MOCK TEST PAPER 1

FINAL (NEW) 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 I

Mars Construction Ltd. is an Indian construction & manufacturing conglomerate having net worth of Rs. 900 crore during the immediately preceding financial year. It addresses the needs of infrastructure industry for the customers by having several branch offices and a supply chain extending throughout the country. The company is also engaged in executing civil contracts through tenders from various companies, Central Government and State Governments. Every aspect of the company's businesses is characterised by expertise and high standards of corporate governance. The company was correspondingly declared as one of India's Most Honoured Companies in the Institutional Investor Survey because it also has the concern for the community. It contributes to inclusive progress by empowering communities and accelerating growth through interventions in sanitation, health and education. Even before the enactment of provisions relating to Corporate Social Responsibility under the Companies Act, 2013, the company started eradicating hunger, poverty and malnutrition; promoting health care; contributing to the Swach Bharat Kosh for the promotion of sanitation; promoting education, including employment enhancing vocation skills especially among children, women, elderly and the differently abled.

The Financial Statements of the company for the year ended 31st March, 2019 reveals a net profit (before tax) amounting to Rs. 35,50,00,000 after debiting/crediting the following items:

(i) Interest of Rs. 3,00,000 due to a public financial institution for the last quarter of the financial year 2018-19 paid on 20th October 2019.

(ii) Rs. 6,00000 paid in India to Mr Philip, a non-resident towards fee for technical services without deduction of tax at source. TDS was, however, paid on 30th October, 2019.

(iii) Damages amounting to Rs. 15,00,000 paid to the Government of West Bengal as per the terms of contract for defects found in construction of a flyover after 5 years of its construction.

(iv) Depreciation charged Rs. 20,00,000.

(v) Marked to market loss amounting to Rs. 6,00,000 in respect of an unsettled derivative contract. The contract was settled in May, 2019 with a gain of Rs. 1,00,000.

(vi) Profit of Rs. 10,00,000 on sale of land to Neptune Inc., U.S.A, which is a wholly owned subsidiary company.

(vii) Retention money amounting to Rs. 10,00,000 held by a public sector undertaking which can be released on the satisfaction of certain performance criteria as per the terms of contract. The contract was completed during the previous year 2018-19.

(viii) Rs. 3,00,000 being interest on fixed deposit made with a bank as margin money for obtaining a guarantee required by a State Government for particular contract.

(ix) Dividend of Rs. 10,00,000 received from a Real Estate Investment Trust (REIT) the break-up of which is as follows:

- Component of short-term capital gain on sale of development properties by the REIT Rs. 6,00,000.
- Component of rental income from properties owned by the REIT Rs. 4,00,000.

Other Information

(i) Depreciation as per Income-tax Rules Rs. 25,00,000.

(ii) Land sold to Neptune Inc was acquired at a cost of Rs. 38,00,000 in the financial year 2013-14 Value on the date of sale assessed by the Stamp Valuation Authority was Rs. 50,00,000 (Cost Inflation Index-Financial Year 2013-14 : 220; Financial Year 2018-19 : 280).

(iii) During the year 20 new employees were recruited. All these new employees contribute to recognized provident fund. 15 employees out of 20 employees joined on 01-05-2018 and the other 5 employees joined on 15th November, 2018. 10 employees, who joined on 1st May, 2018 were offered salary of Rs.24,500 per month and the other employees who joined on the same date drew salary of Rs.32,000 per month. All the employees were paid through single account payee cheque except the one employee who joined on 1st May, 2018 at salary of Rs. 24,500 per month who drew his salary by bearer cheques of Rs. 12,500 and Rs. 12,000 every fortnight in a month.

(iv) The company's accounts are required to be audited under section 44AB of the Income-Tax Act.

Para II

The extract of Independent Auditors' Report to the members of Mars Construction Ltd. is given below:

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Individual Financial Statements of the current period. These matters were addressed in the context of our audit of the Individual Financial Statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The Company has material uncertain tax positions including matters under dispute which involves significant judgment to determine the possible outcome of these disputes. Notes on accounts (a) and (b) are relevant in this regard.

(a) Taxes on income

Tax on income for the current period is determined on the basis of taxable income and tax credits computed in accordance with the provisions of the Income Tax Act,1961 and based on the expected outcome of assessments/appeals.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Company's financial statements and the corresponding tax bases used in computation of taxable profit and quantified using the tax rates and laws enacted or substantively enacted as at the Balance Sheet date.

Deferred tax liabilities are generally recognised for all taxable temporary differences including the temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are generally recognised for all taxable temporary differences to the extent that is probable that taxable profits will be available against which those deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets relating to unabsorbed depreciation/business losses/losses under the head" capital gains" are recognised and carried forward to the extent of available taxable temporary differences or where there is convincing other evidence that sufficient future taxable income will be available against which such deferred tax assets can be realised.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of reporting period, to recover or settle the carrying amount of its assets and liabilities.

Transaction or event which is recognised outside Profit or Loss, either in Other Comprehensive Income or in equity, is recorded along with the tax as applicable.

(b) Provisions, Contingent Liabilities and Contingent Assets

Provisions are recognised only when:

(i) the Company has a present obligation (legal or constructive) as a result of a past event;

(ii) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(iii) a reliable estimate can be made of the amount of the obligation.

Provision is measured using the cash flows estimated to settle the present obligation and when the effect of time value of money is material, the carrying amount of the provision is the present value of those cash flows. Reimbursement expected in respect of expenditure required to settle a provision is recognised only when it is virtually certain that the reimbursement will be received.

Contingent Liability is disclosed in case of:

(i) a present obligation arising from past events, when it is not probable that an outflow of resources will be required to settle the obligation; and

(ii) a present obligation arising from past events, when no reliable estimate is possible.

Contingent Assets are disclosed where an inflow of economic benefits is probable. Provisions, contingent liabilities and contingent assets are reviewed at each Balance Sheet date.

Where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under such contract, the present obligation under the contract is recognised and measured as a provision.

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

1. What amount shall be considered as the full value of consideration for the purpose of calculation of income under the head Capital Gain as per Income Tax Act, 1961?

   (a) Rs. 48,00,000

   (b) Rs. 50,00,000

   (c) Rs. 38,00,000

   (d) Rs. 50,40,000

2. Which of the following employee's' salary shall be considered for the purpose of calculation of additional deduction allowed in respect of emoluments paid to new employees under the Income Tax Act, 1961?

   (a) All of the new employees shall be considered as the company has generated new employment in the era of retrenchment.

   (b) Five employees who joined on 01-05-2018 and drew salary within the range i.e. exceeding Rs. 25,000 per month but below Rs. 35,000 per month.

   (c) Only one employee who joined on 01-05-2018 whose monthly emolument is within the limit of Rs. 25,000 and onetime payment does not exceed Rs. 15,000 each through bearer cheques.

   (d) Nine employees who joined on 01-05-2018 whose monthly emolument is within the limit of Rs. 25,000 and payment is made through account payee cheque.

