

CASE STUDY - 1**KLM Private Ltd, Jaipur (KLM)**

KLM Private Ltd, Jaipur is a wholly owned subsidiary of MNO Ltd, Mumbai. KLM is engaged in manufacture of textile goods and beverages. It was incorporated on 15th July 2020.

KLM placed order for 2 passenger vehicles (vans) for ₹ 25 lakhs each with seating capacity of each vehicle being 16 persons (excluding driver). It paid ₹ 50 lakhs plus GST @28%. It used one passenger vehicle (van) from 1st December 2023 for bringing its staff from their home to factory and for dropping them back. It donated another passenger vehicle (van) to Mother Charitable Trust (after getting the invoice and delivery of the vehicle in its name). Mother Charitable Trust is registered under section 12AB of the Income-tax Act, 1961.

KLM acquired on 5th July 2023, one fork-lift truck for transport of textile goods inside the factory premises for ₹ 20 lakhs (excluding GST @18%).

Fake /false figures in GST returns

The GST return of KLM for the financial year 2020-21 contained some fake/false figures regarding inward supply and consequent input tax credit availed in respect of inter-state transactions. Penalty proceedings were also initiated against the GST consultant A & Co (firm) who has filed the GST returns of KLM, on a charge of abetment and aiding for filing false return.

Change in inventory cost formula

KLM changed its inventory cost formula for the year ended 31st March 2024. The change resulted in understatement of inventory by ₹ 50 lakhs.

Proposal for investment

KLM proposes to invest ₹ 500 lakhs in a new project in FY 2024-25. The risk-free rate of return is 7%. The risk premium expected by the management is 7%. The life of the project is 5 years. The estimated cash flows over the life of the project are given below :

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Year 1 = ₹ 120 lakhs; Year 2 = ₹ 180 lakhs; Year 3 = ₹ 300 lakhs; Year 4 = ₹ 210 lakhs; and Year 5 = ₹ 130 lakhs.

Present Value of ₹ 1 @ 14%

Year	1	2	3	4	5
Present Value	0.877	0.769	0.675	0.592	0.519

Applying Throughput Accounting

KLM has adopted Throughput Accounting to determine the profitability of the three beverages which are manufactured and marketed throughout India. The material cost, selling price and bottleneck resource details per unit are as follows :

Particulars	Product A	Product B	Product C
Selling price (₹)	90	60	75
Material and variable cost (₹)	40	20	30
Bottleneck resource time (minutes)	20	15	15

Budgeted factory cost for the period is ₹ 2,70,000. The bottleneck resource time available is 1,20,000 minutes per period.

MNO Limited (MNO)

MNO is engaged in execution of construction contracts for its clients in India. Mittal & Co., Delhi is the statutory auditor of MNO. For the year ended 31st March 2023, MNO has non-current receivables amounting to ₹ 200 crores. The bills raised by the company represent cost overruns necessitated by delays caused by clients, change in work specifications and other related matters. There was no omission or default committed by MNO. As the company could not get positive response from the clients regarding cost overrun, it has gone for arbitration. The management of MNO claims that it can recover the cost overruns fully. The audit firm Mittal & Co. has relied on management representation in this regard.

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MNO had acquired a building at Mumbai for its administrative purposes and has held it as owner occupied property and shown as property, plant and equipment (PPE) up to the financial year ended 31st March 2023. In April 2023, as it relocated to its own newly constructed building at Thane, it leased out the building located at Mumbai to a third party. The Board of directors of the company are in dilemma as to how the let-out building at Mumbai should be classified for the year ended 31st March 2024.

Multiple Choice Questions

5×2
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[Provide the correct option to the following questions].

- 1.1. How much could be the maximum penalty levied on the GST consultant A & Co for aiding and abatement in furnishing of the GST return with fake/false information ?
- ✓ (A) No penalty is leviable on CA firm
 - ✓ (B) ₹ 50,000 under IGST
 - ✓ (C) ₹ 25,000 under CGST and ₹ 25,000 under SGST / UTGST
 - ✓ (D) ₹ 50,000 under CGST and ₹ 50,000 under SGST/UTGST
- 1.2. What is the net present value of the proposed project of KLM adopting risk adjusted rate to consider the new proposal in financial year 2024-25 ?
- (A) ₹ 637.95 lakhs
 - (B) ₹ 121.70 lakhs
 - (C) ₹ 137.95 lakhs
 - (D) ₹ 440.00 lakhs

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- 1.3. How much depreciation and additional depreciation under Income-tax Act, 1961 would be allowed to KLM in respect of passenger vehicles and fork-lift truck acquired during the financial year 2023-24 ?
- (A) ₹ 4,87,500
(B) ₹ 6,75,000
(C) ₹ 8,87,500
(D) ₹ 10,75,000
- 1.4. How much of GST input credit will be available to KLM in respect of passenger vehicles and fork-lift truck acquired by it during the financial year 2023-24 ?
- (A) ₹ 17,60,000
(B) ₹ 10,60,000
(C) ₹ 7,00,000
(D) ₹ 3,60,000
- 1.5. What would you say when KLM has changed its inventory cost formula ?
- (A) Change in accounting estimate
(B) Change in accounting policy
(C) Neither a change in accounting estimate nor a change in accounting policy
(D) Change in method of accounting

Descriptive Questions

- 1.6. In the given facts of the case, whether MNO Ltd should reclassify the leased-out building at Mumbai as investment property instead of PPE which was the case up to 31st March 2023. Will this amount to change in accounting policy ? Your answer must be with reference to applicable Ind AS.

