

Final New Syllabus

Paper - 6 F

Multidisciplinary Case Study

15/12/21

DEC 2021

Roll No.

Total No. of Case Study Questions – 5

Total No. of Printed Pages – 23

Time Allowed – 4 Hours

Maximum Marks – 100

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

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

Answers in respect of Multiple Choice Questions are to be marked on the OMR answer sheet as given on the cover page of the answer book.

Answer to MCQs, if written inside the descriptive type answer book will not be evaluated.

Candidate should answer the Case Study Questions as selected by them in totally i.e., MCQ as well as descriptive Questions of the same Case Study Question.

Candidate are not permitted to answer MCQs of one Case Study Question and the descriptive questions of another Case Study Question and vice-versa.

Candidate may use calculator.

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CASE STUDY – 1

Facts of the Case

1. Telecom Inc., an American company (herein after mentioned as “the Contractor”) has been awarded contract by Powering Grids Corporation of India Ltd. (hereinafter mentioned as PGCIL or ‘The Principal’) for augmentation of its telecom network along with its grid spread all over the country. The Applicant has won the contract as L-1 under Global Tender Process in the month of July, 2020.

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2. The contract awarded consists of two separate agreements :
- (i) Off-Shore Agreement for supply of DWDM system, all associated hardware, cables, accessories and fittings, Telecommunication Management Network (TMN) and all other associated works/items described in the technical specification for a viable and fully functional Fiber Optic Transmission System (FOTS). The price fixed for the Supply Agreement was USD 20,000,000.
 - (ii) On-Shore Agreement for performance of all activities viz. installation, testing, commissioning, training and maintenance of DWDM system all associated hardware, cables, accessories and fittings, TMN during the warranty period of one year as well subsequent period of five (5) years from the date of expiry of warranty period. The price fixed for Service Agreement was INR 1,75,00,000/ for installation, testing and commissioning and ₹ 60,00,000/- per annum for maintenance period of five years.
3. Telecom Inc. has appointed Mr. Swami, an experienced telecom engineer having more than 20 years' experience as its Country Manager to look after successful completion of the awarded contract.
4. Both the contracts have a clause that the Contractor shall comply with all the laws applicable to it in India. The Contractor has approached you as a Chartered Accountant to guide and help them to comply with various local regulatory requirements.

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5. In the first introductory meeting, Mr. R Smith, Director (Sales) of Telecom Inc. as well as Mr. Swami, provided you with copies of both the Agreement awarded to the Applicant by PGCIL and copy of appointment letter issued to Shri Swami as Country Manager. During the discussion, you were also given the following information :
- (a) Telecom Inc. has been operating in different parts of the world but this was their first contract in India. However, it has sold certain parts, being manufactured in USA, in India through direct sales to the consuming parties.
 - (b) Agreement for supply of material shall be executed by direct supplies of goods/materials to PGCIL from USA.
 - (c) For executing the on-shore service agreement, the American Company wanted to set up an office in Mumbai and shall appoint suitable personnel to handle the contract at various location of PGCIL
6. You have been asked to explain the company about various local laws applicable to them and formalities required to be completed before they can start execution of the contract as well as formalities under various laws applicable, to be complied with during the period required to complete the contract awarded.

Part- A

Multiple Choice Questions

Provide the correct option to the following questions :

1.1 Since the contracts has been awarded to Telecom Inc. by PGCIL, a public sector undertaking. It can commence business activities in India :

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- (a) without waiting for any other approval from any other regulator.
- (b) after taking permission from RBI.
- (c) after taking permission from tax authorities
- (d) after taking approval from RBI and Registrar of Companies.

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1.2 Since supply and service contracts are awarded together, the payments received in USA towards supply of material shall :

- (a) be taxable in India as income accrue or arise or deemed to accrue or arise in India.
- (b) be taxable in India as income received or deemed to receive in India.
- (c) not be taxable as no income received or deemed to received in India.
- (d) not be taxable as neither income received or deemed to received nor income accrue or arise or deemed to accrue or arise in India.