3. The Companies Act, 2013 lays down the provisions requiring certain specified companies to mandatorily spend a prescribed percentage of their profits on certain specified areas of social upliftment in discharge of their social responsibilities. Broadly, CSR implies a concept, whereby companies decide voluntarily to contribute to a better society and a cleaner environment – a concept, whereby the companies integrate social and other useful concerns in their business operations for the betterment of its stakeholders and society in general in a voluntary way.

   In the context of above para, state which of the following statement is correct.

   (a) Mars Construction Ltd. is not mandatorily required to empower communities because of the exemption given to construction companies.

   (b) Mars Construction Ltd. is mandatorily required to empower communities because it need to make good the loss of defects found in the construction of one of its flyovers.

   (c) Mars Construction Ltd. is not mandatorily required to constitute a Corporate Social Responsibility Committee of the Board as it is having net worth less than Rs. 1000 crore.

   (d) Mars Construction Ltd. is mandatorily required to constitute a Corporate Social Responsibility Committee of the Board as it is having net worth more than Rs. 500 crore.

4. How much additional deduction shall be allowed in respect of emoluments paid to new employees under the Income Tax Act, 1961?

   (a) Rs. 7,27,650

   (b) Rs. 9,70,200

   (c) Rs. 24,25,500

   (d) Rs. 26,95,000

5. How much gain/ loss would be chargeable to tax under the head 'Capital Gain' as per Income Tax Act, 1961?

   (a) Rs. 2,03,636

   (b) Rs. 1,63,636

   (c) Rs. 10,00,000

   (d) Rs. (36,364)

Part B- Descriptive Questions

6. From the information given in Para I, compute Profits and Gains from Business or Profession for the Assessment Year 2019-20 indicating reasons for treatment of each item and ignoring the provisions relating to minimum alternate tax (MAT).

   The due date for filing of return of Income Tax for Assessment Year 2019-20 be taken as 30-09-2019. **(10 Marks)**

7. From the information given in Para II, where key audit matters have been addressed by the auditors, describe principal audit procedures that may have been followed by the auditor regarding material uncertain tax positions. **(5 Marks)**

CASE STUDY 2

Background

VayuSanchar Limited is a leading telecommunications company of India headquartered in Delhi. The Company ranks among the top four network service providers. It offers 2G, 3G and 4G wireless services under post-paid and pre-paid connectivity, fixed line telephone services and mobile commerce. It operates more than 2,260 telecom towers across 12 telecom circles.

The Company's dream is to boost the lives of customers. Its passion is to win customers for life through an exceptional experience. During the current year, the company also launched Unified Payments Interface (UPI) enabled digital payments allowing payments to any bank account of different merchants through smartphones, to beat the rivalries. This bitter relationship between VayuSanchar Limited and HawaSanch Limited, Lucy Limited & Magadh Limited (the rivalries) in network service providers, has spilled over to the high-speed broadband to corporates segment, as all the four companies battle for monopoly in market share.

VayuSanchar Limited launched its hyper speed VS Fibre broadband service, matching the price of other network service providers. This plan comes with unlimited landline calls along with premium online membership to the latest movies released through VS Fibre Application (the App).

Employees' Wellbeing

In addition to boosting the lives of its customers, the company also believe in looking after the wellbeing of its employees. For this, it has established a Code of Conduct, Human Rights Policies demonstrating its commitment towards protection of Human Rights. In addition to this, the company has set up Internal Complaint Committee, to prevent sexual harassment at workplace, comprising a Presiding Officer who is a senior level woman employee, two employees who are committed to the cause of women having experience in social work along with legal knowledge, one independent member from outside the organization who expertise in dealing with such matters. All the members need to hold office for a period not exceeding three years from the date of nomination as member. The Committee is responsible for dealing with all matters related to the subject.

Besides having an Internal Complaint Committee, company went through an intermittent vacancy of the woman director on 19^{th} June, 2018, the vacancy of which was filled on 18^{th} September, 2018 by the Board, though, the immediate Board meeting held on 18^{th} August, 2018.

Accounting and Auditing Perception

The Balance Sheet of VayuSanchar Limited as at 31st March is given below:

ASSETS	**2019 Amount (Rs.)**	**2018 Amount (Rs.)**
Non-Current Assets		
Property, Plant and Equipment	8,44,00,000	7,17,40,000
Other Non-Current Assets	3,92,00,000	2,79,40,000
Current Assets		
Financial Assets:		
Investments	1,95,00,000	2,12,00,000
Cash and Cash Equivalents	74,00,000	1,44,60,000
Trade Receivables	1,35,00,000	1,26,60,000
Total	**16,40,00,000**	**14,80,00,000**
EQUITY AND LIABILITIES		
Equity		
Equity Share Capital	4,30,00,000	4,30,00,000
Other Equity:		
Reserve and Surplus	3,56,00,000	2,25,00,000
Liabilities		
Non-Current Liabilities:		
Long Term Borrowings	2,25,00,000	3,90,00,000
Current Liabilities:		
Financial Liabilities		
Trade Payables	2,55,00,000	1,70,00,000
Payables for Expenses	2,24,00,000	1,49,00,000
Other Current Liabilities	1,50,00,000	1,16,00,000
Total	**16,40,00,000**	**14,80,00,000**

Other information: The company made a net profit after tax of Rs. 1,40,00,000 during the current year and paid interim dividend of Rs. 9,00,000. The value of Property, Plant and Equipment have been arrived after deducting Rs. 15,00,000 on account of depreciation. However, the company also sold one of its Property, Plant and Equipment for Rs. 9,00,000, the carrying amount of which was Rs. 8,00,000 at the end of the year 2019.

The company has the practice of releasing quarterly reports containing financial and operating highlights, key developments, results of operations, stock market highlights, ratio analysis, summarised financial statements, etc. These reports are submitted to the Delhi Stock Exchange, where it has listed security receipts, and are also hosted on the Company's website.

The 23rd Annual General Meeting of the company held on 8th August, 2019 at Sky Force Auditorium, Delhi where statutory auditor's report were adopted.

The extracts of Independent Auditor's Report to the members of Vayu Sanchar Limited for the Financial Year 2018-19 along with Notes to the Individual Financial Statements and Annexures are given below:

Report on the Individual Financial Statements

We have audited the Individual Financial Statements of VayuSanchar Limited ("the Company"), which comprise the balance sheet as at March 31, 2019, and the Statement of Profit & Loss (including Other Comprehensive Income), Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, and Notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

Responsibilities of Management for the Individual Financial Statements

The Company's Board of Directors are responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these Individual Financial Statements that give a true and fair view of the financial position, financial performance including other comprehensive income, cash flows and changes in equity of the Company in accordance with the Indian Accounting Standards (Ind AS) prescribed under section 133 of the Companies Act, 2013 read with the Companies (Indian Accounting Standards) Rules, 2015, as amended, and other accounting principles generally accepted in India.

This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Individual Financial Statements

Our responsibility is to express an opinion on these Individual Financial Statements based on our audit. In conducting our audit, we have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder and the Order issued under section 143(11) of the Act.

We conducted our audit of the Individual Financial Statements in accordance with the Standards on Auditing specified under section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Individual Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the Individual Financial Statements. The procedures selected depend on the auditor's judgment, including identifying and assessing the risks of material misstatement of the Individual Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates and related disclosures made by management. It further describes the auditor's responsibilities to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

We believe that the audit evidence obtained by us is sufficient and appropriate to provide a basis for our audit opinion on the Individual Financial Statements.