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1.7. Mittal & Co based on management representation decides to include the outstanding amounts receivable by MNO Ltd as 'Emphasis of Matter' paragraph in the audit report. Whether the disclosure given by the auditor is proper.

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1.8. Select the highest rank product for KLM Private Limited by computing 'product return per minute'. Also, calculate Throughput Accounting (TA) ratio to state your conclusion.

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~~CASE STUDY-2~~

Enterprising State of Indian Agriculture Industry

The innovation and government support has put the agriculture industry on a growth trajectory. The Indian agricultural sector is predicted to increase to US\$ 24 billion by 2025. Indian food and grocery market is the world's sixth largest, with retail contributing 70% of the sales. India's agricultural and processed food products exports stood at US\$ 43.37 billion in FY23 (April 2022-January 2023).

Rabi crop area has increased by 3.25% from 697.98 lakh hectares in 2021-22 to 720.68 lakh hectares in 2022-23. This is a 22.70 lakh hectare, a 13.71% increase over the average sown area in 2021-22. In the current crop year (July 2022-June 2023), India's horticulture output is expected to have hit a record 350.87 million tonnes (MT), as production of fruits, vegetables, spices, and plantation crops surged dramatically.

Manju Agri Products Limited (MAPL)

Manju, a post graduate in agricultural sciences and management, was always interested in organic cultivation and she also had some 50 acres of agricultural land. She along with five other friends set up a company, Manju Agri Products Limited (MAPL) which was mainly into agriculture related products specially millet based products.

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Wafer thin Margins and Bank Funding

Though the Company has good turnover, yet there has been lower margins due to inherent challenges specific to this industry. The Company has been evaluating to expand its operations and has borrowed ₹ 75 crores from Agri Bank as a credit facility. As the Company is agri based, it has challenges in making payment to farmers and other traders for procurement of millets.

Finance Committee

The Company has a Finance Committee which is chaired by Manju, as she is the Managing Director of the Company. This Committee meets every three months to discuss the concerns and key points relating to finance and reporting.

In the Committee's meeting held in March 2024, the following points were discussed :

Purchase of a Millet Processing Machinery

MAPL wants to purchase millet processing machinery from KPL Limited, to increase its capacity of millet processing. As a part of the Government policies to provide impetus to agriculture and allied industry, government grants has been provided to eligible companies for procurement of machinery. MAPL, being also eligible for such government grant, has received an amount of ₹ 10 lakhs as grant.

The following are the details of purchase :

List price of machinery (<u>exclusive</u> of <u>taxes</u> and <u>discount</u>)	₹ 50,00,000
Corrugated Boxes used for packing the equipment (<u>not</u> included in price above)	₹ 1,00,000
Discount offered on the <u>list price</u> of the machine (recorded in the <u>invoice</u> of the machine).	@ 2%

As per the accounting policy, MAPL depreciates all its plant and machinery at 20% per annum on straight-line basis and also it does not claim depreciation on GST component included in the price of plant and machinery.

Special Review of Internal Controls

As the operations of the Company expanded, the Management is willing to strengthen its processes and procedures including documentation. The Company as such has not yet appointed any internal auditor for FY 2023-24 and is of the opinion that it will suffice if special review of controls is done and no other internal auditor is required to be appointed. The company was having turnover of ₹ 250 Crores in financial year 2022-23.

Accordingly, it has appointed M/s AB & Co., Chartered Accountants for carrying out special review of the internal controls implemented in its processes and suggest them solutions to improve deficiencies in controls, or any management in competencies, if any, which may need improvement or refinement. The company is also not sure whether the company is required to have an internal auditor and if required, who should be appointed as internal auditor.

Gift to Manju

Joey, a foreign citizen, is Manju's friend and has been her MBA classmate in University of Stanford. Joey has visited Manju's village when he had come to India for a friend's wedding. Since Joey is meeting his friend Manju, after a decade, he has gifted her a smart watch having a value of ₹ 75,000/-. However, before accepting his gift, she wants to confirm whether she can take such gift for her personal purposes without violating the provisions of Foreign Contribution (Regulation) Act, 2010.

Sponsoring a Sports Event

During the financial year 2023-24, MAPL sponsored a sports event for farmers by Jnaneshwar Shramik Club in Bellary. Jnaneshwar Shramik Club was established in the year 1995 for protecting and promoting the rights of farmers. The Company paid an amount of ₹ 25 lakhs for such sponsorship of the event.

