

ELECTIVE PAPER 6F – MULTIDISCIPLINARY CASE STUDY

SUGGESTED SOLUTION – CASE STUDY 2

Multiple Choice

PART A

1. (a)
2. (d)
3. (c)
4. (c)
5. (a)
6. (a)
7. (c)
8. (c)
9. (c)
10. (b)

PART B

Descriptive/Numerical

11. CURE Pharma Pvt Ltd.

Computation of Income under the head Profits and Gains of Business or Profession

Particulars	Amount (Rs.)	
Profits and Gains from Business and Profession Net profit as per profit and loss account		90,00,000
Add: Items debited but to be considered separately or to be disallowed		
(i) Donation paid to Swachh Bharat Kosh, considered separately [Not an expenditure incurred wholly and exclusively for the manufacturing business. Hence, not allowable under section 37]	1,00,000	
(ii) Contribution to political party	2,00,000	

[Not an expenditure incurred wholly and exclusively for the manufacturing business. Hence, not allowable under section 37]		
(iii) Payment to transport contractor [As per section 194C(6), no tax is required to be deducted at source since the payment is to a transport contractor not having more than 10 goods carriages at any time during the previous year and he has given a declaration to that effect alongwith his PAN. Hence, disallowance under section 40(a)(ia) for non-deduction of tax at source is not attracted. Also, since payment is made by account payee cheque, no disallowance under section 40A(3) is attracted].		
(iv) Bonus to employees [Since the payment is made after the due date of filing of return of income, disallowance under section 43B is attracted].	2,00,000	
(v) Provision for income-tax [Not allowable as deduction. Disallowance under section 40(a)(ii) is attracted].	3,00,000	
(vi) Loss from trading in futures and options (derivatives) in shares in a recognized stock exchange [Since loss from trading in futures and options in share is not related to the business of manufacturing pharmaceutical, the same is not incurred wholly and exclusively for this business, and hence, is not allowable as deduction under section 37 while computing profits from the business of manufacturing]. However, such loss can be set off under section 70.	2,50,000	10,50,000
		1,00,50,000
OTHER ADJUSTMENTS,		
Add: Cash Payment for purchase of raw material deemed as income [Since the provision of outstanding bill for purchase of raw material has been allowed as deduction during the P.Y.2014-15 cash payment in excess of Rs. 10,000 against such bill in the P.Y. 2017-18 would be deemed as income of P.Y. 2017-18 as per section 40A(3A)]		50,000
		1,01,00,000

Less: Expenditure to be allowed Depreciation [Difference between the normal depreciation of Rs.18.75 lakhs as per Income-tax Act, 1961 [See Working Note 1] and depreciation charged to the statement of profit and loss of Rs.12 lakhs].	6,75,000	
Less: Additional depreciation on new plant and machinery Since plant and machinery was purchased only on 15.10.2017, it was put to use for less than 180 days during the year. Hence, additional depreciation is to be restricted to 10% (i.e., 50% of 20%) of Rs.20 lakhs.	2,00,000	
Less: Audit Fees relating to P.Y. 2016-17 [Rs.30,000, being 30% of audit fees of Rs.1,00,000 provided for in the books of account of P.Y. 2016-17 would have been disallowed due to non-deduction and deposit of tax at source. Since tax has been deducted in September, 2017 and paid on 6.10.2017, the amount of Rs.30,000 is deductible while computing business income of P.Y. 2017-18.	30,000	
Less: Contribution to University [Contribution to a University approved and notified under section 35(1)(ii) would qualify for weighted deduction @150%. Since Rs.1,50,000 has already been debited to the statement of profit and loss, the balance Rs.75,000 has to be deducted while computing business income)	75,000	9,80,000
		91,20,000
Less: Items credited to statement of profit and loss, but not includible in business income.		
(I) Rent received from vacant land [Chargeable to tax under the head "Income from other sources".]	1,20,000	
(II) Rent received from commercial property owned by the company [Chargeable to tax under the head "Income from house property").	2,50,000	
(III) Interest received on income tax refund [Chargeable to tax under the head "income from other sources)	1,00,000	
(IV) Profit on sale of unused land [Chargeable to tax under the head 'Capital Gains')	10,00,000	14,70,000
Profits and gains from the business or Profession		76,50,000

Working Note 1 for Calculation of Depreciation of 18.75 Lakhs-

Printers and scanners form an integral part of the computer system and they cannot be used without the computer. Hence, they are part of the computer system, they would be eligible for depreciation at the higher rate of 40% applicable to computers including computer software. However, EPABX is not a computer and is, hence, not entitled to higher depreciation @40%.

Particulars	Rs.
Depreciation computed as per Income tax Act, 1961	20,00,000
Less: Depreciation @60% wrongly provided in respect of EPABX = 40% of Rs.5,00,000	2,00,000
	18,00,000
Add: Depreciation @ 15% on EPABX = 15% of Rs.5,00,000	75,000
Correct Depreciation as per Income-tax Act, 1961	18,75,000

12. Computation of Total Income of CURE Pharma Pvt Ltd. for the A.Y. 2018-19

	Particulars	Amount (Rs.)	
I	Income from house property [Rental income from commercial property] Net Annual Value	2,50,000	
	Less: Deduction under section 24 30% of Net Annual Value	75,000	1,75,000
II	Profits and gains of business and profession	76,50,000	
	Less: Set-off of losses from trading in derivatives in a recognized stock exchange [allowed to be set-off against profits from the business of manufacturing as per section 70(1) since it is not speculative in nature.	2,50,000	74,00,000
III	Capital Gains Sale consideration	50,00,000	
	Less: Indexed Cost of Acquisition [Rs.40,00,000 x 272/220]	49,45,455	
	Long-Term capital gain		54,545
	Income from Other Sources Rent received from vacant land	1,20,000	
	Interest received on income-tax refund	1,00,000	

