Ludhiana, Punjab is famous industrial hub for manufacturing industrial goods, machine parts, auto parts, household appliances, hosiery, and apparels. PQR Ltd. is a manufacturing company based in Ludhiana manufacturing chain drives. Sanjiv Pahuja is the Managing Director of the company.

The chain drives manufactured by the company are used by various industries and are used in hydraulic lifts, overhead hoists, conveyor belts, etc. Ludhiana is also a major hub for manufacturing bicycles. The product of the company is procured by leading bicycle manufacturers in the country. Bicycles and its parts using chain drives manufactured by PQR Ltd. are sold not only within the country but are exported all across the world. Having expertise in the business, the company is often engaged as consultants for installation of conveyor belts and other systems in manufacturing and automated movements of various materials. Thus, PQR Ltd. has both manufacturing and service revenue streams.

PQR Ltd. has deployed the following applications for its business activities:

<table>
<thead>
<tr>
<th>Application Name</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>QWERTY</td>
<td>Allows employees to fill and submit time sheets</td>
</tr>
<tr>
<td>ASDF</td>
<td>Financial accounting and reporting (has an interface with PQRT)</td>
</tr>
<tr>
<td>PQRT</td>
<td>Cost Accounting and reporting (has an interface with ASDF). This was provided free of cost along with ASDF application.</td>
</tr>
<tr>
<td>CRT</td>
<td>Internal knowledge repository</td>
</tr>
<tr>
<td>VMS</td>
<td>Internal share point portal used for utilities such as leave management, storing policies and procedures of PQR Ltd., creating email signatures, meeting room booking and cab booking system etc.</td>
</tr>
<tr>
<td>SWIPE</td>
<td>Logs employee swipe in / swipe out data</td>
</tr>
</tbody>
</table>

Sanjiv Pahuja is also coordinating implementation of Ind AS in the PQR Ltd. The company falls under phase 2 of IND AS implementation. Following are details of the financials (in Rs. Crores):
Revenue (including royalty income from patent registered in India) 1000
Direct expenses (including expense related to patent registered in India) 550
Depreciation as per books of accounts 100
Interest expense 50
Actuarial Gains 30
Advance tax 50
Expense relatable to patent chargeable to tax u/s 115BBF 50
Income relatable to patent chargeable to tax u/s 115BBF 75
Depreciation as per Income Tax 75

After promulgation of Goods and Service Tax, Sanjiv Pahuja is very apprehensive of its impact on the business. He is disturbed by the news reports and the general grapevine that have raised several challenges in the implementation of Goods and Service Tax. Highly concerned, the company appointed XYZ Co. Chartered Accountants to prepare Risk Control Table and ascertain the impact of GST on the processes followed.

XYZ Co. is leading firm of Chartered Accountants in Chandigarh rendering services to several big corporates in Punjab and Haryana. After a long discussion between the Managing Director of PQR Ltd. and XYZ Co. the firm of Chartered Accountants was asked to identify and suggest new controls which PQR Ltd. should design and implement due to GST implementation.

The Chartered Accountants deployed a team to study the existing processes within the company. Extensive interviews were also conducted of senior managerial personnel in the company.

It was noted that the PQR Ltd. uses ‘WSM’ ERP for accounting, financial reporting and inventory management. Below are the notes prepared during process understanding discussions held with respective team members of PQR Ltd.:

**Purchase to pay process**

1. **Vendor creation process**

Procurement team maintains list of vendors along with the agreed prices in WSM system. In case of better prices being available, the procurement team sends an initial requirement list to the prospective vendor. The initial requirements contain details such as government proofs and tax registrations. On receipt of the requirements from the vendor, the procurement team verifies the same to ensure validity of documents shared. Once the data requirements are fulfilled, the draft agreement is prepared by legal department and the proposal is shared for senior management approval.

Once approved, the vendor is added to the list of vendors in WSM application.
2. **Purchase Requisition (PR) & Purchase Order (PO)**

Individual employees and designated department heads can raise PR. The PR contains the item details and quantity. The PR is raised in IJK tool which has in-built workflow for PR processing. The PR is sent to supervisor of the requestor for business approval. Thereafter, it is transferred to procurement team for further processing. Procurement team verifies the requested items and approvals. Then it first checks whether any stock is available in house or at any other office location. If not, then it identifies appropriate vendor and raises PO in WSM application for the requested quantity and agreed amount.

3. **Goods receipt & invoicing**

   a. *In case of non-factory items:* On delivery of the requested item, requestor performs receipt by collecting the items and informing procurement team over email that requested items have been received. The invoice is separately sent to Finance for payment. A copy of the invoice is sent to Procurement for their records.

   b. *Goods receipt at factory / warehouse:* Designated personnel verifies the delivery challan against invoice and unloads the goods. The designated personnel informs the procurement team over email that requested items have been received. The invoice is separately sent to Finance for payment. A copy of the invoice is sent to Procurement for their records.

4. **Payment**

Finance checks the PO raised in WSM and matches the same with invoice received. On satisfactory verification of quantity and price, the invoice is approved and payment is released. There may also exist non-PO based expenses for which invoice is the only document. These are processed on invoice receipt and payment released by Finance. Procurement is not involved in these expenses.

5. **Reconciliations & Reporting**

On monthly basis, the Finance team files returns and makes payment of VAT, CST, Excise and Service Tax.

