Final New Syllabus
Paper - 6 F
Multidisciplinary Case Study

NOV 2022

Roll No. ……………………………

Total No. of Case Study Questions – **5**

Total No. of Printed Pages – **30**

Time Allowed – **4** Hours

Maximum Marks – **100**

12/11/2022
6:15PM

DQG

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 (MCQs) are to be marked on the OMR Answer Sheet as given on the cover page of the answer book.

Answers 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 totality i.e. MCQ as well as descriptive questions of the same Case Study Question.

Candidates 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.

Marks

CASE STUDY : 1

Majestic Industries Limited is a company; they are manufacturing ancillary products for power sector. With opening up of power sector to private sector over the past decade, the company is planning big to contribute its might. Due to various and far reaching changes brought in tax laws and company law the company is facing certain issues the facts of which are as under :

Facts of the Case :

1. The company has been claiming deduction of employees' contribution to Provident fund irrespective of the fact that the payment was delayed in some months. In one of the assessment year, the assessing officer has disallowed the claim of those months where there were delays in payment. However, the tribunal in appeal filed by the company, it has been allowed. The accountant is in dilemma for assessment year 2022-23 whether he can still continue to claim the same. The accountant of the company provide you the following information regarding employees' as well as employers' contribution to provident fund with it dates of payment. The due date for filing the tax return for the company in this case is 31-10-2022.

Employees' Contribution to PF	Employers' Contribution to PF	Due date for payment	The actual amount paid	The actual date of both payments to the concerned authorities
1,33,000	1,33,000	20-05-2021	2,66,000	13-05-2021
1,34,000	1,34,000	20-06-2021	2,68,000	19-06-2021
1,33,500	1,33,500	20-07-2021	2,67,000	25-07-2021

1,34,000	1,34,000	20-08-2021	2,68,000	08-10-2021
1,33,500	1,33,500	20-09-2021	2,67,000	16-10-2021
1,32,500	1,32,500	20-10-2021	2,65,000	13-10-2021
1,34,500	1,34,500	20-11-2021	2,69,000	20-11-2021
1,33,000	1,33,000	20-12-2021	2,66,000	22-03-2022
1,50,000	1,50,000	20-01-2022	3,00,000	29-03-2022
1,49,000	1,49,000	20-02-2022	2,98,000	29-09-2022
1,47,000	1,47,000	20-03-2022	2,94,000	29-10-2022
1,48,000	1,48,000	20-04-2022	2,96,000	Not Paid

2. The board of the company is spending as CSR responsibility of the company on the CSR Activities. CFO of the company provides you the following information :

₹ In Crore

Particulars	**31-3-2022**	**31-03-2021**	**31-03-2020**	**31-03-2019**
Net profit	3.50	7.50	4.25	3.00
Sales (turnover)	600.00	850.00	700.00	710.00

Company is also making CSR contribution through BMC foundation, an independent NGO registered under section 12A & 80G of the Income Tax Act, 1961, but the foundation has not yet taken registration with Ministry of Company Affairs (MCA) for carrying on CSR activities.

Marks

3. The CFO informed the board that the reporting requirement of financial statements has increased tremendously. For many information, ageing analysis has been introduced, more information regarding immovable property, utilization of borrowings, benami properties etc., has been introduced and accordingly scope of CARO has also been enlarged. The chief accountant of the company provides the following details of Trades Payable as at 31-03-2022 :

Outstanding payments :

Less than 180 days	₹ 15,00,000
Over 180 days and less than a year	₹ 11,20,000
For a period between 1 to 2 years	₹ 5,00,000
For a period between 2 to 3 years	₹ 3,00,000

GST charged by suppliers is @ 12% which is included in the above outstanding payment. The company is regularly claiming available ITC in their books but has not made any reversal of ITC in respect of outstanding's arising during the year. Trade payables in the above is due for payment, are undisputed and payable to non MSMEs.

4. NAN Consultants (Delhi) impart accounting software training to accounts and finance personnel of the company at their Delhi office which is also registered under GST. The agreement, to render this service was entered into with its head office at Mumbai.

Marks

MCQ : Provide the correct option to the following questions. 5×2 =10

1.1. The Employees' contribution to provident fund will be deductible to the extent of :

(A) ₹ 16,62,000 (B) ₹ 11,28,000

(C) ₹ 5,34,000 (D) ₹ 15,14,000

1.2. The Employers' contribution to provident fund will be deductible to the extent of :

(A) ₹ 16,62,000 (B) ₹ 11,28,000

(C) ₹ 5,34,000 (D) ₹ 15,14,000

1.3. Whether in the light of the case study is the company required to form a CSR committee during financial year 2021-22 :

(A) The company is not required to form a CSR committee as the total contribution is less than ₹ 50 lakh and the board shall perform the functions of CSR Committee.

