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

PAPER – 6F: MULTI-DISCIPLINARY CASE STUDY

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

All your workings should form part of your answer.

CASE STUDY – 1

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 provides 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.

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 outstandings 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.*

MCQs: Provide the correct option to the following questions.

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.

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.

(5 x 2 = 10 Marks)

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 Marks)***

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 Marks)

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)***

ANSWERS TO CASE STUDY 1

PART – A

1.1 (C)

1.2 (D)

1.3 (A)

1.4 (D)

1.5 (A)

1.6 The auditor is required to report the employee's contribution to provident fund in Form 3CD as under

Clause 20(b): Details of contributions received from employees for various funds as referred to in section 36(1)(va):

S. No.	Nature of fund	Sum received from employees	Due date for payment	The actual amount paid	The actual date of payment to the concerned authorities
1	Employee's Contribution to PF	1,33,000	20.05.2021	1,33,000	13.05.2021
2	Employee's Contribution to PF	1,34,000	20.06.2021	1,34,000	19.06.2021
3	Employee's Contribution to PF	1,33,500	20.07.2021	1,33,500	25.07.2021
4	Employee's Contribution to PF	1,34,000	20.08.2021	1,34,000	08.10.2021
5	Employee's Contribution to PF	1,33,500	20.09.2021	1,33,500	16.10.2021
6	Employee's Contribution to PF	1,32,500	20.10.2021	1,32,500	13.10.2021
7	Employee's Contribution to PF	1,34,500	20.11.2021	1,34,500	20.11.2021
8	Employee's Contribution to PF	1,33,000	20.12.2021	1,33,000	22.03.2022

9	Employee's Contribution to PF	1,50,000	20.01.2021	1,50,000	29.03.2022
10	Employee's Contribution to PF	1,49,000	20.02.2021	1,49,000	29.09.2022
11	Employee's Contribution to PF	1,47,000	20.03.2021	1,47,000	29.10.2022

Further as regards disallowance under section 40 (a) (ii) of the Income Tax Act, 1961 no reporting is to be done for the same by tax auditor in Form 3CD but only the amount needs to be disallowed by the assessee per se at the time of filling of the tax return for the respective assessment year.

1.7 According to section 135(1) of the Companies Act, 2013, every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during the immediately preceding financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director.

Provided that where a company is not required to appoint an independent director under sub-section (4) of section 149, it shall have in its Corporate Social Responsibility Committee two or more directors.

As per Rule 3(1), every company including its holding or subsidiary, and a foreign company defined under clause (42) of section 2 of the Act having its branch office or project office in India, which fulfills the criteria specified in sub-section (1) of section 135 of the Act shall comply with the provisions of section 135 of the Act and these rules:

"Net worth" [As per Section 2(57)] means the aggregate value of the paid-up share capital and all reserves created out of the profits, securities premium account and debit or credit balance of the profit and loss account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation.

Exclusion of Companies [Rule 3(2) of the Companies (CSR) Rules, 2014]

Every company which ceases to be a company covered under subsection (1) of section 135 of the Act for three consecutive financial years shall not be required to-

(a) constitute a CSR Committee; and

(b) comply with the provisions contained in sub-section (2) to (6) of the said section,

till such time it meets the criteria specified in sub-section (1) of section 135.

In the present case, **though** the Net profit of the Majestic Industries Limited as on 31-03-2021 (i.e. immediately preceding financial year) was ₹ 7.50 crore, ~~hence~~ the company is not required to constitute CSR committee since, **according to section 135(9) of the Companies Act, 2013, where the amount to be spent by a company under sub-section (5) does not exceed fifty lakh rupees, the requirement under sub- section (1) for constitution of the Corporate Social Responsibility Committee shall not be applicable and the functions of such committee provided under this section shall, in such cases, be discharged by the Board of Directors of such company. As per the figures of net profits given in the case study the amount to be spent works out to ₹ 9.83 lakh [{(7.50+4.25+3.00)/3}*2%]**

