Test Series: October, 2023

MOCK TEST PAPER

FINAL COURSE: GROUP – II

PAPER – 6F: MULTIDISCIPLINARY CASE STUDY

*Attempt any **four** out of **five** case study based questions.*

Each Case Study carries 25 Marks.

Time Allowed – 4 Hours **Maximum Marks – 100**

CASE STUDY 1

Para A - Home Fab Private Limited incorporated in May 2022 having its registered office in New Delhi started construction of its premises in NOIDA by using pre-fabricated structure common and prevalent in these times and building comprising about 1,00,000 square ft of covered area was ready to use by the end of July 2022 at a cost of ₹ 6.50 crores. The company also obtained GST registration in month of May 2022 in the State of Uttar Pradesh.

The company had already ordered in advance import of certain new textile machinery from South Korea at a cost of about ₹ 8.65 crore. Further, indigenous previously used machinery at a cost of about ₹ 2.00 crores was also planned for installation. The company was able to bring imported as well as indigenous machinery to its premises in *NOIDA* only in 1st week of August 2022 and was able to kick start its commercial production of textile made-ups from 1st September 2022 only. The company has earned huge profits during the P.Y. 2022-23.

Para B - The made ups of company got a very good response in the overseas market of USA under brand *of Home Fab* and the company had captured good chunk of export orders via *digital and online marketing platforms* beating its Chinese rivals.

The company has chosen to export on payment of IGST. Discussion takes place among staff members of inhouse GST team relating to preparation of tax invoice and related matters and four different opinions emerge out of their discussions:

Opinion I - The company is legally bound to raise a tax invoice in Indian Rupees only for its products exported in accordance with relevant rules and foreign currency amount is to be converted into Indian Rupees in tax invoice by using RBI reference rate in relation to date of invoice.

Opinion II - The company is legally bound to raise a tax invoice in Indian Rupees as well as commercial invoice in foreign currency in accordance with relevant rules and procedures governing such transactions. Further, foreign currency amount is to be converted into Indian Rupees in tax invoice by using exchange rate in accordance with exchange rate notification issued by CBIC relevant in relation to date of invoice.

Opinion III - The company is legally bound to raise a tax invoice in Indian Rupees only for its products exported in accordance with relevant rules and foreign currency amount is to be converted into Indian Rupees in tax invoice by using TT buying rate in relation to date of invoice.

Opinion IV - The company is legally bound to raise a tax invoice in Indian Rupees as well as commercial invoice in foreign currency in accordance with relevant rules and procedures governing such transactions. Further, foreign currency amount is to be converted into Indian Rupees in tax invoice by using TT selling rate in relation to date of invoice.

The company has achieved export turnover of ₹ 50 crores during year ended 31st March,2023. It has also credited duty drawback from customs authorities amounting to ₹ 2.00 crores in its statement of profit and loss for the same period. During the year ended 31st March 2023, the company has also incurred research and development expenditure of ₹ 10.00 lakhs. The financial statements of the company reflected a net profit before tax amounting to ₹ 7.50 crores. for the same period.

Para C- The inhouse staff GST team of the company was marred in confusion from the very first month of export sales regarding discharge of GST liability on payment of IGST and refund issues. The export sales had begun from October 2022 and made-ups valuing ₹ 5 crores were exported during month of October 22 carrying a GST rate of 5%. The break-up of ITC for month of October 2022 is as under: -

Eligible ITC on inputs	0.15 crores
Eligible ITC on capital goods	0.03 crores
Eligible ITC in input services	0.02 crores

There were divergent opinions among team members pertaining to discharge of tax liability and refund issues given below before they could approach their tax consultant.

Opinion I - The overall IGST liability of the company pertaining to supplies in relation to export in Oct 2022 is ₹ 0.25 crores and it would be discharged by the company by availing ITC on inputs of ₹ 0.15 crores and balance of ₹ 0.10 crore would be discharged by company in cash. After discharge of liability and filing of periodical returns consisting of GSTR- 3B and GSTR-1, the above said amount of ₹ 0.25 crore would be refunded/refundable directly by customs in bank account of company.

Opinion II - The overall IGST liability of the company pertaining to supplies in relation to export in Oct 2022 is ₹ 0.25 crores and it would be discharged by the company by availing ITC on inputs of ₹ 0.15 crores, ITC on capital goods of ₹ 0.03 crore and ITC on services of ₹ 0.02 crores and balance of ₹ 0.05 crore would be discharged by company in cash. After discharge of liability and filing of periodical returns consisting of GSTR-3B and GSTR-1, the above said amount of ₹ 0.25 crore would be refunded /refundable directly by customs in bank account of the company.

Opinion III - The overall IGST liability of the company pertaining to supplies in relation to export in Oct 22 is ₹ 0.25 crores and it would be discharged by the company by availing ITC on inputs of ₹ 0.15 crores, ITC on capital goods of ₹ 0.03 crore and ITC on services of ₹ 0.02 crores and balance of ₹ 0.05 crore would be discharged by company in cash. After discharge of liability and filing of periodical returns consisting of GSTR-3B, GSTR-1, and GSTR-9, the above said amount of ₹ 0.25 crore would be refunded/refundable directly by customs in bank account of the company.

Statement IV - The overall IGST liability of the company pertaining to supplies in relation to export in October, 2022 is ₹ 0.25 crores and it would be discharged by the company by availing ITC on inputs of ₹ 0.15 crores, ITC on capital goods of ₹ 0.03 crores and ITC on services of ₹ 0.02 crores and balance of ₹ 0.05 crore would be discharged by company in cash. After discharge of liability and filing of periodical returns consisting of GSTR- 3B and GSTR-1, the above said ITC amounting to ₹ 0.20 crore would be refunded/refundable directly by customs in bank account of the company.