**Order to cash process**

1. **Customer creation**

Directors and above designated personnel send requests to Receivables team. Receivables team obtains the required government proofs and tax registrations from the prospective customer. These documents are vetted by the Receivables team and they provide their approval. On receiving Receivables approval, the customer agreement is prepared by legal department in consultation with the Director who raised the customer request. The agreement is then sent for BOD review and upon approval, shared with the customer for their signatures and approval. Once approved and signed, the customer is added to the list of customers in WSM application.
2. **Customer Invoicing**
   
a. **Services:** For those customers where billing is based on time and motion basis, the invoices are raised as per the frequency mentioned in the customer agreement. The amount is based on the hours charged which is recorded in the timesheet and appears as work in progress (WIP) amount. Timesheets are recorded in the WSM ERP. There is an approval workflow built into WSM ERP for reviewing and approving timesheets. Where billing is based on milestones or fixed price, the invoice is raised as per the frequency in the agreement. The amount is based on the percentage of completion (POC). The invoices are generally due in 30 days after receipt.

b. **Manufacturing:** Sales Order (SO) is created in WSM against the PO received from customer. Designated personnel at the factory/warehouse review the order and ascertain whether stock exists for immediate shipment or production is required. If not in stock, indent is created for the production. Once produced/stock ready, quality checks are performed and invoice is generated at factory/warehouse from WSM ERP. Goods are then shipped along with the invoice. Invoice once generated in the WSM system cannot be changed.

3. **Accounts Receivable**

The Receivables team uses the WSM application to extract the Debtors Ageing Report. This report is used to track outstanding dues and send email reminders. The receivables are divided into buckets of 30 days, 60 days, 90 days, 180 days and 360 and above days.

4. **Reconciliations & Reporting**

On monthly basis, the Finance team files returns makes payment of VAT, CST, Excise and Service Tax after considering the taxes paid on inputs.

**QUESTIONS**

A. **Multiple Choice Questions (2 Marks each).**

1. In the Risk Control Table of PQR Ltd., controls should be firstly classified into:
   
i. Preventive
   
ii. Detective
   
iii. Manual
   
iv. Automated
   
v. Entity Level
   
vi. Corrective
   
   (a) i, iii & v
2. Which of the following statements are true?
   i. Control risk is the sum of audit risk and detection risk.
   ii. As per SA 402, there can be a Type 1 or Type 2 report.
   iii. Maker checker control (segregation of duties) is a compensating control.

3. Which of the following statements are false?
   i. Detective controls provide greater audit comfort than preventive controls
   ii. Automated controls can be preventive or detective in nature
   iii. Statutory auditor can help management prepare Risk Control Table
   iv. Control Deficiencies are required to be reported on the face of the audit report

   (a) i, ii & iii
   (b) i, ii & iv
   (c) i, iii & iv
   (d) ii, iii & iv

4. Goods and Service Tax is:
   (a) Source based tax on consumption of goods and services
   (b) Destination based tax only on sale of goods and services
   (c) Destination based tax on consumption of goods and services
   (d) Source based tax on supply of goods and services

5. PQR Ltd. undertook following transactions in October 2017:
   1. Purchase of Raw material – Rs. 1,00,000 (excluding GST) from trader based in Punjab
   2. Local Sales of goods – Rs. 60,000 (excluding GST)
   3. Sale of goods to Andaman & Nicobar – Rs. 60,000 (excluding GST)

   Assume rates to be 9% (CGST, SGST, UTGST & IGST). The net tax payable in cash by PQR Ltd. is:
   (a) CGST – Rs.1,800 & UTGST – Rs.1,800
6. Following are the GST amounts paid on purchase transactions of PQR Ltd. for the month of October 2017.

   i. Ball bearings from job worker – Rs. 5,000
   ii. Metal purchases from dealer following composition scheme – Rs. 10,000
   iii. Fixed Assets – Rs. 50,000 (The GST amount has been capitalized in the Gross Block of PQR)
   iv. Consumables from unregistered dealer – Rs. 1,000

The GST credit of PQR Ltd. for the month of October 2017 is:

   (a) 5,000
   (b) 15,000
   (c) 66,000
   (d) 16,000

7. PQR Ltd. has agreed to provide consultancy services to ABC Ltd. Following are the clauses related to billing.

   i. ABC Ltd. incurs the conveyance charges for PQR Ltd. staff who visit ABC Ltd. for providing the services. These expenses are liability of PQR Ltd. however these are not included in the sale value.
   ii. PQR Ltd. will charge interest @ 2%p.a. for any delayed payments
   iii. PQR Ltd. receives special subsidy from a non-Government body on consultancy given to specific industries. ABC Ltd. falls under these industries and hence PQR Ltd is entitled to receive subsidy on services provided to ABC Ltd.

Which of the above items will be included in calculating value of taxable supply?

   (a) i & ii
   (b) i & iii
   (c) ii & iii
   (d) i, ii and (iii)
8. Read the following statements:
   i. In case PQR Ltd. supplies exempted goods or services or both, it is required to issue a bill of supply instead of a tax invoice
   ii. In case PQR Ltd fails to pay creditors’ dues within 6 months, the input tax credit claimed on these purchases will become ineligible.
   iii. In case PQR Ltd. receives an advance towards goods to be supplied, tax will not be payable on receipt of such advance. Turnover of PQR Ltd. in the preceding financial year is 1 crore.