Employee Benefit Plans

MAPL was evaluating the employee benefit related obligation funding for the current year :

(In ₹)

Contribution by employer during the year	95,000
Benefits paid during the year from the fund	65,000
Fair value of Plan Assets at the beginning of the year	2,75,000
Return expected on Plan Assets	35,000
Fair value of Plan Assets at the end of the year	4,00,000

Acquisition Proposal

There is a proposal of ABC Limited (a subsidiary of MAPL) to acquire XYZ Limited and has offered a swap ratio of 1 : 2 (0.5 shares for every one share of XYZ Limited).

The following are the financial information in this regard.

Particulars	ABC Ltd	XYZ Ltd
Profit after tax (₹)	18,00,000	3,60,000
Equity shares outstanding (Nos.)	6,00,000	1,80,000
EPS (₹)	3	2
P/E Ratio	10 Times	7 Times
Market Price Per Share	30	14

Hedging Forex Risk

The CFO of MAPL wants to decide whether to hedge with currency risks derivatives and what types of hedge instruments to choose for the same.

There is an urgent need to address this issue as last year there has been breach on loan covenants due to currency exposures.

MAPL has taken a loan of 50 billion JPY from a leading Bank, repayable in 10 years. The exposure is unhedged and hence it needs to be hedged so that both interest risks and currency risk is taken care of.

For export transactions, MAPL wants 40% of the exposure to be hedged in a manner that should allow them to take advantage of favourable movement in exchange rate also and within that bracket some portion should be zero cost hedge.

Lease

MAPL has executed a 12 years lease of a machine with the following terms on 1st January 2023 with XYZ Ltd. (lessor) :

-The lease commencement date is 1st February 2023.

MAPL must pay XYZ Ltd. the first monthly rental payment of ₹ 25,000 upon execution of the lease.

XYZ Ltd. will pay MAPL ₹ 75,000 cash incentive to enter into the lease payable upon lease execution.

MAPL incurred ₹ 2,000 of initial direct costs, which are payable on 1st February 2023. MAPL calculated the initial lease liability of ₹ 10,00,000 as the present value of the future lease payments discounted using its incremental borrowing rate because the rate implicit in the lease could not be readily determined.

Multiple Choice Questions

[Provide the correct option to the following questions].

2.1. Joey, a foreign citizen, has made gifts in kind to his friend Manju for her personal use. As per provisions of Foreign Contribution (Regulation) Act, 2010, when such gift shall be excluded from the definition of 'foreign contribution' considering the relevant provisions of Foreign Contribution (Regulation) Act, 2010 :

- (A) A donation in kind by a foreign citizen to a resident Indian shall be excluded from the definition of 'foreign contribution', if the market value, in India, of such article, on the date of such gift, is more than ₹ 1,00,000 but less than ₹ 5,00,000.
- (B) A donation in kind by a foreign citizen to a resident Indian shall be excluded from the definition of 'foreign contribution', if the market value, in India, of such article, on the date of such gift, is more than ₹ 5,00,000 but less than ₹ 10,00,000.
- (C) Any donation in kind given by a foreign citizen to a resident Indian for personal use is always excluded.
- (D) A donation in kind by a foreign citizen to a resident Indian for personal use shall be excluded from the definition of 'foreign contribution', if the market value, in India, of such article, on the date of such gift, is not more than ₹ 1,00,000.

2.2. Which of the following statement is correct, in connection with the payment made by MAPL, for the sponsorship of the event :

- (A) GST shall be payable by MAPL, a body corporate, being the recipient of the sponsorship service, under the reverse charge mechanism.

- (B) GST shall be payable by the Club, being the supplier of sponsorship service
- (C) GST is not leviable on the sponsorship service of the sports event
- (D) GST liability with respect to sponsorship service is payable by the recipient of such service provided the recipient is not a body corporate. So, in the present case, GST liability is payable by the service provider which is Club.

2.3. What should be the value of supply for KPL Limited for the machinery supplied to MAPL ?

- (A) ₹ 51,00,000
- (B) ₹ 40,00,000
- (C) ₹ 50,00,000
- (D) ₹ 49,00,000

2.4. The amount of initial measurement of right of use asset by MAPL will be :

- (A) ₹ 9,52,000
- (B) ₹ 9,50,000
- (C) ₹ 10,27,000
- (D) ₹ 10,25,000

2.5. What would be the amount required to be recognized in the 'Other Comprehensive Income' of the financial statements for the year ended on 31 March 2024, without considering the effect of deferred tax :

- (A) Actuarial gain – ₹ 60,000
- (B) Actuarial loss – ₹ 5,000
- (C) Actuarial gain – ₹ 95,000
- (D) Nil, as all the expenses/income relating to employee benefits are recognized in the Statement of Profit and Loss.