Para D-The company had imported machinery worth ₹ 8.65 crores from South Korea. The said cost was CIF Mundra port. However, the company had incurred ₹ 2.36 lakhs as clearing charges paid to DK Services Private Limited (including ₹ 0.36 lakhs on account of IGST) for availing services for getting consignments cleared from port.

Further, company had also incurred ₹ 3.00 lakhs on account of freight paid to D Transport services (a proprietary concern). This proprietary concern is not registered taxpayer under GST and company has deposited IGST of ₹ 0.15 lakhs on account of reverse charge.

Further, company had paid ₹ 1.77 crore to another company providing services relating to building construction (including ₹ 27,00,000/- on account of IGST) during year 2022-23.

I. Multiple Choice Questions

1. Which of the opinion given by staff members of in-house GST Team regarding preparation of an invoice for export transaction is *MOST LIKELY* in conformity with relevant legal provisions?

   (a) Opinion I is in conformity with relevant legal provisions.

   (b) Opinion II is in conformity with relevant legal provisions.

   (c) Opinion III is in conformity with relevant legal provisions.

   (d) Opinion IV is in conformity with relevant legal provisions.

2. Regarding tax liability of the said company for the month of October 22 under provisions contained in GST laws and rules, which statement is correct :

   (a) Opinion II is correct.

   (b) Opinion III is correct.

   (c) Opinion I is correct.

   (d) Opinion IV is correct.

3. In context of machinery purchase related transactions involving clearing charges, freight etc. discussed in Para D of the case study, consider the following table of compliances under income tax law as well as under GST law:

Nature of Compliances	*Appropriate response of company in accordance with law*
(1) Deduction of TDS under income tax law and availing of eligible ITC under GST law	(i) TDS of ₹ 3,07,000/- is deducted on account of above three transactions and company is availing ITC of ₹ 51,000/- in respect of these transactions
(2) Deduction of TDS under income tax law and availing of eligible ITC under GST law	(ii) TDS of ₹ 2,30,250/- is deducted on account of above three transactions and company is availing ITC of ₹ 36,000/- in respect of these transactions
(3) Deduction of TDS under income tax law and availing of eligible ITC under GST law	(iii) TDS of ₹ 2,30,250/- is deducted on account of above three transactions and company is availing ITC of ₹ 27,51,000/- in respect of these transactions
(4) Deduction of TDS under income tax law and availing of eligible ITC under GST law	(iv) TDS of ₹ 3,07,000/- is deducted on account of above three transactions and company is availing ITC of ₹ 27,36,000/- in respect of these transactions

   Which of the following forms appropriate response by the company in accordance with law?

   (a) Combination (1) and (i)

   (b) Combination (2) and(ii)

   (c) Combination (3) and (iii)

   (d) Combination (4) and (iv)

4. The company is under statutory obligation to submit documentary evidence regarding proof of import of machinery. Which of the following statements is correct in this regard?

   (a) Bill of lading is appropriate documentary evidence regarding evidence of import of machinery and its copy is required to be submitted to jurisdictional office of GST by importer.

   (b) Bill of Entry is appropriate documentary evidence regarding evidence of import of machinery and its copy is required to be submitted to jurisdictional office of GST by importer.

   (c) Bill of lading is appropriate documentary evidence regarding evidence of import of machinery and its copy is required to be submitted to the concerned branch of bank through whom import transaction was channelised.

   (d) Bill of Entry is appropriate documentary evidence regarding evidence of import of machinery and its copy is required to be submitted to the concerned branch of bank through whom import transaction was channelised.

5. Under provisions of Companies Act, 2013, the books of accounts and records are required to be kept at registered office of the company. However, the manufacturing facilities of company are located in NOIDA in state of Uttar Pradesh. In light of above, which of the following statements is in accordance with law?

   (a) The company can keep books of accounts and records at NOIDA by filing form AOC-2 within 30 days of passing board resolution.

   (b) The company can keep books of accounts and records at NOIDA by filing form AOC-5 within 30 days of passing board resolution.

   (c) The company can keep books of accounts and records at NOIDA by filing form AOC-5 within 7 days of passing board resolution.

   (d) There is no recourse available to the company as books of accounts and records are to be kept at registered office of company. **(5 x 2 = 10 Marks)**

II. Descriptive Questions

6. The promoters of the company are law compliant and do not want to be seen on the wrong side of law. However, they are also prudent minded and want to take tax benefits available legally and seek your advice.

   Advise promoters of company of any such legally permissible benefits to lower its income tax liability for A.Y. 2023-24. Ignore the adjustment on account of depreciation under the Income-tax Act, 1961.

(8 Marks)

7. The company has exported made ups of ₹ 50 crores on payment of IGST during the year 2022-23 carrying a GST rate of 5%. Further, the company had availed ITC of ₹ 2.00 crore during year 2022-23. The details of same are as under: -

Eligible ITC on inputs	₹ 1.50 crore
Eligible ITC on capital goods	₹ 0.36 crore
Eligible ITC on services	₹ 0.14 crore

Discuss whether there was any other legally permissible way to export its goods keeping in view provisions of GST law. Also make a cross comparison of export on payment of IGST vs. other legally compliant way in terms of financial burden/benefit and procedural requirements to the taxpayer company. Make suitable assumptions. **(7 Marks)**

CASE STUDY 2

ABCD Ltd. is a textile manufacturing company based at Surat, Gujarat, which enjoys a vintage of more than 50 years of good reputation and business. The Company was set up by Mr. Amar Dev in the 60's in a small room and as years passed by, it became such a successful and big business that now after serving domestic consumers, the Company has gone global and expanding its business all across Europe and Canada through third party sales from India. Mr. Rahul Dev, grandson of Mr. Amar Dev is Managing Director of Company and has been following quite an aggressive approach in globalizing their business after graduating from college. He remains in constant touch with CA Nitin Garg, partner of Nitin Garg & Co., Chartered Accountants, and keeps on discussing with him legal compliances and procedures.