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid Individual Financial Statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the Ind AS and other accounting principles generally accepted in India, of the state of affairs of the Company as at March 31, 2019, its profit, total comprehensive income, changes in equity and its cash flows for the year ended on that date.

Emphasis of Matter

We draw attention to **Note 18** to the Individual Financial Statements which describes the uncertainties related to the legal outcome of Department of Telecommunications demand with respect to one-time spectrum charges.

Our opinion is not modified in respect of this matter.

Report on Other Legal and Regulatory Requirements

As required by the Companies (Auditor's Report) Order, 2016 ("the Order") issued by the Central Government in terms of Section 143(11) of the Act, we give in **"Annexure C"** a statement on the matters specified in paragraphs 3 and 4 of the Order, to the extent applicable.

Notes to Individual Financial Statements stated as follows:

18. On February 9, 2014, Department of Telecom issued a demand for Rs. 24,00,000 towards levy of one-time spectrum charge. The demand includes a prospective charge of Rs. 20,00,000 for GSM spectrum held beyond 3.5 MHz for the period from February 1, 2014, till the expiry of the initial terms of the respective licenses along with retrospective charge of Rs. 4,00,000 for GSM spectrum held beyond 5.1 MHz for the period from February 1, 2010 to December 31, 2013.

In view of the Company, said demand amounts to modification of financial terms of the licenses issued in the past. A petition being filed by the Company, the Hon'ble High Court of Delhi, vide its order dated February 28, 2014, has directed the Department of Telecom to respond and not to take any coercive action until the next date of hearing. The DoT has filed its reply and the matter is currently pending with the Hon'ble High Court of Delhi.

25. Contingent Liabilities- Claims against the Company not acknowledged as debt

Customs Duty

During the current Financial Year, the custom authorities issued a demand notice for custom duty with regard to import of certain software on the basis of the fact that the software was preloaded in the hardware at the time of import. In response to that, the company filed an application to the Hon'ble Central Excise and Service Tax Appellate Tribunal ('CESTAT') opposing the demand of custom authorities, contending that such imports shall not be subject to custom duty as it is an operating software which is exempted from any custom duty. However, the CESTAT has passed an order in favour of the custom authorities. Consequently, the Company has filed an appeal with the Hon'ble Supreme Court against the CESTAT order, which is still unheard.

Annexure C to the Independent Auditor's Report

(ii) As elucidated to us, the inventories, except for those lying with the third parties, were physically verified during the year by the Management at reasonable intervals and no material discrepancies were noticed.

(iii) As elucidated to us, the Company has not granted any loans, secured or unsecured, to companies, firms, Limited Liability Partnerships or other parties covered in the register maintained under section 189 of the Companies Act, 2013.

(xi) In our opinion and as elucidated to us, the Company has paid managerial remuneration in accordance with the requisite approvals mandated by the provisions of section 197 read with Schedule V to the Companies Act, 2013, except that the commission of Rs. 34,570 to non-executive directors is in excess by Rs. 18,200, basis the lower limits approved by the Shareholders of the Company.

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

1. While reporting on Companies (Auditor's Report) Order, 2016 (the Order) under the head Other Legal and Regulatory Requirements, the auditor included a statement on payment of

managerial remuneration in accordance with the requisite approvals mandated by the provisions of section 197 read with Schedule V to the Companies Act, 2013. State whether the reporting is in accordance with the reporting requirement under the Order.

(a) Yes, the auditor has reported as per the reporting requirement which requires stating the amount involved in case of qualified answer.

(b) No, the auditor has not reported as per the reporting requirement which requires stating the steps taken by the company for securing refund of the same.

(c) No, the auditor has not reported as per the reporting requirement which requires stating the period of default upto the date of seeking Shareholders' approval for which excess commission was paid.

(d) No, the auditor has not reported as per the reporting requirement which requires stating the compliance of section 198 of the Companies Act, 2013.

2. Every listed company shall appoint at least one woman director on the Board in compliance of the provisions of the Companies Act, 2013 read with the Companies (Appointment and Qualification of Directors) Rules, 2014. In the given case, the company went through an intermittent vacancy of the woman director, which was filled later on. State whether the appointment of another women director by the Board to fill the intermittent vacancy is valid.

(a) The intermittent vacancy of a woman director can only be filled by the shareholders not later than coming annual general meeting. Thus, the appointment is invalid.

(b) The intermittent vacancy of the woman director shall be filled by the Board. There is no such compliance for time limit. Thus, the appointment is valid.

(c) The intermittent vacancy of a woman director can only be filled by the Board not later than immediate next Board Meeting or two months from the date of such vacancy whichever is later. Thus, the appointment is invalid.

(d) The intermittent vacancy of a woman director can only be filled by the Board not later than immediate next Board Meeting or three months from the date of such vacancy whichever is later. Thus, the appointment is valid.

3. The Securities and Exchange Board of India (SEBI) has issued the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("LODR Regulations"). The objective of the LODR Regulations are streamlining and consolidating the provisions of various listing agreements in operation for different segments of the capital markets. State which of the following companies is not covered under LODR Regulation for the purpose of its compliances.

(a) VayuSanchar Limited which has established a Code of Conduct, Human Rights Policies towards protection of Human Rights. In addition to this, the company has also set up Internal Complaint Committee to prevent sexual harassment at workplace.

(b) HawaSanch Limited, a public company, which has a paid up capital of Rs. 100 crore.

(c) Lucy Limited which has a paid up capital of Rs. 10 crore and listed non-convertible debt securities.

(d) Magadh Limited which has listed securitised debt instruments on a recognised stock exchange.

4. Regarding demand notice for custom duty from the custom authorities, state, whether the company needed to provide for the provision/ liability/ contingent liability in the books of VayuSanchar Limited.

(a) A provision is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. Thus, provision shall be made in the financial statements, instead of showing it to the notes to financial statements.

(b) It is a liability of uncertain timing and amount, thus, the demand shall be recognised as a liability.

(c) It is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Thus, the presentation as contingent liability under notes to financial statements is correct.

(d) It is a present obligation that arises from past events but is not recognised because (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or (ii) the amount of the obligation cannot be measured with sufficient reliability. Thus, the presentation as contingent liability under notes to financial statements is correct.

5. Referring the Independent Auditor's Report to the members of VayuSanchar Limited, the auditor has included a section with the heading "Auditor's Responsibilities for the Audit of the Financial Statements.". Elucidate, what shall not be stated under this section of the Auditor's Report.

(a) Auditor's responsibilities for identifying and assessing the risks of material misstatement of the financial statements.

(b) Auditor's responsibilities for obtaining an understanding of internal control relevant to the audit in order to design audit procedures.

(c) Auditor's responsibilities for assessing the entity's ability to continue as a going concern.

(d) Auditor's responsibilities for evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates.

