Test Series: May, 2020

MOCK TEST PAPER 1

FINAL (NEW) COURSE: GROUP – II

PAPER – 6F: MULTIDISCIPLINARY CASE STUDY

SUGGESTED ANSWERS / HINTS

CASE STUDY 1:

Part A

1. (a) Familiarity Threats

Reason: Accepting gifts or preferential treatment from a client, unless the value is clearly insignificant, is an example of Familiarity Threat.

2. (a) His name only with designation "Chartered Accountant"

Reason: With regard to the use of name-board, the Council of the Institute has decided a member of the Institute may put up a name board in the place of his/her residence with the designation of CA, provided it is a name-Plate or Board of an Individual member and not of the firm.

3. (a) Guilty of Professional Misconduct under CA Act, 1949.

Reason: As per the Council General Guidelines 2008, under Chapter 5 on maintenance of books of accounts, it is specified that if a chartered accountant in practice or the firm of Chartered Accountants of which he is a partner fails to maintain and keep in respect of his/its professional practice, proper books of account including the Cash Book and Ledger, he is deemed to be guilty of professional misconduct. Accordingly, it does not matter whether section 44AA of the Income Tax Act, 1961 applies or not.

4. (b) Revenue Expenditure as accounted for by the Client.

Reason: On this issue, the Delhi High Court noted the following observations of the Punjab and Haryana High Court in CIT v. Liberty Group Marketing Division [2009] 315 ITR 125, while holding that such expenditure was revenue in nature -

(i) The expenditure incurred by the assessee on glow sign boards does not bring into existence an asset or advantage for the enduring benefit of the business, which is attributable to the capital.

(ii) The glow sign board is not an asset of permanent nature. It has a short life.

(iii) The materials used in the glow sign boards decay with the effect of weather. Therefore, it requires frequent replacement. Consequently, the assessee has to incur expenditure on glow sign boards regularly in almost each year.

(iv) The assessee incurred expenditure on the glow sign boards with the object of facilitating the business operation and not with the object of acquiring asset of enduring nature.

5. (b) Disallowed u/s 43B.

Reason: Interest payable to Goods and Services Tax department is part of Goods and Services Tax. Therefore, interest payable to Goods and Services Tax department, which is not paid before the “due date” of filing of return of income, would attract disallowance under section 43B [Mewar Motors v. CIT (2003) 260 ITR 218 (Raj)]

Part B

6.

Particulars			(Rs.)
Net profit as per profit and loss account			33,90,000
Add:	Difference in the value of stocks detected on survey under section 133A on 31.03.2020 chargeable as income **(See Note 1)**		3,75,000
			37,65,000
Less:	Income-tax refund credited in the profit and loss account, out of which interest is to be considered separately under the head "Income from other sources"		20,000
			37,45,000
Add:	**Expenses either not allowable or to be considered separately but charged in the profit & loss account**		
	Repair expenses on rented premises where assessee is under no obligation to incur such expenses are not allowable as per section 30(a)(i). However, if such expenses are required for carrying on the business efficiently, the same are allowable under section 37. In this case, assuming that such expenses are required for carrying on business efficiently, the same are allowable under section 37.		-
	Advertisement in the souvenir of political party not allowable as per section 37(2B) **(See Note 3)**		2,500
	Payment made to the wife of a director examined as per section 40A(2) and the excess payment made to be disallowed **(See Note 5)**		75,000
	Payment made to electoral trust by cheque **(See Note 6)**		1,00,000
	Penalty levied by the Goods and Services tax department for delayed filing of returns not allowable as being paid for infraction of law **(See Note 7)**		5,300
	Depreciation as per books		71,500
	30% of interest paid on loan without deduction of tax at source not allowable as per section 40(a)(ia)		24,000
			40,23,300
Less:	Depreciation allowable as per Income-tax Act, 1961		65,000
			39,58,300
Less:	Income from specified business (warehousing charges) credited to profit and loss account, to be considered separately **(See Note 8)**		15,00,000
Income from business (other than specified business)			**24,58,300**
Computation of income/ loss from specified business (See Note 8)			
Income from specified business		Rs. 15,00,000	
Less: Deduction under section 35AD @ 100% of Rs. 25 lakhs		Rs. 25,00,000	
Loss from specified business to be carried forward as per section 73A		Rs.**(10,00,000)**	
Income from Other Sources			
Interest on income-tax refund			4,570
Gross Total Income			**24,62,870**
Less:	**Deduction under section 80GGB**		
	Contribution to political party **(See Note 3)**	Rs. 2,500	
	Contribution to an Electoral trust **(See Note 3)**	Rs. 1,00,000	1,02,500
Total Income			**23,60,370**

Notes:

(1) The business premises were surveyed and differences in the figures of opening and closing stocks and sales were found which have not been disputed and accepted by the assessee. Therefore, the trading account for the year is to be re-cast to arrive at the correct amount of the gross profit/ net profit for the purpose of return of income to be filed for the previous year ended on 31.3.2020.