(B) The company is not required to form a CSR Committee as the company does not meet any of the criteria of net profit, turnover, or net worth during the year 2021-22.

(C) The company is not required to form a CSR committee as the total contribution is less than ₹ 50 lakh and the board can decide who shall perform the functions of CSR committee.

(D) The company is not required to form a CSR Committee as the average net profit of the company for the last 3 years is ₹ 4.92 crore only.

Marks

1.4. Whether the company is required to make reversal of Input tax credit (ITC) in the given case study and if yes, then of what amount (ignore interest) :

(A) No reversal of ITC is required to be made in the books.

(B) Yes, ₹ 1,34,400

(C) Yes, ₹ 1,12,000

(D) Yes, ₹ 1,20,000

1.5. With respect to the training imparted by NAN consultants what should be the place of supply ?

(A) Mumbai

(B) Delhi

(C) Mumbai or Delhi at the discretion of the consultant.

(D) In terms of section 12(5), GST is not leviable with respect to training or performance appraisal services. Therefore, the question of place of supply does not arise.

Descriptive Questions

1.6. In the given case study, as a Tax auditor how will you report in Form 3CD the employees' contribution to provident fund and any disallowance which is to be made as per section 40(a) (ii) of the Income Tax Act, 1961 ? 4

1.7. In the context of the case study, explain the provisions and requirement relating to formation of CSR Committee by the company under the Companies Act, 2013. 7

1.8. How will you disclose the information relating to trade payables provided in para no 3 of the case study in the financial statements ? 4

Marks

CASE STUDY : 2

About You

You are part of a renowned firm of Chartered Accountants based in New Delhi which is engaged in modern fields of practice such as Forensic Audit, International Taxation (Direct and Indirect), Information Systems Audit, Risk Based Audit, Registered Valuers etc.,

About FSL

One of your friends has recommended your name to M/s Forever Source Limited (FSL), a listed entity engaged in the manufacturing and export of speciality chemicals used in textile industry and having annual turnover of ₹ 50 crores.

Issues

I. Management has finalized the financial results for the half year ended 30th September 2022. Revenue, net profit and cash profit of the company has increased manifold, hence, the management has decided to buy-back the shares of the company and has gone ahead with its decision after complying with all the requirements. Company has utilized the balance lying in free reserves and securities premium account for the purpose of buy-back. Following relevant information is available for your kind perusal which is before buy-back :

Particulars	Amount (₹ In Lakh)
EQUITY AND LIABILITIES	
(1) Shareholders' funds	
(a) Share capital	1000.00
(b) Reserves and Surplus	2000.00
Total	**3000.00**

Company has bought back five percent of its share capital (three percent from open market and balance from Mr. Raman, one of the investors in the company).

 Marks

II. Since the company deals in speciality chemicals, different types of inventories are lying with the company. For valuation purposes, the same is classified into four categories (Category 1, Category 2, Category 3 and Category 4). Company has to comply with inventory valuation norms prescribed by IND AS 2 –INVENTORIES. Following information (category wise) is available from the company records.

(Amount in Rupees Thousands)

Inventory Item	Cost	Estimated Sales Price	Selling Cost	Fair Value
Category 1	10,000	9,800	700	9,500
Category 2	16,000	20,000	400	19,600
Category 3	18,000	19,000	400	18,100
Category 4	8,000	9,500	350	9,000

Staff of the Company has valued the inventory at ₹ 52,000 (in 000's) as by every other means (Fair Value or the selling price) valuation is greater than ₹ 52,000 (in 000's)

III. Company, to increase its customer reach, keeps on advertising through various modes in national and international market. Recently, one of the friends of Mr. Rohit suggested him to use the online advertisement platform being operated by Worldwide Online Advertisement Agency (WOAA). WOAA do not have any permanent establishment (PE) in India. Mr. Rohit has used the online advertising platform for certain period of time for an agreed consideration of ₹ 2,50,000. WOAA has rendered services as per the terms and conditions and agreed payment has been made by FSL after complying with all the legal requirements as per Income Tax Act, 1961.

Marks

Result of using online advertisement has started pouring in. Company has received various enquiries and one enquiry has matured into sales contract of ₹ 75 Lakh (excluding GST @ 18%) with M/s Agro Research Limited (ARL). ARL is a newly incorporated company (during the year 2021-22) and has started its business in the month of August 2021 and have a turnover of ₹ 150.00 Lakh only till date. ARL has provided all documents including its PAN to the seller company. The product was supplied in the month of September 2021 and the entire contract consideration has also been received in the same month itself.