Descriptive Questions

2.6. In respect of the acquisition by ABC Ltd (another subsidiary of MAPL) of XYZ Ltd, you are required to calculate : 1×5
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- (i) The number of equity shares to be issued by ABC Ltd., for acquisition of XYZ Ltd.
- (ii) What is the EPS of ABC Ltd., after the acquisition ?
- (iii) Determine the equivalent earnings per share of XYZ Ltd.
- (iv) What is the expected market price per share of ABC Ltd., after the acquisition, assuming its P/E multiple remains unchanged ?
- (v) Determine the market value of the merged firm.

2.7. State the broad procedures that should be followed to decide whether to hedge forex risk and in selection of the hedge instruments. 5

2.8. MAPL wants to know as per Company Law, when a company is required to appoint internal auditor and who shall be appointed as internal auditor. In the given facts, from which year MAPL will be required to have an internal auditor. 5

CASE STUDY- 3

A group of four practicing chartered accountants namely P, Q, R, and S living in Kandivali in Mumbai decided to form a brain storming group to meet on every Saturday evening to discuss the important and typical professional matters to have consensus for the mutual benefit of the members of the group.

First Meeting

- (i) CA. P opened up the discussion on evaluation of the impact of changes in variable consideration based on the Indian Accounting Standard. He pointed out that one of his clients has a fixed fee contract for ₹ 12,00,000 to develop a product that meets specified performance criteria. Estimated cost to complete the contract is ₹ 11,20,000. The entity will transfer control of the product over five years and the client uses the cost- to- cost input method to measure progress on the contract. An incentive award is available if the product meets the following weight criteria :

Weight (kg)	Award % of fixed fee	Incentive fee (₹)
251 or greater	0	—
151-250	20%	2,40,000
150 or less	50%	6,00,000

- (a) The client has extensive experience creating products that meet the specific performance criteria. Based on its experience, the client has identified five engineering alternatives that will achieve 20% incentive and two alternatives that will achieve 50% incentive. In this case, the client determined that it has 95% confidence that it will achieve 20% incentive and 25% confidence that it will achieve the 50 percent incentive.

- (b) Based on this analysis, the client believes 20% incentive to be the most likely amount when estimating the transaction price. Therefore, the client includes 20% award in the transaction price while calculating the revenue because the entity has concluded that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved due to its 95% confidence in achieving the 20% award.
- (c) The client reassesses its production status quarterly to determine whether it is on the track to meet the criteria for the incentive award. At the end of the year four, it becomes apparent that this contract will fully achieve the weight-based criterion. Therefore, the client revises its estimate of variable consideration to include the entire 50% incentive fee in the year four because, at this point, it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when including the entire variable consideration in the transaction price.
- (d) The client informed that the cost incurred is as follows and expect to remain same throughout the contract period :

Year	₹
1	60,000
2	2,00,000
3	5,00,000
4	3,00,000
5	60,000

- (ii) CA. Q opened up discussion and pointed out that one of his clients has inventory of 200 finished cars on 31st March 2024 which are having a cost of ₹ 6,00,000 each. On 30th April 2024, as per new government rules, higher road tax and penalties are to be paid by the buyers for such cars (which has been expected to come) and hence the selling price of a car has come down and the demand dropped drastically. The selling price has come down to ₹ 4,50,000 each. The financial statements of the company for the year 2023-24 are not yet approved. His client wants to know the value at which the stock should be valued assuming the estimated costs necessary to make the sale is ₹ 25,000 per car.
- (iii) CA. R is running a partnership firm 'CDR' in practice, and develops a website "CDR.com". The colours chosen for the website were very bright and the website was to run on a "Push" technology where the names of the partners of the firm and the major clients were to be displayed on the website without any disclosure obligation from any regulator.

Second Meeting

- (i) CA. R informed that the internal auditor of a company of which he is doing statutory audit has pointed out two deficiencies in internal control of the company viz. (i) receivables not reconciled at regular intervals (i.e.) quarterly; and (ii) the buyers / customers are given credit limit based on their past track record but no review of such credit limits was undertaken during the year. The management of the company has also not taken any action on the deficiencies pointed out by the internal auditor.
- (ii) One of the clients of CA. S received the rectification order under section 254 of the Income Tax Act, 1961 passed by the Income Tax Appellate Tribunal (ITAT) beyond 6 months from the end of the month in which the order sought to be rectified was passed. The rectification of application was moved by the income-tax department after 6 months from the end of the month in which order sought to be rectified was passed. CA. S wants to check whether ITAT is empowered to do so.

- (iii) CA. S discusses that ABC is a registered supplier in Bhopal (MP) and is engaged in the manufacture of taxable goods. The goods valued at ₹ 12,50,000 were supplied by ABC to FPL, a registered supplier located at Indore (MP), without the cover of an invoice with a fraudulent intent. Since, ABC evaded tax by not issuing the invoice for the supply, a show cause notice was issued by the proper officer under section 74 requiring ABC to pay tax @ 12% [₹ 1,50,000 and applicable interest and penalty]. ABC paid the tax, interest and penalty after the order was passed by the proper officer.

