ***(6 Marks)***

3.8 With reference to the inputs given for El Gee Industries Limited,

(i) Calculate the current cost and profit per unit and identify the non-value added activities in the production process.

(ii) Calculate the new target cost per unit for a sales price of ₹ 675 if the profit per unit is maintained. ***(6 Marks)***

ANSWER TO CASE STUDY 3

PART – A

3.1 (B)

3.2 (B)

3.3 (D)

3.4 (D)

3.5 (B)

PART – B

3.6 Analysis of the proposal to make changes to the inspection process:

The company wants to reduce the cost of poor quality on account of rejected items from the process. The current rejection rate is 5% that is proposed to be improved to 3% of units input.

The expected benefit to the company can be worked out as follows:

The units of input each day = 5,000. At the current rate of 5%, 250 units of input are rejected each day. It is proposed to reduce rejection rate to 3%, that is 150 units of input rejected each day. Therefore, improvements to the inspection process would reduce the number of units rejected by 100 units each day. The resultant cost of poor quality would reduce by ₹ 20,000 each day (100 units of input × ₹ 200 cost of one rejected unit).

The cost of implementing these additional controls to the inspection process would be ₹ 15,000 each day.

The net benefit to the company on implementing the proposal would be ₹ 5,000 each day. Therefore, the company should implement the proposal.

3.7 (i) Present EPS of Gangotri Ltd. (GL) and Madhruk Ltd. (ML)

	GL	ML
Total Current Earnings (a)	₹ 2,50,000	₹ 90,000
No. of outstanding shares (b)	50,000	30,000
EPS (a)/ (b)	₹ 5.00	₹ 3.00

(ii) Calculation of new EPS of GL

No. of equity shares to be issued by GL to ML

= 30,000 shares × ₹ 14/₹ 21 = 20,000 shares

Total no. of shares in GL after acquisition of ML

= 50,000 + 20,000 = 70,000

Total earnings after tax [after acquisition]

= ₹ 2,50,000 + ₹ 90,000 = ₹ 3,40,000

EPS = ₹ 3,40,000/ ₹ 70,000 = ₹ 4.86

3.8 (i) The current cost and profit per unit are calculated as below:

Cost Component	Units	Actual Cost p.a. for 10,000 racks (₹)	Actual Cost per rack (₹)
Revenue	10,000 racks	75,00,000	750
Direct Material	5,20,000 sq. ft.	20,00,000	200
Direct Labour	1,00,000 hrs.	10,00,000	100

Machine Setup	15,000 hrs.	1,50,000	15
Mechanical Assembly	200,000 hrs.	30,00,000	300
Total Cost	61,50,000	615	
Profit	13,50,000	135	

Therefore, the current cost is ₹ 615 p.u. while the profit is ₹ 135 p.u. Machine setup is the time required to get the machines and the assembly line ready for production. In this case, 15,000 hours spent on setting up does not add value to the storage racks directly. Hence, it is a non-value add activity.

(ii) New sale price per rack is ₹675 per unit. The profit per unit needs to be maintained at ₹ 135 per unit. Hence, the new target cost per unit = new selling price per unit – required profit per unit = ₹ 675 - ₹ 135 = ₹ 540 per unit.

CASE STUDY - 4

You are advising companies in mergers and acquisitions. One of your clients, T Limited reached out to you with their interest in acquiring companies for their inorganic growth. They have provided you with an analysis of their initial target list along with some business insights obtained through various channels. You are required to consider the details below and answer the questions.

PB Private Limited

The promoters of this company are Z & Y who hold about 90% in the company. The remaining 10% is held by a group of minority shareholders of which 9% is held by J in his individual capacity. Whilst the promoters of the company are willing to offload their shares completely at a fair price, J, being a significant minority shareholder, may be creating problems arid he may also demand higher price to capitalise on the opportunity.

J is also in the board of the Company and has issues with the Board Chairman on various matters. He has also written to the Registrar of Companies (RoC) that the matters discussed by him in the board meetings are filtered by the Chairman and the minutes do not reflect the facts and the key discussion matters appropriately. Z is the Chairman of the Board and he believes that his decision is final with respect to board minutes and even the RoC has no role to play.

Further, the promoters wants to know about the powers to acquire shares of Shareholders dissenting from scheme or contract approved by the majority or how they can directly purchase Minority Shareholding, under Companies Act, 2013.

IP Limited

IP Limited is the market leader in introducing innovation in the paper industry. The advanced 3D printing capable new generation machineries are imported by the Company which has *helped the company in cutting its cost considerably and improving its profitability. Post introduction of Goods and Service Tax (GST), the Company has resorted to certain practices which were challenged by the Department. Several GST refunds received by the Company from the Goods and Service Tax department were alleged to be failing the principle of unjust enrichment under the Act. The exposure arising out of the same needs careful evaluation.*

Further, the company is also having several issues with respect to supply and reversals/returns and the process of invoicing/raising of credit and debit notes requires complete overhaul. It has paid GST on several supplies without considering the subsequent reversals resulting in over payment of taxes since it was not clear on the provisions, clarity was also sought on allowable refunds. Further, the time limits for claiming refunds of excess tax paid/unutilised Input credit also requires evaluation since this could have a significant impact on the net worth of the company.