IV. On 01st April 2021, FSL has invested in the equity shares of newly formed company DEF Limited (DEF) at a cost of ₹ 1 Lakh to acquire 20% share in the voting power of DEF. As per technical terms, DEF is considered to be an associate of FSL. At the end of F.Y. 2021-2022, DEF earned profit of ₹ 10,000 and other comprehensive income of ₹ 2000. In that year, DEF also declared dividend of ₹ 4,000. This transaction has been appropriately reflected in cash flow statement of FSL prepared for the F.Y 2021-2022.

During the year ended 31st March 2022, FSL has capitalized development costs which satisfied the criteria as per Ind AS 38 'Intangible Assets'. The total amount capitalized was ₹ 16 Lakh. The development project has begun to generate economic benefits for FSL from 01st January 2022. The directors of FSL have estimated that the project would generate economic benefits for five years from that date. The development expenditure is fully deductible against taxable profits for the year ended 31st March 2022.

Marks

V. FSL has an Audit Committee which regularly meets and considers the financial statements. FSL has 6 Directors which consists of 3 independent directors. Audit Committee consists of 3 directors out of which 2 directors are independent directors. All the directors are persons with ability to read and understand the financial statement. Statutory auditors of FSL are invited by the Audit Committee from time to time to attend their meetings. However, statutory auditors are reluctant to attend the meeting.

Note that the company is an Ind AS compliant and answers on Direct Tax laws should relate to assessment year 2022-23.

MCQ : Provide the correct option to the following questions : **5×2 =10**

2.1. What is the status of reporting requirement of transaction of buy-back of securities done by Forever Source Limited (FSL) under the Income-tax Act 1961 ?

(A) No reporting is required under the Income-tax Act as the same is applicable for companies having share capital of ₹ 100.00 Crores and above.

(B) Reporting of ₹ 50.00 lakhs will be done in Statement of Financial Transactions.

(C) Reporting of buy back of ₹ 30.00 lakhs will be done in Statement of Financial Transactions.

(D) Reporting of ₹ 20.00 lakhs will be done in Statement of Financial Transactions.

2.2. What is your opinion on valuation of inventories done by the company officials ?

(A) Valuation done by company is correct.

(B) Valuation done by company is incorrect and the correct valuation is ₹ 51,100 (in 000's)

(C) Valuation done by company is incorrect and the correct valuation is ₹ 51,500 (in 000's)

(D) Valuation done by company is incorrect and the correct valuation is ₹ 51,800 (in 000's)

2.3. The deferred tax Asset/liability in relation to development cost incurred by the company (assuming tax rate 20%) and its classification while reporting in the financial statements will be :

(A) Deferred Tax Asset of ₹ 3,60,000 will be recognised as current asset.

(B) Deferred Tax liability of ₹ 3,04,000 will be recognised as non-current liability.

(C) Deferred Tax Asset of ₹ 3,04,000 will be recognised as non-current asset.

(D) Deferred Tax liability of ₹ 3,04,000 will be recognised as current liability.

2.4. What are the tax liabilities (deduction or collection of tax i.e. TDS/TCS) on Sale/Purchase transaction between Forever Source Limited (FSL) and Agro Research Limited (ARL) ?

(A) TCS is required to be collected by FSL amounting to ₹ 7,500.

(B) TDS will be deducted by ARL amounting to ₹ 7,500.

(C) TDS will be deducted by ARL amounting to ₹ 8,850.

(D) TCS is required to be collected by FSL amounting to ₹ 3,850.

Marks

2.5. What will be the amount of tax leviable on the payment made by First Source Limited (FSL) to Worldwide Online Advertisement Agency (WOAA) ?

(A) TDS will be deducted on payment made to non-resident amounting to ₹ 75,000.

(B) Equalisation levy amounting to ₹ 15,000 u/s 165 of Finance Act, 2016.

(C) Equalisation levy amounting to ₹ 5,000 u/s 165 of Finance Act, 2016.

(D) TDS will be deducted on advertisement u/s 194C amounting to ₹ 5000.