Third Meeting

In this meeting CA. S pointed out that in an order dated 20th December issued to SNPL, the Joint Commissioner, CGST has confirmed IGST demand of ₹ 320 crores. SNPL is disputing the entire demand of IGST. The Appellate Authority has confirmed the order of the Joint Commissioner and SNPL wants to file an appeal before the Appellate Tribunal against the order of the Appellate Authority.

Fourth Meeting

CA. Q states that Rajan was appointed as Provisional Liquidator for ST Ltd. against which an application for winding up was filed before the Tribunal. It is noteworthy that Rajan was having a shareholding in the same company.

Multiple Choice Questions

5×2
=10

[Provide the correct option to the following questions].

- 3.1. At what amount the client of CA. Q should value its stock of cars based on the facts provided in the case study (ii) of first meeting ?

- (A) ₹ 6,00,000
- (B) ₹ 4,50,000
- (C) ₹ 4,25,000
- (D) ₹ 5,75,000

3.2. Is the website developed by CDR in compliance with guidelines issued by ICAI in this regard ?

- (A) Yes, because there is no restriction for the development of website.
- (B) Yes, because it has complied all the conditions in this regard.
- (C) No, but CDR would not be liable for professional misconduct since it would not amount to soliciting work by advertisement.
- (D) No, CDR would be liable for professional misconduct since it would amount to soliciting work by advertisement.

3.3. CA. S wishes to clarify whether FPL is entitled to ITC and if yes, what will be the amount thereof based on the facts provided in the case study (iii) of second meeting.

- (A) Yes, ₹ 1,50,000
- (B) Yes, ₹ 150,000, and applicable interest.
- (C) Yes, ₹ 150,000, and applicable interest and penalty.
- (D) No, FPL cannot avail ITC of such tax.

3.4. What is the amount of additional pre-deposit to be made by SNPL for filing the second appeal based on the facts provided in the third meeting ?

- (A) ₹ 32 crores
- (B) ₹ 64 crores
- (C) ₹ 96 crores
- (D) ₹ 100 crores

- 3.5. CA. S wants to know from other members which of the following options is correct as per the Companies Act, 2013 for the issue regarding Rajan to be appointed as liquidator raised by him in the fourth meeting ?
- (A) Rajan cannot be appointed in ST Ltd. because he has a shareholding in the same company.
- (B) Rajan can be appointed in ST Ltd. irrespective of his interest in the company because of his prior shareholding in the company before appointment.
- (C) Rajan can be appointed in ST Ltd. with the prior intimation to the Tribunal.
- (D) Rajan can be appointed in ST Ltd. by disclosing his shareholding by filing of declaration within 7 days from the date of his appointment by the Tribunal.

Descriptive Questions

- 3.6. CA. P wants other members to guide him how the variable consideration on the basis of inputs provided in the case study will be recognized during contract period, as per relevant Indian Accounting Standard. 5
- 3.7. How CA. R, the statutory auditor would react to the findings of internal auditor about the deficiencies in internal control of receivables ? 5
- 3.8. In the facts given in the case study of second meeting, can a rectification order under section 254 of the Income Tax Act, 1961 be passed by the Appellate Tribunal (ITAT) beyond 6 months from the end of the month in which the order sought to be rectified is passed ? CA. S wants to check from other members of the group in what circumstances Income-tax Appellate Tribunal is empowered to pass rectification order after 6 months ? 5

~~C~~ASE STUDY-4

CA. Rajesh – An experienced Practicing Chartered Accountant

Rajesh is a practicing Chartered Accountant and has struggled in initial days but put in hard work and now has established well in the field of Audit and Indirect Taxes. Rupesh, son of Shyam, a close friend of Rajesh has recently qualified his CA Final exam and has obtained certificate of practice and wants to join Rajesh. Shyam discussed his son's desire with Rajesh. Rajesh advised Shyam that it will not be proper for Rupesh to directly join him as a partner as he lacks practical experience and moreover, he wants to add other areas of practice to diversify so that the firm is equipped with providing solution in different fields such as Finance, Direct Tax and Insolvency & Bankruptcy Law under one umbrella. Thus, ^{CA} Rupesh joins Rajesh as a paid assistant to begin with. Rajesh asks him to study new and emerging field in the Profession – Financial planning, Tax planning and Insolvency and Bankruptcy Law with the help of other staff. Rajesh has asked Rupesh to hone his knowledge in these areas. He also tells him that since he is a newly qualified professional, he needs to know the practical aspects of Professional Ethics of CA Profession, though he might have read about it during his studies and therefore, Rajesh suggests Rupesh to discuss the practical aspects of Professional Ethics of CA profession with him as the time permits. Rupesh agrees to abide by the advice of Rajesh and starts working on it.