1.3 Telecom Inc. project office has to file with the RBI every year :

- (a) Foreign Asset and Liability statement
- (b) Annual Performance Report
- (c) Annual Activity Certificate
- (d) Annual Report

1.4 The income tax rate applicable to Telecom Inc. will be :

- (a) 22%
- (b) 25%
- (c) 30%
- (d) 40%

1.5 Can the Telecom Inc. hold two PAN under the Income Tax Act, 1961, one for supply contract and other for service contract :

- (a) PAN is not required for it.
- (b) Yes, two PAN are compulsory.
- (c) Yes, it has option to hold two PAN.
- (d) No. It cannot hold two PAN.

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Part – B

Descriptive Questions

- 1.6 Explain in brief but in sequential manner, various steps required to be taken by Telecom Inc. under the Companies Act, 2013 and the Foreign Exchange Management Act, 1999 before commencing its business operations in India ? **10**
- 1.7 Explain the compliance, M/s. Telecom Inc., shall have to make under the Income Tax Act, 1961 while filing its Return of Income for its first financial year ended 31-3-2021. **5**

CASE STUDY – 2

You have been appointed as statutory auditors of XYZ Limited in its 12th annual general meeting held on 28-09-2020 for a period of five years. Your appointment has been made in place of M/s AB and Company, Chartered Accountants, who were rotating out as per requirements of the Companies Act.

XYZ Limited is unlisted public company in which CDE Limited, a listed company, holds 50 % equity shares. The balance 50% equity shares are held by Mr. FG and his close relatives.

The management of XYZ Limited is being done by Mr. FG and his son. CDE Limited has also appointed two of his directors as directors of XYZ Limited.

CDE Limited is listed on both National Stock Exchange (NSE) as well as Bombay Stock Exchange(BSE).

XYZ Limited is a manufacturing company engaged in the production of piston, an auto part for commercial trucks.

CDE Limited is also a manufacturing company engaged in the production of commercial trucks having its assembly plants at three different locations in the country.

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Upto 31st March, 2017, the entire production of XYZ Limited of pistons was purchased by CDE Limited. However, with effect from April 1st 2017, XYZ Limited has started contract manufacturing for CDE Limited and for that purpose an agreement has been entered into between the two companies.

The salient features of the Agreement are as follows :

- (1) The installed capacity of XYZ Limited is 200,000 piston per annum. The optimum production level is expected to be not less than 80% of the installed capacity.
- (2) All the raw materials/parts for production shall be procured and supplied by CDE Limited to XYZ Limited. Sufficient quantity levels of raw material/parts shall be maintained with XYZ Limited for smooth and uninterrupted production.
- (3) 5% production loss shall be permitted to XYZ Limited.
- (4) Any production scrap shall be disposed of by XYZ Limited at its own expense. Receipt from sale of scrap shall be to the credit of XYZ Limited only.
- (5) An estimated cost sheet shall be prepared by XYZ Limited based on the prevailing cost of raw materials/parts, wages and stores/consumables and shall be approved by CDE Limited in advance before the start of every new financial year.
- (6) XYZ Limited shall be given 30% of the cost of production as its contract receipt.
- (7) The production shall be stored by XYZ Limited in its warehouse and shall be despatched to various assembly plants of CDE Limited as per delivery schedule provided to it three months in advance.

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- (8) The payment of invoices raised by XYZ Limited on the respective assembly plants of CDE Limited shall be made by the respective plants where the products shall be delivered with 30 days from the receipt of the products.
- (9) CDE will not interfere in day to day operation.

During the financial year ended 31-03-2021, you noticed the following transactions in the accounts of XYZ Limited :

- (1) An advance against supplies of ₹ 2,00,00,000 was received from CDE Limited. However, the same has been utilised by XYZ Limited to replace an old machinery with the new one to improve the quality of the finished products. No supplies were made against the said advance by the company to CDE Limited.
- (2) An export order has been fulfilled by XYZ Limited at the instruction of CDE Limited at a price mutually agreed by the importer and CDE Limited.
- (3) A consignment of 2500 pistons supplied to one of the units of CDE Limited has been rejected due to inferior quality material used for production.
- (4) The Assessing officer has disallowed depreciation on plant and machinery claimed by the company for AY 2018-19 on the ground that the arrangement of contract manufacturing has been made by the parties with malafide to claim depreciation on plant and machinery whereas the substance of the arrangement is nothing but giving the entire plant on lease and therefore, the income has been assessed under the 'Income from House Property' instead of under the head 'Profit or gains from business or profession'. The company has filed an appeal against the said assessment order before the CIT (appeals) and the appeal was pending as on date.