Revised Trading Account

Particular	(Rs.)	Particular	(Rs.)
Opening Stock	8,75,000	Sales (Rs. 1,55,50,000 +Rs. 75,000)	**1,56,25,000**
Purchases	1,25,75,000	Closing Stock	**12,50,000**
Freight and Cartage	1,26,000		
Gross Profit	32,99,000		
	1,68,75,000		1,68,75,000

The difference of gross profit of Rs. 32,99,000 - Rs. 29,24,000 = Rs. 3,75,000 is to be added as income of the business for the year.

(2) Bonus for the previous year 2018-19 paid after the due date for filing return for that year would have been disallowed under section 43B for the P.Y.2018-19. However, when the same has been paid in December 2019, it should be allowed as deduction in the P.Y.2019-20 (A.Y.2020-21). Since it is already included in the figure of bonus to staff debited to profit and loss account of this year, no further adjustment is required.

(3) The amount of Rs. 2,500 paid for advertisement in the souvenir issued by a political party attracts disallowance under section 37(2B). However, such expenditure falls within the meaning assigned to “contribute” under section 293A of the Companies Act, 1956, and is hence, eligible for deduction under section 80GGB. Any contribution to the political party or electoral trust made by way of cash is not allowed as deduction under section 80GGB. Since in the present case, the payment to the political party is made by way of an account payee cheque, it is allowed as deduction under section 80GGB.

(4) The penalty of Rs.15,000 paid for non-fulfilment of delivery conditions of a contract for reasons beyond control is not for the breach of law but was paid for breach of contractual obligations and therefore, is an allowable expense.

(5) It has been assumed that Rs. 25,000 is the reasonable payment for the wife of Director, working as a junior lawyer, since junior advocates of High Courts normally charge only Rs. 25,000 for the same opinion and therefore, the balance Rs. 75,000 has been disallowed.

(6) Payment to an electoral trust qualifies for deduction under section 80GGB since the payment is made by way of a cheque. However, since the amount has been debited to profit and loss account, the same has to be added back for computing business income.

(7) The interest of Rs. 12,750 paid on the delayed deposit of goods and services tax is for breach of contract and hence, is allowable as deduction. However, penalty of Rs. 5,300 for delay in filing of returns is not allowable since it is for breach of law.

(8) Deduction @ 100% of the capital expenditure is available under section 35AD in respect of specified business of setting up and operating a warehouse facility for storage of agricultural produce which commences operation on or after 1.04.2012. It is presumed that Rs. 25 lacs does not include expenditure on acquisition of any land. The loss from specified business under section 35AD (warehousing) should be segregated from the income from other businesses, since, as per section 73A(1), any loss computed in respect of any specified business referred to in section 35AD shall not be set off except against profits and gains, if any, of any other specified business. In view of the provisions of section 73A(1), the loss of Rs. 10 lacs from the specified business cannot be set-off against income from other businesses. Such loss has to be carried forward to be set-off against profit from specified business in the next assessment year. The return should be filed on or before the due date under section 139(1) for carry forward of such losses.

7. **(a)** CA Vivek gets an office room free of cost, which is an additional non- monetary consideration for his services. The market value of the rent of the room must be added to the retainer fee (Rs. 15 lakh) in order to arrive at the value of the taxable service provided by him as per rule 27 of the CGST Rules relating to valuation.

(b)

<table>
<tr><th>S. No.</th><th>Date of supply of services</th><th>Date of issue of invoice</th><th>Date of receipt of payment</th><th>Time of supply</th><th>Applicable rate</th></tr>
<tr><td>(i)</td><td rowspan="5">May 28</td><td>June 9</td><td>July 25</td><td>June 9</td><td>20%</td></tr>
<tr><td>(ii)</td><td>May 28</td><td>July 25</td><td>May 28</td><td>18%</td></tr>
<tr><td>(iii)</td><td>June 9</td><td>May 26</td><td>May 26</td><td>18%</td></tr>
<tr><td>(iv)</td><td>May 28</td><td>June 25</td><td>June 25</td><td>20%</td></tr>
<tr><td>(v)</td><td>May 28</td><td>May 16</td><td>May 16</td><td>18%</td></tr>
<tr><td>(vi)</td><td>June 10</td><td>June 9</td><td>May 28</td><td>June 9</td><td>20%</td></tr>
</table>

CASE STUDY 2:

Part A

1. **(c)** It is a Deemed Supply under the GST Law.

Reason: Transactions between different locations (with separate GST registrations) of same legal entity (eg., stock transfers or branch transfers) will qualify as 'supply' under GST as these are transactions between distinct persons. Although no consideration is charged, supply of goods from factory to retail store constitutes supply.

2. **(c)** Yes, because although they belong to the same entity but they are distinct persons under GST law.