Descriptive Questions

2.6. In view of reluctance of statutory auditor to attend the Audit Committee meeting in the given case study, you are required to comment on the Role of Auditor in Audit Committee. Also comment whether the constitution of Audit Committee is valid. **5**

2.7. Give examples of temporary differences transactions that may affect taxable profit or loss of an enterprise. **5**

2.8 In case investment in DEF Limited has been done in a way other than cash, do you think that transaction would also have been reported in Cash Flow Statement ? Which are non-cash transactions relating to investing activities which are not required to be reported in Cash Flow Statement ? **5**

CASE STUDY : 3

M/s HK & Co., based in New Delhi, is a leading firm of Chartered Accountants having clients from all verticals of business and service industry. Firm has 20 partners having professional experience of more than three decades.

During the month of July 2022, different engagement teams handled various assignments and CA H Kumar has been asked to review and guide the engagement teams in the following assignment.

Assignment with the firm :

JK Limited (JKL)

JK Limited is interested in acquiring the running enterprise rather than starting a new project. The company has its interest in one of the divisions of M/s ARP Limited (a listed entity) (ARP). M/s ARP Limited is a multi-industry company having its presence from auto components to textile mills to food processing business. All these businesses are under the same roof i.e. ARP Limited. Shares of ARP Limited are actively traded and current market price is ₹ 15 per share. Summarized Balance sheets of ARP Limited and JK Limited are as follows :

(Amount in rupees thousands)

	ARP Limited	JK Limited
Non-Current Assets	1000	600
Current Assets :		
Trade Receivables	500	100
Cash and Cash Equivalents	500	50
Total	**2000**	**750**
Shareholders' Funds	800	500
Long Term Debt	200	50
Current Liabilities and Provisions	1000	200
Total	**2000**	**750**

Shareholders' funds of ARP Limited represent 70,000 shares of ₹ 10 each and rest is retained earnings/reserves and surplus. Data pertains to the entire company and not of a particular division. Segment wise valuation will lead to higher valuation of the company. Hardware division of the ARP Limited will be bought for ₹ 60 Crores and for this acquisition funds will be borrowed by the management of JK Limited.

One of the verticals of JKL is engaged in export of gold jewellery and ornaments. JKL has a paid up Equity share capital of ₹ 4 lakh divided into 40 thousand equity shares of ₹ 10 each. Results for half year ended 30th September 2022 has indicated 15% growth in revenue and 20% in profits as compared to results of half year ended 30th September 2021. Order book of the company is strong enough to maintain this growth for next five years. After looking at the financial results for the half year ended 30th September 2022, the management has decided to recommend interim dividend of ₹ 2 per equity share. Accordingly, the board meeting has been called and resolution has been passed with record date set as 23rd October 2022.

One of the executive directors of the company, Mr. Tulip is very well connected with persons having political interests and connections. Mr. Joseph from South Africa contacted Mr. Tulip and offered him to engage JKL in one transaction in which his company can earn some handsome amount in one go. The details of the transactions are that Company of Mr. Joseph will transfer ₹ 5.00 crore in bank account of JKL and then JKL will transfer ₹ 3.50 crores in small amounts in different accounts to be specified by Mr. Joseph. Since bank account of JKL generally receives foreign payments, so nobody will doubt the transaction. Thus the company will be earning ₹ 1.50 crores simply by using its bank account.

Another vertical of JKL is engaged in the manufacturing and exports of drilling machinery. The company has made the following cash payments during the audit period 2021-2022 to the local transporters for carrying finished goods from factory premises to the container freight station (CFS) :

(i) Payment of 6 invoices of ₹ 4,000 each made in cash to Mr. X on 04th July 2021.

(ii) Payment of 2 invoices of ₹ 21,000 each made in cash to Mr. Y on 05th July 2021 and 06th July 2021 respectively.

(iii) Payment of ₹ 40,000 made in cash to Mr. Z on 07th July 2021 against an invoice for expenses booked in F.Y. 2020-21.

Further management of JKL has decided to buy a sick company Machine Industries Limited (MIL) having negative net worth. Financial consultants were hired to give their opinion on the decision and all of them have recommended to JKL to merge itself with the Machine Industries Limited (MIL) rather than merge MIL to JKL. However management is not inclined to take this step and still undecided on the method of merger.

Further another vertical of JKL is engaged in agricultural operations. Your audit manager CA Ms. Shweta is doing the statutory audit of JKL. During the course of audit, she overheard that there has been some mis-happening in the Company and the management has got an investigation done. There is suspicion of some fraud having taken place. She has requested the management to provide the details of such investigation but the response of the management has been evasive. She requested the management to provide the representation of management in respect of fraud. However, she did not get any response.