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Part – A

Multiple Choice Questions

Provide the correct option to the following questions :

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2.1 AB and Co. were not eligible for reappointment as statutory auditor of XYZ Limited as :

- (a) They have given a modified opinion for the year ended 31-3-2020.
- (b) They might have completed two terms of five years each as auditors of the company.
- (c) The management has liberty to appoint any other Chartered accountant every year.
- (d) They are a smaller firm than your firm.

2.2 After you have received your appointment as statutory auditor of XYZ Limited, you were required to :

- (a) start your audit assignment immediately.
- (b) communicate with the previous auditors for knowing their objection in accepting the assignment by you, if any.
- (c) wait for the retiring auditor to communicate with you.
- (d) start your audit assignment pending confirmation from previous auditor about their objection, if any.

2.3 As provided in the Companies Act, 2013, the relationship of XYZ Limited with CDE Limited is that of an associate because :

- (a) CDE Limited holds 50% equity shares of XYZ Limited.
- (b) CDE Limited was purchasing the entire production of XYZ Limited.
- (c) XYZ Limited has utilised a sum of ₹ 2,00,00,000 given by CDE Limited.
- (d) CDE Limited hold significant influence over XYZ Limited and does not fulfil definition of control under Ind AS.

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- 2.4 In terms of Indian Accounting Standard (Ind AS)-16 Property, Plant and Equipment, the replacement of old machinery shall be accounted for by XYZ Ltd. as
- (a) an addition to PPE as the expenditure fulfils the definition of PPE.
 - (b) an addition to PPE as it is a very big expenditure.
 - (c) revenue expenditure as it is relating to replace of existing plant.
 - (d) revenue expenditure, as the management has incurred that expenditure from its short term resources.
- 2.5 As the statutory auditors of XYZ Limited, your query for using the advance against supplies towards replacement of machinery, shall be that :
- (a) whether it was used with the consent of the party.
 - (b) advance against supplies can never be used for any other purpose, why it was done ?
 - (c) company has actually used short term funds for long term purpose. Reasons required as this matter needs to be reported.
 - (d) machinery should always be purchased by taking term loan from bank. Why did company not do that ?

Part – B

Descriptive Questions

- 2.6 What are the compliances which XYZ Limited, must have taken to comply with the provisions of the Companies Act, 2013 for entering into an agreement for contract manufacturing for CDE Limited ? 5
- 2.7 What are the disclosure requirements which you would like to verify from the financial statement of XYZ Limited for the year ended 31.03.2021 with respect to its transactions with CDE Limited ? Whether your audit scope will include TDS and GST compliances also ? 5

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- 2.8 Please explain with reasoning, whether the disallowance of depreciation made and the income being assessed under the head 'Income From House Property' instead of Business Profits by the Assessing Officer, was justified. **5**

CASE STUDY – 3

Facts of the Case

1. Mr. HPR and Mr. NPR were batch mates in animation course. While preparing for the final phase of their course, both agreed to explore setting up a joint studio for animation in Haryana.
2. After successfully completing their course and after lots of deliberation, both of them decided to form a Limited Liability Partnership. The main objects of the firm was decided to undertake the business of advertising & publicity, mass communication, graphic designing & exhibition designing Animation (2D/3D), photography for advertising and to carry on business as advertiser, publishers and undertake all such work which falls within the purview of modern methods of advertising, marketing including export market and applied Arts including setting up of a fully equipped Studio for Shooting films and such other business as the partners may from time to time unanimously agree upon.
3. On 20-08-2018 a Limited Liability Partnership (LLP) under the name M/s. HPNR LLP was incorporated. Both Mr. HPR and Mr. NPR were declared as 'Designated Partners'. Their monthly remuneration was fixed at ₹ 1,00,000 per month for each.
4. Both the partners contributed fixed capital of ₹ 25 lacs each. The bank account was opened in the name of the LLP and a commercial space of 1000 sq. ft. was taken on lease by the LLP.