DP (Regd.)

DP (Regd.) is a partnership firm where G and K are the current partners. Earlier M was also a partner, who retired on 31.03.2019. The firm primarily focuses on exports and has got good recoveries over the past 2 years.

Majority of the exports of the firm were routed through a third party under the deemed exports category which was challenged by the GST authorities recently. The firm has also been slapped with a tax notice on their supplies made in financial year 2018-19 which if confirmed would virtually result in wiping out all the net worth and the partners may have to pay from their personal assets in view of their joint and several liability.

G and K believe that if there is a requirement to pay the tax, then M would also be required to pay the same as per the applicable provisions, though M challenges this position. In view of the tax uncertainty, the firm is willing to consider a total buy out by any large company.

Part-A

4.1 Presume that T Limited proposes to pursue amalgamation of PB Pvt. Ltd. and pursuant to the same, agrees to pay higher price (higher than the price decided under the scheme) to J based on his negotiation, the extra amount/compensation received by J shall be:

(A) Fully payable to him in his individual capacity.

(B) Full payable to the remaining minority shareholders.

(C) Allocated to all minority shareholders on pro rata basis.

(D) Allocated to all majority shareholders on pro rata basis.

4.2 Z has an absolute discretion to exclude the matters raised by J in the board minutes, if it -

(A) is relevant or material to the proceedings.

(B) is detrimental to the interests of the Chairman.

(C) is or could reasonably be regarded as defamatory of any person.

(D) is a dissent in a majority decision.

4.3 The GST liability of IP Ltd. as a supplier will reduce when the:

(A) Credit note is issued by the supplier.

(B) Credit note is issued by the customer.

(C) Debit note is issued by the supplier.

(D) Debit note is issued by the customer.

4.4 M is liable to pay GST, interest and penalty of the firm due:

(A) Till the date of the retirement notwithstanding any intimation to Commissioner.

(B) Till the date of the intimation provided to the commissioner.

(C) Indefinitely notwithstanding the retirement/intimation.

(D) Not at all liable.

4.5 The time limit for making an application for claiming refund of GST taxes paid by I P Ltd. is:

(A) 3 years from the relevant date.

(B) 2 years from the relevant date.

(C) None since there is no time limit.

(D) None since such refund can never be claimed. ***(2 x 5 = 10 Marks)***

Part-B

4.6. With the reference to the decision to acquire P B Private Limited by T limited, discuss the powers to acquire shares of Shareholders dissenting from scheme or contract approved by Majority and also discuss various provision of purchase of minority shareholding, as required by Z & Y. ***(10 Marks)***

4.7 Under what circumstances IP limited is legally entitled to the GST refunds and can also retain such amounts without having the requirement to pass it on to anybody else? Also brief about what are allowable refunds. ***(5 Marks)***

ANSWER TO CASE STUDY 4

PART – A

4.1 (C)

4.2 (C)

4.3 (A)

4.4 (A)

4.5 (B)

PART – B

4.6 POWER TO ACQUIRE SHARES OF SHAREHOLDERS DISSENTING FROM SCHEME OR CONTRACT APPROVED BY MAJORITY [SECTION 235 OF THE COMPANIES ACT, 2013]

(1) Basic requirements as to acquisition of shares [Sub-section (1)]:

- The scheme or contract involving the transfer of shares or any class of shares in a company (the transferor company) to another company (the transferee company) has been approved by the holders of not less than 9/10th in value of the shares whose transfer is involved.
- The approval from 9/10th shareholders in value shall be received within four months after making of an offer in that behalf by the transferee company.
- The shares already held at the date of the offer by Transferee Company, or by a nominee of the transferee company or its subsidiary companies shall not be counted for this purpose. The transferee company shall express his desire to acquire the remaining shares of dissenting shareholders within two months after the expiry of the said four months and shall give notice in the prescribed manner to any dissenting shareholder that it desires to acquire his shares.

(2) Order of Tribunal to acquire shares of dissenting shareholders [Sub-section (2)]: Where a notice under sub-section (1) is given, the transferee company shall, unless on an application made by the dissenting shareholder to the Tribunal, **within one month** from the date on which the notice was given and the Tribunal thinks fit to order otherwise, be entitled to and bound to acquire those shares on the terms on which, under the scheme or contract, the shares of the approving shareholders are to be transferred to the transferee company.