Marks

MCQ : Provide the correct option to the following questions. **5×2 =10**

3.1. By which date JKL should have recommended the dividend as per Listing Obligations and Disclosure Requirements (LODR) ? (Assume no holiday in the month of Oct. 2022)

(A) 08th October 2022

(B) 17th October 2022

(C) 12th October 2022

(D) 21st October 2022

3.2. Do you think Mr. Tulip should accept the offer of Mr. Joseph and route the transaction through the bank accounts of the company ?

(A) Yes, since the transaction is being routed through banking channel, so no risk/liability involved.

(B) No, as the transaction will be covered under offence of Money Laundering and leg of transaction amounting to ₹ 5.00 crores will be classified as Layering.

(C) No, as the transaction will be covered under offence of Money Laundering and leg of transaction amounting to ₹ 5.00 crores will be classified as Placement.

(D) No, as the transaction will be covered under offence of Money Laundering and leg of transaction amounting to ₹ 5.00 crores will be classified as Integration.

Marks

3.3. Considering the balance sheet of J K Limited (JKL), what is the maximum amount that management can further borrow as per the provisions of the Companies Act, 2013 ?

(A) ₹ 550 thousands being the consolidated amount of capital invested in the form of shareholders' funds and Long term debt.

(B) ₹ 1,500 thousands being three times of shareholders' funds.

(C) ₹ 450 thousands being the shareholders' funds as reduced by existing debt.

(D) ₹ 250 thousands being the shareholders' funds as reduced by total existing debt and current liabilities and provisions.

3.4. Which approach can be used by JK Limited (JKL) to value division of ARP Limited considering the fact that segment wise valuation of ARP Limited will lead to overall higher valuation of the company ?

(A) Valuation using Net Book Value.

(B) Valuation by multiples.

(C) Valuation using Chop Shop method.

(D) Valuation using balance sheet approach.

3.5. As a tax auditor, which of the cash payments made by JKL given in case study (3) above will be reported by tax auditor in Form 3CA-3CD ?

(A) (i), (ii) and (iii) (B) (i) and (iii)

(C) (ii) and (iii) (D) Only (iii)

Marks

Descriptive Questions

3.6. You are required to guide CA Ms. Shweta how she should approach in case of JKL when the management has neither provided the investigation report nor any representation in respect of suspected fraud. 6

3.7. Calculate the Enterprise value of ARP Limited using entity value as the base under relative valuation method. 4

3.8. Explain the concept of reverse merger and advise the management of JKL the benefits, if any, in case merger of JKL with Machine Industries Limited (MIL) is done following the suggestion of financial consultants in the given case study. 5

CASE STUDY : 4

GSV Associates is a firm of Chartered Accountants. The firm is noticed with the following issues relating to their clients.

Facts of the case :

1. Happy Happy Limited is listed with the Bombay Stock Exchange. The Directors of the company want to appoint Mr. Shyamlesh as an independent director at the forthcoming Annual General Meeting (AGM) to be held on September 24, 2022. Mr. Sanjay, son-in-law of Mr. Shyamlesh, is a Managing Partner of Sanjay and Associates LLP, firm of Lawyers. Mr. Sanjay is acting as a legal advisor to Generic Laboratory Limited, an Associate Company of Happy Happy Limited. It is to be noted that Adv. Sanjay charged consultation fees from Generic Laboratory Limited as given below in rupees :

Year	Fees	Gross turnover of Sanjay and Associates
2019-20	2,00,00,000	40,00,00,000
2020-21	10,00,00,000	50,00,00,000
2021-22	0.00	45,00,00,000

2. Mr. Shyam Lal is millionaire and is fond of travelling and has investments in various countries. He has been in India for 300 days during last 4 years i.e. 2017-18, 2018-19, 2019-20 and 2020-21. During previous year 2021-22, he has been in India for 75 days. He has income from sources in India aggregating to ₹ 25.00 lakh. Mr. Shyam Lal is not liable to tax in any other country or territory by reason of his domicile or residence or any other criteria of similar nature. He thinks that since he is in India for 75 days only, he cannot be resident in India. However, he has heard that law in India is changed and so he approached CA. Vivek with the above information for determination of his correct residential status as per Income-tax.

3. The firm is presently doing 200 tax audits which include 50 audits of clients who offer their income on presumptive basis. During the year, the firm is approached by other clients for whom the firm has been rendering consulting services to undertake their tax audits. Partners seek your expert view how many more tax audits may be added by the firm.