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5. Capital contributed was invested in high quality computer hardware systems and software to develop 3 D animation. LLP also hired two technical staff at a monthly remuneration of ₹ 35,000 each. They themselves developed a website for the firm with an estimated expense of ₹ 2,50,000.
6. Mr. HPR one of the designated partner, prepared an excel sheet to maintain a table for time allotted and time consumed for every assignment by the partners as well as employees of the firm.
7. As initially there was no assignment available to the Firm, it was decided to utilize the man power to create animated objects which can be sold as such to the buyers or can be used in animation assignments for specific clients.
8. After aggressive marketing through personal contacts by both the partners, a contract to make an animation film from a well-established Health Care Company was secured. The contract was for an amount of ₹ 25 Lacs plus applicable taxes. The Firm completed the assignment during the month of June, 2019 and handed over the same to the client. Their job was very well appreciated by the client.
9. In the process of preparing the animation film, the LLP purchased some on-line digital assets and some on-line services from individual professionals for special sound and visual effects. The payments for the above-mentioned on-line purchases of digital assets as well as services were made in foreign currency through Credit Card of one of the partners.

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10. In the month of April, 2019, HPNR received a notice from an international designing software company for using its software without any proper license acquired by the LLP from the month of December, 2018. However, HPNR claimed that it is using only the free version of similar software available in the public domain. The software company has sent a notice to the LLP to buy the official copy of their license as well as pay a compensation of ₹ 5,00,000 for illegal use of their software. The LLP has sent a reply through a lawyer denying any liability towards illegal use of software. The matter was pending as on date.

Part - A

Multiple Choice Questions

Provide the correct option to the following questions :

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- 3.1 For incorporation of the Limited Liability Partnership under the LLP Act, the following form was submitted by Mr. HPR and Mr. NPR with the Registrar :

- (a) LLP Form-1 (b) LLP Form-2
(c) LLP Form-3 (d) LLP Form-4

- 3.2 M/s. HPNR was liable to comply with tax withholding requirements with effect from

- (a) From the first day of incorporation of LLP.
(b) As and when a transaction exceeding ₹ 20,000 was executed.
(c) From the first day of year next to the year in which the LLP will have tax audit.
(d) M/s. HPNR is not liable to withhold tax at source.

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- 3.3 The income tax rate applicable to M/s. HPNR will be
- (a) Slab rate (b) 20%
(c) 30% (d) 40%
- 3.4 Expenditure incurred on development of the website by M/s. HPNR has to be :
- (a) Capitalised as an intangible expenditure.
(b) Charged to Profit and Loss Account.
(c) Charged to Profit and Loss over a period of 5 years.
(d) Capitalised as part of PPE.
- 3.5 In respect of legal notice received from International Designing Software company claiming a compensation of ₹ 5,00,000, M/s HPNR shall have to :
- (a) Make a provision of the amount in the books of accounts.
(b) Only disclose the same a contingent liability at this stage.
(c) Make provision of atleast 50% of the compensation demanded.
(d) Neither make any provision nor make any disclosure at this stage.

Part – B

Descriptive Questions

- 3.6 The management of HPNR has approached you to help them in deciding as to how animated objects created by the firm shall be accounted for in the books of accounts and how the same shall be valued for reflected them as on 31-03-2019 ? 5
- 3.7 You have also been requested to explain whether in respect of payments made for on-line digital assets purchased by the firm and payments made for on-line services taken by the company for special visual effects and sound effects any tax was required to be deducted at source by HPNR ? 5

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- 3.8. Whether any GST compliances are required to be made with respect to online digital assets purchased and on-line services availed ? Also explain whether use of such online digital assets purchased and online services are utilised for animation products exported outside India will make any difference ?