(3) Application by dissenting shareholders [Sub-section (3)]:

(i) Where a notice has been given by the transferee company **on an application made by the dissenting shareholder** and the Tribunal has not, made an order to the contrary i.e. order made in favor of the company, the transferee company shall, on the expiry of one month from the date on which the notice has been given, or,

(ii) if an application to the Tribunal by the dissenting shareholder is then pending, - Nothing is required to be done.

(iii) after that **application has been disposed of-**

shall send a copy of the notice to the transferor company together with an instrument of transfer, to be executed on behalf of the shareholder by any person appointed by the transferor company and on its own behalf by the transferee company, and pay or transfer to the transferor company- the amount or other consideration representing the price payable by the transferee company for the shares which that company is entitled to acquire,

(iv) The **transferor company shall**—

(a) thereupon register the transferee company as the holder of those shares; and

(b) within one month of the date of such registration, inform the dissenting shareholders of the fact of such registration and of the receipt of the amount or other consideration representing the price payable to them by the transferee company.

(4) Separate Bank account for disbursement to entitled shareholders [Sub-section (4)]: Any sum received by the transferor company under this section shall be paid into a separate bank account, and any such sum and any other consideration so received shall be held by that company in trust for the several persons entitled to the shares in respect of which the said sum or other consideration were respectively received and **shall be disbursed to the entitled shareholders within sixty days.**

(5) Scheme/contract made before the commencement of Act [Sub-section (5)]: In relation to an offer made by a transferee company to shareholders of a transferor company before the commencement of this Act, this section shall have effect with the following modifications, namely:—

(a) in sub-section (1), for the words "the shares whose transfer is involved other than shares already held at the date of the offer by, or by a nominee of, the transferee company or its subsidiaries,", the words "the shares affected" shall be substituted; and

(b) in sub-section (3), the words "together with an instrument of transfer, to be executed on behalf of the shareholder by any person appointed by the transferee company and on its own behalf by the transferor company" shall be omitted.

Explanation — For the purposes of this section, **"dissenting shareholder**" includes a shareholder who has not assented to the scheme or contract and any shareholder who has failed or refused to transfer his shares to the transferee company in accordance with the scheme or contract.

Purchase of Minority Shareholding [Section 236]

(1) Notify to company for purchase of minority shareholding [Sub-section (1)]:

- In the event of an acquirer, or a person acting in concert with such acquirer - becoming registered holder of ninety per cent. or more of the issued equity share capital of a company, or

- in the event of any person or group of persons- becoming ninety per cent. majority or holding ninety per cent. of the issued equity share capital of a company,

by virtue of an amalgamation, share exchange, conversion of securities or for any other reason, such acquirer, person or group of persons, as the case may be, shall notify the company of their intention to buy the remaining equity shares.

(2) **Offer of equity shares to minority shareholders by acquirer, person or group of persons [Sub-section (2)]:** The acquirer, person or group of persons shall offer to the minority shareholders of the company for buying the equity shares held by such shareholders at a price determined on the basis of valuation by a registered valuer in accordance with Rule 27.

(3) **Offer to majority shareholder to purchase the minority equity shareholding [Sub-section (3)]:** The minority shareholders of the company may offer to the majority shareholders to purchase the minority equity shareholding of the company at the price determined in accordance with Rule 27.

(4) **Deposit of amount in separate bank account [Sub-section (4)]:** The majority shareholders shall deposit an amount equal to the value of shares to be acquired by them under sub-section (2) or sub-section (3), as the case may be, in a separate bank account to be operated by the company whose shares are being transferred for at least one year for payment to the minority shareholders and such amount shall be disbursed to the entitled shareholders within sixty days:

Provided that such disbursement shall continue to be made to the entitled shareholders for a period of one year, who for any reason had not been made disbursement within the said period of sixty days or if the disbursement have been made within the aforesaid period of sixty days, fail to receive or claim payment arising out of such disbursement.

(5) **Role of company whose shares are being transferred to act as a transfer agent in the event of purchase [Sub-section (5)]:** In the event of a purchase under this section, the company whose shares are being transferred shall act as a transfer agent for receiving and paying the price to the minority shareholders and for taking delivery of the shares and delivering such shares to the majority, as the case may be.

(6) **Company whose shares are being transferred to issue shares [Sub-section (6)]:** In the absence of a physical delivery of shares by the shareholders within the time specified by the company,

- the share certificates shall be deemed to be cancelled, and

- the company whose shares are being transferred shall be authorised to issue shares in lieu of the cancelled shares and complete the transfer in accordance with law, and
- make payment of the price out of deposit made under sub-section (4) by the majority in advance to the minority by despatch of such payment.

(7) Right of shareholders to make an offer for sale of minority equity shareholding [Sub-section (7)]: In the event of a majority shareholder or shareholders requiring a full purchase and making payment of price by deposit with the company for-

- any shareholder or shareholders who have died or ceased to exist, or
- whose heirs, successors, administrators or assignees have not been brought on record by transmission,

the right of such shareholders to make an offer for sale of minority equity shareholding shall continue and be available for a period of three years from the date of majority acquisition or majority shareholding.