Part B- Descriptive Questions

6. Referring the presentation made by the auditor regarding Emphasis of Matter paragraph in the Auditor's Report, state the conditions for including such paragraph. Also give certain examples of cases where the auditor may consider necessary to include an Emphasis of Matter

paragraph. Consequently, state, whether the reporting made by the auditor in the Auditor's Report is in accordance with the relevant Standards on Auditing. **(7 Marks)**

7. Considering the Balance Sheet of VayuSanchar Limited and 'Other information' as provided along with the facts mentioned below, construct a statement of cash flows under indirect method.

   (i) Income tax paid during the current year is Rs. 30,00,000.

   (ii) Other Non-Current Assets and Current Liabilities do not contain any element of Financing and Investing Activities. **(8 Marks)**

CASE STUDY 3

Akhil, Nikhil and Sahil are partners of **Soil Elements LLP**. They have started a new business in 2018 based on their experience of more than 10 years in chemicals industry.

Soil Elements LLP is based on the concept that soil quality in terms of fertility and its nutritional values to the plant differ every few yards even in the same plot of land. So, the partners at Soil Elements will do essential testing of soil, plant stem, leaf and the fruit on non-evasive and non-destructive basis. The test results and analysis will help the farmers in optimal use of plant nutrients in order to not only maximise the yield but also to preserve the soil fertility from excess use of fertilisers which deplete the soil fertility.

Precision farming is a new concept in the field of agriculture which aims at providing the essential nutrients to plants based on the need both in terms of nature and quantity of such nutrient. Agriculturally advanced countries like Israel, parts of USA and Netherlands have achieved much more through precision farming than just a traditional farming.

India has been an agrarian economy since eons. In the recent years the agricultural land has been shrinking due to construction and many other reasons but the population is increasing faster than the shrinkage of fertile land. In such a situation, India has no option but to indulge in precision farming sooner than later.

You're a CA friend of Sahil who has approached you with his other partners to help them out with the finances and initial handholding in accounts.

Based on your multiple meetings with the partners and potential vendor partners of the LLP, you've gathered the following additional information about the business.

Farmers will be on-boarded through Mobile Application which will be able to capture location-mapped images of the farmland, display information about their sample results and also get important news on weather in their area.

Samples will be collected by the sales representatives from the farms based on specific guidelines by the LLP.

Samples are tested, analysed and reported based on special purpose machines (SPMs) which are imported from Netherlands. Each SPM will cost 96000 Euros. The cost of shipping and installation would be around 10% of the cost of the machine. SPM, in order to be usable in the business should be calibrated for each category of plants like Mango. The cost of calibration varies based on the duration of the plant, season of the year and its target market like exports or domestic as follows:

Crop/Plant	Duration	Season of the year	Target Market	Cost (Rs.)
Mango	Perennial	Summer	Domestic	5 Lacs
Mango	Perennial	Summer	Exports	8 Lacs
Tomato	6 to 9 months	All season	Domestic	3 Lacs
Tomato	6 to 9 months	All season	Exports	7 Lacs
Pomegranate	Perennial	Winter & Summer	Domestic	6 Lacs
Pomegranate	Perennial	Winter & Summer	Exports	9 Lacs
Grapes	Perennial	Feb to April	Domestic	4 Lacs
Grapes	Perennial	Feb to April	Exports	6 Lacs

Calibration exercise of each domestic SPM takes about 6 months' time. The partners have decided to focus only on perennial crops in domestic markets except for Mango as Export market is far more attractive for Mango. Accordingly, 3 SPMs were ordered. 1 Euro was equal to Rs. 79.12 on the date of order when 50% payment was done. The remaining 50% payment was done after receiving the machines in India when the exchange rate was Rs. 80.24.

You were invited by the partners for the meeting with potential vendors for Mobile App development. Going through multiple meetings, finally a vendor by name **Indosys** is selected on the following terms:

3 resources will be allocated by Indosys to Soil Elements who will be directly reporting to Nikhil. Anurag from Indosys will be the project manager and single point of contact (SPOC) for the App Development.

Average resource cost of Indosys is Rs. 75,000 per month per head. The Application is expected to be ready in 4 months as per the Statement of Work (SOW) signed by the parties. The profit margin of Indosys is 40% for all domestic projects. Once the application is ready, the ongoing support will be provided by Indosys through an Annual Maintenance Contract (AMC) which is usually 5% of the development cost.

Miscellaneous fixed assets (MFA) like Office furniture, computers, laptops etc. is expected to cost Rs. 5 lacs.

Budget for each sales representative salary is Rs.25,000 p.m. per head and 6 people will be hired initially from 1st October, 2018 and this headcount is expected to remain the same for first 6 months. This headcount is expected to increase by 6 every 6 months in the first 3 years and then stabilize at that level for year 4 and year 5. Salary increment every year can be assumed at 10%.

Office rent and other overheads are expected to be Rs. 80,000 p.m. One-time cash outflow for Office Rent Deposit is Rs. 3 Lacs. The partners have agreed to remain unpaid for initial 3 years. From year 4 and 5, each partner will draw a remuneration of Rs. 2 lacs p.m. as salary.

Akhil is in-charge of the marketing campaign. Marketing budget given by him is as follows: (Rs.)

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5
Van Campaign	5 Lacs	10 Lacs	10 Lacs	12 Lacs	15 Lacs
Wall Painting	3 Lacs	5 Lacs	6 Lacs	8 Lacs	10 Lacs
Farmers Meeting	3 Lacs	4 Lacs	5 Lacs	6 Lacs	8 Lacs
Marketing collaterals	1 Lac	1.5 Lacs	2 Lacs	3 Lacs	3 Lacs

Van Campaigning, Wall Painting and Farmers meetings these are some of the age-old marketing practices for agricultural business. Even though farmers in recent times have started using smart phones and internet, these practices are still yielding results, especially for new brands coming into the market. Moreover, these practices also ensure continuity of employment opportunities for people engaged in painting etc. who normally live nearby major village clusters.

The revenue model of the firm has been kept simple for now. Farmers need to subscribe the test-packages through mobile application. Anyone can download the App but only paid members will be able to access advanced features like taking geo-location based pictures of the land, requesting for test reports etc.

The subscription plans of the firm are as follows (per sample basis):

2-test package	Rs. 2000
8-test package	Rs. 5000
16-test package	Rs. 10000

Barely, 3 months into the operations, the firm has already started getting attracted towards angel investors in Mumbai, Bangalore and Chennai. As a finance consultant you have advised your friend Sahil to wait for some more time before actually responding to any investors or trying to approach one on his own.

This is so because with time the valuations get better and better. Also, if there are any issues in the minimum viable product (MVP) during the trial run, the same can be fixed and a new version can be launched in the market.

During the first year of operations, the LLP incurred the following cost:

Direct Cost – Rs. 19,00,000

Indirect Cost – Rs. 75,32,500 (which includes depreciation and amortization of intangible asset)

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

1. The Mobile Application that is being developed by Soil Elements LLP can be classified as _______ subject to criteria in the specified IND AS. Successful trial of on-boarding a few pilot customers has been done by the firm.

(a) R & D cost.

(b) Intangible Asset.

(c) Revenue Expenditure.

(d) Deferred Revenue Expenditure.

2. The special purpose machines imported from the Netherlands, can't put to use directly without calibrating the same for crop-specific pre-set information and conditioning. Cost of calibration should be treated as ______.