Which of the above statement are true?
(a) i & ii
(b) i & iii
(c) ii & iii
(d) i, ii and (iii)

9. PQR Ltd. has entered into agreement with XYZ Ltd. which manufactures bicycles. The highlights of the agreement are as follows:
   - PQR Ltd. to provide 1000 chain drives on monthly basis.
   - PQR Ltd. to incur the freight, packing and insurance charges during each supply of chain drives.
   - PQR Ltd. to provide servicing of the drives every fortnight.
   - Payment for the servicing activity carried out during a month to be released at the end of the month.
   - PQR Ltd. to assist XYZ Ltd. with maintenance of conveyor belts on quarterly basis and installation of new assembly lines as and when required.
   - Payment for maintenance of conveyor belts to be released on quarterly basis after the maintenance activity is carried out.
   - Terms of payment for installation of new assembly lines to be finalised as and when the requirement thereof arises.

The agreement is entered into for a period of one year.

Which of the above statement(s) is/are true?
   i. The agreement involves a composite supply of goods (chain drives) and services (freight, packing and insurance) wherein the supply of chain drives is the principal supply.
ii. The agreement involves a mixed supply of goods (chain drives) and services (freight, packing and insurance).

iii. The agreement involves continuous supply of services wherein servicing is carried out of the chain drives.

iv. The agreement involves mixed supply wherein the individual supplies are supply of chain drives, supply of servicing activity, supply of maintenance service and supply of installation service.

   (a) (i), (iii)
   (b) (ii) and (iii)
   (c) (iv)
   (d) (i), (ii) and (iii)

10. For the applications relevant for audit, which of the areas are required to be tested by the statutory auditors?

   (a) Change management
   (b) Change Management & Logical Access
   (c) Change Management, Logical Access & Backup Procedures
   (d) Change Management, Logical Access, Backup Procedures & Cyber Security

B. Descriptive/Numerical Questions

11. (a) Identify the existing risk at each stage, at different levels and control procedures in the given format of Risk Control Table for:

   (i) purchase to pay process
   (ii) order to cash process.

<table>
<thead>
<tr>
<th>Area</th>
<th>Risk</th>
<th>Control</th>
<th>Preventive / Detective</th>
<th>Manual / Automated / Entity Level</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

   8 Marks

   (b) Identify changes required in process and controls due to implementation of GST.

   7 Marks

12. Which applications that are deployed by PQR Ltd for business activities are relevant for the audit? Give reasons.

   5 Marks
13. Calculate Total Comprehensive Income and evaluate whether MAT is applicable. Transition amount need not be calculated. Ignore MAT on transition amount. 10 Marks

QUESTION 2

Josch, a young IITian and an MBA with inclination towards writing started a small net based business of content writing in the year 2001 by the name – ‘21st Century Content’. Initially, his business focused on website copywriting and business blog writing. Riding the wave of sourcing work from India by western countries, his business grew quite rapidly.

Josch was also able to easily establish his business on account of high quality original content produced by him. He produced contents that scored high in the subject matter; he would extensively study a subject and write content that was directed to the target readers. With increase in business he gradually engaged freelancers and shared a part of his revenue as compensation to them.

However, he continued to do editing himself before delivering contents to the clients. With the increase in the business his focus shifted from writing contents himself to have a team to write content. He personally monitored them to ensure quality. In the year 2006 he had a team of twenty persons who were working with him on regular basis. Out of these twenty persons eight were assigned responsibility to coordinate with the clients and content writers and four worked on checking quality. Remaining persons looked after other sundry matters in business. There are also good number of external experts who were available on the basis of need. The business benefited through its unique network organization structure that comprised of separate small expert groups in each subject area. These individuals were not on regular payroll and were compensated according to their contribution. The structure helped the company define short term goals and deploy manpower when an assignment was initiated.

In the year 2008, the global economic environment went into recessionary phase. The overall business environment became quite difficult and many businesses found it tough to survive. However, recession had little impact on the business of Josch. His major customers were in United States and European countries. Half of his sales were to the customers in United States.

He also helped the clients during recession by providing free designs. He engaged seven designers and delivered contents in attractive designs. He would normally design the contents free of cost as an additional service. Sometimes when a complex design was requested by the client, he would charge a nominal price to cover cost. This became a huge selling point for his business as foreign clients found it really cheap to get the content designed from the same organisation. It also saved them time and hardship of getting the matter designed separately. Josch also got assignments that were highly technical in nature and required services of outside experts.

In the year 2008-09 his total annual turnover increased to Rs 7 crores with a profit of Rs 3.15 crores. His portfolio of activities also increased to the following:

- Marketing emails and letters
- Brochures, pamphlets, fliers
• Press Releases
• Creating miscellaneous corporate communications
• Preparation of marketing presentations.
• Writing Case studies
• Creation of White papers
• Research / Industry / Market report writing

His business grew further. In April, 2011 his business was incorporated as a private limited company with the name Quality e-Contents India (P) Ltd. The authorized share capital was kept as Rs. 80 crores consisting of 8 crore shares of Rs. 10 each. Out of which shares worth 11 crores were subscribed by seven of his friends. His previous business was valued at 30 crores by an independent valuer – Delhi based firm of Chartered Accountants. He was issued shares for the same amount. A Japanese venture Capital Firm Japan Offshore Venture invested a sum of 2 million dollar into the company. ($ 1=Rs 65).