Marks

4. Mr. V. Kumar has sold his residential property for a total consideration of ₹ 3.75 crores on 15th January 2022 (the date on which transfer got completed). He paid brokerage of ₹ 12.00 lakh and actual cost of acquisition in 1995 was ₹ 20.00 lakh and thereafter in 2009-2010 there has been further improvement costing ₹ 30.00 lakh. The fair market value determined as on 1st April 2001 comes to ₹ 24.40 lakh. Mr. Kumar has purchased a flat on 30th November 2021 for his residence for ₹ 1.00 crore and has incurred further cost on stamp duty, furnishing etc. ₹ 33.00 lakh. He also deposited ₹ 50.00 lakh in 54EC Capital Gains Bond. Cost inflation index for F.Y. 2009-10 was 148 and for F.Y. 2021-22 was 317. Mr. Kumar approached CA. Vivek for computation of his Capital Gain from sale of his residential property.

5. Mr. Manish, an article of the firm approached CA Sushil with the following complex web of relationship with different entities to understand whether they are related parties as per Ind AS.

Company 'A' is the subsidiary of company 'B'. Company 'B' is the subsidiary of company 'C'. Company 'D' is the subsidiary of company 'A'. Company 'X' is the associate of company 'D' and company 'Y' is the Joint Venture (JV) of Company 'X'.

6. Z Limited has removed its Managing Director Mr. Keshav Prasad and is required to compensate him for loss of office. Mr. Keshav Prasad vacated the office of Managing Director on 31.05.2021 though his original tenure of appointment with Z Limited was to continue up to 31.12.2023. He had joined on 1st April 2019. He has drawn remuneration during the last three years per month as under :

2019-20	₹ 20 lakh
2020-21	₹ 25 lakh
2021-22 (upto 31st May 2021)	₹ 30 lakh

Marks

MCQ : Provide the correct option to the following questions. **5×2 =10**

4.1 You are required to identify the correct statement from those given below :

(A) Happy Happy Limited can appoint Mr. Shyamlesh as an Independent Director irrespective of the fact that Mr. Sanjay, his relative, is Legal Advisor to Generic Laboratory Ltd. which is its Associate Company.

(B) Happy Happy Limited cannot appoint Mr. Shyamlesh as an Independent Director as he is relative of Mr. Sanjay, who is Managing Partner of the firm which is legal advisor to Generic Laboratory Ltd., its Associate Company, irrespective of the amount of fees charged by Mr. Sanjay from its Associate Company.

(C) Happy Happy Limited cannot appoint Mr. Shyamlesh as an Independent Director as he is relative of Mr. Sanjay, Managing Partner of the firm which is Legal Advisor to Generic Laboratory Ltd., its Associate Company, and the fees charged by Mr. Sanjay exceeds the percentage as specified in the Companies Act, 2013, during one year out of the three immediately preceding financial years.

(D) Happy Happy Limited can appoint Mr. Shyamlesh as an Independent Director even though his son in law Mr. Sanjay is the Managing Partner of the firm which is Legal Advisor to Generic Laboratory Ltd., it's Associate Company, as Mr. Sanjay did not charge any fee during the immediately preceding financial year.

Marks

4.2 The residential status of Mr. Shyamlal will be ________

(A) Resident

(B) Non-resident

(C) Not-ordinarily resident as he is not a resident of any other country based on domicile and his income excluding income from foreign sources exceeds ₹ 15 lakh.

(D) Not-ordinarily resident as he is having income above ₹ 15 lakh.

4.3 GSV Associates can accept further tax audit under section 44AB of ________

(A) 90 audits

(B) 40 audits

(C) Nil

(D) 60 audits

4.4 For reporting purposes as per Ind AS, which are the related parties of company 'C' ?

(A) A, B, D

(B) A, B, D, X

(C) A, B, D, Y

(D) A, B, D, X, Y

4.5 The maximum amount of compensation to which Mr. Keshav Prasad is entitled for premature termination of his office as Managing Director shall be –

(A) ₹ 715.48 lakh

(B) ₹ 930 lakh

(C) Nil

(D) ₹ 697.50 lakh

Descriptive Questions

4.6 Explain 'not-ordinarily resident' status of an Individual. **5**

4.7 Compute the capital gain in respect of property sold in point (4) of the case study. **5**

4.8 Explain the reasons for which a Managing Director or the whole time director may be denied the compensation for loss of office. **5**

CASE STUDY : 5

Brightstar Limited is currently engaged in different business segments and is also looking to expand its operations. The Company is also exploring investment from an overseas investor to carry out the expansion plan. During the month of April 2022, an overseas investor showed interest to acquire 51% stake in Brightstar Limited and has appointed an independent consultant to carry out the due diligence of Brightstar Limited. As per one of the conditions of Memorandum of Understanding (MoU), the Company is required to submit its financial statements for the year ended 31st March, 2022 as per IFRS.