	Excess of issue price of shares over the fair market value of shares is taxable as per section 56(2)(viib) in the case of CURE Pharma Pvt. Ltd., not being a company in which public are substantially interested [Rs.40 (i.e. Rs.100-Rs. 60) x 1,00,000 shares]	40,00,000	42,20,000
	Gross Total Income		1,18,49,545
	Less: Deductions under Chapter VI-A		
	Deduction under section 80G		
	Donation to Swachh Bharat Kosh [qualifies for 100% deduction-assuming that the same has not been spent in pursuance of corporate social responsibility under section 135(5) of the Companies Act, 2013]	1,00,000	
	Deduction under section 80GGB		
	Contribution to Political Party [Not allowable as deduction since the contribution is made in cash]	Nil	1,00,000
	Total Income		1,17,49,545

13. Computation of Input tax credit eligible for the tax period December, 2017:

Particulars	CGST (Rs)	SGST (Rs.)	IGST (Rs.)
Total Input tax in a tax period [T]	4,32,000	4,32,000	2,16,000
Less:			
Input tax on input services exclusively used for effecting supply of goods for personal use. [T ₁]	43,200	43,200	21,600
Input tax on input exclusively used for effecting exempt supply of goods [T ₂]	72,000	72,000	28,800
Input tax availed on input which are ineligible under Section 17(5) [T ₃]	<u>72,000</u>	<u>72,000</u>	<u>25,200</u>
Amount of Input tax credited to the electronic credit ledger [C₁] C₁=T-[T₁+T₂+T₃]	244,800	244,800	1,40,400
Less: Credit on inputs exclusively used for supplying taxable goods (including Zero rated supplies) [T₄]	<u>2,16,000</u>	<u>2,16,000</u>	<u>14,400</u>

Common credit of input and input services used for providing supply of medicines [C₂] $C_2=C_1-T_4$	28,800	28,800	1,26,000
Total inadmissible common credit as per Rule 42(1) [D₁ + D₂] [Working shown below]	<u>8,640</u>	<u>8,640</u>	<u>37,800</u>
Net eligible common credit C₃=C₂-[D₁+D₂]	<u>20,160</u>	<u>20,160</u>	<u>88,200</u>
Total credit eligible i.e. [T₄ + C₃]	<u>2,36,160</u>	<u>2,36,160</u>	<u>1,02,600</u>
Amount to be added to output tax liability of CURE Pharma Pvt Ltd. is [D₁+D₂]	8,640	8,640	37,800

Working Note: Calculation of amount of input tax credit towards exempt supplies and supply made for non business use:

Particulars	CGST (Rs)	SGST (Rs.)	IGST (Rs.)
Aggregate Value of Exempted supply of goods [E] 60,00,000			
Total Turnover for December, 2017 [F] 2,40,00,000			
Credit attributable towards exempt supplies $D_1=[E/F] \times C_2$	7,200	7,200	31,500
Credit attributable for supplies made for non business purpose as per Rule 42(1) $[D_2=5\% \times C_2]$	1,440	1,440	6,300
Total inadmissible common credit as per Rule 42(1) [D₁+D₂]	8,640	8,640	37,800

14. Adjournment of a meeting means the deferring or suspending the meeting to a future time, either at an appointed date or indefinitely or as decided by the members present at the scheduled meeting. For a valid adjournment of a General Meeting, the holding of the Meeting at its scheduled time is necessary.

It may be adjourned after some items of business have been transacted and the remaining items can be transacted at the adjourned meeting.

The following points are relevant in this regard on the basis of Case Laws :

1. Once a meeting is called, the Chairman cannot adjourn it arbitrarily. Its continuance or adjournment rests entirely on the will of the members. If a Chairman vacates the Chair or adjourns the meeting regardless of the views of the majority, those remaining, even if a minority, can appoint a Chairman and conduct the business left unfinished by the former Chairman

2. Where a meeting is unlawfully adjourned by the Chairman thinking that he is not likely to succeed in his object, the remaining members possess the right to continue the meeting and conduct the business left un-transacted by the Chairman
3. Every Chairman has the right to make a bona fide adjournment whilst a poll or other business is proceeding, if circumstances of violent interruption make it unsafe or seriously difficulty for the members to tender their votes.

Conclusion : Therefore, though the Chairman has power to adjourn the meeting on its own but only in exceptional cases where it becomes extremely difficult to continue because of violent interruption and continuing the meeting will be unsafe.

15. In the companies Act, 2013 there is no such restriction of holding a board meeting outside India. The decision of Cure Pharma Ltd. to hold a meeting in London when all the directors present there is valid.

16. **Board Resolution for charging Mr. W Chief Accountant, with the duty of Compliance with the requirements of Section 128 and 129 of the Companies Act, 2013.**

“Resolved that Mr. W, Chief Accountant of the Company be and is hereby charged with the duty of seeing that the requirements of Sections 128 and 129 of the Companies Act, 2013 are duly and fully complied with.

Resolved further that the said Mr. W is hereby entrusted with the authority to do such Act or deeds as may be necessary or expedient for the purpose of discharging his above referred duties”.