Rahul knows that the complexities in business have increased a lot particularly after advent of GST and it is imperative to diversify the ever-expanding businesses. He understands that their company is well integrated into web of international business transactions. There is inward as well as outward flow of goods and services between India and other countries. GST impacts import and export too. Provisions in the GST laws seek to (i) provide level playing field to domestic suppliers vis a vis international suppliers in case of import and (ii) make export more competitive. He has been discussing various provisions of GST law as will be applicable on import and export supplies w.r.t. their business, if they wish to enter the global market directly, apart from the normal customs levy.

To expand the business, Rahul is in talks with Robert de Nero, one of his fast friends whom he met during his graduation in London and who is currently the owner of a famous International Clothing Brand "ALPHA". Robert wants to establish a company in India and seeks Rahul's help who further consults CA Nitin on helping Robert set up a branch office in India. Robert's venture – ALPHA Units LLC is a limited company incorporated in London in the year 2011, and he desires to establish a branch office at Surat in the year 2022.

Nitin, being a practicing Chartered Accountant is appointed by Robert as a liaison officer for compliance of legal formalities on behalf of the company. Nitin helps them in the legal compliance, research, feasibility, documentation and procedural work to set up branch office in India. Rahul, in order to expand his business, discusses with Nitin on setting up a subsidiary outside India at Paris for specifically carrying out the Import-Export transactions easily and soon afterwards Rahul sets up a subsidiary at Paris under the name & style of PQRS Ltd.

ABCD Ltd. is engaged in the business of manufacturing of cloth for other textile companies and non-textile companies. Now the company will be itself carrying out the Import-Export transactions without involving any 3rd Party for the export purposes which it had been doing till now. It applies for the IEC – Importer Exporter Code online and gets the same. Its wholly owned subsidiary, PQRS Ltd., is engaged in business of readymade designer garments. The subsidiary purchases garments and other stuff from its parent company. The demand of garments of PQRS Ltd. is very high and hence to cater to its shortfall, PQRS Ltd also purchases garments from other companies. Purchases are made at the competitive prices. During the year 2022-23, ABCD Ltd sold garments to PQRS Ltd for Euro 13 lakhs on 1st January, 2023. The cost of these garments was ₹ 936 lakhs in the books of ABCD Ltd at the time of sale. At the year-end i.e. 31st March, 2023, all these Garments were lying as closing stock with PQRS Ltd. Euro is the functional currency of PQRS Ltd. while Indian Rupee is the functional currency of ABCD Ltd.

ABCD Limited seeks help of CA Nitin on following issues:

(a) During the year, Rahul is finding it difficult to comprehend the GST taxation w.r.t. export sales made by their company, ABCD Ltd., which are of a peculiar nature. One such sale is where ABCD Ltd. receives an order to supply goods to a dealer 'B' in Greece. The company, finds a supplier 'C' in Singapore and asks him to supply goods to 'B' in Greece. Two invoices are raised here; one by the company on 'B' in Greece and the other by 'Ç' in Singapore on ABCD Ltd. in India. The point to be noted here is that goods do not touch the Indian shores; they are shipped by 'Ç' from Singapore to 'B' in Greece. There are many more, such kind of export sales and Rahul seeks CA Nitin's help in getting out of this confusion.

(b) Rahul seeks CA Nitin's opinion on the GST procedures and treatment for the following two types of export transactions which he plans to proceed with in near future:-

- Rahul has purchased a license to put up a stall in the Textile Supermarket Global Fair to be held at Milan, Italy and he wishes to send his team to this fair along with their company's merchandise to be displayed over there for promotional purposes.
- He had heard from a dear friend that he could sell his company's products within India but these could still be categorized as exports. He was eager to know about such circumstances.

(c) The Chief accountant of the Company further seeks CA Nitin's time to understand about the valuation & taxability of the following transactions under GST:

- ABCD Ltd. has imported a special fabric from Paris and files an ex-bond bill of entry for clearing such warehoused goods for home consumption.
- ABCD Ltd. imported textile fabric from London and sells them to a Panacea Pvt. Ltd. in India itself before the goods are cleared for home consumption. The customs declarations i.e. bill of entry etc. is filed by the agent of Panacea Pvt. Ltd. for clearance of such goods.

The Statutory audit of the company ABCD Ltd. is also being carried out by Nitin Garg & Co. under the supervision of the Engagement Partner CA Krit Garg. CA Krit understands that as the auditor, he should develop an audit plan that shall include a description of the procedures to be performed as per SA 315 & 330.The audit plan is more detailed than the overall audit strategy that includes the nature, timing and extent of audit procedures to be performed by engagement team members. Planning for these audit procedures takes place over the course of the audit as the audit plan for the engagement develops. He asks Megha in his audit team to work on planning the nature, timing and extent of specific further audit procedures and Saurab on planning of risk assessment procedures. Further, CA Krit knows that the overall audit strategy & audit plan should take into consideration the element of materiality and its relationship with Risks & procedures to be adopted CA Krit has already developed an audit strategy and while a detailed audit plan is being developed, he decides that materiality levels set earlier need to be lowered as weaknesses in the internal controls were highlighted in the internal audit reports. Subsequently, a deviation from the audit strategy is felt necessary and he is stuck in a dilemma as what to do first – modify the audit strategy and then revise the audit plan or vice-versa and seeks his Partner CA Nitin's suggestion.