Reason: Since supply of alcoholic liquor for human consumption in Uttarakhand is a non-taxable supply, the E-Company is not required to obtain registration with respect to the same in Uttarakhand. In this case, air-conditioned restaurant in Mumbai and liquor shop in Uttarakhand [though unregistered] shall be treated as establishments of distinct persons. Supply by Mumbai office to Uttarakhand office, in course or furtherance of business even without consideration will qualify as supply.

3. **(a)** To be reported as Relative Payments under the relevant Clause u/s 40(A)(2)(b) of the Income Tax Act, 1961.

Reason: A tax auditor has to report under Clause 23 of Form 3CD which deals with the particulars of payments made to persons specified under Section 40A(2)(b) of the Income Tax Act, 1961. Where the assessee is an individual, the specified persons include any relative of the assessee (i.e. Husband, Wife, Brother, Sister or any other Lineal Ascendant or Descendant). In the present case, an assessee has paid rent to his brother Rs. 2,50,000 and interest to his sister of Rs. 4,00,000 which may be disallowed if, in the opinion of the Assessing Officer, such expenditure is excessive or unreasonable having regard to:

(1) the fair market value of the goods, services or facilities for which the payment is made; or

(2) for the legitimate needs of business or profession of the assessee; or

(3) the benefit derived by or accruing to the assessee from such expenditure.

4. **(c)** No as A Ltd. has no other Interest in Mahajan Food Products Ltd.

Reason: A customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, simply by virtue of the resulting economic dependence is not a related party as per Ind AS 24.

5. **(a)** True, as the Firm shall be treated as Distinct Persons with separate registrations in Delhi and West Bengal.

Reason: A person who has obtained/is required to obtain more than one registration, whether in one State/Union territory or more than one State/Union territory shall, in respect of each such registration, be treated as distinct persons *[Section 25(4) of the CGST Act].*

Part B

6. Mahajan Food Products Ltd. would include the total revenue of Rs. 96,00,000 (Rs. 80,00,000 + Rs. 16,00,000) from ABC Ltd. received / receivable in the year ended 31st March 2020 within its revenue and show Rs. 36,00,000 within trade receivables at 31st March 2020. Mrs. Birla would be regarded as a related party of Mahajan Food Products Ltd. because she is a close family member of one of the key management personnel of the Company.

From 1st June 2019, ABC Ltd. would also be regarded as a related party of Mahajan Food Products Ltd. because from that date ABC Ltd. is an entity controlled by another related party.

Because ABC Ltd. is a related party with whom Mahajan Food Products Ltd. has transactions, then Mahajan Food Products Ltd. should disclose:

– The nature of the related party relationship.

– The revenue of Rs. 80,00,000 from ABC Ltd. since 1st June 2019.

– The outstanding balance of Rs. 36,00,000 at 31st March 2020.

In the current circumstances it may well be necessary for Mahajan Food Products Ltd. to also disclose the favourable terms under which the transactions are carried out.

7. **(a)** Many related party transactions are in the normal course of business. In such circumstances, they may carry no higher risk of material misstatement of the financial statements than similar transactions with unrelated parties. However, the nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated parties. For example:

- Related parties may operate through an extensive and complex range of relationships and structures, with a corresponding increase in the complexity of related party transactions.
- Information systems may be ineffective at identifying or summarising transactions and outstanding balances between an entity and its related parties.
- Related party transactions may not be conducted under normal market terms and conditions; for example, some related party transactions may be conducted with no exchange of consideration.

(b) In the context of related parties, the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for such reasons as the following:

- Management may be unaware of the existence of all related party relationships and transactions, particularly if the applicable financial reporting framework does not establish related party requirements.
- Related party relationships may present a greater opportunity for collusion, concealment or manipulation by management.

(c) In particular, the auditor shall inspect the following for indications of the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor:

- Bank, legal and third party confirmations obtained as part of the auditor's procedures;
- Minutes of meetings of shareholders and of those charged with governance; and
- Such other records or documents as the auditor considers necessary in the circumstances of the entity.

(d) For identified significant related party transactions outside the entity's normal course of business, the auditor shall:

- Inspect the underlying contracts or agreements, if any, and evaluate whether:
  - ➢ The business rationale (or lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets;
  - ➢ The terms of the transactions are consistent with management's explanations; and
  - ➢ The transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework; and
- Obtain audit evidence that the transactions have been appropriately authorised and approved.

(e) Matters that may be addressed in the discussion among the engagement team include:

- The nature and extent of the entity's relationships and transactions with related parties (using, for example, the auditor's record of identified related parties updated after each audit).
- An emphasis on the importance of maintaining professional skepticism throughout the audit regarding the potential for material misstatement associated with related party relationships and transactions.
- The circumstances or conditions of the entity that may indicate the existence of related party relationships or transactions that management has not identified or disclosed to the auditor (e.g., a complex organisational structure, use of special-purpose entities for off-balance sheet transactions, or an inadequate information system).
- The records or documents that may indicate the existence of related party relationships or transactions.
- The importance that management and those charged with governance attach to the identification, appropriate accounting for, and disclosure of related party relationships and transactions (if the applicable financial reporting framework establishes related party requirements), and the related risk of management override of relevant controls.