(a) Revenue expenditure.

(b) Calibration expenses.

(c) Capitalized as part of SPM cost in PPE.

(d) Deferred Revenue Expenditure.

3. There has been a fluctuation in the foreign exchange rate of Euro. What will be the treatment of foreign exchange difference between the time of order and the time of balance payment for SPMs?

(a) Will be treated as exchange loss and debited to P&L Account.

(b) Will be ignored.

(c) Will be treated as part of preliminary expenses to be written off over next 5 years.

(d) Will be added to the cost of SPM to be capitalized.

4. In year 3, the firm is approached by an investor for 10% stake and with an exit plan of 5 years from there. If the investment is to be taken from the investor what is the first compliance required?

(a) Private Placement Offer.

(b) Increase in contribution.

(c) Conversion of LLP into company.

(d) Filing of PAS-3 and PAS-4 with the Registrar of Companies (RoC).

5. What is the total cost of calibration of SPMs purchased?

(a) Rs. 15 Lacs

(b) Rs. 16 Lacs

(c) Rs. 17 Lacs

(d) Rs. 18 Lacs

Part B- Descriptive Questions

6. What is the cost of SPM used for Mango, if all the SPMs were funded by bank (invoice value only) at a cost of 10% p.a.? Assuming that it took 13 months for the machines to get ready for the intended use? **(5 Marks)**

7. Special Purpose Machines (SPM) have been the major capex for the firm. What are the disclosure requirements as per relevant IND ASs in respect of SPMs? **(5 Marks)**

8. If the firm wants to achieve break even in the first year of operation, what would be break-even no. of farmers subscribing to the App? Assume that each farmer will buy 10 numbers of only the 2-test package in the first year? **(5 Marks)**

CASE STUDY 4

Live Green, Love Green, Be Green..........

With this thought in mind, Rahul Jain, an Environmental Engineer innovated the idea of setting up a Venture for providing **"Gardening Services"** as a Start-up in his home city of Ludhiana. Since childhood, he had heard many a times that Ludhiana is the Manchester of India, an industrial hub and wondered how much his city needs to be Green for its Beautification and a Pollution- Free Environment. He discussed the idea of this start-up with his school friend Riya, a Commerce Graduate and Rohan Pai, a college friend living in Bengaluru - a Software Engineer & Application Developer. The three of them discussed several times over this idea and finally decided to go ahead with the venture. They Knew that before proceeding forward with anything, they had to be clear with the research and set clear objectives.

"New India Green India" being the need of the hour, this start-up business idea of theirs would cater to the following products & services:

1. The Business of their start-up would be to provide Pots, Flowers, Seeds, Saplings and other Plants of utility or having aesthetic value at the door-step of the Customer.
2. The Business would also include providing Gardening services to the Customers by employing Gardeners either directly or on Contract Basis.
3. They would advertise and take orders via Website, Mobile App, Phone Calls and they would need to develop an appropriate Payment & Feedback Policy.

They divided all the Preliminary Work among themselves. They were apprehensive that they need to opt for a suitable Business Structure for their Start-up keeping in mind various compliances, so Rohan took the task of researching on this and for the development of the necessary e-infrastructure, i.e., the Website and Mobile Application as well. Riya, being a Commerce graduate took the charge of looking into the Taxation Compliance of the Business and Rahul himself took upon the task of looking into the design and costing process for the proposed Start-up.

LEGAL STRUCTURE & DESIGN

Rohan, being an Application Developer himself would easily design the Mobile App, Website and other necessary e-infrastructure. However, for giving their start-up a suitable legal form, he consulted Mr. Lamba, a Practising Chartered Accountant. On being approached, Mr. Lamba suggested him that if they are a Start-up, then they must opt for a Private Limited Company because of more benefits available but lesser and easy to follow compliances. He briefed Rohan on the following points:-

1. They would need to think of an innovative and catchy name whose availability will be checked with the Ministry of Corporate Affairs, Govt. Of India.
2. The Country is Passing through a **"Start-Up India Movement"** and a host of benefits will be available to their Start-Up.
3. He will Carry out the whole Incorporation Process for them.
4. Rahul, Riya & Rohan would be the subscribers to the MOA of the Co. and therefore would be its First directors. They would need to apply for Director Identification Number (DIN) and all the Provisions w.r.t. a Private Co. for Board Meetings, General Meetings, Maintenance of Books of Accounts, Statutory Registers, Filing of Periodic & Annual Forms would apply mutatis mutandis to their start-up as well.
5. Under the Incentive of Doing Business initiatives of the Government of India, the Government in order to ease the incorporation process, has set up a mobile application as well as a dedicated web portal whereby:-
   (a) A simplified form can be filled for registration of start-up with various government agencies. Importantly, this mobile application has been integrated with the Ministry of Corporate Affairs for seamless integration.
   (b) Filing for compliances and obtaining information on the status of various clearances and approvals has also been made possible on the app.

TAXATION

Riya, herself had read about start-ups and their taxation during her study and training time. She researched more on this aspect and found about the taxation policies and incentives relating to their Start-Up. On this aspect, she found the following important considerations necessary:-

1. Their start-up would be liable to taxation under the head PGBP like any other Normal Business.
2. However, with the present govt. supporting and motivating the growth of start-ups, they will be eligible for Tax- Incentives u/s 80-IAC in order to aid their growth in the early phase of their business.
3. A deduction of 100% of the Profits & Gains derived by them from this Proposed Business, being an eligible business for section 80-IAC, is allowed for any 3 consecutive Assessment Years out of 7 years beginning from the year in which their eligible Start-up company is incorporated.

4. She got to Know about the meaning of Eligible Business and Eligible Start-up under 80-IAC of the Income Tax Act, 1961.

Company or LLP engaged in Eligible Business is an Eligible Start-Up for claiming Deduction if :-
1. Incorporated during the Period from 01.04.2016 - 31.03.2021
2. Total Turnover ≤ Rs. 25 crores in the P.Y. relevant to the A.Y. in which deduction is claimed.
3. Holds a certificate of eligible business from the notified IMBC.

5. A CBDT notification also exempted Start-ups from taxation in respect of Share Premium received from Resident investors. This means that their Start-up may receive funding from Resident investors without having to pay income-tax on the amount of Share Premium received on the shares issued to investors.

6. Also, Capital Gains arising from the sale of Residential Property by an Individual & HUF have been made exempt **u/s 54GB** of the Income Tax Act, 1961 when such gains are invested to subscribe equity shares of an eligible Start-up subject to certain terms and conditions.

COSTING & REVENUE ASPECTS

Rahul, an Environmental Engineer was thought to be fit to take upon this aspect. He would need to carry out detailed Operational Analysis, Investment involved, Costing Technique and Methods to be adopted and how to induce the investors to fund their business for they being low on Budget. The most important task was the Strategic Analysis of the Operating Income, they could expect to generate from their Start-up in early years and in Future. He evaluated various Costing techniques to evaluate Profitability and found the ABC method to be the best suitable for their start-up. For analyzing Operating income, he spread his analysis into 3 main areas of **Growth Component**, **Price Recovery Component** & **Productivity Component** and to cover both revenue and cost-effect on these Components separately.