I. Multiple Choice Questions

1. Which of following is responsible for issuing/granting IEC (Importer Exporter code)?
   (a) Customs under Department of Revenue, Ministry of Finance
   (b) Directorate General of Foreign trade (DGFT), Ministry of Commerce and Industry

(c) Department for Promotion of Industry and Internal Trade (DPIIT)

(d) Ministry of Corporate Affairs (MCA)

2. What should CA Nitin advise CA Krit to do when the latter is stuck in the revision dilemma of materiality levels set earlier?

   (a) Firstly, modify the overall strategy and thereafter, prepare the audit plan in line with the strategy.

   (b) Firstly, prepare the audit plan and then modify the overall audit strategy in line with the Plan.

   (c) Modify the Audit Plan and Strategy simultaneously.

   (d) Go with change in anyone, as these are not inter-related.

3. STATEMENT 1: GST is leviable on the fabric imported from Paris while filing for its clearance.

   STATEMENT 2: GST is not leviable on the sales made to Panacea Pvt. Ltd.

   (a) Statement 1 is Correct but statement 2 is Incorrect.

   (b) Both the statements are Correct and independent of each other.

   (c) Statement 2 is Correct & Statement 1 supports Statement 2.

   (d) Statement 1 is Correct but Statement 2 is Incorrect.

4. In the above case, Robert de Nero's branch office in India proposes to offer subscription to securities of Alpha Units LLC. Before going with the subscription, it would be necessary to: -

   STATEMENT 1: file a prospectus dated and signed.

   STATEMENT 2: the prospectus shall the date on which and the country in which the company was incorporated

   (a) Both the statements are Correct.

   (b) Both the Statements are Incorrect.

   (c) Statement 1 is Correct while Statement 2 is Incorrect.

   (d) Statement 1 is Incorrect while Statement 2 is Correct.

5. STATEMENT 1 : In case of trade involving 'B' in Greece and 'C' in Singapore, invoicing should not have been done by ABCD Ltd. in India.

   STATEMENT 2 : Value of such shipments has to be included by ABCD Ltd. in the value of exempt supply for the purpose of reversal of ITC under rules 42 and 43 of CGST Rules.

   (a) Statement 1 is Correct & Statement 2 supports Statement 1.

   (b) Both the Statements are Incorrect.

   (c) Statement 2 is Correct & Statement 1 supports Statement 2.

   (d) Statement 1 is Incorrect but Statement 2 is Correct. **(5 x 2 = 10 Marks)**

II. Descriptive Questions

6. Provide the accounting treatment w.r.t. transaction between ABCD Ltd. and PQRS Ltd. in their respective books of accounts. Also show its impact on consolidated financial statements. Support your answer by Journal entries, wherever necessary, in the books of ABCD Ltd.

   Following additional information is available:

Exchange rate on 1st January, 2023	1 Euro = ₹ 83
Exchange rate on 31st March, 2023	1 Euro = ₹ 85

(5 Marks)

7. (i) Alpha Units LLC has set up a branch office in Surat. Discuss its implications under Companies Act, 2013.

   (ii) Which documents have to be furnished on establishment of branch office of a company incorporated outside India under Companies Act, 2013? **(5 Marks)**

8. Discuss implications of proposed transaction relating to sending of company's merchandise for display in textile fair in Italy.Also discuss under what circumstances goods sold within India can still be categorized as exports under GST law and also touch upon taxability of such transactions under such law. **(5 Marks)**

CASE STUDY 3

Luminous Ltd. is a company engaged in the manufacture of solar panels. The vision of the company is to provide the most compelling value in solar energy industry. By value, the company means designing and installing highest quality solar panels on a timely basis with proper safety standards and lowest cost. The company aims at providing the country with clean, abundant, low cost, distributed and renewable energy. It is one of the largest vertically integrated solar company that offers services across the spectrum of photovoltaics manufacturing. The company offers and produces high efficiency solar panels with higher performance and enhanced reliability. The company has the following vision:

"To be world class leader in businesses that contribute to nations in building infrastructure through sustainable value creation".

Luminous Ltd. has always been a standard for all the manufacturing companies for product quality. The company has multiple quality checks during its solar module production. This helps to ensure flawless production of solar panels and hence attain utmost customer satisfaction.

The company believes that in resource-scarce developing countries, identifying and targeting R&D policies in critical areas, such as energy, is particularly important to maximize benefits derived from limited funds and skilled manpower. Energy R&D policy analysis and formulation in a developing country should not be carried out in isolation — it must be consistent with overall technology policy, as well as national energy policy. The management of the company is of the view that ultimately, energy R&D policies and priorities must support the goals of national socioeconomic development. Therefore, these priorities must be determined on the basis of an analytical framework that recognizes and addresses national development objectives. The company's Research & Development department is working very hard to come out with solar panels with the lowest possible cost, so as to compete with the foreign manufacturers of solar panels. During the FY 2022-23, the Government gave the following grants to Luminous Ltd. for its business of solar panel:

1. ₹ 30 lakhs for past research of technology related to solar system. There is no condition attached to the grant.
2. ₹ 5 lakhs towards purchase of machinery of ₹ 15 lakhs. Useful life of the machinery is 5 years and depreciation on the machinery is to be charged on straight line basis.
3. 3 acres of land to set up a plant. The fair value of the land is ₹ 20 lakhs.
4. Government grant of ₹ 20 lakhs to defray expenses for environmental protection. Expected environmental costs to be incurred is ₹ 6 lakhs per annum for the next 5 years.

BR. Sridharan & Associates are statutory auditors of company for the FY 2022-23. The said chartered accountant firm has a robust team of skilled and proficient Chartered Accountants, who can handle all financial services areas relating to accounting, auditing and assurance, income tax, GST, company law matters, foreign exchange matters, etc.