CASE STUDY 3:

Part A

1. (d) Mr. B must vacate his office as director of STYZ Limited.

Reason: If a director absents himself from all the meetings of board of directors of a company held during the period of past 12 months whether informing or not informing the board of directors about his absence then that director must vacate the office as director of that company.

2. (b) Effective date of resignation of director Mr. W would be taken as 16/11/2019.

Reason: Effective date of resignation of a director of a company is taken as the date on which written notice of resignation is received by the company or the date specified by the director (who is resigning) in the written notice of resignation, whichever of the two dates is later.

3. (a) Turnover of STYZ Limited as per the last audited Financial Statements was more than or equal to Rs. 100 crore or paid up capital of STYZ Limited as per the last audited Financial Statements was more than or equal to Rs. 10 crore.

Reason: Every public company is required to constitute an audit committee if turnover of that public company as per the last audited financial statements is more than or equal to Rs. 100 crore or paid up capital of that public company as per the last audited financial statements is more than or equal to Rs. 10 crore.

4. (d) Rs. 2,50,000

Reason: Recoverable amount of an asset is fair value less cost of disposal and value in use whichever of the two is higher.

Fair value less cost of disposal of machinery = Rs.2,20,000 – Rs.20,000 = Rs. 2,00,000

Value in use of machinery = Rs. 2,50,000

Recoverable amount of machinery in this scenario will be value in use of machinery as it is higher than fair value less cost of disposal of machinery. Therefore, recoverable amount of machinery = Rs. 2,50,000.

5. (c) Rs. 40,000

Reason: Impairment loss on an asset = carrying amount of an asset – recoverable amount of an asset, therefore impairment loss on machinery = Rs.2,90,000 – Rs.2,50,000 = Rs. 40,000.

Part B

6. The amount of capital gain chargeable to tax in A.Y. 2020-21 would be as follows:

(a) No capital gain will be chargeable to tax in A.Y. 2020-21 for STYZ Limited on machinery 20 transferred to SZ Limited because when a capital asset is transferred by a holding company to its wholly owned subsidiary company and that wholly owned subsidiary company is an Indian company then such transfer is not regarded as transfer from the point of view of capital gain. So when no transfer has taken place then no capital gain will arise in this situation.

(b) No capital gain will be chargeable to tax in A.Y. 2020-21 for SZ Limited on machinery 34 transferred to STYZ Limited because when a capital asset is transferred by a subsidiary company to its 100% holding company and that 100% holding company is an Indian company then such transfer is not regarded as transfer from the point of view of capital gain. So, when no transfer has taken place in this situation then no capital gain will arise.

7. **Duties or the responsibilities of each is as follows:**

   (a) Director Mr. W must give notice in writing to STYZ Limited about his resignation from office as director of STYZ Limited.

   Director Mr. W may also forward reasons of resignation along with copy of resignation to registrar within a period of 30 days from resignation date in prescribed form and along with prescribed fees.

   (b) The board of directors of STYZ Limited on receiving the written notice of resignation of director Mr. W must take a noting of the fact that Mr. W is resigning from his office as director of STYZ Limited.

   (c) STYZ Limited must within 30 days from the date of receiving notice of resignation from director Mr. W inform the registrar in prescribed form and also mention this information about resignation of director Mr. W on the official website of the company STYZ Limited if the company STYZ Limited is having any official website. STYZ Limited must mention this information about resignation of director Mr. W in report of directors which is to be presented in next general meeting of company STYZ Limited.

8. **The place of supply regarding furniture manufactured and supplied by STYZ Limited during the financial year 2019-20 was as follows:**

   (a) The place of supply would be State H, because when goods which are moveable are delivered to the recipient who is also the buyer then the place where such movement of goods end is the place of supply of such goods.

   (b) The place of supply would be State N, because when recipient receives the movable goods on instructions of buyer then it is deemed that buyer has received the moveable goods and place of office of business of the buyer is the place of supply of such goods.

   (c) The place of supply would be State H, because goods which are required to be assembled, for such goods place of supply is the place where those goods are assembled.

CASE STUDY 4:

Part A

1. **(c)** Nil

   Reason: Section 50 provides for the computation of capital gains in case of depreciable assets. Where all assets in a block are transferred during the previous year, the block itself will cease to exist. In such a situation, the difference between the sale value of the assets and the WDV of the block of assets at the beginning of the previous year together with the actual cost of any asset falling within that block of assets acquired by the assessee during the previous year will be deemed to be the capital gains arising from the transfer of short- term capital assets.