Rahul found that a well-Designed ABC system is a powerful aid to management evaluation & decision making to improve organizational performance. ABC, with its emphasis on activities and their cost-drivers, helps cost to be identified more easily & effectively. However, in their case, **Customer Profitability Analysis** was more important because to cost customers was more important than to cost their products/ services. Being a relatively new technique, ABC creates Cost pools for activities based upon the customers' different activity profiles. All customers may not cost the same owing to distance variations w.r.t. delivery to various customers, rush orders, after-sales services, contract-based services, etc. Their cost included Flower Pots, Plants and Saplings cost, Designing, Order Processing costs, Delivery Costs, Gardeners' Salary/ Daily Wages for Gardening Services provided to Customers on a Periodic or Contract basis, etc.

After gaining full knowledge of the tasks assigned amongst themselves, they all met again with their respective research findings and decided to go ahead with their eligible start-up under the name &

style of **<u>'Haryali Private Limited',</u>** which is a technology driven start-up, with the tagline <u>'Greener than Ever'</u> to make the city of Ludhiana beautifully green than ever. The registered Office of the Company was set up in Ludhiana itself and starting operations to be carried at Ludhiana level only. It was also decided to expand the business Pan- India once it is successful in Ludhiana.

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

1. Rohan, one of the Directors of Haryali Pvt Ltd., residing in Bengaluru, usually attends the Board Meetings through Video-Conferencing. However, he is not allowed to attend the Meeting of Board of Directors through Video-Conferencing or other audio visual means but IN PERSON only for-

   (i) Approval of Annual Financial Statements.

   (ii) Approval of Board's Report.

   (iii) Approval of Managerial Remuneration.

   (iv) Approval of Prospectus.

   (v) Approval of Buy-Back of Shares.

   (vi) Approval of Appointment of New Directors.

   (a) (i), (ii) & (vi)

   (b) (ii), (iv) & (v)

   (c) (i), (ii) & (iv)

   (d) (iii), (iv) & (v)

2. Rahul, Riya & Rohan need to decide on the Maximum Managerial Remuneration they can get as Directors. So, on a reading of section – 197 of the Companies Act, 2013 read will Schedule V, the maximum percentage of Net Profits of the Company they can get in the form of Managerial Remuneration is -

   (a) 11%

   (b) 10%

   (c) 5%

   (d) Sec.-197 not applicable to their Company

3. The Management of Haryali Pvt Ltd. would need to file Form _________ for submitting Financial Statements and Form _________ for filing their Annual Return respectively with ROC every year.

   (a) AOC – 4, MGT – 7

   (b) MGT – 9, AOC – 4

(c) AOC – 4, DIR – 8

(d) AOC – 4, MGT – 9

4. As per a CBDT notification, a start-up is exempt from taxation w.r.t. Share Premium received From Resident investors. Here, Share Premium refers to-

(a) Aggregate consideration received for issue of shares as exceeds the fair market value of such shares.

(b) Aggregate consideration received for issue of shares as exceeds the paid-up value of shares.

(c) Aggregate consideration received for issue of shares as exceeds the Face Value of such shares.

(d) Fair market value of Shares as exceeds the Face Value of shares issued.

5. Mr- X sold a Residential Property and wants to invest his Capital Gains in the Shares of Haryali Pvt. Ltd. for clamming exemptions u/s 54GB . He is subject to the condition that he holds more than 50% Shares of Haryali Pvt Ltd., a technology driven start-up, and such amount is further utilised by the Company to purchase-

(a) Land or Building.

(b) Flower Pots & other items.

(c) Computer or Computer Software.

(d) Floral park.

Part B- Descriptive Questions

6. Haryali Private Ltd.'s total turnover & Profits and gains from its eligible Start-up Business turn out to be as follows for the P.Y. 2018-19 to P.Y. 2024-25:

PARTICULARS	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Profit/Loss (in Rs. Lakhs)	(2.52)	(1.37)	6.52	8.13	9.87	7.59	9.42
Turnover (in Rs. Lakhs)	15.42	18.36	20.21	22.72	24.95	23.52	24.68

(a) Explain what is an 'Eligible Business' as per section 80 – IAC of the Income Tax Act, 1961. **(2 Marks)**

(b) By what time does Haryali Pvt Ltd. need to file its Return of Income for the A.Y.2019-20 to claim deduction u/s 80 – IAC ? **(1 Mark)**

(c) Explain in respect of which year the company can avail benefit under section 80 – IAC and how much? **(3 Marks)**

7. List the provisions of the Companies Act, 2013 w.r.t. holding of Board Meetings by Haryali Pvt. Ltd. **(3 Marks)**

8. 'X' and 'Y' are two Prime Customers of Haryali Pvt. Ltd. who purchase a special category of Plant Saplings from the Company to distribute in various societies of the city under 'Green India Initiative' through their respective NGO's. The Selling Price per Sapling is Rs. 540 and its cost to Haryali Ltd. is Rs. 442.

   The Additional costs are:

   Order Processing Cost : Rs. 20 per Order

   Delivery Cost : Rs. 35 per Delivery

   Details of X & Y's Purchase for the Period is as Follows:

Particulars	X	Y
Pots Purchased (in No.)	35	50
No. Of Orders	5 (each of 7 units)	10 (each of 5 units)
No. Of Deliveries	5	0

   Haryali Pvt. Ltd. has devised a Policy to give a Discount of 5% on the S.P. on order for 5 Units or more and to further give 8% discount on the Undiscounted Selling Price if a Customer places order through their Mobile App & uses his own transport to collect the order.

   Required :-

   (a) Analyse the Profitability by Comparing Profit per unit for each Customer. **(4 Marks)**

   (b) Comment on the Discount Policy on Delivery. **(2 Marks)**

CASE STUDY 5

'INDIA - THE BUDDING INVESTMENT HUB'

Gone are the days when India used to be known as an underdeveloped nation and then, a slowly developing nation which could only cater to the demands of its own Population barely. Time changes and so does the global image. With the hard work of its huge Population and tremendous growth opportunites, India is slowly becoming a favorite destination for investments from outside of its boundaries. It has become one of the most progressive countries in the world which possesses immense human potential, both as the Producer and as the Consumer. With such a buzzing name in the Foreign Investment world, there has been huge amounts of FDI into the country and trends reveal that every year the FDI inflow in India is increasing due to a host of foreign businesses starting their operations in the country.

One such foreign business is of '**Ahuja Designs Incorporated**' based in U.K and headed by an India-born UK citizen Mr. Ramesh Ahuja. Mr. Ahuja had migrated to the U.K. in the 80's with his family and set up a business over there which flourished over so many years and is now a big Brand name in the UK market in the business of Furniture Designing and its Uniquely Designed High Quality Products. Now Mr. Ahuja is eyeing on investing in Indian market and he has asked the General Manager of his company Mr. Tandon to work out the feasibility of investing in India in Business and all related Procedural Compliances.