1.8 Extracts of Balance Sheet of Majestic Industries Limited as at 31st March, 2022

Particulars	**₹**
LIABILITIES	
Current liabilities	
(a) Financial Liabilities	
(i) Trade payables	34,20,000
Total liabilities	XXXX
Total equity and liabilities	**XXXX**

Trade payables

Ageing for trade payables outstanding as at 31st March, 2022 is as follows:

Particulars	**Less than 1 year**	**1-2 years**	**2-3 years**	**More than 3 years**	**Total**
Undisputed – Other than MSME	26,20,000	5,00,000	3,00,000	-	34,20,000

Note: The information regarding operating cycle is not provided in the question. It is assumed that all the trade payables are within the scope of operating cycle and hence are classified as current liabilities.

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).

II. Since the company deals in specialty 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.*

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 has 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 1st 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.

V. *FSL has an Audit Committee which regularly meets and considers the financial statements. FSL has 6 Directors which consist 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 the meeting.*

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.

MCQs: Provide the correct option to the following questions:

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.*

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.*

(5 x 2 = 10 Marks)

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 Marks)***

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

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 Marks)***

ANSWERS TO CASE STUDY 2

PART – A

2.1 (D)

2.2 (B)

2.3 (B)

2.4 (D)

2.5 (B)

PART – B

2.6 Role of Auditor in to attend the Audit Committee Meeting: Regulation 18(1)(f) stipulates that a representative of the statutory auditor, when required, shall be invited to the meetings of the Audit Committee. Similarly, Section 177 of the Companies Act, 2013 provides the auditors of a company and the key managerial personnel the right to be heard in the meetings of the Audit Committee when it considers the auditor's report but they shall not have the right to vote.

The auditor must ensure that he communicates frequently and openly with the Audit Committee on key accounting or auditing issues that, in the auditor's judgment, give rise to a greater risk of material misstatement of the financial statements, and also ensure that he addresses any questions or concerns voiced by the Audit Committee.

He can contribute significantly in assisting and advising the Audit Committee on improving corporate governance, oversight of financial reporting process, implementation of accounting policies and practices, compliance with accounting standards, strengthening of the internal control systems in regard to financial reporting and reporting processes.

The auditor must devote substantial professional time in assisting the management and the Audit Committee to enable them to discharge their functions effectively and in certification of the requirements of corporate governance.

The auditor has to keep in mind that his role is not to drive corporate governance directly. Rather, it is the management's responsibility to do so and, in the process, he should play a significant role in assisting management to ensure better standards of corporate governance.

Composition of Audit Committee: As per section 177 of the Companies Act, 2013, the Audit Committee shall consist of a minimum of three directors with independent directors forming a majority. It may be noted that majority of members of Audit Committee including its Chairperson shall be persons with ability to read and understand, the financial statement.

In the given case, Forever Source Limited, a listed entity, has audit committee which regularly meets and consider the financial statements. The Audit committee of FSL consist of 3 directors out of which 2 directors are independent director which is in compliance with section 177 of the Companies Act, 2013.

It is also required that all members of Audit Committee shall be financially literate. As per fact of the case all the directors of FSL are persons with ability to read and understand the financial statements which is also in compliance with section 177 of the Act, it can be concluded that composition of Audit Committee of FS Limited is valid.

ALTERNATIVE SOLUTION

Composition of Audit Committee: As per Regulation 18(1) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the main features of a qualified and independent audit committee to be set up are as follows:

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

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

   Explanation (ii): A member will be considered to have accounting or related financial management expertise if he or she possesses experience in finance or accounting, or requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.
3. The Chairperson of the Audit Committee shall be an independent director and he/she shall be present at Annual General Meeting to answer shareholder queries.
4. The Company Secretary shall act as the secretary to the committee.
5. The Audit Committee at its discretion shall invite the finance director or the head of the finance function, head of internal audit and a representative of the statutory auditor and any other such executives to be present at the meetings of the committee,

provided that occasionally, the Audit Committee may meet without the presence of any executives of the listed entity.