Josch became the Managing Director of the company. Articles of Association of the Company prescribe the maximum number of directors as 9. To manage the affairs of the company, different divisions were created as operations, marketing, finance and human resources. The biggest department was operations that Josch decided to handle himself. Under him he recruited a general physician, a Chartered Accountant and an engineer to look after different technical areas. The assignments were often in the areas of medicine, finance or related to engineering. The total employee strength increased to 125. At this time Josch also proposed to constitute the following committees that was kept pending:

A. Audit Committee
B. Stakeholders Relationship Committee
C. Corporate Social Responsibility Committee

The following is the financial performance of the company in last five years.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales (Rs. Crores)</td>
<td>44</td>
<td>50</td>
<td>58</td>
<td>54</td>
<td>34</td>
</tr>
<tr>
<td>EBITDA (Rs. Crores)</td>
<td>26</td>
<td>28</td>
<td>30</td>
<td>20</td>
<td>18</td>
</tr>
<tr>
<td>Net Profit (Rs. Crores)</td>
<td>18</td>
<td>20</td>
<td>22</td>
<td>12</td>
<td>8</td>
</tr>
</tbody>
</table>

Josch was very positive about his business and wanted to expand it further. He also desired to enter into the business of printing. With existing client base he felt that he can easily achieve success by exporting printed material to the foreign clients. He called a meeting of senior company executives in May, 2017 to consider expansion into printing business. The following is the excerpt of discussion:
Josch

Our company has been growing steadily. Copywriting and creation of designs have given us significant growth. Now it is time for next leap. Let us install a state of Art printing press. The Japanese venture capitalist has agreed to make further investments in the company. They have assured another 2 million dollars. They are also ready to put in more if we convert Quality e-Contents India (P) Ltd to a public company listed in major bourses in country. It is time for us to make a killing.

Laxman, Head Finance

Printing is totally a new area for the company. In Delhi and in adjoining cities there are several printing presses. We can take printing assignment. However, instead of creating our own infrastructure, we may test the concept by outsourcing it to outside printing presses. This way we will reduce risk.

Josch

We should not be pessimistic and kill the idea as soon as it is floated. Let us analyse it and if this group feels to drop the idea we can drop it. I have no objections. My average revenue per client will increase to five times. I already have an industrial plot in Noida. The same can be transferred at the market rate.

Laxman, Head Finance

I never tried to reject the idea. I wanted to suggest a conscious approach on account of the homework that I have done. Handing a printing press would be an altogether new experience for the company. It is a capital intensive project. The project requires huge capital and running expenses. At least 20 crores for a basic setup is required. A single sheet fed four colour offset machine of a reputed brand will cost us upward of rupees 2.5 crores. I am talking about a second hand machine and not a new machine which will be at least 7 to 8 crores. If we go for faster web offsets or increase the paper size the rates would be still more. Then we also need other infrastructure. We need to install pre-press and post press units. The company will need machines such as computer to plate machine, folding machines, perfect binders, etc.

Namira, Head – Marketing

There is nobody to handle such infrastructure in the company.

Rajnish Bhargav, Head – Operations

It would be totally new experience for all of us. We should install a new machine. I am sure venture capitalist will agree for more investments. I started my career in a pre-press department of a large press and have worked there for five years.

Namira, Head – Marketing

We also need to consider environmental issues. Recently, a lot of factories have been given notices to close their operations. We need to have a macro view of the matter. There is also new environmental policy of Government.
Josch

Any project needs to be considered from all angles. I agree we need to consider the environment and the government policies on its safeguard.

Laxman, Head Finance

As an option we may also consider acquisition of a firm located in Gurgaon. They have all the infrastructure for pre-press and post-press work. They have existing clients for such kind of work in Gurgaon. We can buy our own machinery and install in its premises that has ample space.

Josch

My focus is not on Indian clients. I know the firm and it has obsolete machines.

Josch was able to convince all the members of group on purchase of new machine and installation of other infrastructure. The same was also approved by the board later which sanctioned an outlay of thirty crores. They also decided to increase the Share Capital and invite Japanese venture capitalist to invest more in the company.

The company also decided to import two new printing machines. One of the machine was imported from Iceberg in Germany. A contract was made with Iceberg on CIF basis. However, on account of delayed implementation of the contract on part of the Quality e-Contents India (P) Ltd and increase in the prices, Iceberg refused to supply the machine at the price decided earlier. There were detailed discussions between the two parties. As a result of several negotiations, the parties agreed for a negotiated price payable as follows:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Contract Price (€)</th>
<th>Changed Price (€)</th>
<th>Negotiated Price (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIF Value</td>
<td>3,70,000</td>
<td>3,90,000</td>
<td>3,80,000</td>
</tr>
<tr>
<td>Air Freight*</td>
<td>5000</td>
<td>5000</td>
<td>5000</td>
</tr>
<tr>
<td>Insurance</td>
<td>1850</td>
<td>2000</td>
<td>1900</td>
</tr>
</tbody>
</table>

*Air freight includes include loading, unloading and handling charges associated with the delivery of the imported goods to the place of importation.