(8) Sharing of additional compensation [Sub-section (8)]: Where the shares of minority shareholders have been acquired in pursuance of this section, and as on or prior to the date of transfer following such acquisition, the shareholders holding seventy-five per cent. or more minority equity shareholding negotiate or reach an understanding on a higher price for any transfer, proposed or agreed upon, of the shares held by them without disclosing the fact or likelihood of transfer taking place on the basis of such negotiation, understanding or agreement,-

the majority shareholders shall share the additional compensation so received by them with such minority shareholders on a pro rata basis.

Explanation—For the purposes of this section, the expressions "acquirer" and "person acting in concert" shall have the meanings respectively assigned to them in clause (b) and clause (e) of sub-regulation (1) of regulation 2 of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997.

(9) Determination of price for purchase of minority shareholders: Rule 27 prescribes that the registered valuer shall determine the price to be paid by the acquirer, person or group of persons referred to in sub-section (1) of section 236 of the Act for purchase of equity shares of the minority shareholders of the company in accordance with the prescribed rules.

(10) On failure of acquisition of shares [Sub-section (9)]: When a shareholder or the majority equity shareholder fails to acquire full purchase of the shares of the minority equity shareholders, then, the provisions of this section shall continue to apply to the residual minority equity shareholders, even though,—

(a) the shares of the company of the residual minority equity shareholder had been delisted; and

(b) the period of one year or the period specified in the regulations made by the Securities and Exchange Board under the Securities and Exchange Board of India Act, 1992, had elapsed.

4.7

Particulars
The refundable amount under GST shall, instead of being credited to the Consumer Welfare Fund, be paid to IP Limited, if such amount is relatable to — (a) refund of tax paid on export of goods or services or both or on inputs or input services used in making such exports; (b) refund of unutilized ITC in case of zero rated supplies made without payment of tax or accumulated ITC on account of inverted duty structure; (c) refund of tax paid on a supply which is not provided, either wholly or partially, and for which invoice has not been issued, or where a refund voucher has been issued; (d) refund of tax in pursuance of section 77 of the CGST Act, 2017, i.e. tax paid on a transaction treated to be an intra-State supply, but which is subsequently held to be an inter-State supply or vice-versa.; (e) the tax and interest, if any, or any other amount paid by Innovative Papers Limited, if it had not passed on the incidence of such tax and interest to any other person; or (f) the tax or interest borne by such other class of applicants as the Government may, on the recommendations of the Council, by notification, specify [Section 54(8) of the CGST Act, 2017]. **[Any 3 points]** The allowable refunds are as under:- (i) Export/supply to SEZ developer/unit on payment of IGST (ii) Refund of unutilized ITC (iii) Refund of tax paid on the supply of goods regarded as deemed exports may be claimed. (iv) Refund of any balance in the electronic cash ledger after payment of tax, interest, penalty, fee or any other amount payable under this Act or the rules made there under may be claimed. (v) Refund on account of tax paid on a supply which is not provided, either wholly or partially, and for which invoice has not been issued (tax paid on advance payment). (vi) Refund of tax wrongly collected and paid to the Government (i.e. CGST & SGST paid by treating the supply as intra-State supply which is subsequently held as inter-State supply and vice versa).

(vii)	Refund of the IGST paid by tourist leaving India on any supply of goods taken out of India by him.
(viii)	Tax becomes refundable as a consequence of judgment, decree, order or direction of the Appellate Authority, Appellate Tribunal or any Court.
(ix)	On finalization of provisional assessment, if any tax becomes refundable to taxpayer (on account of assessed tax on final assessment being less than the tax deposited by the taxpayer).
(x)	Refund of taxes on purchases made by UN bodies or embassies etc.
(xi)	Refund of taxes to the retail outlets established in departure area of an international airport beyond immigration counters making tax free supply to an outgoing international tourist.
(xii)	Refund of advance tax deposited by a casual taxable person/ Non-resident taxable person.
(xiii)	Refund of excess payment of tax.
	[Any 2 points]

CASE STUDY - 5

S Limited is company having its registered and corporate office at New Delhi. It is specialised in manufacturing machinery products and is looking to expand its operations across the nation. 60% of the S Limited's shares are held by the Government of India and rest by other investors. The company is also in the process of negotiations with other companies to take over their business for strategic advantage.

Since the company has been in existence for more than 10 years, the board resolution was passed to make political contributions amounting to ₹10,00,000 for the year ending March 31st, 2021. However, the average net profit of company for immediately preceding 3 years is ₹8,00,000 only. The management of company is concerned regarding the maximum amount of political contributions to be made considering the relevant provisions of laws being in force.