Mr. Tandon has approached CA Vishal in India for Consultancy purposes and assigning all the work relating to setting up of their business in India. CA Vishal is a Partner in the Partnership firm M/s G & Co. since the past 6 years. On being approached, he assured Mr. Tandon that their firm would give them the best services possible in setting up of their business in India. CA Vishal after due discussions with his Partners in the firm has prepared a detailed report to be sent to Mr. Tandon for consideration and quoting fee to be charged by their firm from time to time for the services to be rendered in the due course time as follows:-

M/s G & Co.

ABC Road, New Delhi

REPORT ON PROCEDURAL & TAXATION COMPLIANCES W.R.T SETTING UP OF BUSINESS IN INDIA

It is indeed a Pleasure for our Firm to assist your reputed company in setting up your business in India, a buzzing destination for overseas investments. We, hereby provide you with all the details as requested by you:-

LEGAL FORM & PROCEDURE

Foreign businesses can adopt 2 strategies for entry into Indian market – One is by registration of a company or other is by establishing a branch/liaison office in India. The former is the easiest way and the fastest also because it falls under the Automatic route for FDI in India and in such case, no special permission is required from the Central Govt. in India. The latter case however requires RBI and/or Government approval and therefore, we suggest you to opt for the Private Company route because the cost and the time which is required for the registration of a Branch/Project/Liaison office in India is higher than the time & cost attached to the incorporation of a Private Limited Company as a Foreign Company in India.

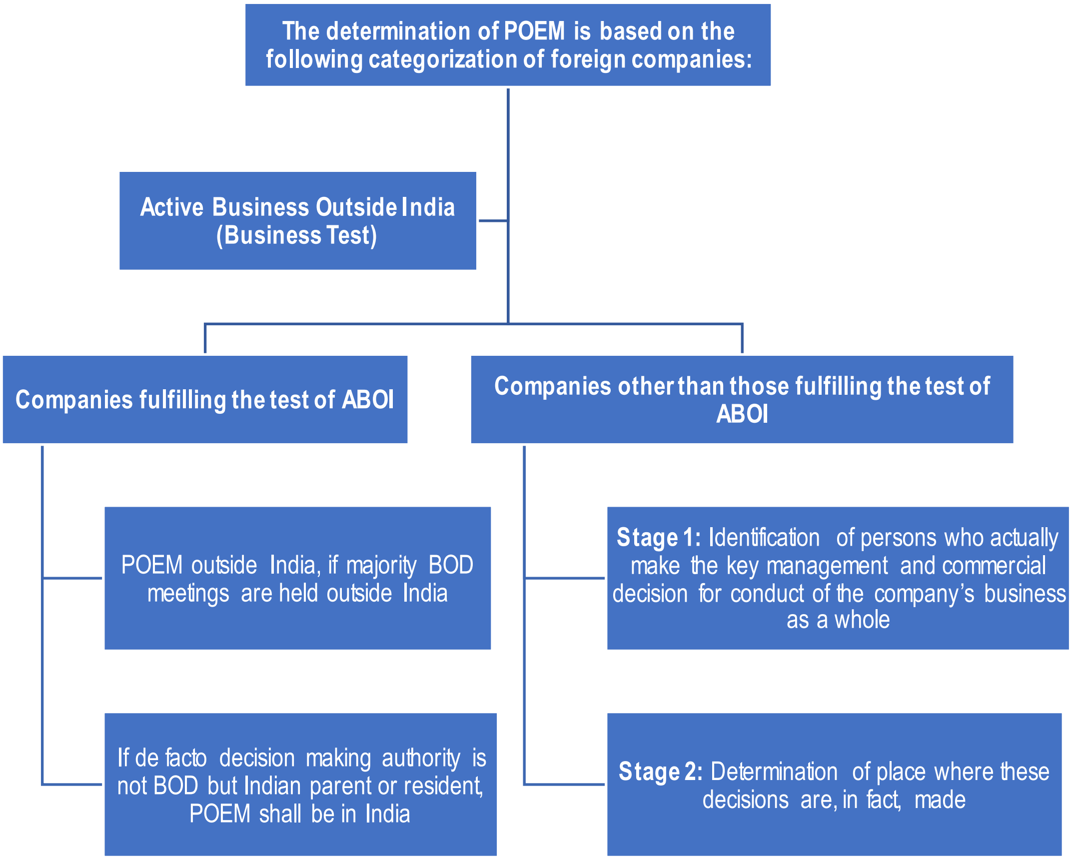
The Indian law defines a 'Foreign Company' as any company or body corporate incorporated outside India and which has a place of business in India whether by itself or through an agent, physically or through electronic mode and it conducts any business activity in India in any other manner. Further, every Foreign company has to deliver to its Jurisdictional Registrar of Companies, all the required documents (to be prepared by us) within 30 days of establishing its place of business in India in the requisite form.

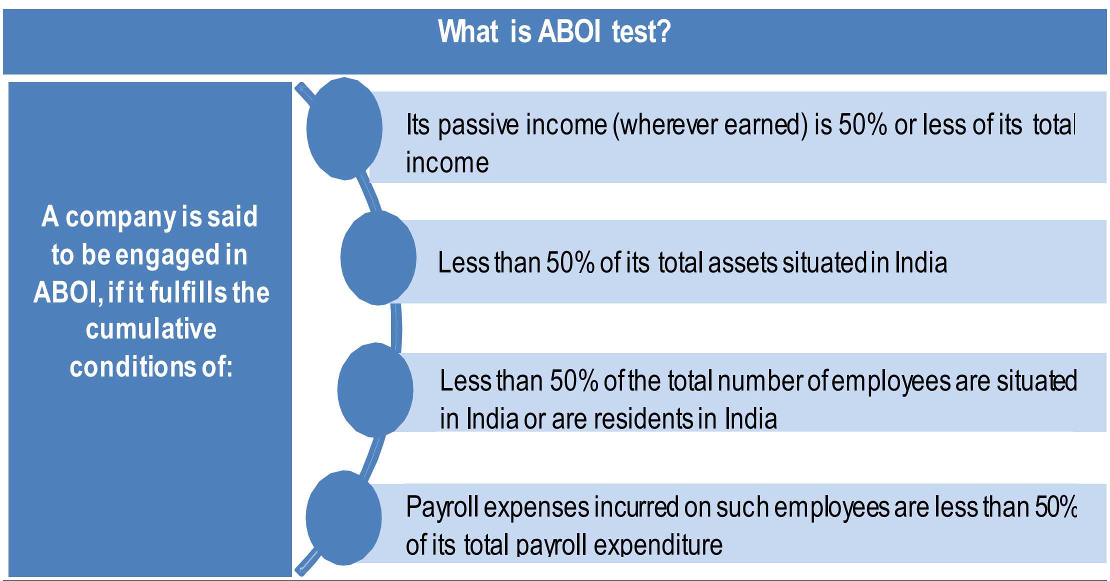
In order to start a company in India, a minimum of two individuals and an address is required in India. If we are talking about a Private Limited Company, it should have at least two directors (individuals) and a minimum of two shareholders (can be individuals or even corporate entities). Furthermore, one of the Director of the Company must be an Indian Citizen and also an Indian Resident. As per the rules, the preferred legal entity structure for the Foreign companies is to preferably establish a company which consists of three Directors, out of which two directors can be foreign nationals belonging to the Parent company and one of the directors have to be an Indian citizen. There are no such rule of minimum shareholding of the Indian Director. It is mandatory to have an address in India which can be served as the registered office address of the company. Most of the foreign companies setup their registered offices in the metro cities in India like Mumbai, Delhi, Bangalore, Chennai, Hyderabad etc.