During the financial year under consideration, the Board of Directors of the company passed a board resolution to sell one of the company's undertakings out of the multiple undertakings of the company. One of the directors of the company, Mr. Ramesh, is of the view that the board can exercise this power with the consent of shareholders by way of an ordinary resolution and passing only Board resolution would not be sufficient. The other directors on the Board, however, did not agree with him. The investment of the company in the said undertaking which has been proposed to sell is 22% of its net worth as per the last audited balance sheet of F.Y. 2021-22.

Further, Mr. Ramesh stays in Delhi with his wife. With respect to one of his immovable house properties in USA, he took the professional services of a consulting engineer, Mr. George, based in Chennai. Mr. George has high engineering qualifications, specialised background and wide experience and can plan, design and supervise and help in undertaking maintenance of any type of structure according to the needs of the client.

On 31.05.2022, Mr. Ramesh took his family to an amusement park located in Gurugram (Haryana). This particular amusement park has various attractions such as rides and games as well as other events for entertainment purposes. For such visit, son of Mr. Ramesh who stays in Jaipur for his studies came to Delhi. Mr. Ramesh bought three tickets for the amusement park.

Luminous Limited is primarily based in Delhi. During the FY 2022-23, the company receives legal services from an attorney in Dubai (unrelated person) in relation to registration of company's trademark in Dubai. The company paid AED 10,000 for the same to the attorney in Dubai.

The company has 10 directors on its board. Three of the directors have retired by rotation at the Annual General Meeting conducted recently. The place of retiring directors is not so filled up and the meeting has also not expressly resolved 'not to fill the vacancy'. Since the AGM could not complete the said business, it was adjourned to the same day in the next week, at the same time and place. At this adjourned meeting also, the place of retiring directors could not be filled up, and the meeting has also not expressly resolved 'not to fill the vacancy'.

Further, Mr. Baldev is one of the directors of the company. During the financial year under consideration, the company paid him the sitting fee amounting to ₹ 35,000, for the month of December.

During the year, the company declared an interim dividend for the F.Y. 2022-23, out of the profits of the same year. However, the company did not transfer any profits to the reserves for the said financial year.

The company has its retail showrooms in Patiala and Delhi and factory at Ludhiana. During the F.Y. 2022-23, the company has manufactured 1,50,000 units of solar panels at its factory at Ludhiana, Punjab. The management decided to transfer half of the units manufactured to one of its retail showrooms in Patiala and the second half to its retail showroom in Delhi for sale therefrom. The factory and the aforesaid retail showrooms are registered under GST, in the states where they are located. Further, the company has obtained separate registrations under GST, for Ludhiana factory and the Patiala showroom. The management of the company understands that such transfer shall not be considered as supply under GST as such transfers are without any consideration.

I. Multiple Choice Questions

1. Is understanding of Mr. Ramesh for obtaining prior consent for selling one of the undertakings of the company, correct, considering the fact that Luminous Limited is not a private company?

   (a) No, as only board's resolution is required in this case, which has been duly passed.

   (b) No, as the Board can exercise this power with the consent of the shareholders by a special resolution and not on its own simply by passing of an ordinary resolution.

(c) Yes, his understanding is correct.

(d) Partly correct, as the Board shall exercise the powers with the consent of the company by an ordinary resolution and not only by passing a Board resolution at a Board meeting. Further, prior approval of the Registrar of Companies is also required.

2. What is the place of supply with respect to the professional service rendered by Mr. George to Mr. Ramesh?

   (a) Chennai

   (b) Delhi

   (c) USA

   (d) Place of supply is not relevant, as such services are not liable to GST as the property is situated outside India.

3. What is the place of supply with respect to the tickets bought by Mr. Ramesh for the amusement park?

   (a) Delhi

   (b) Gurugram

   (c) With respect to tickets purchased for Mr. Ramesh and his wife, the place of supply is Delhi and for the ticket purchased for his son, the place of supply is Jaipur.

   (d) Either Delhi or Gurugram

4. Which of the following is the correct statement with respect to the GST liability in case of the fees paid to Mr. Baldev?

   (a) GST shall be payable by Luminous Ltd. under reverse charge mechanism.

   (b) GST shall be payable by Mr. Baldev.

   (c) Sitting fees paid to the director of a company is not liable to GST.

   (d) Sitting fees paid to the director of a company is treated as salary paid to the director and is subjected to deduction of TDS under section 192 of the Income Tax Act, 1961 and not liable to GST.

5. Whether the action of management of Luminous Ltd. correct w.r.t. declaration of interim dividend?

   (a) The management of Luminous Ltd. is not correct in not transferring any percentage of profits to reserves, as such transfer to reserves is mandatory.

   (b) The management of Luminous Ltd. is correct in not transferring any percent of profits to reserves, as such transfer to reserves is optional.

   (c) The management of Luminous Ltd. is correct in not transferring any percent of profits to reserves, as such transfer to reserves is required in case of declaration of final dividend and not interim dividend.

   (d) The management of Luminous Ltd. is correct in not transferring any percent of profits to reserves, as the company has declared the dividend out of current year profits. **(5 x 2 = 10 Marks)**

II. Descriptive Questions

6. (i) Whether the retiring directors shall be deemed to have been re-appointed at the adjourned meeting?

   (ii) What will be your answer in case at the adjourned meeting, the resolutions for re-appointment of these directors were lost?

   (iii) Whether such directors can continue in case the directors do not call the Annual General Meeting?

(5 Marks)

7. Whether the management's understanding related to the transfer of solar panel to the company's retail showrooms, correct, in view of the GST law?