   In this case, since the block of assets still continues to exist as the company has other buildings also in its portfolio, hence there would be no capital gains on the asset sold.

2. **(b)** Rs. 50,000

   Reason: TDS is applicable on sale of immoveable property wherein the sale consideration of the property exceeds or is equal to Rs 50,00,000 (Rs. Fifty Lakhs). Sec 194 IA of the Income Tax Act, 1961 states that for all transactions, Tax @ 1% should be deducted by the purchaser of the property at the time of making payment of sale consideration.

As per Section 194IA, TDS is to be deducted at the time of payment. The date of transfer is not relevant as TDS is not required to be deducted at the time of transfer but is required to be deducted at the time of payment.

Since amount paid during the financial year 2019-2020 is Rs. 50,00,000; hence the amount of TDS which is required to be deducted for the given period is Rs. 50,000 (Rs. 50,00,000 x 1%).

3. (a) Form 26QB is required to be filed within 30 days of making the payment.

Reason: The online form available on the TIN website for furnishing information regarding TDS on property is termed as Form 26QB.

Taxpayer is required to furnish challan-cum-statement in Form No. 26QB electronically within 30 days from the end of the month in which the tax deduction is made.

4. (c) Nil

Reason: Taxpayer is required to furnish challan-cum-statement in Form No. 26QB electronically within 30 days from the end of the month in which the tax deduction is made.

Since due date to furnish 26QB along with payment of TDS is 30th November 2019 but the purchaser company has deposited the TDS amount on 27th November 2019; hence no interest for late payment on TDS is required to be paid.

5. (d) None of the above

Reason: By the nature of its definition, the Goods and Services Tax (GST) is applicable only on the sale and purchase of goods and services. As per the Section 2 (52) of the GST Act, 2017, 'goods' imply every form of movable property, actionable claims, growing crops, grass and things attached to or forming a part of the land which will be severed from the land before supplying as per the contract of supply. Whereas, 'services' mean anything other than goods, money and securities, for instance, activities relating to the use of money or its conversion by cash or by any other mode, from one form, currency or denomination, to another form, currency or denomination, for which a separate consideration is charged.

"Purchase or sale of land does not attract GST. GST is not applicable to the sale of land because it is neither treated as supply of goods nor the supply of services as per Schedule III of the CGST Act, 2017. Land is identified as immovable property, and so, it does not attract GST."

Part B

6. Issue 1: Fair Value as Deemed Cost for Property Plant and Equipment: (Ind AS 101)

Issue	Accounting Standard (Erstwhile IGAAP)	Ind AS (New IGAAP)	Impact on Company
1	As per Accounting Standard, Property, Plant and Equipment is recognised at cost less depreciation.	Ind AS 101 allows entity to elect to measure Property, Plant and Equipment on the transition date at its fair value or previous GAAP carrying value (book value) as deemed cost.	The company has decided to adopt fair value as deemed cost in this case. Since fair value exceeds book value, so the book value is brought up to fair value. The resulting impact of fair valuation of land is Rs 3,00,000and is adjusted in other equity accordingly.

Journal Entry as on the date of transition:

Particulars	**Debit (Rs.)**	**Credit (Rs.)**
Property Plant and Equipment	3,00,000	
To Revaluation Surplus (Other Equity)		3,00,000

Issue 2: Fair valuation of Financial Assets: (Ind AS 109)

Issue	**Accounting Standard (Erstwhile IGAAP)**	**Ind AS (New IGAAP)**	**Impact on Company**
2	As per Accounting Standard, investments are measured at lower of cost and net realizable value.	On transition, financial assets including investments are measured at fair values except for investments in subsidiaries, associates and JVs' which are recorded at cost.	All financial assets (other than Investment in subsidiaries, associates and JVs' which are recorded at cost) are initially recognized at fair value. The subsequent measurement of such assets are based on its categorization either Fair Value through Profit & Loss (FVTPL) or Fair Value through Other Comprehensive Income (FVTOCI) or at Amortised Cost based on business model assessment and contractual cash flow characteristics. Increase of Rs. 1,00,000 in mutual funds is to be given effect by increase in value of investments with corresponding increase to Retained earnings, since they are designated as FVTPL.

Journal Entry as on the date of transition:

Particulars	**Debit (Rs.)**	**Credit (Rs.)**
Investment in mutual funds	1,00,000	
To Retained earnings		1,00,000

Issue 3: Deferred tax

Issue	**Accounting Standard (Erstwhile IGAAP)**	**Ind AS (New IGAAP)**	**Impact on Company**
3	As per Accounting Standard, Deferred taxes are accounted as per income statement approach.	As per Ind AS, Deferred taxes are accounted as per balance sheet approach.	Company has recognised the deferred tax impact on account of GAAP adjustments identified on transition to Ind AS. Further, as per Ind AS 12 the Company has

			recognised the deferred tax following the principles of 'Balance Sheet Approach'. On transition, deferred tax liability is expected to increase by Rs. 25,000.