GNT Limited

GNT Limited, one of the clients of CA. Rajesh is in the process of buying a machine to support the existing machines and therefore, approached for consultancy. The company informs Rajesh that it is required to choose between two machines A and B. The two machines are designed differently but have identical capacity and do exactly the same job. Machine A costs ₹ 1,70,000 and will last for 3 years. It costs ₹ 50,000 per year to run. Machine B is an 'Economy Model' costing only ₹ 1,15,000 but will last only for 2 years and costs ₹ 70,000 per year to run. These are real cash flows. The costs are forecasted in rupees of constant purchasing power. Ignore tax. Opportunity cost of capital is 10%. The company wants to know which machine it should buy ? Rajesh asks Rupesh to advise the company suitably.

Present value factor @ 10% of annuity : for 3 years 2.487 and for 2 years 1.736.

Swayam

Swayam - an institution having its main object as "advancement of general public utility" approached Rajesh for an advice on the tax consequence of receipt of ₹ 32 lakhs in aggregate during the previous year 2023-24 from an activity in the nature of trade carried out in the course of actual carrying out of its object of advancement of general public utility. The total receipts of the institution, including donations were ₹ 150 lakhs. It has applied 85% of its total receipts from such activity during the same year for its main object i.e. advancement of object of general public utility.

During his tenure of 1 year as an employee, Rupesh would discuss various matters relating to Professional Ethics with Rajesh on various occasions. Rajesh tells him that a professional needs to be integral, confidential, independent, objective, competent & knowledgeable to be successful in his/her respective profession. A Professional Accountant's responsibility is not exclusively to satisfy the needs of an individual client or employer but also acting in the public interest.

A Professional Accountant should observe and comply with the ethical requirements of the Code of Ethics applicable on them. This Code discusses the fundamental principles which professional accountants have to observe in order to achieve the objectives of the accountancy profession. Compliance with such principles may potentially be threatened by a range of threats as per circumstances categorized as Self -Interest, Self- Review, Advocacy, Familiarity and Intimidation threats. The nature & significance of these threats may differ depending on whether they arise in relation to the provision of services to a financial statement audit client, a non-financial statement audit assurance client or a non- assurance client. Rupesh understands the reason now why Rajesh having an opportunity, once refused to manipulate information in a prospectus in order to obtain favorable financing to Delta Ltd.

Rupesh during his employment with Rajesh, asks Rajesh to practice in his name as Rajesh has allowed Ramesh, his brother-in-law who is not a Chartered Accountant to practice in the name of Rajesh but Rajesh did not allow Rupesh to do so citing ethics and tells him that it will be a professional misconduct on his part.

ABC Limited, one of Rupesh's clients has displayed their business name along with the GST Act requirements through Glow Sign Boards outside his premises and has claimed the expense as a revenue expenditure in income-tax computation. They seek Rupesh's advice as to such claim in income tax computation.

RMC Limited

RMC Ltd., one of the clients of Rajesh is under Corporate Insolvency Resolution Process (CIRP). Rajesh has been appointed as Resolution Professional (RP) by NCLT and is in the process of constituting Committee of Creditors (COC). The admitted financial creditors are :

- (a) Bank A ₹ 100 lakhs (Secured by I charge on fixed assets)
- (b) Bank B ₹ 200 lakhs (Secured by II charge on fixed assets)
- (c) Bank C ₹ 100 lakhs (Secured by hypothecation of stocks and debtors)
- (d) Unsecured ₹ 150 lakhs (Includes ₹ 50 lakhs from related parties)
- (e) Bank D ₹ 250 lakhs (Secured on specific land and decides not to relinquish)

Rupesh works for one year as an employee and after one year joins Rajesh as a Partner with full zeal & enthusiasm after having got the relevant experience.

Ujjawal Limited

Rajesh is having a very big corporate client, Ujjawal Ltd. This year, Rajesh assigns him the audit work of Ujjawal Ltd. for the preparation of their audit report in a timely manner.

There has been material usage variance and the production manager of the company has not been able to give the valid reason for the same.

The Profit & Loss a/c of Ujjawal Ltd., having business of steel, tubes and other products for the year ended 31.03.2024 shows a net profit of ₹ 505 lakhs and other information are furnished as under :

- (i) A group free air ticket was provided by a supplier for reaching a certain volume of purchase during the financial year 2023-24. The same is encashed by the company for ₹ 15 lakhs in April 2023 and credited to General reserve Account.
- (ii) A supplier of raw materials agreed for settlement of ₹ 7 lakhs against his claim of ₹ 10 lakhs for poor quality of material supplied during the previous year, effect of which has not been given in the account of the supplier.
- (iii) Joya Bank – a scheduled bank, sanctioned and disbursed a term loan in the financial year 2020-21 of ₹ 100 lakhs. Interest of ₹ 16 lakh was in arrears. The bank has converted the arrear of interest into a new loan repayable in 10 equal installments. During the year, the company has paid 2 installments and the amount so paid has been reduced from funded interest in the Balance Sheet.
- (iv) The company remitted ₹ 6 lakhs as interest to a company incorporated in USA on a loan taken 2 years ago. Tax deducted under section 195 from such interest has been deposited by the company before due date of the filing of the return of income. The said interest was debited to profit and loss account.