In the given case, Forever Source Limited, a listed entity, has audit committee which regularly meets and consider the financial statements. The Audit committee of FSL consist of 3 directors out of which 2 directors are independent director which is compliance with Regulation 18(1) of the SEBI LODR 2015 as according to the same the Audit Committee shall have minimum three directors as members. At least two-thirds of the members of audit committee shall be independent directors.

Further, it is also given in the Regulation 18(1) i.e. all members of Audit Committee shall be financially literate and at least one member shall have accounting or related financial management expertise. As per fact of the case all the directors of FSL are persons with ability to read and understand the financial statements which is also in compliance with, however, **assuming** that one of the director is having accounting or related financial management expertise and Chairperson of the Audit Committee is independent director, it can be concluded that composition of Audit Committee of FS Limited is vailid.

2.7 Examples of temporary differences transactions that affect taxable profit or loss of an enterprise:

1. Interest revenue is received in arrears and is included in accounting profit on a time apportionment basis but is included in taxable profit on a cash basis.
2. Revenue from the sale of goods is included in accounting profit when goods are delivered but is included in taxable profit when cash is collected.

   In this case, there is also a deductible temporary difference associated with any related inventory.
3. Depreciation of an asset is accelerated for tax purposes.
4. Development costs have been capitalized and will be amortised to the statement of profit and loss but were deducted in determining taxable profit in the period in which they were incurred.
5. Prepaid expenses have already been deducted on a cash basis in determining the taxable profit of the current or previous periods.

2.8 Investing transactions that do not require the use of cash or cash equivalents shall be excluded from a statement of cash flows. Such transactions shall be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing activities. Many investing activities do not have a direct impact on current cash flows although they do affect the capital and asset structure of an entity. Such non-cash items will not form part of the cash flow statement.

Accordingly, in case investment in DEF Limited has been done in a way other than cash, then that transaction would not be reported in the Statement of Cash Flows.

Examples of non-cash transactions relating to investing activities which are not required to be reported in the Statement of Cash Flows are:

(a) the acquisition of assets by assuming directly related liabilities;

(b) the acquisition of assets by means of a lease;

(c) the acquisition of an entity by means of an equity issue;

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.

Provide the correct option to the following questions.

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.

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) ***(5 x2 = 10 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 Marks)***

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

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 Marks)***

ANSWERS TO CASE STUDY 3

PART – A

3.1 None of the options given is correct.

3.2 (B)

3.3 (C)

3.4 (C)

3.5 (D)

PART – B

3.6 Auditor's Responsibilities Relating to Fraud: As per SA 240 on "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements", the auditor is responsible for obtaining reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error.

As per SA 580 "Written Representations", if management modifies or does not provide the requested written representations, it may alert the auditor to the possibility that one or more significant issues may exist.

In the given case, CA. Sweta came to know that management has got an investigation done as there is suspicion of fraud taken place. She requested the management to provide the details of such investigation and representation of management in respect of fraud, however she did not get any response.

In the instant case, the auditor observed that there was a special audit conducted at the instance of the management on a possible suspicion of fraud. Therefore, the auditor requested for special audit report which was not provided by the management despite of many reminders. The auditor also insisted for written representation in respect of fraud on/by the company. For this request also management remained silent.

It may be noted that, if management does not provide one or more of the requested written representations, the auditor shall discuss the matter with management; re-evaluate the integrity of management and evaluate the effect that this may have on the reliability of representations (oral or written) and audit evidence in general; and take appropriate actions, including determining the possible effect on the opinion in the auditor's report.

Further, as per section 143(12) of the Companies Act, 2013, if an auditor of a company, in the course of the performance of his duties as auditor, has reason to believe that an offence involving fraud is being or has been committed against the company by officers or employees of the company, he shall immediately report the matter to the Central Government (in case amount of fraud is ₹ 1 crore or above)or Audit Committee or Board in other cases (in case the amount of fraud involved is less than ₹ 1 crore) within such time and in such manner as may be prescribed.

The auditor is also required to report as per Clause (xi) of Paragraph 3 of CARO, 2020, Whether any fraud by the company or any fraud on the company by its officers or employees has been noticed or reported during the year; If yes, the nature and the amount involved is to be indicated.