Further there were vendor inspection charges (not required for making the machine ready for shipment) amounting to € 5000. There was also commission payable to local agent of the exporter at the rate of one per cent of FOB in local currency. The Inter-bank rate 1 € = Rs. 104. The other particulars relating to rate of duties and date of filing of bill of entry etc. are as follows:

<table>
<thead>
<tr>
<th>Date of bill of entry</th>
<th>Basic customs duty</th>
<th>Exchange rate in Rs. (notified by CBEC)</th>
</tr>
</thead>
<tbody>
<tr>
<td>22.01.2018</td>
<td>15%</td>
<td>102</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date of arrival of aircraft</th>
<th>Basic custom duty</th>
<th>Exchange rate in Rs. (notified by CBEC)</th>
</tr>
</thead>
<tbody>
<tr>
<td>25.01.2018</td>
<td>10%</td>
<td>100</td>
</tr>
</tbody>
</table>

The machine was not liable to GST compensation cess. Rate of integrated tax is 18%.
A. Multiple Choice Questions (2 Marks each).

1. The company of Mr. Josch wanted to appoint Mr. Rajesh Thakker (an eminent fashion designer) as additional director. However, Mr. Rajesh Thakker was not having the Director Identification number (DIN). Thus, he applied for DIN. In how many days does Mr. Rajesh Thakker has to intimate his Director Identification Number to the company?

(a) within 15 days from the receipt of DIN  
(b) within 30 days from the receipt of DIN  
(c) within 1 month from the receipt of DIN  
(d) None of the above

2. As per the provisions of the Companies Act, 2013, the Board of Directors of the company wants to contribute to charitable funds for the year 2017-18. What is the maximum amount of contribution that the company can make without prior permission from the company in general meeting:

(a) 0.8 crores  
(b) 1.0 crores  
(c) 2.4 crores  
(d) 3.0 crores.

3. Company shall directly or indirectly give loan or guarantee to any person/other body corporate—

(a) not exceeding 60% of Paid up share capital and free reserves or 100% of its free reserves and securities premium account, whichever is more  
(b) Exceeding 60% of paid up share capital, free reserves and securities premium account or 100% of its free reserves and securities premium account, whichever is less  
(c) exceeding 60% of its paid-up share capital, free reserves and securities premium account or 100% of its free reserves and securities premium account, whichever is more  
(d) not exceeding 60% of its paid-up share capital, free reserves and securities premium account or one hundred per cent. of its free reserves and securities premium account, whichever is more

4. Suppose the Quality–e content (Pvt.) Ltd. wants to get merged with the any other company. Who amongst the following are eligible to raise objections to the scheme of compromise and arrangement:

(a) Persons holding less than 10% of shareholding or having debt amounting less than
5% of the total outstanding debt as per the latest audited financial statement

(b) Persons holding less than 10% of shareholding or having debt amounting 5% of the total outstanding debt as per the latest audited financial statement

(c) Persons holding in 10% of shareholding or having debt amounting less 5% of the total outstanding debt as per the latest audited financial statement.

(d) Persons holding 10% or more of shareholding or having debt amounting 5% of the total outstanding debt as per the latest audited financial statement.

5. As per the requirement of the Companies Act, 2013, which companies do not require the holding of at least one meeting of the Board of Directors to be conducted in each half of a calendar year with ninety days gap between the two meetings:

(a) Private company

(b) Private start-up company

(c) Both the company

(d) None of the above

6. Import and export under the Foreign Trade Policy without ________ number is not permitted unless specifically exempted.

(a) IEC

(b) GSTN

(c) PAN

(d) All of the above

7. Mr. Z has imported certain goods from Singapore. He intends to clear the goods from the customs station for home consumption. The vessel containing the goods arrives at customs station on 05.10.20XX. 06.10.20XX is a public holiday. Mr. Z has not filed the bill of entry till the time the vessel arrived at the customs station. Mr. Z can file the bill of entry latest by:

(a) 05.10.20XX

(b) 06.10.20XX

(c) 07.10.20XX

(d) 08.10.20XX

8. Which of the following statements are true in case of supply of goods by a Special Economic Zone (SEZ) unit to a unit in Domestic Tariff Area (DTA)?

(1) No customs duty is leviable on the goods removed from SEZ to DTA.
(2) Goods removed from SEZ to DTA are leviable to customs duties, including anti-dumping, countervailing and safeguard duties under the Customs Tariff Act, 1975, as leviable on goods when imported into India.

(3) Goods removed from SEZ to DTA are leviable to customs duties, as leviable on goods when imported into India. However, anti-dumping, countervailing and safeguard duties cannot be imposed on such goods.

(4) The liability to pay the customs duties, as applicable, is on the SEZ unit.

(5) The liability to pay the customs duties, as applicable, is on the DTA unit.

(a) (1)
(b) (2) and (4)
(c) (2) and (5)
(d) (3) and (5)

9. Who is/are related persons in terms of customs valuation rules for imported goods?

(a) Members of the same family.
(b) One person indirectly controlling the other person.
(c) Employer and employee.
(d) All of the above

10. For export goods, the relevant rate of exchange for the purpose of conversion of the value of export goods is the rate prevalent on the date of:

i. Filing shipping bill
ii. Filing bill of export
iii. Filing bill of entry
iv. Let export order

Identify the correct option

(a) (i) and (ii)
(b) (i) and (iv)
(c) (i), (ii) and (iv)
(d) (iii)
B. Descriptive/Numerical Questions

11. (i) In this case the Articles of association of the Company has prescribed the maximum number of directors as 9. Suppose, the Board of Directors of the company proposes to increase the number of Directors to 15. Advise, whether Board of Directors can do so? (5 Marks)

(ii) Mr. Josch, the director of the company goes abroad for a period of more than 3 months and an alternate director 'Mr. Neeraj' has been appointed in his place. During the period of his absence, a board meeting was called. In this connection, with reference to the provisions of the Companies Act, 2013, advise whom should the notice of Board meeting be served whether to Mr. Josch or to Mr. Neeraj? (5 Marks)

12. (a) Give your views on the approach of Josch to diversify to printing business? (4 Marks)

(b) Namira has been asked to prepare an environmental report under the government’s new environmental policy. Identify factors of environmental costs to be included in environmental report. (6 Marks)

13. The company seeks your advice for computing the applicable import duties/taxes on the machine imported from Iceberg Germany.