Journal Entry as on the date of transition:

Particulars	Debit (Rs.)	Credit (Rs.)
Retained earnings	25,000	
To Deferred tax liability		25,000

Issue 4: Borrowings - Processing fees/transaction cost:

Issue	Accounting Standard (Erstwhile IGAAP)	Ind AS (New IGAAP)	Impact on Company
4	As per Accounting Standard, such expenditure is charged to Profit and loss account or capitalised as the case may be.	As per Ind AS, such expenditure is amortised over the period of the loan. Ind AS 101 states, If it is impracticable for an entity to apply retrospectively the effective interest method in Ind AS 109, the fair value of the financial asset or the financial liability at the date of transition to Ind ASs shall be the new gross carrying amount of that financial asset or the new amortised cost of that financial liability at the date of transition to Ind ASs.	Fair value as on the date of transition is Rs.1,80,000 as against its book value of Rs. 2,00,000. Accordingly, the difference of Rs. 20,000 is adjusted through retained earnings.

Journal Entry as on the date of transition:

Particulars	Debit (Rs.)	Credit (Rs.)
Borrowings	20,000	
To Retained earnings		20,000

Issue 5: Proposed dividend:

Issue	Accounting Standard (Erstwhile IGAAP)	Ind AS (New IGAAP)	Impact on Company
5	As per Accounting Standard, provision for Proposed divided is made in the year when it has been declared and approved.	As per Ind AS, liability for proposed dividend is recognised in the year in	Since dividend should be deducted from retained earnings during the year when it has been declared

		which it has been declared and approved.	and approved. Accordingly, the provision declared for preceding year should be reversed (to rectify the wrong entry). Retained earnings would increase proportionately due to such adjustment

Journal Entry as on the date of transition:

Particulars	**Debit (Rs.)**	**Credit (Rs.)**
Provisions	30,000	
To Retained earnings		30,000

Issue 6:Intangible assets:

Issue	**Accounting Standard (Erstwhile IGAAP)**	**Ind AS (New IGAAP)**	**Impact on Company**
6	The useful life of an intangible asset cannot be indefinite under IGAAP principles. The Company amortised brand/trademark on a straight line basis at 25% amortisation rate.	The useful of an intangible asset like brand/trademark can be indefinite. Not required to be amortised and only tested for impairment. Company can avail the exemption given in Ind AS 101 as on the date of transition to use the carrying value as per previous GAAP.	Consequently, there would be no impact as on the date of transition since company intends to use the carrying amount instead of book value at the date of transition.

7. Big Private Limited is a 'small company' per the provisions of Companies Act, 2013.

As per section 2of Companies Act, 2013, "small company" means a company, other than a public company,-

(a) paid-up share capital of which does not exceed fifty lakh rupees or such higher amount as may be prescribed which shall not be more than five crore rupees; or

(b) turnover of which as per its last profit and loss account does not exceed two crore rupees or such higher amount as may be prescribed which shall not be more than twenty crore rupees:

Provided that nothing in this clause shall apply to-

(a) a holding company or a subsidiary company;

(b) a company registered under section 8; or

(c) a company or body corporate governed by any special Act;

Mandatory rotation of auditors:

Section 139(2) of the 2013 Act read with Rule 5 of the Companies (Audit and Auditors) Rules, 2014 (Audit Rules) provides that the following class of companies cannot appoint or reappoint an individual as an auditor for more than one term of five years or an audit firm as an auditor for more than two consecutive terms of five years each:

(a) Listed companies

(b) All unlisted public companies having paid-up share capital of Rs.10 crore or more

(c) All private limited companies having paid-up share capital of Rs.50 crore (earlier Rs.20 crore) or more

(d) All companies having paid-up share capital of below threshold limit mentioned in (b) and (c) above, but with public borrowings from financial institutions, banks or public deposits of Rs.50 crore or more.

The mandatory rotation of auditors' requirement is not applicable to small companies and one person companies.

Eligibility/qualifications/ disqualifications of auditors:

Section 141(3)(g) specifically prohibits a person who is in full time employment elsewhere or a person or a partner of a firm holding appointment as an auditor of more than 20 companies, from being appointed as an auditor of a company.

However, while calculating the limit of 20 companies, following companies should be excluded:

- One person company
- Dormant companies
- Small companies and
- Private companies having paid-up share capital less than Rs.100 crore.

In the given case, if the companies which are outside the scope of limit as defined in section 141(3)(g) of Companies Act,2013, the total number comes to 18.

Further, Big Private limited is a small company as per the provisions of Companies Act, 2013. Hence even the appointment for statuary audit of Big Private Limited would not be considered in the cap of maximum number of audits which M/s ABC can accept.