Since the timeline to continue the audit for existing auditors has come to an end. So, at the meeting held of its Board of Directors, it was decided to unanimously appoint M/s ABC Chartered Accountants. This is the first time that S Limited would be applying Ind AS for the preparation of its financials for the current financial year 2020-2021. Ind AS mandates that an entity shall present three Balance Sheets as at: (a) the end of the current period; (b) the end of the preceding period; and (c) the beginning of the preceding period, in its first-time adoption of Ind AS. During this process, the company is also required to present the opening Ind AS Balance Sheet as at the date of transition. Accordingly, following is the Balance Sheet prepared as per earlier GAAP as at the beginning of the preceding period along with the additional information:

Balance Sheet as at 31st March, 2020[1]

(All figures are in '000, unless otherwise specified)

Particulars	*Amount (₹)*
EQUITY AND LIABILITIES	
(1) Shareholder's Funds	
(a) Share Capital	*10,00,000*
(b) Reserves & Surplus	*25,00,000*
(2) Non-Current Liabilities	
(a) Long Term Borrowings	*4,50,000*
(b) Long Term Provisions	*3,50,000*
(c) Deferred Tax Liabilities	*3,50,000*
(3) Current Liabilities	
(a) Trade Payables	*22,00,000*
(b) Other Current Liabilities	*4,50,000*
(c) Short Term Provisions	*12,00,000*
TOTAL	***85,00,000***
ASSETS:	
(1) Non-Current Assets	
(a) Property, Plant & Equipment (net)	*20,00,000*
(b) Intangible Assets	*2,00,000*
(c) Goodwill	*1,00,000*
(d) Non-Current Investments	*5,00,000*
(e) Long Term Loans & Advances	*1,50,000*
(f) Other Non-Current Assets	*2,00,000*
(2) Current Assets	
(a) Current Investments	*18,00,000*
(b) Inventories	*12,50,000*
(c) Trade Receivables	*9,00,000*
(d) Cash and Bank Balances	*10,00,000*
(e) Other Current Assets	*4,00,000*
TOTAL	***85,00,000***

[1] to be read as 2019

Additional Information:

- *Other current liabilities include ₹ 3,90,000 liabilities to be paid in cash such as expense payable, salary payable etc. and ₹ 60,000 are statutory government dues.*
- *Long term loans and advances include ₹ 40,000 loan and the remaining amount consists advance to staff of ₹ 1,10,000.*
- *Other non-current assets of ₹ 2,00,000 consists Capital advances to suppliers.*
- *Other current assets include ₹ 3,50,000 current assets receivable in cash and Prepaid expenses of ₹ 50,000.*
- *Short term provisions include Dividend payable including DDT of ₹ 2,00,000. The dividend payable had been as a result of board meeting wherein the declaration of dividend for financial year 2018-2019 was made. However, it is subject to approval of shareholders in the annual general meeting.*

Chief Financial Officer of S Limited has also presented the following information against corresponding relevant items in the Balance Sheet:

- *Property, Plant & Equipment consists a class of assets as office buildings whose carrying amount is ₹ 10,00,000. However, the fair value of said office building as on the date of transition is estimated to be ₹ 5,00,000. Company wants to follow revaluation model as its accounting policy in respect of its property, plant and equipment for the first annual Ind AS financial statements.*
- *The fair value of Intangible Assets as on the date of transition is estimated to be ₹ 2,50,000. However, the management is reluctant to incorporate the fair value changes in books of account although auditor does not agree to the same.*
- *S Ltd. had acquired 80% shares in Excel Private Limited few years ago thereby acquiring the control in it at that time. S Ltd. recognised goodwill as per erstwhile accounting standards by accounting the excess of consideration paid over the net assets acquired at the date of acquisition. Fair value exercise was not done at the time of acquisition. Now auditors insist the company that fair value exercise must be done with retrospective effect as on the date of transition.*
- *Trade receivables include an amount of ₹ 20,000 as provision for doubtful debts measured in accordance with previous GAAP. Now as per latest estimates, the provision needs to be revised to ₹ 25,000.*
- *Six years ago, company had given a loan of ₹ 1,00,000 to an entity for the term of 10 years. Transaction costs were incurred separately for this loan. The loan carries an interest rate of 7% p.a. and it was carried at cost in its initial recognition. The principal amount is to be*

repaid in equal instalments over the period of ten years at the year end. Interest is also payable at each year end. The fair value of loan as on the date of transition is ₹ 50,000 as against the carrying amount of loan which at present amounts ₹ 40,000. However, Ind AS 109 mandates to charge the interest expense as per effective interest method after the adjustment of transaction costs. Management says it is tedious task in the given case to apply the effective interest rate changes with retrospective effect and hence is reluctant to apply the same retrospectively in its first-time adoption.