All other issues w.r.t. issue of Prospectus and further Procedural Compliances like Accounts, Audit, etc. can be dealt at a later stage once we finalise with the Registration Process. However, it is necessary to bring to your kind notice that there are Fines/Punishments under the Indian Companies Law for the contravention of its provisions by a Foreign Company too as laid down under Section-392. But, you may note that the Foreign Company's failure to comply with such provisions of the Chapter-XXII of the Companies Act,2013 would not affect the validity of its contracts, etc.

TAXATION COMPLIANCES

Taxation of Cross-border transactions in India is generally based on Residence and Source of Income. The overview of these rules is contained in Sections-5,6,8,9 of the Income tax Act,1961. While Residents are taxable on Global income, Non-residents are taxed on their Indian sourced income or income received or accrued or deemed to accrue or arise in India. The residential status of any Non-Indian Company in India is determined w.r.t. its **POEM - Place of Effective Management** of the Company. If POEM of the Company in any year is in India, then it is a Resident in India for that particular year. Further, the process of determination of POEM would be primarily based on the fact as to whether or not the company is engaged in Active Business Outside India (ABOI) as follows:-


The determination of POEM is based on the following categorization of foreign companies:
Active Business Outside India (Business Test)
Companies fulfilling the test of ABOI
Companies other than those fulfilling the test of ABOI
POEM outside India, if majority BOD meetings are held outside India
If de facto decision making authority is not BOD but Indian parent or resident, POEM shall be in India
Stage 1: Identification of persons who actually make the key management and commercial decision for conduct of the company's business as a whole
Stage 2: Determination of place where these decisions are, in fact, made


What is ABOI test?
A company is said to be engaged in ABOI, if it fulfills the cumulative conditions of:
Its passive income (wherever earned) is 50% or less of its total income
Less than 50% of its total assets situated in India
Less than 50% of the total number of employees are situated in India or are residents in India
Payroll expenses incurred on such employees are less than 50% of its total payroll expenditure

Hence, where a Foreign Company's income –taxation is based upon its POEM, its Employees or Director's who might come on frequent basis in India to transact business are governed by the provisions w.r.t. Residential Status of Individuals as contained in the Indian Income-tax law. Further, Taxation Provisions as regards to the Business of the Company can be discussed later on, once of the Company Starts Operating its business in India.

We, at M/s G & Co. will be very delighted to render our services to your prestigious company and help you grow to achievable heights in India. We hope that in the beginning –this much of information is beneficial for your decision making purposes. Please let us know if any further information is required at your end or any clarity you feel to seek, we shall be happy to help.

Please refer to the attachment with this e-mail for the fee quotes w.r.t. the services to be rendered by our firm to your good self in due course of time.

Thanks

CA Vishal

Partner

M.No.- XXXXXX

M/s G & Co.

Chartered Accountants

QUESTIONS

Part A- Multiple Choice Questions (2 Marks each)

1. If Ahuja Designs Incorp. conducts any business activity in India through Electronic mode, it means carrying out electronically based, whether main server is installed in India or not, including, but not limited to-

   (i) B2B & B2C transactions, data interchange and other digital supply transactions.

   (ii) Offering to accept deposits or inviting deposits or accepting deposits or subscriptions in securities, in India or from citizens of India.

   (iii) Online services such as telemarketing, telecommuting, telemedicine, education and information research.

   (iv) All related data communication services.

   (a) (i) & (ii)

   (b) (ii) & (iii)

   (c) (i), (ii), (iii) & (iv)

   (d) (ii), (iii) & (iv)

2. ‘Ahuja Designs Ltd.’ would require to file all the information & documents with the jurisdictional ROC within 30days of the establishment of its place of business in India in FORM:

   (a) FC-2

   (b) FC-1

   (c) FDI-1

   (d) FDI-2

3. Foreign Nationals or entities can hold ________ of the shares in Ahuja Designs Ltd. if incorporated as a Foreign Co. In India.

   (a) 100%

   (b) 75%

   (c) 57%

   (d) 25%

4. “Passive Income’ as referred to in the ABOI test for a Foreign Company’s taxation refers to:

   (a) Income from the transactions where both the purchase and sale of goods is from/to its associated enterprises.

   (b) Income by way of royalty, dividend, Capital Gains, interest or rental income whether or not involving associated enterprises.

   (c) Aggregate of (a) & (b).

   (d) Net income obtained by deducting (b) from (a).

5. ‘Head office’ of Ahuja Designs Ltd. would be the place where the company’s Senior management and their direct support staff are predominantly located and not where the majority of its employees work or where its board typically meets. Which of the following officers of the company doesn’t fall under the definition of ‘Senior Management’?

   (a) Managing Director or CEO.

   (b) Financial Director or CFO.

   (c) Chief Operating Officer (COO).

   (d) Debenture Trustee/ Nominated Director.

Part B- Descriptive Questions

6. Ahuja Designs Ltd., sets up its Indian Principal Place of business in New Delhi. It is required to deliver various documents to ROC under the provisions of the Companies Act,2013:

(a) You are required to state, where the said company should deliver such documents.

(1 Mark)

(b) In case, it fails to do so, state the Penalty prescribed under the said Act, which can be levied. **(3 Marks)**

7. To handle the growing Indian Business more effectively, Mr. Ramesh Ahuja decides to permanently shift to India with his family and decides to manage the UK business from India itself. He returned to India on 12th June, 2018 for permanently residing in India after a stay of about 20 years in UK and provides the following sources of his various income & seeks your opinion to know about his liability to income tax thereon in India in Assessment Year 2019-20:

(a) Income of rent of the flat in London which was deposited in a bank there. The flat was given on rent by him after his return to India since July, 2018.

(b) Dividends on the shares of three UK Companies which are being collected in a bank account in London. He proposes to keep the dividend on shares in London with the permission of the Reserve Bank of India.

(c) He has got two sons, one of whom is of 12 years and other 19 years. Both his sons are staying in London and not coming to India with him. Each of his sons is having income of Rs. 75,000 in U.K. in foreign currency (not received in India) and of Rs. 20,000 in India.

(d) During the preceding accounting year when he was a non-resident, he had sold 1000 shares which were acquired by him in British Pound Sterling and the sale proceeds were repatriated. The profit in terms of British Pound Sterling on sale of these 1000 shares was 175% of the cost at Rs. 37,500 while in terms of Indian Rupee it was Rs. 50,000.

(8 Marks)

8. Examine with reasons whether the following statements are correct/incorrect :-

(a) Amount paid by the Govt. of India for use of a Patent developed by 'Ahuja Designs Incorp.'(UK) is taxable in India U/s 9 of the Income Tax Act, 1961. **(2 Marks)**

(b) As per CBDT Circular no. 8/2017, dated 23-02-2017, POEM guidelines shall not apply to Ahuja Designs Ltd. if its Turnover or Gross receipts are Rs. 100 Crores or less in a Financial Year. **(1 Mark)**