Hence, the appointment of M/s ABC as an auditor in 'Big private limited' is valid in the light of above provisions and the given assignment can be accepted accordingly.

8. Since no consideration is charged, supply of goods from factory to retail showroom in same State under single registration does not constitute supply.

Transfer between two units of a legal entity under single registration (apparently within same State) will not be considered as supply.

However, in the above example, if Balaji electronics obtains separate registrations for factory and showroom, stock transfer between the factory and showroom will constitute supply.

CASE STUDY 5:

Part A

1. (b) Rs.19,40,000-Short term capital gain

Reason: Calculation of Short term capital gain:

Particulars	**Amount (Rs.)**
Sale price of the property	40,00,000
Less: Transfer expenses on sale-Brokerage	(40,000)
Net Sale Consideration	39,60,000
Less: Purchase Price of property	(20,00,000)

Less: Cost of transfer	(20,000)
Short Term Capital Gain	19,40,000
Less: exemptions under sections 54,etc.	Nil
Net Short Term Capital Gain	19,40,000

2. **(b)** Deferred tax liability- Rs.51,25,000

Reason: Calculation of deferred tax liability:

Particulars	**Amount (Rs.)**
Closing Written down value of assets as per Income tax	8,00,00,000
Closing Written down value of assets as per Companies Act,2013	10,00,00,000
Difference in Closing WDV of assets as per Companies Act & Income-tax Act [A]	2,00,00,000
Provision for doubtful debts [B]	5,00,000
Total [A] + [B]; [C]	2,05,00,000
Tax rate [D]	25%
Closing balance of Deferred tax liability [C] x [D] [2,05,00,000 x 25%]	51,25,000

Note: There is no treatment of permanent differences in the calculation of deferred tax as per Ind AS12.

3. **(c)** Bill of Supply

Reason: Suppliers opting for composition levy are not required to raise any tax invoice, but simply need to issue a Bill of Supply wherein no tax will be charged from the recipient.

4. **(d)** Supplier of intra-State outward supplies of goods

Reason: The following people cannot opt for the scheme-

- Manufacturer of ice cream, pan masala, or tobacco
- A person making inter-state supplies
- A casual taxable person or a non-resident taxable person
- Businesses which supply goods through an e-commerce operator

5. **(b)** Rs.2,000

Reason: As per section 234E, where a person fails to file the TDS/TCS return on or before the due date prescribed in this regard, then he shall be liable to pay, by way of fee, a sum of Rs. 200 for every day during which the failure continues. The amount of late fees shall not exceed the amount of TDS.

The due date for filing return for March 2020 is 31st May 2020; however, the company has filed the TDS return on 10th June 2020. Accordingly, there is delay of 10 days, for which the company has to pay late fees of Rs.2000 (10 days x Rs.200/day).

Part B

6. Statement of TDS deduction of suppliers for the month of March 2020:

Date	Supplier	Company/ Non company	Applicable Section	Taxable amount (Rs.) [A]	TDS Rate [B]	TDS amount (Rs.) [C] = [A]x[B]	Payable to supplier (Rs.) [Invoice amount – [C]]	Remarks
03.03.2020	Mohammad shah & brothers	Firm	194C	2,00,000	2.00%	4,000	2,32,000	Rate of TDS in case of Firm as contractor is 2%
01.03.2020	Madan Lal	Individual	194C	1,20,000	20.00%	24,000	96,000	TDS deducted at the higher rate of 1% and 20%
10.03.2020	Johnsons appliances Pvt Ltd.	Company	-	-	0.00%	-	11,20,000	TDS is not to be deducted on purchase of machinery
10.03.2020	Eagle watch security private limited	Company	194C	80,000	2.00%	1,600	92,800	Rate of TDS in the nature of contract services is 2% for company
13.03.2020	Mariol Limited	Company	-	-	0.00%	-	5,25,000	TDS is not to be deducted on purchase of goods
18.03.2020	Shah & Thapa HUF	HUF	194A	50,000	10.00%	5,000	45,000	
20.03.2020	M/s PQR	Firm	194J	1,20,000	10.00%	12,000	1,29,600	
23.03.2020	Divine Decorators Private Limited	Company	194J	1,80,000	2.50%	4,500	2,07,900	TDS deducted at lower rate due to certificate u/s 197 from AO
26.03.2020	Good luck Home solutions	Individual	194H	1,75,000	5.00%	8,750	1,97,750	
30.03.2020	Chotu lal	Individual	-	15,000	-	-	15,000	Limit for section 194C is Rs.30000 for single invoice and Rs.1,00,000 in aggregate
01.03.2020	Easylifts Limited	Company	194C	1,44,000	2.00%	2,880	1,67,040	
29.03.2020	Lotus Private Limited	Company	194I	2,00,000	10.00%	20,000	2,16,000	
TOTAL						**82,730**	**30,44,090**	

Journal Entries:

Date	Particulars	Debit (Rs.)	Credit (Rs.)
03.03.2020	Labour expenses a/c	2,00,000	
	CGST Receivable	18,000	
	SGST Receivable	18,000	
	To Mohammad shah & brothers		2,32,000
	To TDS payable u/s 194C		4,000
	(Being bill booked against corresponding deduction of TDS as per invoice no. xxx)		

Date	Particulars	Debit (Rs.)	Credit (Rs.)
01.03.2020	Repairs & Maintenance a/c	10,000	
	Prepaid expenses a/c	1,10,000	
	To Madan Lal		96,000
	To TDS payable u/s 194C		24,000
	(Being bill booked as per invoice no. xxx)		

Date	Particulars	Debit (Rs.)	Credit (Rs.)
10.03.2020	Property, Plant & Equipment a/c	10,00,000	
	CGST Receivable	60,000	
	SGST Receivable	60,000	
	To Johnsons appliances pvt. Ltd.		11,20,000
	(Being bill booked for machinery purchase as per invoice no. xxx)		

Date	Particulars	Debit (Rs.)	Credit (Rs.)
10.03.2020	Security expenses a/c	80,000	
	CGST Receivable	7,200	
	SGST Receivable	7,200	
	To Eagle watch security pvt ltd.		92,800
	To TDS payable u/s 194C		1,600
	(Being bill booked against corresponding deduction of TDS as per invoice no. xxx)		

Date	Particulars	Debit (Rs.)	Credit (Rs.)
13.03.2020	Purchase of goods a/c	5,00,000	
	CGST Receivable	12,500	
	SGST Receivable	12,500	
	To Mariol Limited		5,25,000
	(Being bill booked for goods purchase as per invoice no. xxx)		

Date	Particulars	Debit (Rs.)	Credit (Rs.)
18.03.2020	Interest on unsecured loans	50,000	
	To Shah & Thapa HUF		45,000

	To TDS payable u/s 194A		5,000
	(Being bill booked as per invoice no. xxx)		

Date	Particulars	Debit (Rs.)	Credit (Rs.)
20.03.2020	Professional charges a/c	1,20,000	
	CGST Receivable	10,800	
	SGST Receivable	10,800	
	To M/s PQR		1,29,600
	To TDS payable u/s 194J		12,000
	(Being bill booked against corresponding deduction of TDS as per invoice no. xxx)		

Date	Particulars	Debit (Rs.)	Credit (Rs.)
23.03.2020	Professional charges a/c	1,80,000	
	CGST Receivable	16,200	
	SGST Receivable	16,200	
	To Divine Decorators Private Limited		2,07,900
	To TDS payable u/s 194J		4,500
	(Being bill booked against corresponding deduction of TDS as per invoice no. xxx)		

Date	Particulars	Debit (Rs.)	Credit (Rs.)
26.03.2020	Brokerage charges a/c	1,75,000	
	CGST Receivable	15,750	
	SGST Receivable	15,750	
	To Good luck home solutions		1,97,750
	To TDS payable u/s 194H		8,750
	(Being bill booked against corresponding deduction of TDS as per invoice no. xxx)		

Date	Particulars	Debit (Rs.)	Credit (Rs.)
30.03.2020	Repairs & Maintenance a/c	15,000	
	To Chotu Lal		15,000
	(Being bill booked as per invoice no. xxx)		

Date	Particulars	Debit (Rs.)	Credit (Rs.)
01.03.2020	Repairs & Maintenance a/c	12,000	
	Prepaid expenses a/c	1,32,000	
	CGST Receivable	12,960	
	SGST Receivable	12,960	
	To Easy Lifts Limited		1,67,040
	To TDS payable u/s 194C		2,880
	(Being bill booked against corresponding deduction of TDS as per invoice no. xxx)		

Date	Particulars	Debit (Rs.)	Credit (Rs.)
29.03.2020	Rent a/c	2,00,000	
	CGST Receivable	18,000	
	SGST Receivable	18,000	
	To Lotus Private Limited		2,16,000
	To TDS payable u/s 194I		20,000
	(Being bill booked against corresponding deduction of TDS as per invoice no. xxx) as per invoice no. xxx)		

7. Calculation of Net GST liability to be paid for the month of March 2020:

Particulars	CGST (Rs.)	SGST(Rs.)	IGST (Rs.)	Total (Rs.)
GST payable (A)	2,70,000	2,70,000	1,80,000	7,20,000
GST Input receivable (B)	70,000	70,000	80,000	2,20,000
Net GST payable (A) - (B)	**2,00,000**	**2,00,000**	**1,00,000**	**5,00,000**

TDS/TCS liability to be paid for the month of March 2020:

Particulars	Amount (Rs.)
TDS payable (including earlier carried forward balance)	90,000
TCS payment	10,000
Total	1,00,000

Note: TDS Payable and TDS receivable cannot be set off against each other for the purpose of making monthly payment of TDS dues.