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CASE STUDY – 4

Facts of the Case

1. Defence Innovators Limited is a public sector undertaking and is engaged in the construction of warships and submarines.
2. XYZ Private Limited approached Defence Innovators Limited for construction of “specially designed” ships for it, which will be used by XYZ Private Limited for transportation of specific goods.
3. The offer was accepted by the Defence Innovators Limited and both the companies entered into an agreement for the construction and delivery of 3 particular specially designed ships.
4. Defence Innovators Limited has agreed for construction of 3 ships on ‘Fixed Price’ basis with variable component in respect to certain items.

(i) The break-up of the contract price is as under :

Sr. No.	Cost Element	1 st ship	2 nd ship	3 rd ship	Total
(A)	Fixed cost element	xxx	xxx	xxx	xxx
(B)	Variable cost items	xxx	xxx	xxx	xxxx
(C)	Base and Depot (B & D) spares (Budgetary)				xxxx
(D)	Grand Total (A+B+C)				xxxxx

Note : The above cost is exclusive of duties and other statutory levies applicable at the time of delivery of the vessel(s) and will be paid at actual.

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(ii) Payment Terms :

(a) Fixed price element :

The payment will be made by the buyer against the completion of particular stage.

(b) Variable price element :

The payment will be made at actual with % of profit against the documentary evidence.

(c) Advance of ₹ 5 Lakhs in cash within 10 days of date of signing of contract.

5. Base and depot (B & D) spares for all three ships shall be procured by Defence Innovators Limited and will be paid on the cost of the item with certain percentage.

6. The contract states that "certain equipment" out of variable cost items, will be supplied by XYZ Private Limited at 'free of cost' for installation on board of ship. It is, therefore, to be noted as under :

(i) Some equipments are procured by Defence Innovators Limited in the presence of the XYZ Private Limited's representative for technical scrutiny as well as negotiating the prices. The vendors of these equipment are paid by Defence Innovators Limited. The cost of the equipment alongwith the cost of installation and profit thereon is claimed and reimbursed by XYZ Private Limited to Defence Innovators Limited.

(ii) And there are certain other equipments for which orders are directly placed and also paid by the XYZ Private Limited. These equipments are known as 'Buyer Furnished Equipment (BFE)' and are delivered to the company 'free of cost' for installing in the ship. The labour cost of installation of these are already included in the price component of the contract.

7. The period required for construction of one ship was approximately four years.

PART – A

Multiple Choice Questions :

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- 4.1 For Defence Innovators Limited, a resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise is known as :
- (A) Asset (B) Income
(C) Liability (D) Cash inflow projections
- 4.2 In case of Defence Innovators Limited, to determine the value at which inventories are carried in the financial statements, including the ascertainment of cost of inventories and any write-down thereof to net realizable value, company is required to consider :
- (A) AS-1 (B) AS-2
(C) AS-3 (D) AS-7
- 4.3 With reference to advance payment of ₹ 5 Lakhs, Defence Innovators Limited will be required to report it in Tax Audit Form 3 CD under :
- (A) Section 269SS (B) Section 269ST
(C) Section 269T (D) No reporting required
- 4.4 For receipt of advance in cash, Defence Innovators Limited would be liable to a penalty under Income Tax Act, 1961 of :
- (A) ₹ 5 Lakhs (B) ₹ 2.5 Lakhs
(C) ₹ 50,000 (D) No Penalty in this case

- 4.5 Under CGST Act, a registered person can send for job work any inputs or capital goods without payment of tax and bring back :
- (A) without payment of tax (B) with payment of tax
(C) Neither as per (A) nor (B) (D) Both as per (A) and (B)

PART – B

Descriptive Questions :

- 4.6 Whether the cost of Buyer Furnished Equipment's (BFE's) supplied by XYZ Private Limited to Defence Innovators Limited for installing the same in the ships can be considered as 'inventory' by Defence Innovators Limited and then on delivery of ship will be recognised as revenue in its books of account ? Elaborate. 7
- 4.7 How BFEs shall be dealt with under GST Act by Defence Innovators Ltd. in its books when it is certain that these shall not be sent back to XYZ Pvt. Ltd. till the constructed ships are delivered ? Explain in detail. 8

CASE STUDY – 5

ABOUT YOU

You are an open minded, highly sensible, competent professional with value added, decision making capabilities. You are also a Director on the Board, Chairman and/or Member of Committees of the Board of many listed and unlisted entities. You are also in the Board of SF Limited (SFL) as a Professional Director.