- *In the long-term borrowings, ₹ 4,50,000 of component is due towards the State Government. Interest is payable on the government loan at 4% p.a., however the prevailing rate in the market at present is 8% p.a. The fair market value of loan stands at ₹ 4,20,000 as on the relevant date.*
- *Under Previous GAAP, the mutual funds were measured at cost or market value, whichever is lower. Under Ind AS, the Company has designated these investments at fair value through profit or loss. The value of mutual funds as per previous GAAP is ₹ 2,00,000 as included in 'current investments'. However, the fair value of mutual funds as on the date of transition is ₹ 2,30,000.*
- *Ignore separate calculation of deferred tax on above adjustments. Assume the net deferred tax income to be ₹ 50,000 on account of Ind AS transition adjustments.*

During the briefing with internal audit head of S Limited, internal auditor has put an observation that a contractor, M/s DG Brothers Private Limited, has been providing the services to S Limited since the beginning of the year. M/s DG Brothers Private Limited does billing to S Limited's corporate office each month at ₹ 50,000 (exc. GST). From the invoice particulars, it is found that M/s DG Brothers Private Limited is situated at Ghaziabad, Uttar Pradesh and having PAN no. XXXXXXXXXX. The total invoice amount comes to ₹ 59,000 incorporating GST @ 18%. Meanwhile, company deducts Tax Deduction at Source (TDS) of M/s DG Brothers Private Limited each month amounting to ₹ 500 on the amount of ₹ 50,000 and not on ₹ 59,000. Accountant is worried that he should have been deducting TDS on ₹ 59,000 as its non-compliance would require the company to pay interest on late payment of TDS / Short deduction.

There is another service provider, Amit Shukla who as a professional had assisted the company for Ind AS adjustments. Amit Shukla billed ₹ 10,00,000 to the company on 16th January, 2021. Company booked the said invoice in its books with the date as mentioned in invoice and deducted the TDS accordingly. However, company has deposited the due TDS amount on 30th April, 2021.

Part-A

(Multiple Choice Questions)

5.1 Appointment of S Limited's statutory auditors at annual general meeting is not valid since:

(A) Prior approval of Central Government has not been taken.

(B) Prior approval of Comptroller and Auditor General of India has not been taken.

(C) Appointment should be valid for 1 year only.

(D) Comptroller and Auditor General of India auditors can only appoint the auditors.

5.2 Calculate the amount of political contribution S Limited can make to political party for the year ending 31st March, 2020.

(A) ₹ 10,00,000

(B) ₹ 8,00,000

(C) Nil

(D) No Limit

5.3 Calculate the amount of TDS to be deducted by S Limited against the monthly invoice of M/s DG Brothers Private Limited.

(A) ₹ 1,180

(B) ₹ 1,000

(C) ₹ 885

(D) ₹ 750

5.4 Calculate the interest on late payment of TDS, S Limited is required to pay and deposit to the account of Central Government in the case of Amit shukla.

(A) ₹ 5,000

(B) ₹ 7,500

(C) ₹ 4,500

(D) ₹ 4,000

5.5 The place of supply and tax leviable in case of services provided by M/s DG Brothers Private Limited to S Limited is-

(A) Delhi, CGST & SGST

(B) Delhi, IGST

(C) Uttar Pradesh, CGST & SGST

(D) Uttar Pradesh, IGST ***(2 x 5 = 10 Marks)***

Part-B

(Descriptive Questions)

5.6 *Discuss in brief about the provisions/ requirements of the relevant Ind AS, which is required for preparation of S Limited's opening Balance Sheet as on the date of transition.* ***(3 Marks)***

5.7 *Prepare transition date Balance Sheet of S Limited as per Indian Accounting Standards, according to the format prescribed in Division II - Ind AS Schedule III to the Companies Act, 2013.* ***(4 Marks)***

5.8 *Show necessary explanation for each of the items presented by chief financial officer in the form of notes, which may or may not require the adjustment as on the date of transition.*

(8 Marks)

ANSWER TO CASE STUDY 5

PART – A

5.1 (D)

5.2 (C)

5.3 (B) or (D)

(**Note:** For the period between 14.5.2020 and 31.03.2021, tax is to be deducted at source at the rate reduced by 25% on the payment made to residents. Accordingly, rate of TDS u/s 194C where payee is a company is 2% for the period between 1.4.2020 to 13.5.2020 and 1.5% for the period between 14.5.2020 and 31.03.2021.

The question requires the candidates to calculate the amount of TDS to be deducted by S Limited against the monthly invoice of M/s. DG Brothers Private Ltd. It, however, does not state for which month the computation of TDS is to be made. Therefore, it is possible to compute tax deducted at source by applying rate of tax @2% or @ 1.5%. Accordingly, the answer given in option (B) ₹ 1,000 (₹ 50,000 x 2%) would be correct for the month of April and May (upto 13^{th} May), 2020. The answer given in option (D) ₹ 750 (₹ 50,000 x 1.5%) would be correct, for the months of May, 2020 (after 13^{th} May) to March, 2021.)