   The company also desires to know whether it can avail input tax credit of such duties/taxes paid by it?

   Further, the company seeks your assistance in optimizing the tax cost on the import of second machinery to be purchased next month. Suggest methods/ways, if any, by which the tax cost on the import of second machinery can be reduced/minimized. (10 Marks)

QUESTION 3

SZ Ltd. is a company listed at Bombay Stock Exchange. Company is engaged in manufacturing and selling of Cars. Company was established in the year 2000. Since its establishment till March 2018, company has a strong track record and achieved its targets in consistent manner.

SZ Ltd felt that automatic transmission was the need of the hour for India. There were numerous constraints in offering this feature in small and price sensitive cars. Nevertheless, it made all efforts to offer a cost-engineered product to fulfil customer expectations. This path-breaking technology enhanced convenience for Indian consumers. Traditional auto transmissions are not only expensive to own, but have a high running cost as well. AGS technology overcame both these disadvantages.

At the core of SZ’s strategy is the desire to meet customer expectations and delight them with exciting products, features and technology relevant to market conditions. During the year 2017-18, there was continued progress on product development. The Company was able to launch 3 new vehicles, all in new segments, pioneering new technologies and a disciplined focus on cost efficiency.

In hindsight, the decision to develop a state-of-the-art R&D centre in India, taken in 2012, has proved to be a pivotal step in augmenting the Company’s capability in vehicle design and development. It
would help SZ Ltd meet the specific needs of Indian customers. The Karnal centre is now an integrated facility with different test tracks, requisite testing and safety labs, which help the Company conceptualise, design and develop new products and upgrade the existing portfolio at a faster pace.

The R&D centre is also helping the company test and validate products to meet newer regulations. While India will move to new safety and emission regulations over the next two to three years, two of the company’s models are already certified and approved for advanced vehicle safety regulations, ahead of the deadline.

With regard to production, the situation became challenging due to limited capacity on the one hand and the popularity of certain models on the other. To meet unserved demand, the Company needed to manufacture beyond planned capacity. Through various innovations at the shop-floor and strong team work, the Company could achieve a production volume beyond the combined production capacity of Nagpur and Pune plants.

SZ Ltd owned eight different units for manufacturing of cars. Due to labour problems the company closed down two units and in this process incurred an expenditure of Rs. 15 Lakhs on additional wages which was debited to Statement of profit or loss.

SZ suffered a grievous loss when Mr. G passed away in May this year. He had joined the Board in September 2007 and was the Audit Committee Chairman since then. His depth of knowledge, wisdom and commitment to the Company was a source of huge strength to the entire Board. Mr. B has replaced him as Chairman of the Audit Committee.

Company’s Articles empower the Board of Directors to appoint additional director. The Board of Directors, therefore, appointed Mr. K as the additional director. It may, however, be pointed out that earlier, the proposal to appoint Mr. K, as a director on the Company’s Board was rejected by the members at the company’s Annual General Meeting. His wealth of experience and knowledge would be of immense benefit to the Company.

Mr. A is one of the directors of the company. He intends to construct a residential building for his own use. The cost of construction is estimated at Rs. 1.50 Crores, which Mr. A proposes to finance partly from his own sources to the tune of Rs. 60 lacs and the balance Rs. 90 lacs from housing loan to be obtained from a housing finance company. For the purpose of obtaining the loan, he has approached the housing finance company which has in principle agreed to grant the loan, but has put a condition. The condition put by the housing finance company is that the Company SZ Ltd. of which Mr. A is a director should provide the guarantee for repayment of the loan and interest as per the terms of the proposed agreement for granting the loan to Mr. A.

The total revenue is Rs 5000 Lakhs as against 4500 Lakhs in the previous year showing an increase of 11 percent. Sale of vehicles in the domestic market was 1015 units as compared to 925 units in the previous year showing an increase of 10 percent.

A calendar of meetings is prepared and circulated in advance to the Directors. During the year, five board meetings were held, the details of which are given in the Corporate Governance Report.
The Company was awarded the highest financial credit rating of AAA on its bank facilities by CRISIL. The rating underscores the financial strength of the Company in terms of the highest safety with regard to timely fulfillment of its financial obligations.

The Company was awarded ISO/IEC 27001:2005 certification by STQC Directorate (Standardization, Testing and Quality Certificate), Ministry of Communications and Information Technology, Government of India after re-assessment. In 2015, the certification has been upgraded to 27001: 2013.

 Provision for warranty is made for all vehicles sold on scientific and reliable basis for replacement of some spares, free of cost. The statistical data indicates that without such warranty, no customer is prepared to buy a vehicle.