   Also determine the place of supply in case of services procured from attorney by Luminous Limited and suggest if the company is required to pay tax under reverse charge on such transaction. **(5 Marks)**

8. How should Luminous Ltd. recognise the government grants in its books of accounts for the F.Y. 2022-23 ?

(5 Marks)

CASE STUDY 4

Mr. Murli Lal & Mrs. Bansuri Devi have been residing in Manpur village since their marriage. They have been actively involved in agriculture & dairy farming business in their village and sell their output in nearby villages as well. They have earned much accolades for business they run and have accrued much wealth. There have been many instances where the couple felt that they could move to a metro town to explore more but without any knowledge of business world and regulatory compliances, they felt handicapped. Their children are settled abroad. One fine day, when they are visited by CA Puru, a fast friend of their son who usually comes down to their village quite often to know about the well- being of his friend's parents from time to time. Mrs. Bansuri Devi discusses with him about agricultural operations she manages with the help of her team in the village and scale of operations they maintain. Puru tells them about how agricultural activities are maintained and operated in the metro towns like Mumbai where he lives and practices his profession. During discussion, he tells her that one of his clients, Khetibaadi Ltd., a listed company is involved in agricultural and allied operations by procuring material from nearby areas. This company is also involved in various other types of animal husbandry operations and works on the same scale as Mrs. Bansuri Devi & Mr. Murli Lal work in the village. On getting curious, Mrs. Bansuri Devi asks him about the form and style in which Khetibaadi Ltd. works in the city. Puru tells her that unlike villages, in corporate world, large businesses have to follow certain accounting standards while maintaining books and balances of their businesses. Standards related to agriculture set out accounting for agricultural activity, the management of the transformation of biological assets (living plants and animals) into agricultural produce (harvested product of the entity's biological assets). The standards generally require biological assets to be measured at fair value less costs to sell. He tells her about following activities carried out by Khetibaadi Ltd.:

- Managing animal-related recreational activities like Zoo
- Fishing in the ocean
- Fish farming
- Development of living organisms such as cells, bacteria and viruses for research.
- Growing of plants to be used in the production of drugs.

Hearing about this, Mrs. Bansuri Devi persuades Mr. Murli Lal to set up a company in town under Puru's guidance to expand their business outside village as well. CA Puru assures Mr. Murli Lal on all his queries and tells him that he and his team will help them at every step in setting up their company. Soon, the couple, with the help of CA Puru, set up and start operating their company in Mumbai under the name & style of Bansuri Pvt. Ltd. which ventured into business of agricultural operations with Mr. Murli Lal, Mrs. Bansuri Devi and Mr. Prabhudeva as the directors of company. Mr. Prabhudeva is appointed as the managing director, as the former directors are quite busy in the business already set up at Manpur. The company got registered under GST solely in the State of the Maharashtra. During the year, the company falls short of funds and they decide to borrow funds from the market. The Board of Directors of the company resolve to borrow a sum of ₹ 20 crores from a nationalized bank at a Board meeting held on 15.1.2023. Mr. Prabhudeva, who opposes the said borrowing as not in the interest of the company has raised an issue that the said borrowing is outside the borrowing powers of the Board putting forward the following data:

(i) Share Capital ₹ 5 crores

(ii) Reserves and Surplus ₹ 5 crores

(iii) Secured Loans ₹ 10 crores

(iv) Unsecured Loans ₹ 5 crores.

After the meeting, since Mr. Murli Lal was in Mumbai, he wanted to discuss all the tax matters with CA Puru and sits with him in his office for the same :

1. With business expansion, Mr. Murli Lal has also purchased a controlling stake in Khetibaadi Ltd. and is now a director in the said company. He wants Puru to tell him briefly about the performance of this company in tea Market as well. Puru tells him that for the previous year ended 31.03. 2022, Khetibaadi Ltd.'s composite business profits before allowing deduction relating to growing and manufacturing of tea is ₹ 50,00,000. On 01.09.2022, it deposited a sum of ₹ 10,00,000 in e Tea Development Account. During the previous year 2020-21, this company had incurred a business loss of ₹ 15,00,000 which has been carried forward. On 25.01.2023, it withdrew ₹ 10 lakhs, from deposit account which is utilized as :-

   (1) ₹ 6,00,000 for purchase on non-depreciable asset as per the scheme specified;

   (2) ₹ 3,00,000 for purchase of machinery to be installed in the office premises;

   (3) ₹ 1,00,000 was spent for the purpose of scheme on 05.04.2023.

   Mr. Murli Lal wants to know about the income of the company for the year & the tax liabilities, if any, thereon, and about which CA Puru gives him an approximate idea of at that time itself.

2. Mr. Prabhudeva had informed CA Puru about two peculiar transactions related to GST which he wanted to discuss in the presence of Mr. Murli Lal, related to Bansuri Pvt. Ltd. In one of the cases, they send raw tea leaves to their registered job worker under GST, Mr. Sharma in Mangalore, Karnataka and further, the processed flavored tea, which is further delivered to the wholesalers in Telangana from the job worker's place in Mangalore itself with invoice and the e-way bill being issued by the company's department from the Mumbai office. Further, he asks him about the treatment of another transaction. They had sent a special lot of Tea "Rosa" to another job worker, Mr. Shakti Puri, in Ratlam for making flavoured tea as per the directions given. Further, due to a decline in the market of flavoured tea, they sent fresh normal unprocessed raw tea with new instructions to the job worker to hold the earlier consignment in stock till a buyer is found. The new stock is easily sold, but the old stock remained in godown of the job worker for over a year. CA Puru guides them properly about the tax treatment of these two transactions under GST.

3. Mr. Murli Lal is happy that their business has gone online as well and now they are selling their products through various e-commerce platforms. Mr. Prabhudeva shows his concern over the online selling part and wants CA Puru to keep a check on the working of the same during his audit. CA Puru assures him

that his audit strategy would majorly be based on the fact that a good part of the company's business has gone online.