BACK GROUND OF SFL

It is fundamental to any business to keep updating the business strategies and plans to suit the changing business scenario. In the modern marketplace, there is no mercy for the mediocre. The rule applies to all sectors, be it a small scale industry or a big contributor. SFL is one such small scale growing enterprise belonging to SF Group of Companies which has several companies in its umbrella including listed and unlisted public limited / private limited companies engaged in various businesses.

SFL is involved in development of castings applicable for automobiles and tractors to industrial engines, construction equipment and power generation equipment. It meets the stringent requirement of diverse segments. It even caters to the exceptionally high standards of Defence applications. The indigenous expertise that drives the organisation enables it to keep pace with the constantly changing requirements of the market.

It has won the much coveted quality certifications including ISO 9000, QS 9000 and ISO 14001 certifications that endorse its capabilities.

MANAGEMENT OVERVIEW

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 taking all key decisions. The Board is supported by Mr. Seshadri, Special Director (Costing and Finance) who has a thorough insight of the day-to-day activities.

CORPORATE CULTURE

While 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. SFL spends on an average ₹ 5 Lakhs on CSR activities which is the approved budget every year.

BUDGET OVERVIEW

For an efficient functioning of the Company and to have hands on information as to what is happening in the Company on a day to day basis, 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 targets for the Company.

YOUR CALL

At the Board Meeting of the Company proposed to be convened on 10th January, 2020, besides approving and taking on record, inter alia, the unaudited financial results of the Company for the third quarter and nine months ended 30-09-2019, certain additional matters are proposed to be discussed as below. You have been specially invited to the said Board Meeting for your valuable inputs.

DISCUSSION – 1

- (a) New venture of online shopping of automobile spares has been proposed to be added by the Company during the current year.

DISCUSSION – 2

- (b) To evaluate the cost and price statement in respect of an enquiry for the supply of 2,50,000 numbers of special type of auto components.

Back Up

The Company has received an enquiry for supply of 2,50,000 numbers of special type of auto components. The Company can execute the assignment provided a capital investment of ₹ 3,00,000 and working capital to the extent of 3 months' cost of sales are made available. The costs estimated are as follows :

Raw Materials	@ ₹ 3.25 per unit
Direct Labour Hours	8,000
Labour Rate	₹ 4.50 per hour
Factory Overheads	₹ 4 per direct labour hour
Selling and Distribution expenses	₹ 30,000

Borrowed funds will be available @ 11.5% on additional capital outlay. The company expects a net Return of 25% on Sales.

DISCUSSION – 3

- (c) To evaluate the requirements of the Companies Act, 2013 regarding appointment of Internal Auditors for the group companies. (This information is sought by the Independent Directors).

Certain Financial Information of Group Companies

Figures are in ₹ crores and correspond to the previous year.

Name	Nature	Equity Share Capital	Turnover	Loan from Bank and PFI	Public Deposit
ABC Ltd.	Listed	100	190	50	24
XYZ Ltd.	Unlisted Public	60	190	50	24
LMN Ltd.	Unlisted Private	60	190	50	—

OTHER INPUTS FOR DISCUSSION :

Post your introduction meeting with SFL, Mr. Karthik, the Senior Manager (Finance) of SFL explained his expectations from you and has also put forward the following inputs for your suitable advice :

- (i) Despite a robust internal check and internal control system prevailing in the Company, a theft of Cash of ₹ 15 lakhs by the cashier in January 2020 was detected only in May 2020 on which date the final accounts were not yet approved by the Board as the accounts were under audit.
- (ii) Mr. Q, a Director of SFL proceeding on a long foreign tour, appointed Mr. Y as an alternate director to act for him during his absence. The articles of the company provide for appointment of alternate directors. Mr. Q claims that he has a right to appoint an alternate director.
- (iii) Mr. Karthik expressed his apprehension that giving utmost freedom and flexibility to the employees to set their own targets in the budget setting process would have a potential danger.