(v) Pradeep, a sales executive stationed at Head office at Delhi, was on official tour in Bangalore from 31st May 2023 to 18th June 2023 and 28th September 2023 to 15th October 2023 for the business development. The company has paid Pradeep's salary in cash, from its local office at Bangalore for the month of May 2023 (payable on 1st June) and September 2023 (payable on 1st October), amounting to ₹ 55,000 and ₹ 60,000 respectively (net of TDS and other deduction), as Pradeep has no bank account at Bangalore. These were included in the amount of salary debited to Profit and Loss Account.

(vi) The company has contributed ₹ 75,000 by account payee cheque to an electoral trust and the same stand included under the head "General expenses".

Multiple Choice Questions

5×2
=10

[Provide the correct option to the following questions].

4.1. Had Rajesh accepted the offer to manipulate information in a prospectus in order to obtain favorable financing to Delta Ltd., he would have been subject to -

- (A) Familiarity Threats
- (B) Self-Review Threats
- (C) Self-Interest Threats
- (D) Advocacy Threat

4.2. Rupesh during his employment with Rajesh, asks Rajesh to practice in his name as Rajesh has allowed Ramesh, his brother-in-law who is not a Chartered Accountant to practice in the name of Rajesh but Rajesh did not allow Rupesh to do so citing ethics & tells him that it will be a professional misconduct on his part. Identify the correct position.

- (A) Rajesh will be held guilty of professional misconduct for allowing Ramesh. *NON, CA*
- (B) ^{CA} Rajesh will be held guilty of professional misconduct for allowing Rupesh. *CA*
- (C) Rajesh will not be held guilty of professional misconduct for allowing Ramesh.
- (D) Rupesh will be held guilty for asking to do practice in the name of Rajesh.

4.3. What will be the voting share of Unsecured Financial Creditors in the Committee of Creditors constituted by Rajesh in case of RMC Ltd. based on the details provided in the case study ? (Answer up to two decimals only)

- (A) 13.33%
- (B) 18.75%
- (C) 20.00%
- (D) 27.27%

4.4. ABC Limited has displayed its business name along with the GST Act requirements through Glow Sign Boards outside his premises and has claimed the expense as a revenue expenditure. They seek Rupesh's advice as to correctness of such claim in computation of Income. What is the nature of expenditure incurred on glow-sign boards displayed at the premises of ABC Limited ?

- (A) Capital Expenditure
- (B) Revenue Expenditure
- (C) Deferred Revenue Expenditure
- (D) Can be claimed as per choice of ABC Limited.

4.5. The Material usage variance will not be affected by :

- (A) Change in method of production/design
- (B) Increased efficiency in production can help in bringing down wastage rate
- (C) Changes made in the material mix
- (D) Purchase price of inferior quality material.

Descriptive Questions

4.6. Compute the income chargeable to tax for Assessment Year 2024-25 of Ujjawal Ltd indicating reasons for treatment of each item for the benefit of Rupesh, assuming that the company has not opted for special provisions under section 115BBA or 115BAB. 8

4.7. Prepare a statement showing evaluation of two machines as may be prepared by Rupesh to advise GNT Ltd. to buy machine. 4

- 4.8. Prepare an advice by Rajesh to Swayam, an institution on the tax consequence of receipt of ₹ 32 lakhs and application thereof by it based on the facts provided in the case study.

~~CASE STUDY - 5~~

Magic Ltd received an order for supply of service to a UK based client by name Botham Ltd for £ 10 lakhs. Magic Ltd was unable to provide the entire services from India and therefore after providing 60% of service, it asked Mini Ltd of UK to provide balance 40% of services to Botham Ltd. The payment for 40% service was received by Mini Ltd directly from Botham Ltd. Magic Limited has obtained all the required approvals for the same. Assume exchange rate as 1 £ = ₹ 105. Magic Ltd has followed standard costing since April 2020. The Board of Directors of the company based on the advice of a foreign consultant wants to follow Kaizen Costing instead of standard costing.

Mano (age 45) is a renowned expert in mechanical engineering and a person of Indian origin with non-resident status under the Income-tax Act, 1961 up to the assessment year 2023-24. He came to India on 2nd January 2024 to render his expert service to the company in its manufacturing activity. The agreement with Mano is in accordance with Industrial Policy of Government of India. He was paid ₹ 50 lakhs by Magic Ltd for the services rendered in India. Mano returned to his native country on 25th March 2024. Magic Ltd had agreed with Mano to bear the tax liability in this regard and accordingly made deduction of tax at source. Assume that there is no DTAA between India and the Country to which Mano belongs.

Stock market indices

Manish, Managing Director of Magic Ltd wants to know whether the stock market is bullish or not. He has furnished you the closing values of NSE Nifty from 12th to 22nd of March 2024.