In evening, Mr. Murli Lal takes Puru with him to meet his old friend Mr. Babu Lal who resides in Mumbai with his family. Mr. Babulal had requested him for a meeting with Puru so that he could discuss with the latter certain tax related issues of his family and hire his services for tax related work. Mr. Babulal tells Puru that his son Gautam is liable to pay ₹ 10,000 per month to Barkha (his ex-wife) as alimony. Gautam, being an employee of PQR Pvt. Ltd., has instructed his company's HR department to pay ₹ 10,000 per month out of his salary to his wife directly and remit the remaining salary in his account. Mr. Babulal wants to know the tax treatment of such alimony given by Gautam in his hands. Further, he tells CA Puru that he works under a partnership firm in which he and his other two sons, Mr. B & Mr. C are partners. The partnership deed provides that after his death, Mr. B & Mr. C shall continue the business of the firm subject to a condition that 20% of profit of the firm shall be given to Mrs. Daya (wife of Mr. Babu Lal). Mr. Babu Lal wants to know the tax treatment of such receipt in his wife's hands after his death. Puru satisfies Mr. Babu Lal by solving all his queries and quotes his fees to handle all the tax related matters of the family.

I. Multiple Choice Questions

1. An assessee carrying on business of growing and manufacturing tea is allowed a deduction under income tax law upon fulfilment of certain conditions like depositing amount in a deposit account opened in accordance with scheme framed by Tea Board. Deposits made in accordance with schemes framed by other Boards for agricultural commodities also qualify for similar deduction. Which of following schemes qualify in this regard?

   (a) Schemes framed by Coffee Board and Spices Board

   (b) Schemes framed by Rubber Board and Spices Board

   (c) Schemes framed by Coffee Board and Rubber Board

   (d) Schemes framed by Coffee Board, Rubber Board and Spices Board

2. Select the correct option on the basis of the following two statements :-

   STATEMENT 1:- Payment of 20% profit to Mrs. Daya is applicaton of income.

   STATEMENT 2:- Payment of alimony by Gautam to his ex-wife is diversion of Income.

   (a) Statement 1 is Correct but Statement 2 is Incorrect.

   (b) Statement 1 is Incorrect but Statement 2 is Correct.

   (c) Both the Statements are Correct.

   (d) Both the Statements are Incorrect.

3. What would be the GST Treatment of the stock lying with Mr. Shakti Puri?

   (a) Tax payable by Mr. Shakti Puri.

   (b) Tax payable by Bansuri Pvt. Ltd.

   (c) No GST liability.

   (d) Tax payable by Bansuri Pvt. Ltd. on its removal from the premises of Mr. Shakti Puri.

4. Bansuri Pvt. Ltd. is also engaged in sending raw tea leaves to job workers and selling processed tea after the job work is performed. Which of the following forms/returns is to be filed by Bansuri Pvt Ltd on

GST portal in this respect :

(a) ITC-04

(b) ITC-03

(c) ITC-02

(d) ITC-01

5. W.r.t the decision taken at the 4th Board meeting, the contention of director Prabhudeva is -

(a) Valid, as per the provisions of the Companies Act, 2013.

(b) Invalid, as Bansuri Pvt Ltd is a Private Company.

(c) Valid, subject to passing an Ordinary Resolution in the General Meeting.

(d) Valid, subject to passing a Special Resolution in the General Meeting. **(5 x 2 = 10 Marks)**

II. Descriptive Questions

6. Analyse whether the activities as narrated by CA Puru to Mrs. Bansuri Devi w.r.t Khetibaadi Ltd. fall within the scope of Ind AS 41 with proper reasoning. **(5 Marks)**

7. You are required to state income tax implications of withdrawals from deposit account during financial year 2022-23 relevant for assessment year 2023-24. **(5 Marks)**

8. What specific factors for online shopping would be considered by CA Puru in formulating the audit strategy of the company in the above case keeping in mind the concern raised by Mr. Prabhudeva?

(5 Marks)

CASE STUDY 5

LWS & Co., a chartered accountant firm has been into practice since 2006 in Delhi. CA Suresh Shah and CA Harvinder Kaur started their firm after practicing individually for almost 4 years and now firm has grown into big firm of 5 partners. The partners of firm have contributed various articles on subjects of Direct tax and allied Laws in professional journals and magazines. The clientele encompasses various segments i.e. software, education, NGOs, Government Bodies, real Estate, construction, jewellery and a host of others. Over the years, the firm has evolved into renowned professional firm that has worked on various assignments ranging from statutory audits, management audits, income tax planning, FEMA consultancy, GST consultancy, establishment of overseas ventures and other related matters.

The firm has unique way of training its articles by involving them with its experienced partners on crucial projects so that they are able to learn and understand the practical issues arising in different industries. Currently, Subhash, Ashish and Manoj being articles of the firm are working with CA Harsh Bhatia, CA Nikhil Grover and CA Sakshi Ahuja, respectively for prestigious clients of the firm.

(1) Subhash assisting CA Harsh Bhatia

Currently, CA Harsh Bhatia is working on the applicability of Ind AS for various clients. The firm has a prestigious client, Shivalik Construction Private Limited, a construction company. On 1st January 2023, the company contracts to renovate a building including installation of new elevators. The company estimates following with respect to the contract:

Particulars	Amount (₹)
Transaction price	60,00,000

Expected costs:		
(a) Elevators	10,00,000	
(b) Other costs	35,00,000	45,00,000

The company purchased elevators and they are delivered to the site six months before they will be installed. The Company uses an input method based on cost to measure progress towards completion. The Company has incurred actual other costs of ₹ 7,00,000 by 31st March, 2023. The accounts team of the Company is facing difficulty in recognising revenue in respect of above contract. So, they have approached CA Harsh Bhatia with the abovementioned facts. CA Harsh Bhatia delegated the said work to Subhash to start initial working and then revert to him with his opinion.