2017-18 is in many ways an important year for the Company. The implementation of the GST started from the 1st of July and it expected it to be a game changer for Indian industry and the economy. The company hired a team of professionals for the purpose to guide it on the matters concerned with the GST.

The Company’s outward taxable supplies in the month of October, 2017 (a tax period) are:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>(Rs. In Lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intra-State supply of Cars</td>
<td>400</td>
</tr>
<tr>
<td>Inter-State supply of Cars</td>
<td>150</td>
</tr>
</tbody>
</table>

It has also furnished the following information in respect of purchases made by it in that tax period:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>(Rs. In Lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intra-State purchases of Spare parts</td>
<td>150</td>
</tr>
<tr>
<td>Inter-State purchases of spare parts</td>
<td>25</td>
</tr>
</tbody>
</table>

ITC with the company at the beginning of the tax period:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>(Rs. In Lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CGST</td>
<td>15</td>
</tr>
<tr>
<td>SGST</td>
<td>15</td>
</tr>
<tr>
<td>IGST</td>
<td>35</td>
</tr>
</tbody>
</table>

Note:

(i) Rate of CGST, SGST and IGST to be 9%, 9% and 18% respectively.

(ii) Both inward and outward supplies are exclusive of taxes, wherever applicable.

(iii) All the conditions necessary for availing the ITC have been fulfilled.
The net profit of the company as per Statement of Profit and loss for the year ending as 31-3-2018 is Rs. 150 lakhs after debiting or crediting the following:

(i) One time licence fee of Rs. 20 lakhs paid to TEESLA INC., a foreign company for obtaining know how on 20.07.2017.

(ii) Dividend of Rs. 12 lakhs received from ALFA INC., a foreign company in which the company holds 32% of equity share capital of the company. Rs. 50,000 was also expended on earning this income.

(iii) The company had provided an amount of Rs. 25 Lakhs being sum estimated as payable to workers based on agreement to be entered with the workers union towards periodical wage revision once in 3 years. The provision is based on a fair estimation on wage and probable revision.

(iv) Company used railway platforms for advertising different models of cars by way of hoardings, banners etc. and the company is likely to make payment in the month of June, 2018 Rs. 5 Lakhs

Also, Payments due to railways for use of the assets for transportation of cars during F.Y 2017-18, the company is likely to make the payment in the month of December 2018 Rs. 2 lakhs.

(v) Contributions made to an approved research association used for the purpose of research in social science or statistical research under section 35(1)(iii) Rs. 5 Lakh.

(vi) Depreciation charged to the statement of profit and loss account Rs. 20 lakhs.

(vii) The opening and closing stock for the year were Rs. 90 lakhs and Rs. 68 lakhs, respectively. They were overvalued by 10%.

(viii) Payment of Rs. 8,000, Rs. 9,000 Rs. 9,000 and Rs. 4,000 by cash on 15th September, 2018 by four separate vouchers to a contractor who carried out work at office premises.

(ix) Legal fees incurred in defending title of factory premises of the company Rs. 3 lakhs.

(x) Profit of Rs. 3 lakhs from hedging contracts entered into for meeting out the loss in foreign currency payment towards an imported machinery purchased from Germany for Rs. 90 lakhs, which was installed on 20.12.2017.

(xi) The company, during the year, employed 100 new workers in the factory which was 15% of the existing work force employed on the last day during the earlier year. It paid Rs. 15 lakhs as additional wages. The workmen were employed from 01.05.2017.

(xii) Profit on sale of land Rs. 20 lakhs.

(xiii) Rs. 6 lakhs paid to H Ltd. towards feasibility study conducted for examining proposals for technological advancement relating to existing business; however, the project was abandoned without creating a new assets.
Additional Information:

(a) Normal depreciation allowable as per the Income-tax Act, 1961 Rs. 22 lakhs.

(b) Additional depreciation on plant and machinery imparted and installed during December 2017 has not been considered while calculating depreciation as per the Income-tax Act, 1961 as above. The company is not eligible for any deduction under section 35AD of the Income-tax Act, 1961.

(c) The land said during the year for Rs.70 lakhs (Guideline value as per stamp valuation authority Rs. 60 lakhs) was purchased by the company during F.Y. 2013-14. This was the only land available with the company as on 01.04.2017.


(e) TDS on receipts as reflected in Form No. 26 AS is Rs 500000

(f) Advance Tax paid by the company is as under :

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>15-06-2017</td>
<td>750000</td>
</tr>
<tr>
<td>15-09-2017</td>
<td>1500000</td>
</tr>
<tr>
<td>15-12-2017</td>
<td>1500000</td>
</tr>
<tr>
<td>15-03-2018</td>
<td>900000</td>
</tr>
</tbody>
</table>

QUESTIONS

A. Multiple Choice Questions (2 Marks each).

1. A taxable person received goods in his factory on 01-12-2017. Tax invoice for said goods has been issued on 15-12-2017. He took the Input Tax Credit pertaining to said goods as his supplier uploaded this invoice in his GSTR 1. The supplier has paid the tax to the Government. In which of the following circumstances, the taxable person is required to reverse the Input Tax Credit?

   (a) If the taxable person does not make payment to supplier on or before 13-6-2018.
   (b) If the taxable person does not make payment to supplier on or before 15-6-2018.
   (c) If the taxable person does not make payment to supplier on or before 01-6-2017.
   (d) He is not required to reverse the input tax credit as supplier has paid tax to the Government.