Days	Date	Day	Sensex
1	12.03.2024	Tuesday	20100
2	13.03.2024	Wednesday	19950
3	14.03.2024	Thursday	19900
4	15.03.2024	Friday	20050
5	16.03.2024	Saturday	No Trading
6	17.03.2024	Sunday	No Trading
7	18.03.2024	Monday	20600
8	19.03.2024	Tuesday	20650
9	20.03.2024	Wednesday	20700
10	21.03.2024	Thursday	20900
11	22.03.2024	Friday	21100

The Exponential Moving Average (EMA) of Sensex was 20400 on the previous day i.e. 11.03.2024. The value of exponent for 31 days EMA is 0.081.

Moon & Co, Noida

Moon & Co, a partnership firm in which Magic Ltd is a partner with 50% shares. Moon & Co acted as a wholesale distributor of electrical appliances manufactured by Lion (P) Ltd, Delhi. There was a mix up of data, relevant for GST returns, maintained in the computer system of Moon & Co for the financial year 2022-23

(30)

JGH

Marks

with GST data for financial year 2023-24. Annual turnover of Moon & Co was always less than ₹ 4 crores. The GSTR 3B of the month of March 2023 contained some errors by omitting to claim ITC because of corruption in data kept in the computer system by Moon & Co. This was found only on 15.11.2023 and the GSTR 3B has been filed upto month of September 2023 and annual return is yet to be filed.

Similarly, in the income-tax return filed by Moon & Co for the assessment year 2023-24 under section 44AD, the turnover was stated as ₹ 173 lakhs instead of the correct figure of ₹ 190 lakhs. This was detected only in April, 2024.

Santosh, one of the directors of Lion Private Limited- an associate of Magic Limited, who had 25% shareholding in Lion Private Limited, is in urgent need of ₹ 25 lakhs for completing the construction of his residential house. The said company arranged overdraft facility from a bank on the security of its asset and advanced ₹ 25 lakhs to its director Santosh on 1st August 2023. The said company had accumulated profit of ₹ 40 lakhs as on 31st March 2023 and was the same till the date of loan availed from bank and advanced to Santosh.

Multiple Choice Questions

[Provide the correct option to the following questions].

5×2

=10

5.1. What is the legal remedy available to Moon & Co to set right the error in turnover and the ITR filed for the assessment year 2023-24 ?

- (A) Seek rectification
- (B) File belated return ✓
- (C) File updated return ✓
- (D) File revised return ✓

JGH

23-24
31.12.24

22-23

(31)

JGH

Marks

52. How much is the amount of tax deductible at source on the loan amount granted by the company to its director Santosh and the amount of loan to be taxed in the hand of Santosh as deemed dividend ?
- (A) TDS of ₹ 1,00,000 and deemed dividend of ₹ 10,00,000
- (B) TDS of ₹ 2,50,000 and deemed dividend of ₹ 25,00,000
- (C) TDS of ₹ 4,00,000 and deemed dividend of ₹ 40,00,000
- (D) No TDS and Deemed dividend of ₹ 25,00,000
53. Which of the following is not a feature of Kaizen Costing contemplated for adoption by Magic Ltd ?
- (A) Cost reduction technique ✓
- (B) Achieve cost reduction target ✓
- (C) Assumes continuous improvement of conditions ✓
- (D) Meant for a longer period, usually year on year
54. How Moon & Co can claim ITC which was omitted to be claimed in March, 2023 ? What is the maximum time limit available to Moon & Co for making claim of ITC through GSTR 3B in respect of the omission of the month of March, 2023 ?
- (A) It must have been claimed in GSTR 3B of the immediate subsequent month i.e. of April, 2023 and since it was not claimed, the ITC shall lapse.
- (B) It must have been claimed in GSTR 3B of the month of September 2023 being the maximum time of 6 months after the end of the financial year and since it was not claimed, the ITC shall lapse.

JGH

P.T.O.

- (C) It must be claimed in GSTR3B of the month of October 2023 which is yet to be filed and should be filed before 30th November 2023 and before filing of the annual return in order to make the said claim.
- (D) It must be claimed in the annual return which is to be filed before 31st December 2023.

5.5. How much is the value of export of service made by Magic Ltd under section 2(6) of the IGST Act ?

- (A) ₹ 1050 lakhs
- (B) ₹ 630 lakhs
- (C) ₹ 420 lakhs
- (D) NIL

Descriptive Questions

- 5.6. Calculate the Exponential Moving Average (EMA) of Sensex during the period given in the case study and suggest whether the market is bullish. 5
- 5.7. State whether Mano is a non-resident taxable person under the CGST Act, 2017. If so, the procedure to be complied in this regard. Also, explain whether the income earned by Mano is liable to income-tax in India and if so, at what rate and how much tax will be deducted by Magic Limited ? 6
- 5.8. Briefly discuss the consequence of loan granted by Lion Private Limited to its director Santosh under the Companies Act, 2013. 4