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- (iv) Mr. Karthik also informed that in view of the excellent contributions for the progress of the Company, there is a proposal to appoint Mr. Seshadri, who is the Special Director (Costing and Finance) of SFL as the Managing Director of two other Companies unrelated to SFL.
- (v) Mr. Karthik also affirmed that there is a Corporate Insolvency Resolution Process going on before the Hon'able NCLT in one of the group companies and he wants to know which of the following statements are correct under Section 21 of the Insolvency and Bankruptcy Code, 2016 :
- (1) A financial creditor or the authorized representative of the financial creditor, if it happens to be a related party of the corporate debtor shall not have any right of representation, participation or voting in a meeting of the committee of creditors.
 - (2) A financial creditor regulated by a financial sector regulator, if it is a related party of the corporate debtor solely on account of conversion or substitution of debt into equity shares or instruments convertible into equity shares prior to the insolvency commencement date shall not have any right of representation, participation or voting in a meeting of the committee of directors.

You are requested to thoroughly go through the following questions and provide the correct answer in your capacity as an advisor. Please note that an advisor cannot afford to do mistakes. Hence, utmost care is required while giving your answer.

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PART – A

Multiple Choice Questions :

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- 5.1 The theft of cash of ₹ 15 lakhs :
- (A) Need not be adjusted to the reported value of assets, liabilities, incomes or expenses for the year ended 31.03.2020.
 - (B) Need to be adjusted to the reported value of assets, liabilities, incomes or expenses for the year ended 31.03.2020
 - (C) Need to be adjusted to the reported value of assets, liabilities, incomes or expenses only for the year ended 31.03.2021
 - (D) A provision for bad debts should be made in the accounts.
- 5.2 With reference to Mr. Karthik's apprehension in para (iii) above, there is potential danger of having :
- (A) Sheer Failure
 - (B) Non-Performance
 - (C) Resistance
 - (D) Slackness in Budget
- 5.3 The contention of Mr. Q to appoint an alternate director is :
- (A) Correct as the Articles of the Company provide for appointment of alternate Directors.
 - (B) Incorrect as the authority to appoint alternate director has been vested in the board of directors only and that too subject to empowerment by the Articles.
 - (C) Incorrect as the authority to appoint alternate director has been vested in the board of directors only and with approval of shareholders by passing a special resolution.
 - (D) Incorrect as the authority to appoint alternate director has been vested only with the approval of shareholders by passing a special resolution

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- 5.4 As per Section V of Part II of Schedule V of the Companies Act, 2013 in respect of managerial remuneration where Mr. Sheshadri is appointed as managerial person in 2 companies, he may draw remuneration provided :
- (A) Total remuneration drawn from the companies shall be as per their effective capital.
- (B) Total remuneration drawn from the companies does not exceed the higher maximum limit admissible from any one of the companies of which he is a managerial person.
- (C) A person cannot be appointed as managerial person in 2 companies at the same time.
- (D) Remuneration shall be paid subject to approval of members in general meeting.
- 5.5 Under the provisions of the Insolvency and Bankruptcy Code as enshrined in Section 21 of the Code, analyse the correctness of the statements as given in above para (v) in "Other inputs for discussion" :
- (A) Statement 1 is correct whereas, statement 2 is incorrect.
- (B) Statement 1 is incorrect whereas, statement 2 is correct.
- (C) Both the statements (Statement 1 and 2) are correct
- (D) Both the statements (Statement 1 and 2) are incorrect.

PART – B

Descriptive Questions :

- 5.6 Considering the inputs in Discussion 1 as an advisor, what factors would be considered by you in formulating the audit strategy of the Company ? **5**
- 5.7 In the light of the inputs given above in Discussion 2, compute a Cost and Price Statement, indicating the price that should be quoted to the customer. **5**
- 5.8 In the light of the inputs given above in Discussion 3, explain which of the group companies are required to appoint an internal auditor under the provisions of the Companies Act, 2013 ? **5**