If, as a result of a misstatement resulting from fraud or suspected fraud, the auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit, the auditor shall:

(i) Determine the professional and legal responsibilities applicable in the circumstances, including whether there is a requirement for the auditor to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities;

(ii) Consider whether it is appropriate to withdraw from the engagement, where withdrawal from the engagement is legally permitted; and

(iii) If the auditor withdraws:

    (1) Discuss with the appropriate level of management and those charged with

governance, the auditor's withdrawal from the engagement and the reasons for the withdrawal; and

(2) Determine whether there is a professional or legal requirement to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities, the auditor's withdrawal from the engagement and the reasons for the withdrawal.

3.7 Enterprise Value of ARP Limited

	₹
Market Value of Equity Shares (70,000 x ₹ 15)	10,50,000
Add: Long Term Debt	2,00,000
Less: Cash and Cash Equivalents	5,00,000
Enterprise Value	7,50,000

3.8 In ordinary case, the company taken over is the smaller company; in a 'reverse takeover', a smaller company gains control of a larger one. The concept of takeover by reverse bid, or of reverse merger, is thus not the usual case of amalgamation of a sick unit which is non-viable with a healthy or prosperous unit but is a case whereby the entire undertaking of the healthy and prosperous company is to be merged and vested in the sick company which is non-viable. A company becomes a sick industrial company when there is erosion in its net worth. This alternative is also known as taking over by reverse bid.

Reverse merger leads to the following benefits for acquiring company:

- Easy access to capital market.
- Increase in visibility of the company in corporate world.
- Tax benefits on carry forward losses acquired (public) company.
- Cheaper and easier route to become a public company.

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.*
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*

MCQs: Provide the correct option to the following questions.

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., its Associate Company, as Mr. Sanjay did not charge any fee during the immediately preceding financial year.

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 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 ***(5 x 2 = 10 Marks)***

Descriptive Questions

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

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

(5 Marks)

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 Marks)***

ANSWERS TO CASE STUDY 4

PART – A

4.1 (C)

4.2 (B) or (C)

4.3 None of the options is correct.

4.4 (B)

4.5 (A)

PART – B

4.6 As per section 6(6), an individual is said to be not-ordinarily resident in India in any previous year, if such individual satisfies any one of the following conditions:

(i) He has been a non-resident in India in any 9 out of the 10 previous years preceding the relevant previous year, or

(ii) He has been in India for a period of 729 days or less during the 7 previous years preceding the relevant previous year, or

(ii) He is an Indian citizen or person of Indian origin (who, being outside India, comes on a visit to India in any previous year) having total income, other than the income from foreign sources [i.e., income which accrues or arises outside India (other than income derived from a business controlled in or profession set up in India) and which is not deemed to accrue or arise in India], exceeding ₹ 15 lakhs during the previous year, who has been in India for 120 days or more but less than 182 days during that previous year, or

(iv) He is an Indian citizen who is deemed to be resident in India under section 6(1A).

4.7 Computation of capital gains of Mr. V. Kumar for A.Y. 2022-23

Particulars	₹	₹
Sale Consideration		3,75,00,000
Less: Brokerage		12,00,000
Net sale consideration		**3,63,00,000**
Less: **Indexed cost of acquisition** [₹ 24,40,000, being higher of Fair market value on April 1, 2001 and ₹ 20,00,000, being actual cost of acquisition x 317/100]	77,34,800	
Less: **Indexed cost of improvement** [₹30,00,000 x 317/148]	64,25,676	1,41,60,476
		2,21,39,524
Less: **Exemption under section 54** [₹1 crore + ₹ 33 lakhs] Purchase of residential house within the stipulated time (within one year before or two years after the date of sale)	1,33,00,000	
Less: **Exemption under section 54EC**, assuming invested within six months from the date of transfer	50,00,000	1,83,00,000
Long term capital gains [Since the property is held for more than 24 months]		**38,39,524**