2. A taxable person has made following supplies in January, 2018 – Sales within the State – Rs. 2,00,000. Exports out of India– Rs. 60,000. Supplies to SEZ located within the State – Rs. 40,000. He intends to clear goods under Letter of Undertaking (LUT) wherever permissible. The input tax credit available to him during January, 2018 – IGST – Nil. CGST – Rs.10,000. SGST – Rs.20,000. There is no opening balance in his electronic cash ledger or electronic
credit ledger. Tax rates are – SGST – 9%, CGST – 9%, IGST – 18%. How much amount is payable by him in cash?

(a) CGST – Rs.8,000, SGST – Nil
(b) CGST – Rs.11,600, SGST – Rs.1,600
(c) CGST – Rs. 8,000, SGST – Nil, IGST – Rs.5,200
(d) CGST – Rs.8,000, SGST – Nil, IGST – Rs.16,000

3. A taxable person has following liability for February, 2018: Tax payable on supplies made by him – IGST – Rs. 30,000. Tax payable on advocate services under reverse charge– CGST – Rs.5,000; SGST – Rs.5,000. Opening balance in his electronic credit ledger is as follows IGST – Rs.20,000, SGST – Rs.6,000, CGST – Rs.6,000- How much amount is payable by him in electronic cash ledger?

(a) IGST – Rs.10,000, SGST – Rs.5,000, CGST – Rs.5,000
(b) IGST – Nil, SGST – Rs.5,000, CGST – Rs.5,000
(c) IGST – Rs.8,000 – SGST – Nil, CGST - Nil
(d) IGST – Rs.10,000 – SGST – Nil, CGST - Nil

4. Which of the following statements are true for a zero-rated supply, but not for an exempt supply?

(1) Entire value chain of the supply is exempt from GST, i.e. no tax is payable on the outward supplies and input supplies are also tax free.
(2) Credit of input tax needs to be reversed and no tax is payable on the outward supplies.
(3) Normal tax invoice needs to be issued.
(4) Instead of a tax invoice, bill of supply needs to be issued
(5) No tax is payable on outward supplies.

(a) (1) and (3)
(b) (2), (3) and (5)
(c) (2), (4) and (5)
(d) (1) and (4)

5. Details of supplies of a taxable person in the month of January, 2018 are as follows - Alcoholic liquor for human consumption of value of Rs. 1,50,000. Value of architect services supplied by him in Jamnagar, Gujarat is Rs.2,00,000. Securities of face value of Rs. 1,00,000 sold for Rs. 95,000. What is the value of ‘exempted supply’ for purpose of section 17(2) of the CGST Act, 2017 [proportionate reversal of ITC]?

(a) 1,50,000
(b) 2,50,000
6. The general annual report on the working and administration of the Companies Act, prepared by the Central Government shall be laid before the parliament within –
   (a) one year of the close of the year to which the reports relates
   (b) Six months from the date of the closing of financial year.
   (c) Six month of the close of the year to which the reports relates
   (d) Nine months from the date of the closing of financial year.

7. No ITC shall be admissible in respect of which of the following Goods-
   (a) Electrical Transformers used in the factory
   (b) Moulds & Dies used in the factory
   (c) Pollution Control Equipment used in the factory
   (d) Goods used for setting up Telecommunication towers.

8. Opening WDV of Block as on 1-4-2017 -10,00,000
   (15% -Rate of depreciation)
   (Asset F acquired on 31-7-2017 - 2,00,000
   All Asset sol on 31-12-2017 for - 18,00,000

   What would be WDV as on 01-04-2018
   (a) - 6,00,000
   (b) 6,00,000
   (c) Nil
   (d) None of the above

9. After appointment of a Director, it was discovered that his appointment was invalid. Acts done by such Director up to the date of discovery of default shall be:
   (a) Valid
   (b) Void-ab-initio
   (c) Illegal
   (d) To be ratified by the general meeting

10. Out of the following, under what circumstances a director shall not vacate his office?
    (a) He becomes disqualified by an order of a court or the Tribunal
    (b) he absents himself from three consecutive meetings of the board
(c) he fails to attend all the meeting of board for consecutive period of 12 months with or without seeking leave of absence of Board

(d) he is removed in pursuance of the provisions of the Companies Act, 2013.

B. Descriptive/Numerical Questions

11. Compute the Company’s income under the head Profits and Gains of Business or Profession. ((giving reasons for treatment of each item) Ignore MAT provisions.  

(10 Marks)

12. Compute the total income and tax payable by SZ Ltd. for the A.Y. 2018-19. 

(5 Marks)

13. Compute the net GST payable by the company during the tax period. Make suitable assumptions as required.

(5 Marks)

14. Applying the provisions of the Companies Act, 2013, answer the following:

(i) Whether Mr. K’s appointment as additional director by the Board of Directors is valid?

(ii) Whether the Company’s Annual General Meeting can appoint Mr. K as the additional director when the proposal to appoint comes before the meeting for the first time?

(iii) In case the AGM of the company is not held within the stipulated time, decide whether Mr. K who was appointed by the Board as additional director, for the first time, can continue to act as a director?

(5 Marks)

15. Advise Mr A, Director of the Company SZ Ltd, on the matter with reference to the provisions of the Companies Act, 2013, whether guarantee given by the company would be allowed?

(5 Marks)