(2) Ashish assisting CA Nikhil Grover

CA Nikhil Grover handles tax department of the firm. The final calculation of income tax and tax planning is being headed by CA Nikhil Grover. He is nowadays being assisted by Ashish. One of the oldest clients of the firm is MVS Private Ltd. The accountant of the company approached CA Nikhil Grover for calculation of final tax liability of the company. CA Nikhil assigned the work to Ashish. The accountant showed financials of the company to Ashish as below:

The Profit & Loss Account of MVS private Limited for the year ended 31st March, 2023 shows a profit of ₹ 75 lakhs after debiting the following items:

(i) ₹ 2 Lakhs contributed to Employee's Welfare Trust (not required as per any law for the time being in force).

(ii) ₹ 7,80,000 paid towards course fee and hostel expenses for MBA course of a close relative of a director. The relative is not in employment with the company.

(iii) ₹ 3.50 lakhs being expenses incurred on installation of a traffic signal, so as to facilitate its employees coming to office to overcome traffic jam and save office time.

(iv) ₹ 3 lakhs spent on gift items distributed to various dealers under the company's sales incentive scheme.

(v) ₹ 6 lakhs being expenses incurred on the travelling of the wife of MD, who accompanied him on tour to Singapore on invitation of Trade and Commerce chamber, Singapore.

(vi) ₹ 3 lakhs being amount paid in March 2023 consequent upon change in currency rate due to exchange fluctuation in excess of the amount due to the supplier of machinery. Such second hand machinery acquired and put to use on 10th September, 2022.

(vii) ₹ 18,000 and ₹ 9,000 paid in cash on 25th August, 2022 by two separate vouchers to a contractor who carried out certain repair work in the office premises.

(viii) Interest of ₹ 2 lakhs was paid in September, 2022 to a company on a loan taken form it. Tax deducted at source, during P.Y. 2022-23, from such interest was deposited in April 2023.

Additional Information:

(a) Audit fee of ₹ 6 lakhs was credited during previous year 2021-22 without deducting tax at source. Such fee was paid to the auditors in September, 2022 after deducting tax under section 194J and the tax so deducted was deposited on 7th December, 2022. 30% of audit fee was disallowed while computing income for financial year 2021-22.

(b) During financial year under consideration, the company purchased 10,000 shares of AB Private Limited out of its total 2 lakh shares at ₹ 40 per share. The fair market value of such shares on the date of transaction was ₹ 60 per share.

(3) Manoj assisting CA Sakshi Ahuja

Mr. Amit, the director of SSI Pvt. Ltd. visited CA Sakshi Ahuja who is handling all customs related works of clients for past 7 years. The company imported machinery from USA by air for which the details are given under. FC signifies foreign currency in appended table.

Purchase cost of Machinery	FC 7,000
Accessories worth US $ 2,000 compulsorily supplied with machine, price of which is included in price of machine	
Air Freight	FC 2,000
Insurance	FC 100
Local Agent Commission (not buying commission)	₹ 4,500
Exchange Rate with respect to INR	1 FC = 70
Custom Duty on Machine	10% ad valorem
Custom duty on Accessory	20% ad valorem
Integrated Tax	12%
GST Compensation cess	Nil
SWS (Social Welfare Surcharge)	10%

I. Multiple Choice Questions

1. With reference to the Information given in point (3), compute the FOB value of machinery purchased by SSI Pvt. Ltd. as per Customs Act, 1962.

   (a) ₹ 4,90,000

   (b) ₹ 4,94,500

   (c) ₹ 6,30,000

   (d) ₹ 6,37,000

2. With reference to the Information given in point (3), compute assessable value of machinery purchased by SSI Pvt. Ltd. as per Customs Act, 1962.

   (a) ₹ 6,00,400

   (b) ₹ 6,37,000

   (c) ₹ 6,41,500

   (d) ₹ 7,81,500

3. With reference to the Information given in point (3), compute the total customs duty and integrated tax payable as per Customs Act, 1962 by SSI Pvt. Ltd. in respect of imported machine.

   (a) ₹ 1,54,918

   (b) ₹ 1,46,017

   (c) ₹ 1,56,013

   (d) ₹ 1,90,060

4. With reference to the Information given in point (2), compute the Income of MVS Private Limited taxable under the head "Income from other sources".

   (a) ₹ 4,00,000

(b) ₹ 1,50,000

(c) ₹ 2,00,000

(d) Nil

5. Existence of which of the conditions would make it appropriate for Shivalik Construction Private Limited to recognise revenue only to the extent of costs incurred?

(i) The goods do not represent a distinct performance obligation

(ii) The goods represent a distinct performance obligation

(iii) Customer is expected to obtain control of the goods significantly before receiving the services

(iv) Cost of such goods is significant relative to the total expected costs to complete the performance obligation and

(v) The entity procures the goods from a third party and does not significantly involve in designing / manufacturing the goods (even if the entity is a principal in the arrangement between the entity and end customer).

In the above context, which of the following is correct combination:

(a) (i), (ii), (iii), (iv), (v)

(b) (i), (iii), (iv), (v)

(c) (ii), (iii), (iv), (v)

(d) (i), (ii), (iii), (iv) **(5 x 2 = 10 Marks)**

II. Descriptive Questions

6. Compute total income of MVS Private Limited for Assessment Year 2023-24 and tax liability under Income Tax Act on such income indicating reasons for treatment of each item. Ignore provisions relating to minimum alternate tax. Assume that company does not opt for provisions of section 115BAA (Turnover of company for previous year 2020-21 was ₹ 250 crore) **(9 Marks)**

7. How will Shivalik Construction Private Limited recognize revenue as per the relevant Ind AS, if performance obligation is met over a period of time? **(6 Marks)**