4.8 Prohibition on payment of compensation for loss of office of Managing Director or Whole-time director or Manager [Section 202 of the Companies Act, 2013]: No payment of compensation shall be made in the following cases-

(i) where the director resigns from his office as a result of the reconstruction of the company, or of its amalgamation and is appointed as the managing or whole-time director, manager or other officer of the reconstructed company or of the body corporate resulting from the amalgamation;

(ii) where the director resigns from his office otherwise than on the reconstruction of the company or its amalgamation *i.e.* resigns on his own;

(iii) where the office of the director is vacated under section 167(1);

(iv) where the company is being wound up, (by an order of the Tribunal or voluntarily), due to the negligence or default of the director;

(v) where the director has been guilty of fraud / breach of trust / of gross negligence/gross mismanagement in relation to the conduct of the affairs of the company or any subsidiary company or holding company thereof; and where the director has instigated/ has taken part directly or indirectly in bringing about, the termination of his office.

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.

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.

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

* PS: Read '₹ 20 lakh options' as '20 lakh options'

**PS: Read '₹ 20 lakh shares' as '20 lakh options'

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.

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.

MCQs: Provide the correct option to the following questions.

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*

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 asset which will not be recognized in the books of CASA Ltd. ***(5 x 2 = 10 Marks)***

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 Marks)***

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

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 Marks)***

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 Marks)***

ANSWERS TO CASE STUDY 5

PART – A

5.1 (A)

5.2 (A) or (C)

5.3 (D)

5.4 (A)

5.5 (D)

PART – B

5.6 The discontinuation of old defined pension plan is a curtailment event. Brightstar Limited is supposed to recognise gain or loss on settlement when the legally bind agreement has been reached, that eliminates all further legal or constructive obligations for the benefits provided under the pension plan in exchange for lump sum payment.

As per para 109 of IAS 19 'Employee Benefits', the gain or loss on a settlement is the difference between:

(a) the present value of the defined benefit obligation being settled, as determined on the date of settlement

(b) the settlement price, including any plan assets transferred and any payments made directly by the entity in connection with the settlement.

Accordingly, Brightstar Limited recognises a settlement gain of ₹ 4 crore (ie ₹ 14 crore – ₹ 10 crore) in its financial statements for the year ended 31 March 2022.

5.7 DTL created on accumulation of undistributed profits as on 31.3.2022

	Carrying value	Value as per tax records	Tax base	Taxable temporary differences	Total Deferred tax liability @ 20%	Charged to P&L during the year
a	b	c	d	e= b-d	f = e x 20%	g
31 March 2021	140 crore	90 crore	90 crore	50 crore	10 crore	10 crore
31 March 2022	150 crore	90 crore	90 crore	60 crore	12 crore	2 crore (12 crore – 10 crore)

5.8 (a) In case deferred tax is created only on account of depreciation

	Carrying value without revaluation	Value as per tax records	Tax base	Taxable / (deductible) temporary difference	Total Deferred tax liability/ (asset) @ 20%	Credit to P&L during the year
a	b	c	d	e= b-d	f = e x 20%	g
31 March 2021	44 crore	44 crore	44 crore	nil	nil	nil
Less: Depreciation for the year 2021-2022	(4 crore)	(2.50 crore)				
Carrying value as on 31 March 2022	40 crore	41.50 crore	41.50 crore	(1.50 crore)	DTA (0.30 crore)	DTA (0.30 crore)

(b) Computation of tax effect taking into account the revalued figures and adjusting impact of tax effect on account of difference in depreciation

	Carrying value after revaluation	**Value as per tax records**	**Tax base**	**Taxable / (deductible) temporary difference**	**Total Deferred tax liability/ (asset) @ 20%**	**Credit to P&L during the year**	**Charged to OCI during the year**
a	**b**	**c**	**d**	**e= b-d**	**f = e x 20%**	**g**	**h**
31 March 2021	80 crore	44 crore	44 crore	36 crore	DTL 7.2 crore	-	DTL 7.2 crore
Revalued again on 31.3.2022 (It is assumed that revaluation has been done after taking into consideration the impact of	90 crore	41.50 crore (44-2.50)	41.50 crore	48.50 crore	DTL 9.7 crore	DTA (0.30 crore) (Refer table (a) above)	DTL 10 crore (Refer Note below) [10 DTL (B/F) – 0.30 DTA = 9.70 DTL]

depreciation for the current year)							
Additional DTL/DTA required during the year (IV-I)					DTL 2.50 crore	DTA (0.30 crore) (Refer table (a))	DTL (2.80 crore) (Refer Note below)