5.4 (C)

5.5 (B)

(**Note:** It has been assumed that M/s DG Brothers Private Limited is not a works contractor. Thus, answer has been given by applying section 12(2)(a) of the IGST Act, 2017, *i.e.* the place of supply of services made to a registered person shall be the location of such person.)

PART – B

5.6 Ind AS 101 prescribes the accounting principles for first-time adoption of Ind AS. It lays down various 'transition' requirements when a company adopts Ind AS for the first time. Conceptually, the accounting under Ind AS should be applied retrospectively at the time of transition to Ind AS. However, to ease the process of transition, Ind AS 101 has given certain exemptions from retrospective application of Ind AS.

An entity shall prepare and present an opening Ind AS Balance Sheet at the date of transition to Ind AS. This is the starting point for its accounting in accordance with Ind AS.

An entity shall, in its opening Ind AS Balance Sheet:

- recognise all assets and liabilities whose recognition is required by Ind AS;
- not recognise items as assets or liabilities if Ind AS do not permit such recognition;
- reclassify items that it recognised in accordance with previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with Ind AS; and
- apply Ind AS in measuring all recognised assets and liabilities.

The accounting policies in opening Ind AS Balance Sheet may differ from those that it used for the same date using previous GAAP. The resulting adjustments arise from events and transactions before the date of transition to Ind AS, shall be recognised directly in retained earnings (or, if appropriate, another category of equity) at the date of transition to Ind AS.

5.7 **Transition Date (Opening) Ind-As Balance Sheet of S Limited**

As at 1st April 2019

(₹)

Particulars	Previous GAAP	Transitional Ind AS adjustments	Opening Ind AS Balance Sheet
ASSETS			
Non-current assets			
Property, plant and equipment (Note 1 of Ans 5.8)	20,00,000	(5,00,000)	15,00,000
Goodwill (Note 2 of Ans 5.8)	1,00,000	-	1,00,000
Other Intangible assets (Note 3 of Ans 5.8)	2,00,000	-	2,00,000

Financial assets:			
Investment	5,00,000	-	5,00,000
Loans (Note 4 of Ans 5.8)	40,000	10,000	50,000
Other financial assets	1,10,000	-	1,10,000
Other non-current assets	2,00,000	-	2,00,000
Current assets			
Inventories	12,50,000	-	12,50,000
Financial assets			
Investments (Note 5 of Ans 5.8)	18,00,000	30,000	18,30,000
Trade receivables (Note 6 of Ans 5.8)	9,00,000	-	9,00,000
Cash and bank balances	10,00,000	-	10,00,000
Other financial assets	3,50,000	-	3,50,000
Other current assets	50,000	-	50,000
TOTAL ASSETS	85,00,000	(4,60,000)	80,40,000
EQUITY AND LIABILITIES			
Equity			
Equity share capital	10,00,000	-	10,00,000
Other equity	25,00,000	(2,10,000)	22,90,000
Non-current liabilities			
Financial liabilities			
Borrowings (Note 7 of Ans 5.8)	4,50,000	-	4,50,000
Provisions	3,50,000	-	3,50,000
Deferred tax liabilities (Net)	3,50,000	(50,000)	3,00,000
Current liabilities			
Financial liabilities			
Trade payables	22,00,000	-	22,00,000
Other financial liabilities	3,90,000	-	3,90,000
Other current liabilities	60,000	-	60,000
Provisions (Note 8 of Ans 5.8)	12,00,000	(2,00,000)	10,00,000
TOTAL EQUITY AND LIABILITIES	85,00,000	(4,60,000)	80,40,000

OTHER EQUITY

	Retained Earnings (₹)	Total
As on the date of transition	22,90,000 (W.N.1)	22,90,000

Working Note 1:

Retained earnings balance:	
Balance as per Earlier GAAP	25,00,000
Transitional adjustment due to revaluation of PPE	(5,00,000)
Transitional adjustment due to loan's fair value	10,000
Transitional adjustment due to increase in mutual fund's fair value	30,000
Transitional adjustment due to decrease in deferred tax liability	50,000
Transitional adjustment due to decrease in provisions (dividend)	2,00,000
Total	22,90,000

Disclosure forming part of financial statements:

Proposed dividend on equity shares is subject to the approval of the shareholders of the company at the annual general meeting and should not recognized as liability as at the Balance Sheet date.

5.8 Explanation for the items as presented by chief financial officer against the corresponding relevant items which may or may not require adjustment on the date of transition as per Ind AS 101 in S Limited's opening Ind AS balance sheet:

Note 1: Property, plant & Equipment:

As per para D5 of Ind AS 101, an entity may elect to measure an item of property, plant and equipment at the date of transition to Ind AS at its fair value and use that fair value as its deemed cost at that date.