 Marks

Brightstar Limited is in the process of computation of the deferred taxes as per applicable IFRS and wants guidance on the tax treatment for the following :

The Company had acquired 40% stake in SUN Limited for an aggregate amount of ₹ 90 crore. The shareholding gives Brightstar Limited significant influence over SUN Limited but not control and therefore the said interest in SUN Limited is accounted using the equity method. Under the equity method, the carrying value of investment in SUN Limited was ₹ 140 crore on 31st March, 2021 and ₹ 150 crore as on 31st March, 2022. As per the applicable tax laws, profits recognized under the equity method are taxed if and when they are distributed as dividend or the relevant investment is disposed of. The tax rate is 20%.

The Company measures its head office property using the revaluation model. The property is revalued every year as on 31st March. On 31st March 2021, the carrying value of the property (after revaluation) was ₹ 80 crore whereas its tax base was ₹ 44 crore. Carrying amount of property in the books of the company on 31st March 2021 was equal to the carrying amount of the property as per tax records. During the year ended 31st March 2022, the Company charged depreciation in its Statement of Profit or Loss of 4 crore and claimed a tax deduction for tax depreciation of ₹ 2.50 crore. On 31st March, 2022, the property was revalued to ₹ 90 crore. As per the tax laws, the revaluation of Property, Plant & Equipment does not affect taxable income at the time of revaluation. The tax rate is 20%.

During the year, Brightstar Limited delivered manufactured products to customer K. The products were faulty and on 1st October 2021 customer K commenced legal action against the Company claiming damages in respect of losses due to the supply of faulty product. Upon investigating the matter, Brightstar Limited discovered that the products were faulty due to defective raw material procured from supplier F. Therefore, on 1st December 2021, the Company commenced legal action against F claiming damages in respect of the supply of defective raw materials.

Brightstar Limited has estimated that its probability of success of both legal actions, the action of K against Brightstar Limited and action of Brightstar Limited against F, is very high.

On 1st October 2021, Brightstar Limited has estimated that the damages it would have to pay K would be ₹ 10 crore. This estimate was revised to ₹ 10.40 crore as on 31st March 2022 and ₹ 10.50 crore as at 15th May 2022. This case was eventually settled on 1st June 2022, when the Company paid damages of ₹ 10.60 crore to K.

On 1st December 2021, Brightstar Limited had estimated that it would receive damages of ₹ 7.00 crore from F. This estimate was revised to ₹ 7.20 crore as at 31st March 2022 and ₹ 7.40 crore as on 15th May 2022. This case was eventually settled on 1st June 2022 when F paid ₹ 7.50 crore to Brightstar Limited. Brightstar Limited in its financial statements for the year ended 31st March 2022, provided ₹ 7.20 crore. The financial statements were authorised by the Board of Directors on 26th April 2022.

 Marks

On 1st April 2021, Brightstar Limited purchased ₹ 20 lakh options to acquire shares in CASA Ltd., a listed entity. The Company paid ₹ 0.50 per option which allows the Company to purchase shares in CASA Ltd. for a price of ₹ 4 per share. The exercise date for the option was 31st December 2021. On 31st December 2021, when the market value of a share in CASA Ltd. was ₹ 5.20 per share, the Company exercised all its options to acquire shares in CASA Ltd.

In addition to the purchase price, the Company has also incurred directly attributable cost of ₹ 2 lakh for purchase of ₹ 20 lakh shares in CASA Ltd. The Company has classified these shares as trading portfolio. However, the Company has not disposed of any of the shares in CASA Ltd. between 31st December 2021 to 31st March 2022. The market value of the shares of CASA Ltd. as on 31st March 2022 is ₹ 5.80 per share.

Brightstar Limited acquired 100% of Methane Private Limited, on 1st January 2021. The fair value of the purchase consideration was ₹ 20 crore consisting of ordinary shares of 200 each of Brightstar Limited. The fair value of the net assets acquired was ₹ 15 crore. At the time of the acquisition, the value of the ordinary shares of Brightstar Limited and the net assets of Methane Private Limited were only provisionally determined. On 30th November 2021 it was finally determined that the fair value of Brightstar Limited's shares was ₹ 22 crore and the fair value of net assets of Methane Private Limited was ₹ 16 crore. However, the directors of Brightstar Limited have seen the fair value of the company's shares decline since 1st January 2021 and wanted to adopt the fair value of the shares as of 1st February 2022, which will result in the fair value of consideration being valued at ₹ 18 crore.