Note:

As per para 65 of IAS 12 'Income Taxes', when an asset is revalued for tax purposes and that revaluation is related to an accounting revaluation of an earlier period, or to one that is expected to be carried out in a future period, the tax effects on account of revaluation of asset and the adjustment of the tax base are recognised in other comprehensive income in the periods in which they occur.

Here, it is important to understand that only the tax effects on account of revaluation of asset and the adjustment of the tax base are recognised in other comprehensive income. However, tax effects on account of depreciation of asset and the adjustment of the tax base are recognized in profit and loss.

Accordingly, first of all the tax effect has been calculated assuming that there is no revaluation (Refer Table (a) above). Later the DTA arrived due to difference in depreciation is adjusted with the DTL created due to revaluation. DTA of ₹ 0.30 crore on account of depreciation will be charged to Profit and Loss and DTL of ₹ 2.80 crore will be charged to OCI. Net effect in the year 31.3.2022 will be DTL 2.50 crore (DTL 2.80 crore – DTA 0.30 crore) [Refer Table (b) above].

5.9 The option to acquire shares in CASA Ltd. Would be regarded as a derivative financial instrument. This is because the value of the option depends on the value of an underlying variable (CASA Ltd.'s share price). As per paragraph 4.1.4 and 4.2.1 of IFRS 9 'Financial Instruments', all derivatives are measured at fair value. On 1st April 2021, when Brightstar Limited purchased 20 lakh options to acquire shares in CASA Ltd. At ₹ 0.50 per option, Brightstar Limited will recognise Option Asset for ₹ 10 lakh by passing the following journal entry:

Option on CASA Ltd. Shares	Dr.	₹ 10 lakh	
To Bank			₹ 10 lakh

Brightstar Limited shall measure the option at fair value at the end of every reporting period and also before exercise. The increase in share price on exercise date represents fair value of the option as the time value is zero on exercise date. Therefore, Brightstar Limited will measure the option at ₹ 24 lakh [20 lakh option x (5.2 – 4)] and recognise fair value gain of ₹ 14 lakh (24-10) in profit or loss.

The following journal entry will be passed:

Option on CASA Ltd. Shares	Dr.	₹ 14 lakh	
To Fair value gain			₹ 14 lakh

On exercise of the option on 31st December 2021, Brightstar Limited will pay ₹ 80 lakh for 20 lakh shares of CASA Ltd and the option derivative will be converted to shares of CASA Ltd. Therefore, Brightstar Limited will pass the following entry:

Investment in CASA Ltd. Equity shares	Dr.	₹ 104 lakh	
To Bank			₹ 80 lakh
To Option on CASA Ltd. Shares			₹ 24 lakh

Paragraph 5.1.1 of IFRS 9 'Financial Instruments' requires that the transaction costs shall be added to fair value if the financial asset is measured at other than fair value through profit or loss.

In the given case, ₹ 2 lakh incurred by Brightstar Limited for acquiring equity shares of CASA Ltd. Will not be added to the fair value of the equity shares of CASA Ltd. This is because equity shares of CASA Ltd. Are classified at fair value through profit or loss in accordance with paragraph 4.1.4 of IFRS 9 Financial Instruments. Therefore, Brightstar Limited shall recognise ₹ 2 lakh incurred on acquisition of equity shares of CASA Ltd. In profit or loss as on 31st March 2022.

The investment is included in the statement of financial position at 31st March 2022 as a current asset at its fair value of ₹ 116 lakh. The increase in fair value of ₹ 12 lakh is taken to the profit and loss.