Para D7AA has to be applied for all items of property, plant and equipment. So, if D5 exemption is taken for buildings, Ind AS will have to be applied retrospectively for other assets as well. Since, an entity elects to measure an item of property, plant and equipment at the date of transition to Ind AS at its fair value and use that fair value as its deemed cost at that date, it is assumed that the carrying amount of other assets based on retrospective application of Ind AS is equal to their fair value of ₹ 10 lakhs.

Note 2: Goodwill:

Ind AS 103 mandatorily requires measuring the assets and liabilities of the acquiree at its fair value as on the date of acquisition. However, a first time adopter may elect to not apply the provisions of Ind AS 103 with retrospective effect that occurred prior to the date of transition to Ind AS.

Hence company can continue to carry the goodwill in its books of account as per the previous GAAP.

Note 3: Intangible assets:

Para D7 read with D6 of Ind AS 101 states that a first-time adopter may elect to use a previous GAAP revaluation at, or before, the date of transition to Ind AS as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to:

(a) Fair value; or

(b) Cost or depreciated cost in accordance with Ind AS, adjusted to reflect, for example, changes in a general or specific price index.

However, there is a requirement that Intangible assets must meet the definition and recognition criteria as per Ind AS 38.

Hence, company can avail the exemption given in Ind AS 101 as on the date of transition to use the carrying value as per previous GAAP.

Note 4: Loan:

Para B8C of Ind AS 101 states that if it is impracticable (as defined in Ind AS 8) for an entity to apply retrospectively the effective interest method in Ind AS 109, the fair value of the financial asset or the financial liability at the date of transition to Ind AS shall be the new gross carrying amount of that financial asset or the new amortised cost of that financial liability at the date of transition to Ind AS.

Accordingly, ₹ 50,000 would be the gross carrying amount of loan and difference of ₹ 10,000 (₹ 50,000 – ₹ 40,000) would be adjusted to retained earnings.

Note 5: Mutual Funds:

Para 29 of Ind AS 101 states that an entity is permitted to designate a previously recognised financial asset as a financial asset measured at fair value through profit or loss in accordance with paragraph D19A. The entity shall disclose the fair value of financial assets so designated at the date of designation and their classification and carrying amount in the previous financial statements.

D19A states that an entity may designate a financial asset as measured at fair value through profit or loss in accordance with Ind AS 109 on the basis of the facts and circumstances that exist at the date of transition to Ind AS.

Note 6: Trade receivables:

Para 14 of Ind AS 101 states that an entity's estimates in accordance with Ind AS at the date of transition to Ind AS shall be consistent with estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.

Para 15 of Ind AS 101 further states that an entity may receive information after the date of transition to Ind AS about estimates that it had made under previous GAAP. In accordance with paragraph 14, an entity shall treat the receipt of that information in the same way as non-adjusting events after the reporting period in accordance with Ind AS 10, Events after the Reporting Period.

The entity shall not reflect that new information in its opening Ind AS Balance Sheet (unless the estimates need adjustment for any differences in accounting policies or there is objective evidence that the estimates were in error). Instead, the entity shall reflect that new information in profit or loss (or, if appropriate, other comprehensive income).

Note 7: Government Grant:

Para 10A of Ind AS 20 states that the benefit of a government loan at a below-market rate of interest is treated as a government grant. The loan shall be recognised and measured in accordance with Ind AS 109, Financial Instruments. The benefit of the below-market rate of interest shall be measured as the difference between the initial carrying value of the loan determined in accordance with Ind AS 109, and the proceeds received. The benefit is accounted for in accordance with this Standard.

However, Para B10 of Ind AS 101 states, a first-time adopter shall classify all government loans received as a financial liability or an equity instrument in accordance with Ind AS 32, Financial Instruments: Presentation. Except as permitted by paragraph B11, a first-time adopter shall apply the requirements in Ind AS 109, Financial Instruments, and Ind AS 20, Accounting for Government Grants and Disclosure of Government Assistance, *prospectively* to government loans existing at the date of transition to Ind AS and shall not recognise the corresponding benefit of the government loan at a below-market rate of interest as a government grant. Consequently, if a first-time adopter did not, under its previous GAAP, recognise and measure a government loan at a below-market rate of interest on a basis consistent with Ind AS requirements, it shall use its previous GAAP carrying amount of the loan at the date of transition to Ind AS since the carrying amount of the loan in the opening Ind AS Balance Sheet. An entity shall apply Ind AS 109 to the measurement of such loans after the date of transition to Ind AS.

Note 8: Dividend

Dividend should be deducted from retained earnings during the year when it has been declared and approved. Accordingly, the provision declared for preceding year should be reversed (to rectify the wrong entry). Retained earnings would increase proportionately due to such adjustment.