Marks

One of the subsidiaries of Brightstar Limited started its business in India with Indian Rupee as its functional currency. After several years, the entity expanded and started exporting its products to Europe. During the year ended 31st March 2021 only 30% of the business was conducted in Euro. By the end of 31st March 2022, 90% of the business was conducted with Europe and the transactions were denominated in Euro. The raw materials required (for the products to be exported to Europe) are all imported materials and the purchase transactions are denominated in Euro.

Brightstar Limited has constructed a shopping mall earlier. A portion of a mall is renovated by constructing a food court, spa and gaming zone so as to increase the footfalls in the mall. The food court and gaming zone are expected to result in a significant increase in sales for the shops and outlets of the mall.

Brightstar Limited previously had a defined pension plan (a defined benefit plan) under which the employees who joined before 1st April 2020 were enrolled. With respect to employees who joined on or after 1st April 2020 were all enrolled in the industrial pension plan. The Company found that the industrial pension plan was more beneficial to the employees than the defined pension plan. Hence, during 2021-2022 it decided to shift all the employees from defined pension plan to the industrial pension plan. The entity paid ₹ 10 crore to the employees who in turn agreed to forfeit the pension entitlement from the defined pension plan. The liability recognized in the financials, for the year ended 31st March 2021, with respect to the pension liability was ₹ 14 crore.

Marks

MCQ : Provide the correct option to the following questions. **5×2 =10**

5.1. What is the value of purchase consideration and fair value of net assets of Methane Private Limited as at the date of acquisition ?

(A) Purchase consideration ₹ 22 crore, net asset value ₹ 16 crore.

(B) Purchase consideration ₹ 20 crore, net asset value ₹ 15 crore.

(C) Purchase consideration ₹ 18 crore, net asset value ₹ 16 crore.

(D) Purchase consideration ₹ 22 crore, net asset value ₹ 15 crore.

5.2. What will be the functional currency of the subsidiary of Brightstar Limited for the year 2021-2022 ?

(A) Changed to Euro at the end of financial year 2021-2022, if it is considered that the underlying transactions, events and conditions of business have changed.

(B) Changed to Euro at the beginning of financial year 2021-2022, if it is considered that the underlying transactions, events and conditions of business have changed.

(C) Changed to Euro at the end of financial year 2021-2022, if it is considered that the underlying transactions, events and conditions of business have changed.

(D) The functional currency remains to be Indian Rupee.

5.3. What should be the accounting treatment for the cost incurred for the renovation ?

(A) Expenses incurred for food court and gaming zone should be charged to statement of profit or loss;

(B) Expenses incurred for food court, spa and gaming zone should be charged to statement of profit or loss;

(C) Expenses incurred for food court, spa and gaming should be capitalised;

(D) Expenses incurred for food court and gaming should be capitalised.

5.4. What is the entry to be passed in the books of CASA Ltd. of account as on 31st March 2022 with respect to legal action commenced by customer K on the company ?

(A)	Statement of Profit or Loss A/c Dr.	₹ 10.40 crore	
	To Current Liability A/c		₹ 10.40 crore
(B)	Statement of Profit or Loss A/c Dr.	₹ 10.60 crore	
	To Non-Current Liability A/c		₹ 10.60 crore
(C)	Statement of Profit or Loss A/c Dr.	₹ 10.50 crore	
	To Current Liability A/c		₹ 10.50 crore
(D)	Other Comprehensive Income A/c Dr.	₹ 10.40 crore	
	To Current Liability A/c		₹ 10.40 crore

Marks

5.5. What will the accounting treatment of the action of Brightstar Limited against supplier F as per applicable IFRS ?

(A) Asset receivable shall be recognised for ₹ 7.50 crore

(B) Asset receivable shall be recognised for ₹ 7.40 crore

(C) Asset receivable shall be recognised for ₹ 7.20 crore

(D) It will be considered as contingent assed which will not be recognized in the books of CASA Ltd.

Descriptive Questions

5.6 How should the discontinuation of old defined pension plan be accounted in the financials of Brightstar Limited for the year ended 31st March 2022 as per Ind AS ? **2**

5.7 With respect to SUN Limited, what will be the deferred tax and where will it be impacted ? **2**

5.8 Compute the deferred tax liability as on 31st March, 2022 and the charge/credit to the Statement of Profit or Loss and / or Other Comprehensive Income on head office property. **6**

5.9 The Company has requested you to suggest the accounting treatment of the above arrangement and transaction of acquisition of shares in CASA Ltd. **5**